

## RESEARCH PAPER

# Principal-Agent Relationship in the Procurement of Goods and Services In Teluk Bintuni Regency

Hellyn Kristiono<sup>1</sup>, Hasniati<sup>2</sup>, Akmal Ibrahim<sup>3</sup>, Didik Iskandar<sup>4</sup>

<sup>1</sup>Doctoral Student of Public Administration, Faculty of Social and Political Science, Hasanuddin University, Makassar, Indonesia.

<sup>2</sup>Department of Administrative Science, Faculty of Social and Political Science, Hasanuddin University, Makassar, Indonesia.

<sup>3</sup>Department of Administrative Science, Faculty of Social and Political Science, Hasanuddin University, Makassar, Indonesia.

<sup>5</sup>Public Administration, State University of Makassar

<sup>2</sup>Graha Edukasi University of Makassar, Indonesia

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## ABSTRACT

*This study aims to understand the application of the principal-Agent principle in the procurement of goods and services in Teluk Bintuni Regency, examined from the perspectives of transparency, technical specifications, competition and objective criteria, using a qualitative approach. The research focuses on local government institutions directly involved in the procurement process. Informants were selected purposively based on their roles and involvement, including officials from the UKPBJ, Commitment-Making Officials (PPK), the Government Internal Oversight Agency (APIP), and members of the Regional People's Representative Council (DPRD) with oversight functions. Additionally, the study involved representatives of goods and services providers as well as NGOs to obtain external perspectives regarding transparency, oversight, and accountability. Data was collected through in-depth interviews. Data sources comprised primary data from interviews and secondary data from official local government documents and regulations relating to the procurement of goods and services. Data analysis was conducted through the stages of data reduction, data presentation, and drawing conclusions in accordance with the model by Miles, Huberman, and Saldaña (2014).*

*The results of this study reveal several key findings. Firstly, regarding transparency, the main issue in the procurement of goods and services in Teluk Bintuni Regency lies not in a lack of information, but rather in the imbalance in the distribution and utilisation of information within the principal-agent relationship. Regarding technical specifications, there is no mechanism in place to explain to the public the reasons and considerations behind the drafting of specifications, meaning that public scrutiny of this aspect is severely limited. The competition aspect indicates that competition in procurement in Teluk Bintuni Regency has not yet fully functioned as a control mechanism. Finally, the objective criteria aspect indicates that although objective criteria have been formally established, their application has not yet fully restricted the agent's discretion.*

**Keywords:** *Principal-Agent, Contractual, Procurement of Goods and Services*

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## Introduction

The procurement of goods and services in Teluk Bintuni Regency plays a strategic role in supporting the acceleration of regional development,

particularly in the context of infrastructure and public services. However, its implementation still faces complex challenges, both in terms of policy and on-the-ground implementation. One of the root

causes lies in the unequal relationship between the actors involved, particularly between the mandating parties (principals) such as the Commitment-Making Officials (CMOs) and budget users, and the implementing parties or providers (agents).

In practice, this relationship often does not function ideally. Implementers on the ground possess greater information and control over technical processes and conditions, which are not always fully accessible to decision-makers. This information asymmetry is often exploited for personal or group gain, particularly when internal control mechanisms are weak. This is reflected in the numerous cases of procurement that do not align with actual needs, documents drafted without a strong technical foundation, and procurement outcomes that fail to meet standards.

Furthermore, the conduct of tenders is often fraught with problems, ranging from slow processes to indications of 'rigging'. The process of selecting suppliers is sometimes not based on fair and proportionate considerations, but rather on the intervention of certain parties or the presence of vested interests behind decision-making. Moreover, existing standards and procedures are often not applied consistently. A lack of clarity in defining procurement needs and criteria leads to outcomes that are not commensurate with the budget spent. Consequently, accountability is weakened, and efforts to establish accountable governance are undermined.

This explanation indicates that it is important to examine how the relationship between principal and agent in the procurement of goods and services can be improved to ensure the process is accountable and effective. Ohad Soudry (2007) explains that the principal-Agent framework comprises: 1) Transparency, 2) Technical Specifications, 3) Competition, and 4) Objective Criteria.

Transparency refers to the openness of information at every stage of procurement, from planning through to implementation. The aim is to reduce information asymmetry between the principal and the agent, and to enable oversight by the public and supervisory bodies. Technical specifications emphasise the importance of formulating technical requirements that are clear, measurable and in line with actual conditions. Good specifications help ensure that the goods or services procured meet the required standards, whilst preventing manipulation and irregularities. Competition

refers to the creation of a healthy competitive environment within the procurement process. Open and fair competition encourages suppliers to offer the best quality at efficient prices, whilst reducing the risk of collusion and monopolistic practices. Objective criteria require clear, measurable, and accountable standards and assessment bases for

selecting suppliers. These criteria avoid subjectivity and interference from specific parties, thereby making the decision-making process more accountable.

## Methods

This study employs an exploratory qualitative approach to examine the working relationships between the actors involved in the procurement of goods and services. The research was conducted in Teluk Bintuni Regency, focusing on the units and actors involved in the planning, implementation and supervision of procurement. Research informants included officials from the UKPBJ and PPK as procurement implementers, the APIP as internal supervisors, goods and services providers as parties directly involved in the tender process, as well as members of the Regional People's Representative Council (DPRD) and NGO representatives who play a role in external oversight. Informants were selected purposively, taking into account their direct involvement in the procurement process.

Data collection was carried out through observation, in-depth interviews and documentation. Data sources consisted of primary data from interviews and secondary data in the form of procurement documents and policies. Data analysis was conducted in stages and iteratively by linking field findings to the concepts of information asymmetry, control, and discretion in principle-agent theory. Data analysis was carried out by following the stages of data reduction, data presentation, and drawing conclusions as outlined by Miles, Huberman, and Saldaña (2014).

## Results and Discussion

This study examines four key dimensions within the principal-agent perspective on the procurement of goods and services in Teluk Bintuni Regency: transparency, technical specifications, competition, and objective criteria. Overall, the findings indicate that although formal procedures have been carried out in accordance with regulations, the substantive implementation of these four dimensions still faces various limitations that impact the accountability and effectiveness of procurement. First, regarding the transparency dimension, procurement has been conducted through electronic systems such as LPSE and SiRUP. However, the existing transparency tends to be administrative in nature and does not yet fully support substantive oversight.

Published information is generally limited to basic data, while strategic information such as the background of needs, technical considerations, and the rationale behind decisions is not adequately communicated. This results in an information asymmetry between the principal and the agent persisting. The APIP, the Regional People's Representative Council (DPRD), and the public face

difficulties in understanding and utilizing this information for oversight. Transparency has also not been designed to be easily understood by the public, leading to low public participation in oversight. Consequently, transparency has not yet functioned optimally as a control mechanism within the principal-agent relationship.

Second, regarding technical specifications, it was found that the drafting of specifications relies heavily on technical government agencies as agents. The UKPBJ plays a role only in administrative aspects and does not conduct an in-depth assessment of technical substance. This situation indicates a principal's dependence on the agent in technical matters. Technical specifications often undergo changes during the procurement process without adequate justification documentation, thereby hindering the accountability process. Additionally, there are two main issues: specifications that are too narrow, thereby limiting competition, and specifications that are too general, leaving room for interpretation. Both of these conditions indicate that technical specifications have not yet functioned as an effective control instrument in limiting the agent's discretion.

Third, regarding competition, the formal procurement process has opened up opportunities for competition through tender mechanisms. However, the number of participants in some contracts is relatively limited, resulting in suboptimal competition. Geographical factors, the capacity of local suppliers, and the complexity of the work are the main causes. Furthermore, there are indications that competition is merely formal, with certain suppliers possessing an advantage in terms of information and experience that creates an unequal playing field. Oversight of competition remains reactive and has not yet been able to detect potential tender manipulation from the outset. The Regional People's Representative Council (DPRD) and the public have also not made competition a focus of their oversight. These conditions indicate that competition has not yet fully functioned as a control mechanism to limit opportunistic behavior by agents.

Fourth, regarding the objective criteria dimension, the bid evaluation process was conducted based on the criteria outlined in the selection documents. However, the application of these criteria still allows for considerable discretion, particularly in technical assessments. Differences in interpretation among evaluators may arise, meaning that objectivity is not fully guaranteed. Furthermore, documentation of the rationale behind the assessments remains limited, making it difficult for auditors or external parties to verify them. Providers also often do not receive adequate explanations regarding the evaluation results, which creates a perception of unfairness.

Limited access to evaluation documents also weakens public oversight.

Theoretically, these findings suggest that these four dimensions have not yet functioned optimally in reducing information asymmetry and limiting agents' discretion. Transparency has not yet been able to provide relevant and actionable information for oversight. Technical specifications are still dominated by agents, thereby increasing the risk of conflicts of interest. Competition has not yet taken place in a substantive manner, and objective criteria have not yet fully ensured rational and accountable decision-making.

Within the framework of accountable governance, this situation indicates that procurement is still dominated by procedural compliance rather than substantive controls. To address this issue, several areas require strengthening, including improving the quality of information transparency, enhancing the technical capacity of contracting authorities, refining procurement design to foster healthy competition, and increasing accountability in the bid evaluation process.

## Conclusion

Based on the findings and discussion of the four dimensions of the principal agent relationship namely transparency, technical specifications, competition and objective criteria it can be concluded that the principal agent relationship in the procurement of goods and services in Teluk Bintuni Regency has been formally regulated, but has not yet been fully implemented in practice to support accountable governance.

In terms of transparency, the procurement of goods and services has been carried out using an electronic procurement system that makes basic procurement information publicly available. However, transparency remains largely administrative in nature and has not yet fully reduced the information asymmetry between principal and agent. Technical information and the rationale behind decision-making are still largely controlled by technical staff, meaning that transparency has not yet functioned optimally as a control mechanism within the principal-agent relationship.

The nature of technical specifications indicates a high degree of dependence on the agent by the principal when translating public requirements into technical procurement documents. Technical specifications are often drafted with either an excessive level of detail or, conversely, are too general, and are subject to changes that are not always accompanied by adequate justification. This situation creates significant information asymmetry and affords the agent a wide scope for discretion, thereby undermining procurement control and accountability.

In terms of competition, the research findings indicate that the tender process has been conducted in accordance with formal regulations; however, competition has not yet been entirely fair and equitable. The limited number of participants, unequal access to information, and the perception that tenders are rigged suggest that competition remains largely superficial. In the context of principal-agent relationships, these conditions reduce the principal's ability to secure the best possible alternatives and increase the risk of domination by a particular agent.

Meanwhile, with regard to the objective criteria, the use of evaluation criteria has been set out in writing, but their application still leaves considerable room for discretion. The lack of documentation regarding the rationale behind assessments and the lack of transparency regarding evaluation results make it difficult to verify the evaluation process in substance. Consequently, school principals and the public lack a solid basis for assessing whether evaluation decisions are genuinely based on objective criteria.

Findings across these four dimensions indicate that the principal-agent relationship in the procurement of goods and services in Teluk Bintuni Regency is still dominated by a procedural and normative compliance approach, which has not yet fully succeeded in balancing the distribution of authority, reducing information asymmetry, and limiting the agent's discretion. This situation has resulted in the suboptimal implementation of the principal-agent framework in the procurement of goods and services.

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