

ANALYSIS OF APPLICATION OF BUSINESS PROCESS MANAGEMENT PRINCIPLES IN THE DEVELOPMENT OF REGIONAL FINANCIAL MANAGEMENT SYSTEMS AND PROCEDURES IN INDONESIA

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Abstract

Systems and procedures are essential instruments for realizing an accountable regional financial management process. It is mandated by Government Regulation (PP) Number 12 of 2019 concerning Regional Financial Management contains business processes as guidelines for carrying out all financial procedures in a Regional Government. Therefore, the documents stipulated in the Regional Head Regulation must be prepared by taking into account the principles of Business Process Management (BPM) formulated by Vom Brocke et al. (2014). This case study explores the application of these principles and finds that BPM principles in the preparation of the System and Procedures (Sisdur) for regional financial management in Local Governments in Indonesia have been implemented entirely with varying quality of implementation. These qualities are divided into three major parts: Principles that have worked quite well, principles that have worked but have not been maximized, and principles that have not worked well. This study also found momentum to reform the preparation of digital-based business processes based on the architecture developed by the Minister of Home Affairs Regulation Number 77 of 2020.

Keywords: business process management; management; public sector finance; business processes; systems and procedures

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Introductions

Regional financial management is part of the Public Finance Management (PFM) concept. In the international context, PFM is always related to laws and regulations, organizational arrangements, and business process documents that the government must prepare to secure and use its resources effectively, efficiently, and transparently (Allen, Hemming, & Potter, 2013).

This concept has been accommodated in Government Regulation Number 12 of 2019 (PP 12/2019) (Pemerintah Republik Indonesia, 2019) concerning Regional Financial Management Article 3, which states that Regional Financial Management is carried out in an orderly, efficient, economical, effective, transparent, and responsible

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manner with due regard to a sense of justice, propriety, benefits for the community, and comply with the all related regulations. To do this, the Minister of Home Affairs Regulation Number 77 of 2020 ([Kementerian Dalam Negeri Republik Indonesia, 2020](#)) concerning Technical Guidelines for Regional Financial Management requires Local Governments to develop systems and procedures that contain business processes for regional financial management.

In preparing the intended business process document, one of the widely used approaches is Business Process Management (BPM). BPM is a concept that forms the basis for developing various methods for discovering, modeling, analyzing, measuring, improving, optimizing, and automating an entity's business processes ([Jeston, 2014](#)). ([vom Brocke et al., 2014](#)) mention ten principles in the preparation of a Business Process Management, namely: Context Awareness Principles, Continuity Principles, Enablement Principles, Holism Principles, Institutionalization Principles, Involvement Principles, Joint Understanding Principles, Purpose Principles, Simplicity Principles, and Principles of Technology Appropriation.

Since Regional Autonomy was introduced in 1999, Local Governments have been given the authority through several Government Regulations and Regulations of the Minister of Home Affairs to develop business processes for regional financial management. In practice, local governments in Indonesia have difficulty preparing business processes in the System and Procedures document. To overcome this, the Ministry of Home Affairs provides guidelines in Circulars such as Circular Letter Number SE.900/316/BAKD issued in 2007, which regulates Guidelines for Systems and Procedures for Budget Administration, Accounting, Reporting, and Financial Accountability.

This study tries to understand case studies in local governments in Indonesia that are currently preparing Regional Financial Management System and Procedures documents. This research will answer the question: How are the BPM principles applied in preparing the Regional Financial Management System and Procedure (Sisdur) in Indonesia?

Methodology

This study uses a qualitative approach. An approach is used to understand the meaning of an event or phenomenon by analyzing data and opinions from selected participants ([Cresswell, 2017](#)). The method used is a case study ([Yin, 2018](#)) to understand the application of Business Process Management principles in the preparation of business processes as outlined in the Regional Financial Management System and Procedure document in Indonesia.

The unit of analysis in this research is drafting the Regional Financial Management System and Procedure document in Indonesia after Regional Autonomy. Data collection was carried out through reviewing the System and Procedures document from 10 Local Governments selected based on the representation of fiscal capacity,

confirmation through in-depth interviews with system and procedure document compilers, and observing the preparation process.

Table 1
Data Collection in the Unit of Analysis

No	Local government	Interview	Observation	Document Review
1	East Tanjung Jabung Regency	v	v	v
2	Lamongan Regency	v	v	v
3	Depok City	v	v	v
4	Balikpapan City	v	v	v
5	East Nusa Tenggara Province	v	v	v
6	Meranti Islands Regency	v	v	v
7	South Central Timor District	v	v	v
8	Ternate City	v		v
9	DKI Jakarta Province	v		v
10	Riau Province	v		v

Source: Processed by the Author

Data analysis was carried out using pattern matching (Yin, 2018). Through the pattern matching method, the discussion in this study will reveal the principles of BPM implementation as a theoretical framework and its application empirically based on data collection in the unit of analysis. The principles of BPM implementation use the framework presented by (vom Brocke et al., 2014) and consist of:

- a. Principle of Context-Awareness
- b. Principle of Continuity
- c. Enablement Principle
- d. Holism Principle,
- e. Institutionalization Principles,
- f. Involvement Principle,
- g. Principles of Joint Understanding,
- h. Purpose Principle,
- i. Principle of Simplicity,
- j. Principles of Technology Appropriation.

Result and Discussions

A. Result

Since the Law on Regional Autonomy was enacted in 1999, local governments are expected to develop an independent regional financial management system. This is confirmed by Government Regulation Number 58 of 2005 concerning Regional Financial Management and Government Regulation Number 24 2005 concerning Government Accounting Standards, which state that establishing an accounting system is the authority of each regional head.

Analysis of Application of Business Process Management Principles in The Development of Regional Financial Management Systems and Procedures in Indonesia

This policy is followed up in more operational regulations. In 2006, the Minister of Home Affairs Regulation Number 13 of 2006 (Permendagri 13/2006) (Republik Indonesia, 2006) was issued concerning Guidelines for Regional Financial Management which in article 330 provides the following regulations:

- (1) Provisions on the main points of regional financial management are regulated by regional regulations in accordance with the related regulations.*
- (2) Based on the regional regulation as referred to in paragraph (1), the regional head shall stipulate regional head regulations regarding regional financial management systems and procedures.*
- (3) The regional financial management system and procedures as referred to in paragraph (2) include procedures for the budget preparation, budget execution, accounting, reporting, and regional financial supervision and accountability*
- (4) Regional head regulations regarding regional financial management systems and procedures as referred to in paragraph (2), also contains procedures for appointing officials authorized by BUD, budget users, revenue treasurers, and expenditure treasurers.*

When there is an update in the legislation on regional finance, the provisions on the System and Procedure are reaffirmed in the Minister of Home Affairs Number 77 of 2020 (Permendagri 77/2020) (Kementerian Dalam Negeri Republik Indonesia, 2020) concerning Technical Guidelines for Regional Financial Management. Permendagri 77/2020 requires the existence of a System and Procedure (Sisdur) document as a mandatory business process. Article 3 of this Minister of Home Affairs states:

At the time this Ministerial Regulation comes into force:

- 1. Local regulations governing Regional Financial Management;*
- 2. Regional Head Regulation, which regulates the system and procedure of Regional Financial Management;*
- 3. Regional Head Regulation, which regulates local government accounting policies;*
- 4. Regional Head Regulation, which regulates the local government accounting system; and*
- 5. Regional Head Regulation. which regulates the analysis of spending standards, set no later than 2022.*

To bridge the difficulties of local governments in compiling system and procedure documents, the Ministry of Home Affairs provides guidelines containing examples of Systems and Procedures and business processes in the form of flow charts. The order of contents of the System and Procedures and an example of a flow chart illustrated in the Minister of Home Affairs Circular SE.900/316/BAKD 2007 are presented in Table 2 and Figure 1 below.

Table 2
System Structure and Procedure

No	System & Procedure Contents	Information
1	Legal Framework	Regulations that form the basis for developing procedures
2	Activity Description	A brief description of the procedure to be explained
3	Related parties	Parties involved in the procedure
4	Technical Steps	The steps in a particular order that make up the procedure, explaining who does what with what documents
5	Flowchart	Image in flowchart form

Source: Processed by the Author

6.5.5. Bagan Alir

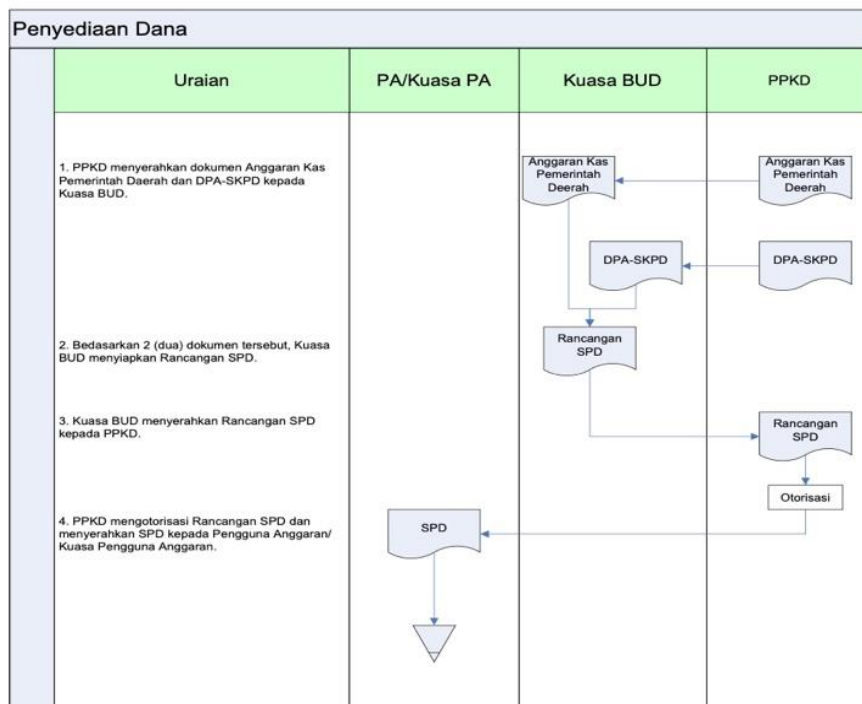


Figure 1

Example of Sub Procedure Flowchart

Source: SE Minister of Home Affairs SE.900/316/BAKD 2007

The Regional Government's preparing the Sisdur is mainly carried out by the Regional Financial Management Unit (SKPKD). After the systems and procedures draft has been prepared, a review is carried out by the Legal Bureau to be then determined as a Regional Head Regulation.

B. Discussion

Business process management (BPM) is the discipline in which people use various methods to discover, model, analyze, measure, improve, optimize,

and automate business processes (Jeston, 2014). These methods aim to support of enterprise goals, spanning systems, employees, customers and partners within and beyond the enterprise boundaries (Von Rosing, Von Scheel, & Scheer, 2014).

To implement various BPM methods, (Rosemann & Brocke, 2015) identified six core elements that are important for BPM. The five elements are the conformity of BPM with all entity strategies, proper and transparent governance, methods used, use of information technology, human resources both as individuals and groups, and organizational culture.

Furthermore, in implementing these BPM methods, principles must be adhered to produce reliable business processes. According to (vom Brocke et al., 2014), there are at least ten principles that must be followed, namely:

1. The Principle of Context Awareness

The implementation of BPM in various entities must apply the same method. If there is no context awareness, the implementation can fail. The principle of Context-Awareness indicates that BPM requires consideration of the unique situation in an organization developing its business processes. Context-awareness involves paying attention to the factors that differentiate the BPM context between organizations, such as the size, strategy, industry, market, and objectives of BPM, and within the organization, such as the types of processes or resources available.

When the local government adopts the Ministry of Home Affairs Guidance, which provides guidelines on the preparation of the systems and procedures, adaptation must be made to the context in the area. All local governments make adjustments to their respective regional contexts based on the data collected. This is shown, for example, in the procedure for receiving income, where each region has constraints on depositing income due to geographical conditions. In this principle, there are also difficulties when several regions want to adjust the context but are hampered by the guidance, which is too rigid (inflexible).

Not all local governments can identify the need for contextualization in the preparation of the systems and procedures. The very dense routine, coupled with the team's capacity to identify specific contexts in the region, made contextualization not optimal. However, there are best practices in certain aspects, including:

- Criteria for fixed assets capitalization
- Revenue mechanism
- Expenditure Approval
- Accounting methods

2. The Principle of Continuity

The continuity principle emphasizes that the implementation of BPM must have a sustainable impact to improve the efficiency and effectiveness of

business processes. Building a long-term-oriented approach to BPM and a sustainable mindset is essential to implementing this principle.

The principle of continuity requires the Regional Government to update the *Sisdur* prepared continuously. This update should be determined by developments in the field or efforts to improve efficiency. Unfortunately, although this update process is carried out, it cannot respond to needs to be updated in real-time. This is because this systems and procedures document must be stated in a regional head regulation which requires a separate legal process.

3. Principle of Enablement

The Enablement principle focuses on the idealism that BPM implementation should enhance individual and organizational capabilities. Many organizations leave the implementation of BPM to a tool or a consultant. This is a risk that the enablement principle is not fully implemented. Practices by local governments in Indonesia show mixed results. Some systems and procedures preparation in local governments stated significant lessons learned during the business process design process. However, some local governments stated that learning occurred partially only in the core team assigned to lead the process of preparing the systems and procedures. There are efforts to increase capacity through socialization and training once the document has been completed. The work unit follows this socialization or training. In the context of the implementation of the procedure, participants gained understanding and increased technical ability. However, in the perception of the enablement principle, which expects a natural process of capacity building to occur at each stage of BPM, it has not yet fully occurred. One of the inhibiting factors for this enablement principle is the personnel policy that leads to process of mutation and personal transfer, which often does not pay attention to the area of personnel capabilities.

4. Holism Principle

There are 2 (two) dimensions in this principle. First, BPM should not have a sole focus on a specific area of the organization, i.e., BPM should not be an activity only in one or a few stages but must be carried out across all stages of the BPM value chain. Second, BPM should not solely focus on a particular method, for example, the formulation of a model without paying attention to analysis and automation. BPM should not be understood solely as a modeling process but as a holistic approach that includes strategic, methodological, technical, and social aspects. The cycles of BPM (Szelaḡowski, 2018) can be described as follows:

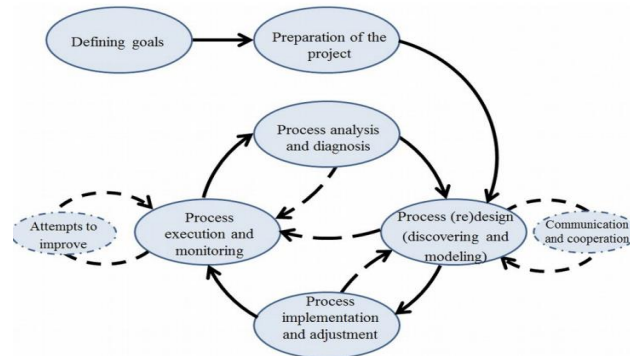


Figure 2
Business Process Management Cycles

Source: (Szelągowski, 2018)

Based on the data collected, the principle of Holism from a process point of view has been carried out comprehensively (Holism). However, there are some differences in emphasis between local government entities and one another. Some of these variations are located in the following stages:

- (a) At the execution stage; Some local governments have a systematic process for monitoring. Based on this, they revise their business processes. Most of the others perform a process analysis based on the findings at the audit phase.
- (b) At the design stage; With the condition that there are guidelines for the preparation of the systems and procedures, almost all local governments do not carry out "discovering" procedures, as referred to figure 2. This is because it has been provided in the guidelines for preparing systems and procedures.

5. Institutionalization Principle

On the principle of institutionalization, it is hoped that the implementation of BPM will be attached to specific functions in the organizational structure. Even on a large scale, separate structures such as BPM divisions or offices can be formed.

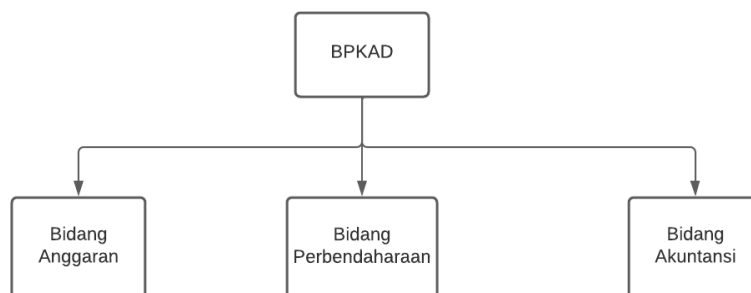


Figure 3
Example of BPKAD Organizational Structure

Source: Processed by the author

In local governments, systems and procedures development is often carried out or becomes the responsibility of specific fields. There is a risk that the resulting document does not meet the institutionalization principle. In general, the preparation of the systems and procedures is managed by the Regional Financial Management Agency (BPKAD). If you look at Figure 4.2 above, there are several divisions in BPKAD whose function is to represent regulatory aspects in systems and procedures.

Some local governments set up teams consisting of all fields. Others are handled by only one division, such as the treasury. In the process, the budget division or the accounting division did not involve themselves maximally so that the results of the final document were not evenly distributed.

The principle of institutionalism is not applied correctly because no division has a job description in business process preparation. Moreover, a division or unit that is devoted to the preparation of business processes and systems and procedures document.

6. Principle of Involvement

Organizational change often triggers stakeholder resistance. The involvement principle emphasizes that all stakeholder groups affected by BPM must be involved. Often the implementation of BPM results from changes in the structure, position, and authority of the parties involved. Active involvement of all parties fosters a sense of ownership and improves organizational performance during BPM implementation.

Based on the review of regulatory documents related to regional financial management, the relevant parties affected by the preparation of the systems and procedures, among others:

- a. DPRD (Legislative Body)
- b. District head
- c. Regional Financial Management Officer
- d. Budget User
- e. Program & Activity Technical Officer
- f. Financial Administration Officer
- g. Treasurer

The preparation of the systems and procedures must involve all the relevant parties. In observing the process of preparing the document, there are various processes, including :

- 1) The Drafting Team prepares the draft and completes it without involving other related parties.

- 2) The Drafting Team prepares the draft and, for the completion process, invites all relevant parties to provide input.
 - 3) The Drafting Team prepares the draft and completes it with the Legal Bureau. After that, the team disseminated the contents of the systems and procedures to related parties.
7. Principle *Joint Understanding*

The implementation of BPM requires a language that all parties understand. This is necessary so that all the different stakeholders can see and analyze the business processes being developed. There are three parts of the systems and procedures in presenting it, as shown in Table 3 below.

Table 3
How to Present the System and Procedure

Part	Description
First: General Terms	Describe the legal basis that serves as a benchmark or reference for the development of related procedures
Second: Technical Steps	Explain the sequence of procedures in the form of technical steps. These steps describe in detail the activities of each party, the resulting data flow, and the documents used as input or output.
Third: Flowchart	Illustrate all sequences of procedures in a chart with symbols that are understood together. This chart becomes essential as a reference if there is confusion or ambiguity in the descriptive explanation of the steps.

Source: Processed by the Author

Based on the presentation method, all parties in the Regional Government obtained a pretty good mutual understanding. Some of the difficulties in understanding that are found usually occur because of the substance that does require technical explanation. Therefore, all Governments in this case study carried out further socialization after the Sisdur document was legalized in their respective regional head regulations.

8. Principle *Purpose*

The principle of purpose emphasizes that the implementation of BPM should be placed as a management method to achieve desired organizational change and create value. Consequently, the implementation of BPM must be aligned with the mission and strategic objectives of the organization.

In the management of regional finances, the strategic objective of each Regional Government is the realization of an accountable financial management system. This is stated in PP 12/2019 concerning Regional Financial Management Article 3, which states that Regional Financial Management is carried out in an orderly, efficient, economical, effective, transparent, and responsible manner by paying attention to a sense of justice, propriety, benefits for the community, and comply with the related regulations.

Based on the dialogue with the actors involved in the preparation of systems and procedures, all parties have a powerful desire to make positive changes with the document as a tool. In addition to this desire, field observations show that systems and procedures with its business processes has succeeded in directing the behavior of related parties. The following table 4 shows several functions of regional financial management that have increased accountability through the implementation of systems and procedures with its business processes.

Table 4
The outcome of the Implementation of Systems and Procedures on Regional Financial Management Functions

No	Procedure	The outcome of the Implementation
1	Cash Management	Cash management from bank account formation to daily cash position reports establishes a system that ensures daily cash control and reporting
2	Fund Submission	The funding application system has improved the internal control system by setting measurable stages and explaining in detail who does what with the related documents
3	Work Unit Accounting	The work unit accounting system has been developed to capture all types of transactions that may be carried out by the local government, thereby ensuring that all transactions are reported in the financial statements.
4	Finance report	The consolidated financial statement system ensures that the latest accountability process occurs on time before being audited by the BPK

Source: Processed by the Author

9. The Principle of Simplicity

BPM implementation can be resource-consuming. The simplicity principle shows that the number of resources (e.g., effort, time, money) invested in BPM must be economical. Focusing on simple solutions means balancing inputs with outputs from more efficient and effective organizational processes. An organization must carefully choose which processes require this level of attention from a strategic or technical point of view.

The Regional Government carries out the application of this principle in 2 ways. First, eliminate specific procedures, and sub-procedures deemed inefficient or did not provide commensurate added value. Second, Simplification by eliminating documents that are pretty significant in cost. This aspect is closely related to applying the following principle that discusses IT in BPM.

10. Principle of Technology Appropriation

Countless information technology solutions can drive the efficiency and effectiveness of business processes. The principle of technology appropriation

emphasizes that BPM must utilize technology, especially information technology.

There is relatively massive use of IT in local governments in the current era. However, in the context of the BPM cycle (Szelągowski, 2018), these applications were developed not for BPM but in compliance with statutory provisions.

To strengthen the use of IT in local governments, in its latest regulation, Permendagri 77/2020, the Ministry of Home Affairs creates momentum by reforming the concept of digital-based business process preparation. Local governments can use this rule to become the basis for IT development in their respective regions with the spirit of digitalization.

Conclusion

The application of BPM principles in preparing the Regional Financial Management System and Procedure (Sisdur) in Regional Governments in Indonesia has been carried out entirely with various implementation qualities. These qualities are divided into three major parts: Principles that have worked quite well, principles that have worked but have not been maximized, and principles that have not worked well.

The BPM principles running quite well in Indonesia are the Holism Principle, the Joint Understanding Principle, the Purpose Principle, and the Simplicity Principle. The Holism principle works well from a process point of view because most local governments have compiled their system comprehensively, although there are differences in emphasis between local government entities. The principle of Joint Understanding is implemented well because there has been a pretty good mutual understanding by all parties in the local government through the method of presentation is regulated in the relevant regulations. In addition, differences in understanding can be overcome by further socialization activities after the Sisdur document is legalized in the respective regional head regulations. The principle of purpose works well to find that all parties have a strong desire to make positive changes by systems and procedures as the tool. The Simplicity principle is concluded to work well by the local governments ability to make adjustments to the contents of the systems and procedures, by deleting specific procedures and sub-procedures that are inefficient.

The BPM principles that have been implemented in local governments in Indonesia but have not been maximized are the Context Awareness Principle, Continuity Principle, Involvement Principle, and Technology Appropriation Principle. In the Context Awareness Principle, almost all Regional Governments have adjusted their systems and procedures to their respective regional contexts. However, not all of them were able to identify the need for contextualization in the preparation of the systems and procedures due to very dense routines and the lack of team capacity in identifying particular contexts in the regions, so the contextualization process became complicated. The Continuity principle is also concluded to have not run optimally

because updating the Sisdur in the Regional Government is indeed running but slow and cannot be real-time because this Sisdur document must be stated in a Regional Head Regulation which requires a separate legal process that takes time. The Involvement principle is also not running optimally because there are various processes for preparing the Sisdur, but not all of them involve all relevant parties in the process stages. Some involved only part of it at the beginning or only involved the Law Bureau before it was disseminated to all parties at the end. The last one concluded as a principle that has not been running optimally is the Technology Appropriation Principle because although there is relatively massive use of IT in local governments in Indonesia, in the context of the BPM cycle, these applications are developed not for BPM but for compliance with the laws and regulations.

The BPM principles that have not worked well in Indonesia are the Enablement Principle and the Institutionalization Principle. The Enablement principle, which should focus on the idealism that BPM implementation should improve individual and organizational capabilities, did not occur. One of the inhibiting factors for this enablement principle is the process of mutation and personal transfer, which often does not pay attention to the personnel capabilities. Finally, the principle that has not worked well is the Institutionalization Principle because no division has a job description in business process preparation.

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