



**PUBLIC PROCUREMENT IN MALAYSIA:
OBJECTIVES, PRINCIPLES, AND TRANSPARENCY OF
E-PROCUREMENT**

BY

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ABSTRACT

Public procurement is one of the key economic activities of the government and the main source for providing basic necessities for the citizens in a country. The public procurement activities are carried out by the government through government suppliers using public funds. The present study focuses on the government suppliers' perceptions of the public procurement activities in Malaysia. The aims of this study are (i) to explore the perceptions of the government suppliers of the importance of the public procurement objectives in Malaysia, (ii) to investigate the extent to which government suppliers adhere to the public procurement principles, and (iii) to examine the level of transparency of the e-procurement system in Malaysia. The current research was carried out using a quantitative research method by means of a questionnaire survey and content analysis. The questionnaire survey was used to achieve the first and second objectives of the research. Then, the descriptive analysis was used for the questionnaire survey. For the third objective, the Website Attribute Evaluation System (WAES) content analysis was used and analysed using frequency distribution. The total completed questionnaires were 107 all of which were usable. The results revealed that the most important public procurement objective is to ensure a continuous supply of material and services to meet the government needs from the best and reliable sources. However, the objective to expand the local industrial sector by means of the transfer of technology and expertise to suit the nation's needs, and the objective to promote alternative and multiple sourcing through supplier development according to the aspirations and vision of the government are not perceived as being important by the government suppliers. The findings also indicate a moderate level of adherence concerning Malaysia's public procurement principles, which consists of public accountability, transparency, open and fair competition, fair dealing, and value for money. The most adhered to principle is open and fair competition and the least adhered to principle is transparency. The findings from the WAES content analysis revealed that the overall transparency disclosure level of the ePerolehan system is 73.91 percent. The result implies a high level of transparency of the ePerolehan system in Malaysia. To ensure continuous improvement in the public procurement activities, the government may collaborate with academicians to further conduct comparative research from time to time to ensure that the information required for the users is being adequately disclosed. In conclusion, the research findings fill the gap in the studies on public procurement in Malaysia and provide information to researchers, and practitioners, particularly public procurement officers and the government of Malaysia.

خلاصة البحث

المشتريات العامة من النشاطات الاقتصادية الرئيسة للحكومة والمصدر الأساس لتوفير حاجات الشعب في بلد ما، وتوفر الحكومة المشتريات العامة من خلال الموردين الحكوميين باستخدام الميزانية العامة، وتُركّز الدراسات الحالية على اتجاهات الموردين الحكوميين في المشتريات العامة في ماليزيا، وعليه؛ يهدف البحث إلى: اكتشاف اتجاهات الموردين الحكوميين في أهمية أهداف المشتريات العامة في ماليزيا، واختبار مدى خضوعهم لأهداف المشتريات العامة في ماليزيا، والكشف عن مستوى الشفافية لنظام الشراء الإلكتروني ePerolehan في ماليزيا، وقد اعتمد البحث المنهج الكمي باستخدام الاستبانة وتحليل المضمون، وتهدف الاستبانة إلى تحقيق الإجابة عن السؤالين الأول والثاني للبحث، أما السؤال الثالث فيُجيب عنه التحليل الوصفي للاستبانة، في حين استخدم نظام تقييم نسب الموقع (WAES) لتحليل المضمون من خلال تردّد التوزيع، وقد أجاب عن الاستبانة 107 مشاركين، وبيّنت النتائج أن من أهم متعلقات المشتريات العامة التأكد من استمرار الإمدادات بالمواد والخدمات من أفضل مصدر معتمد؛ لتتناسق مع حاجات الحكومة والشعب، والهدفُ توسيعُ القطاع الصناعي المحلي من خلال نقل التقنية والخبراء لتناسب حاجات الدولة، ولكن؛ لا يُعدُّ مهمًّا لدى الموردين الحكوميين توفير مصادر بديلة متنوعة تتفق وتطلّعات الحكومة، كما أشارت النتائج أيضًا إلى مستوى معتدل من الالتزام بمبادئ المشتريات العامة الماليزية، وهي: المساءلة العامة، والشفافية، والمنافسة العلنية العادلة، والتعامل المنصف، والقيمة الشرائية، وأن أكثر المبادئ التزامًا به هو المنافسة العلنية العادلة، وأقلها الشفافية، في حين أشار تحليل المضمون في نتائج (WAES) إلى أن نسبة الشفافية في نظام ePerolehan عالية، وقد بلغت 73.91%، ومن المقترحات لاستمرار التنمية في مجال المشتريات العامة أن تتعاون الحكومة مع الأكاديميين لإجراء البحوث المقارنة من وقت إلى آخر؛ للتأكد من أن المعلومات التي يطلبها المستخدمون تُكشَف كفاية، وهكذا؛ سدَّ هذا البحث الفجوة في الدراسات عن المشتريات العامة في ماليزيا، وقَدَّم معلومات وافية إلى الباحثين والمهنيين، ولا سيما مسؤولي المشتريات العامة والحكومة الماليزية.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science (Accounting).

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DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Sitti Hasinah Abul Hassan

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*This dissertation is dedicated to my mother, Umul Meerammal Rawther Kani and my
brother, Aman Firdaus Abul Hassan.*

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LIST OF ABBREVIATIONS

CIDB	Construction Industry Development Board
CPI	Corruption Perceptions Index
CyPRG	Cyberspace Policy Research Group
EU	European Union
GDP	Gross Domestic Product
GOS	Government Online Services
ICT	information technology and communication
IT	information technology
MACC	Malaysian Anti-Corruption Commission
MDEC	Multimedia Development Corporation
MGPWA	Malaysia Government Portals and Websites Assessment
MSC	Multimedia Super Corridor
MUSE	Malaysia User Satisfaction Evaluation
OECD	Organization for Economic Co-operation and Development
PKK	Pusat Khidmat Kotraktor (Contractor Services Centre)
RM	Ringgit Malaysia
SPSS	Statistical Package for the Social Sciences
WAES	Website Attribute Evaluation System
YAB	Yang Amat Berhormat

CHAPTER ONE

INTRODUCTION

1.0 INTRODUCTION

This chapter provides an overview of this dissertation on Malaysia's public procurement. The chapter consists of six sections. Section 1.1 discusses the background of the study; Section 1.2 provides the problem statement of the study and is followed by the motivation of the study in Section 1.3. The research objectives and research questions are presented in Section 1.4. Section 1.5 presents the significance of the study, and, finally, Section 1.6 outlines the organization of the dissertation.

1.1 BACKGROUND OF THE STUDY

Generally, public procurement is defined as the acquisition of supplies, services and works by the government (Thai, 2001; Hasan, 2016). According to the United Nations (2013), procurement concerns the purchasing or leasing of real property, goods or other products (including intellectual property), works or services.

Public procurement is one of the important government economic activities. According to the World Trade Organization (2018), on average, government procurement accounts for 10 to 15 percent of the Gross Domestic Product (GDP) of an economy. Public procurement is considered to be an essential element for the development of a nation since it is regarded as the main source of providing basic necessities to the citizens in a country (Krause & Tutunji, 2014). An efficient, effective,

and transparent public procurement system is crucial to better serve the society (Choi, 2010).

In the context of Malaysia, one of the main objectives of government procurement is to achieve value for money (Ministry of Finance Malaysia, 2010). Value for money refers to the efficiency of using the available funds for various government procurement activities in public procurement. This is in line with the World Bank (2012), that to achieve optimum benefit for the public, good public procurement acts as a tool for a country's economic growth and to make public investment effective.

The World Bank (2017) outlines seven principles of good public procurement: (i) value for money, (ii) economy, (iii) integrity, (iv) fit for purpose, (v) efficiency, (vi) transparency, and (vii) fairness. Following the World Bank procurement principles, Malaysia has also established public procurement principles that are in line with the National Development Policy to move towards a developed nation (Ministry of Finance Malaysia, 2010). Malaysia's public procurement principles consist of public accountability, transparency, value for money, open and fair competition, and fair dealing (Ministry of Finance Malaysia, 2010). Public procurement principles act as a foundation to ensure the smooth running of government procurement activities which ultimately lead to better service delivery to the public at large. Realizing the crucial role of public procurement principles, the present study aims to examine the importance of Malaysia's public procurement objectives as well as the level of adherence to the public procurement principles as perceived by the government suppliers.

In 1996, under the Seventh Malaysian Economic Plan, the Malaysian government aimed to transform the nation into information and knowledge-based society. Thus, the Multimedia Super Corridor (MSC) was established in 1996 as a

programme to enhance the information technology and communication (ICT) industry (Ordóñez de Pablos, 2012). Various flagship projects had been established in line with the agenda. The introduction of electronic government was one such project under the MSC. More importantly, transforming manual public procurement into electronic procurement (e-procurement) was one of the pilot projects under the flagship projects (Vicziány & Puteh, 2004).

The government believes that transforming the manual procurement process into e-procurement system will enhance the transparency, which is consistent with one of the crucial elements of procurement principles. According to the former Prime Minister of Malaysia, YAB Dato' Sri Mohd Najib Abdul Razak, e-procurement is a mechanism that enhances the transparency, and is a medium to provide information related to public procurement to the public (Abdul Razak, 2010). However, since the establishment of e-procurement in 1999, there has been a lack of research focusing specifically on the transparency of the e-procurement system in Malaysia. Thus, the present study aims to assess the level of transparency of the e-procurement system in Malaysia. In Malaysia, the e-procurement system used is known as ePerolehan. Throughout the present study, e-procurement and ePerolehan are used interchangeably. The following section discusses the problem statement related to the study.

1.2 PROBLEM STATEMENT

From year to year, there have been issues and problems related to public procurement in the Auditor General Report (2014; 2015). Among the reported weaknesses of public procurement are poor adherence to procurement specifications, lack of supervision on the works of government suppliers (contractors, vendors or consultants), poor asset management and insufficient funds for procurement assets maintenance (National Audit

Department Malaysia, 2014; 2015). For example, the poor planning on project management indicates that there was no feasibility study and due diligence made prior to the procurement worth of more than RM 500 million (National Audit Department Malaysia, 2015). According to the latest report of the National Audit Department Malaysia (2017), the level of non-compliance with the criteria in procurement management has been reported at 72 percent. The continuous issues that being reported about public procurement in the Auditor General Reports imply the need for further investigation on the issues. Puteh Salin, Nawawi, and Shariman (2017) also stated that the Auditor General repeatedly found that public procurement principles are not being followed in government acquisition.

Furthermore, public procurement has always been associated with corruption scandals. The former Auditor General, Tan Sri Ambrin Buang, stated that “public procurement is one of the government activities that are prone to corruption and most fraud cases reported were related to public procurement” (Bernama, 2017). In addition, the Chairman of Transparency International Malaysia, Datuk Seri Akhbar Satar, claimed that the decline in the Corruption Perceptions Index (CPI) score for Malaysia from 50 percent in 2015 to 47 percent in 2017 was due to the lack of transparency in public procurement (Bernama, 2017).

In light of the above issues concerning public procurement, the current study intends to investigate certain aspects of public procurement, particularly the extent of compliance with the public procurement principles and the level of transparency of the public procurement system in Malaysia. The following section discusses the motivation to carry out this study.

1.3 MOTIVATION OF THE STUDY

There are several motivations to undertake this study. Firstly, public procurement is a government activity that contributes significantly to the proportion of the country's economic growth. Public expenditure in Malaysia has amounted to approximately 24-33 percent of the Gross Domestic Product (GDP) for the past ten years (Adham & Siwar, 2012). Although the government has established public procurement principles to ensure smoothness in carrying out the public procurement activities, weaknesses in the public procurement are still being reported by the government. Hence, the current study investigates the achievement of the public procurement objectives and the level of adherence with the public procurement principles in Malaysia.

Next, although public procurement is perceived as being a major function of government, it is perceived as being a neglected area of academic education and research (Thai, 2001), with, generally, only limited studies concerning public procurement, especially in Malaysia. According to Puteh Salin et al. (2017), even though the government determined that public purchasing should follow the principles of public procurement, the Auditor General has continuously found that such principles are not being followed.

Hence, the present research aims to contribute to the literature on public procurement particularly concerning the importance of the public procurement objectives, government supplier adherence to Malaysia's procurement principles, and the level of transparency of the public procurement system that is currently being used for procuring activities. In relation to the transparency of public procurement, since the establishment of electronic procurement (e-procurement), there have been limited attempts to gauge the level of transparency of the e-procurement system. Thus, this

study is expected to contribute to academic education and research with regards to public procurement.

Based on the above, the importance of public procurement for Malaysia, as well as the lack of research with regards to public procurement, has motivated the researcher to carry out this study. The following section further explains the research objectives and research questions of this study.

1.4 RESEARCH OBJECTIVES AND RESEARCH QUESTIONS

The research objectives of this study are as follows:

- i. To examine the importance of public procurement objectives in Malaysia
- ii. To investigate the extent to which government suppliers adhere to public procurement principles.
- iii. To examine the level of transparency of the e-procurement system in Malaysia.

The aims of this study are based on the following research questions:

- i. What are the important objectives of public procurement in Malaysia?
- ii. To what extent do government suppliers adhere to Malaysia's public procurement principles?
- iii. How transparent is Malaysia's e-procurement system?

1.5 SIGNIFICANCE OF THE STUDY

This study expects to contribute in several aspects. The findings of this study are expected to be useful to various parties including government, government suppliers, academicians, students, and the public.

The empirical evidence from this study will provide an idea of the areas that require further improvements with regards to public procurement. The reliable information using an empirical analytical approach will provide information, especially for the government, concerning the perceptions of the current government suppliers, as well as the level of transparency of the e-procurement system in Malaysia. In addition, academicians will have some comparative analysis for further research on the perceptions of government suppliers and the level of transparency of e-procurement in the future.

Furthermore, the current research is expected to provide guidelines on the current level of adherence by the government. Thus, the findings will be potentially useful as the foundation to further improve compliance with the public procurement principles. The main users of public procurement, which are government and government suppliers, may further improve the level of adherence with the public procurement principles to ensure that all the public procurement objectives are given equal importance.

Lastly, the present study is expected to provide a better understanding of the perceptions of government suppliers of public procurement in Malaysia for academicians, students, and the public. Potentially, the present study will provide a clear picture concerning the public procurement objectives, principles, and transparency of the e-procurement system in Malaysia.

1.6 ORGANIZATION OF THE STUDY

This study consists of six chapters which have been organized as follows:

The first chapter comprises the background of the study, problem statement, objectives of the study, research questions, significance of the study, and the plan of the study.

Chapter Two provides a review of the literature concerning pertinent studies. The literature review discusses the issues of procurement, the establishment of e-procurement, and public procurement in Malaysia. At the end of this chapter, the gaps in the literature are identified.

Chapter Three provides an explanation and justification of the theoretical framework adopted in this study. The theoretical framework adopted in the study is the accountability framework. In addition, this chapter describes the methodology and information about the sources of data and data analysis process. This chapter also discusses the sample selection, data collection, research design, pilot test, statistical analysis, and the evaluation system used in the study.

Chapter Four presents the findings and further analyses the results. The statistical results are thoroughly discussed in this chapter.

Finally, Chapter Five provides the conclusion and limitations of the study that was conducted. The implications and contributions of this study are further explained, and, finally, the study concludes with recommendations for potential future studies.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter reviews the literature in relation to public procurement, electronic procurement, and the transparency of public procurement. The chapter consists of six sections beginning with Section 2.1, which provides an overview of public procurement, followed by Section 2.2 that offers an explanation of the public procurement principles. Next, Section 2.3 provides a discussion on the development of e-procurement. Section 2.4 reviews prior studies in several areas, such as public procurement issues, e-procurement, assessment of e-procurement using WAES, public procurement in Malaysia, and e-procurement assessment in Malaysia. Section 2.5 identifies the gaps in the literature, and, finally, Section 2.6 concludes the chapter with a chapter summary.

2.1 PUBLIC PROCUREMENT

According to the Organization for Economic Co-operation and Development (OECD), public procurement is defined as an act of buying goods, services, and works made by the government using the taxpayers' money (OECD, 2018). Public procurement is one of the key activities in the government due to its significant contribution to the economy. According to Singer, Konstantinidis, Roubik, & Beffermann, (2009), about 18.42 percent of the world Gross Domestic Product (GDP) is accounted for by public procurement. The World Trade Organization (2018) stated that, on average, 10 to 15 percent of the GDP of an economy is represented by government procurement. Furthermore, Transparency International (2006) stated that, on average, procurement

amounted to between 15 and 30 percent of GDP, and, in some countries, procurement expenses were even more.

On average, OECD countries spend 12 percent of GDP on public procurement, while, the Middle East and North Africa region spend 15 to 20 percent of GDP on public procurement (OECD, 2018; Krause & Tutunji, 2014). The United States spends between \$1.3 trillion and \$1.6 trillion annually on government procurement (Adler, Petty, & Randall, 2005), while, in Malaysia, public expenditure represented about 24 to 33 per cent of the GDP for the past ten years (Adham & Siwar, 2012). Based on the statistics, a substantial amount is allocated for procurement activities to ensure the provision of public needs.

Generally, there are three categories of public procurement - works, supplies and services (Shu Hui, Othman, Hj Omar, Abdul Rahman, & Husna Haron, 2011). The procurement of supplies or goods refers to the government purchase of raw, and intermediate or finished goods. The procurement of services refers to the provision by the government of professional skills and expertise for consultation, research, design, and other related activities. The procurement of works refers to the government contracts for construction and engineering activities involving infrastructure (Ministry of Finance, 2010). All three categories of public procurement use the modes of procurement adopted by the Malaysian government, which consist of direct purchase, quotation, and tender (Ministry of Finance, 2010).

2.1.1 Modes of Procurement

As mentioned earlier, there are three modes of public procurement: (i) direct purchase, (ii) quotation, and (iii) tender. The first mode is direct purchase which is for the

procurement of supplies and services with a value up to RM50,000 and the procurement of works with a value up to RM20,000. The registration requirement under the direct purchase of supplies and services is exempted since it is issued through Government Order to any known supplier that consistently supplies goods of acceptable quality and at reasonable price (Ministry of Finance, 2010). For the direct purchase of works, contractors are required to be registered with the Contractor Services Centre (PKK) and the Construction Industry Development Board (CIDB) Malaysia (Ministry of Finance, 2010).

The second mode of procurement is by quotation. Quotations are used for the procurement of supplies and services valued between RM50,000 and RM500,000. Companies providing quotations for the procurement of supplies and services must be registered with the Government and a minimum of five companies are invited to submit quotations (Ministry of Finance, 2010). Quotations for the procurement of works are used for works valued between RM20,000 and RM500,000. In addition, for the procurement of works, at least five contractors are invited to provide quotations; any contractor intending to submit a quotation must be registered with the PKK and CIDB (Ministry of Finance, 2010).

The last mode of procurement is tender. Any procurement of supplies, services, or works above RM500,000 must be carried out through the tender process. Anyone intending to participate in tendering must be registered with the government (Ministry of Finance, 2010). The current study focuses on government suppliers involved in tendering procurement activities for the first and second objectives of the study. The following section discusses the public procurement procedures to carry out procuring activities involved with tendering.

2.1.2 Public Procurement Procedures

A few procedures are involved in public procurement activities. Companies interested in being government suppliers for the supplies and services category need to be registered with the Ministry of Finance Malaysia. While for the procurement of works, the respective companies are required to be registered with the Ministry of Works and the Construction Industry Development Board (CIDB) Malaysia. After registration, the companies can participate in the procurement activities.

The tender specifications prepared by the respective Ministers or Departments are based on their requirements. Companies or individuals interested in participating, known as bidders, will submit a tender proposal. The tender proposal must consist of the technical and financial proposal and be submitted to the respective address stated in the tender advertisement. The successful bidder is selected based on the tender evaluation and becomes known as the government supplier for the respective tender that they bid for (Ministry of Finance Malaysia, 2010). To ensure the smoothness and success of the public procurement process, public procurement principles have been established, which are presented in the following section.

2.2 PUBLIC PROCUREMENT PRINCIPLES

The World Bank (2017) outlined seven core public procurement principles as a basis for procurement activities. The seven principles are ‘value for money’, ‘economy’, ‘integrity’, ‘fit for purpose’, ‘efficiency’, ‘transparency’ and ‘fairness’. Public procurement in Europe highlights the principle of ‘equal treatment’, ‘transparency’, and ‘non-discrimination’, in handling the procurement (Stolfi & Murniati, 2014). In the context of Malaysia, the Ministry of Finance Malaysia (2010) established five