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Challenges in implementing public private partnership (PPP) in Malaysia

Suhaiza Ismail*, Fatimah Azzahra Harris

Department of Accounting, Faculty of Economics and Management Sciences, International Islamic University Malaysia, Jalan Gombak 53700 Selangor, Malaysia

Abstract

The objective of this present study is to scrutinize the challenges in implementing PPP by examining the factors that hinder the successful adoption of PPP in Malaysia. A questionnaire survey was used to elicit the perceptions of the public and private sectors concerning the constraints of PPP implementation in Malaysia. A total of 122 usable responses were obtained. The overall results show that 'lengthy delays in negotiation', 'lack of government guidelines and procedures on PPP', 'higher charge to direct users', 'lengthy delays because of political debate' and 'confusion over government objectives and evaluation criteria' are the top five constraints for adopting PPP in Malaysia.

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1. Introduction

Public Private Partnership (PPP), as a procurement method for delivering public sector projects has been used worldwide including Malaysia. In the broadest sense, PPP covers any arrangement between the public sector and the private sector to provide public services. The involvement of the private sector in providing public goods and services is not new in Malaysia. With the introduction of the Malaysian Incorporated Policy in 1983; cooperation or partnership between the public and private sectors has been encouraged to foster Malaysia's economic growth.

* Corresponding author. Tel.: +6-03-61964675.

E-mail address: suhaiza@iium.edu.my

The relationship between the two parties continued to evolve with the introduction of the Privatisation Master Plan during the Sixth Malaysia Plan (1991).

PPP was officially announced in Malaysia under the Ninth Malaysia Plan (2006); it was introduced by the Malaysian Government as an alternative procurement method, which emphasises greater involvement of private sector providers in providing public services. PPP is defined in the Ninth Malaysia Plan (2006) as: ‘the transfer to the private sector the responsibility to finance and manage a package of capital investment and services including the construction, management, maintenance, refurbishment and replacement of the public sector assets which creates a standalone business. The private sector will create the asset and deliver a service to the public sector client. In return, the private sector will receive payment commensurate with the levels, quality and timeliness of the service provision throughout the concession period’.

PPP implementation in Malaysia has proven to provide many benefits to the Government and the public as a whole. Through PPP projects, Malaysia has experienced many successful projects that can benefit the public, such as KL Sentral, Light Rail Transit (LRT), medical facilities, many highways, bus stations and others (Abd Karim, 2011; Beh, 2010). However, there are also constraints that hinder the successful implementation of PPP projects through the possibility of project default, projects completed at a higher cost to the Government and where value for money is not realised (Cheung et al., 2009). The growing importance of PPP implementation as well as the existence of the constraints in its implementation in Malaysia motivated the researcher to undertake the present study, which seeks the perception of key PPP players with the focus on the negative or hindrance factors of successful PPP implementation. In particular, there are two objectives of the present study. First, it intends to examine the importance of factors that hinder the successful adoption of PPP in Malaysia. Second, it aims to investigate the differences in the perceptions of the Government and the private sector pertaining to the hindrance factors.

The findings of this study may benefit practitioners to further enhance PPP implementation by eliminating or minimizing the negative factors that impede the benefits of using PPP. Furthermore, understanding the perceptions of both the public and private sectors is crucial because successful implementation of PPP requires commitment from the contracting parties. The remainder of this chapter is structured as follows. The following section reviews the relevant literature on the challenges, constraints, negative factors or hindrance factors of PPP implementation. This is followed by the research methodology section. Then, the subsequent section discusses the findings of the present study. The final section provides the implications, limitations and suggestions for future research, and the conclusion of the study.

2. Methodology

2.1. Research instrument

In achieving the objectives of the present study, a questionnaire survey was used. The questionnaire used in this study was adapted with prior permission from Li et al. (2005) and Cheung et al. (2010). An additional factor was added to the thirteen negative factors in the original instrument of Li et al. (2005), and Cheung et al. (2010). The questionnaire consists of two main parts. Part A consists of the demographic information of the respondents and Part B uses a Likert scale to measure the importance of PPP implementation constraint factors on a scale of 1 to 5, where ‘1’ is most important to ‘5’ is not important. Table 1 provides the list of fourteen constraints listed in the questionnaire.

Table 1. Constraints for adopting PPP arrangements.

No	Constraints
1	Reduce the project accountability
2	High risk relying on private sector
3	Very few schemes have actually reached the contract stage (aborted before contract)
4	Lengthy delays because of political debate
5	Higher charge to direct users
6	Less employment positions
7	High participation costs
8	High project costs
9	A great deal of management time spent in contract transaction
10	Lack of experience and appropriate skills
11	Confusion over government objectives and evaluation criteria
12	Excessive restrictions on participation
13	Lengthy delays in negotiation
14	Lack of government guidelines and procedures on PPP

2.2. Questionnaire distribution and data collection

The questionnaire survey was distributed to the participants of the Public Private Partnership Workshop Series held at Putrajaya International Convention Centre (PICC). This workshop was chosen as a place to distribute the questionnaire since the participants are those who are involved either directly or indirectly with PPP projects or at least have an interest in PPP in Malaysia. The workshop was well attended by both public and private agencies and the main aim of the workshop was to update participants concerning the development and progress of PPP implementation in Malaysia. A total of 250 questionnaires were distributed to the participants. A cover letter was attached to the questionnaire to explain the purpose of the study and assure the participants of the confidentiality of the information provided. At the end of the workshop series, 180 completed questionnaires were successfully collected representing a response rate of 72%.

2.3. Data analysis

The data collected from the questionnaire survey were analysed using the Statistical Package for Social Sciences (SPSS) software version 18. The mean score and mean score ranking were used to obtain the relative importance of each constraint factor for PPP implementation. In investigating the differences in the opinion between the two groups of respondents on the importance of the PPP constraints, the independent t-test was conducted.

3. Findings and discussion

3.1. Response rate and demographic information of the respondents

Based on the information provided by the respondents in the questionnaire, 122 out of the 180 respondents claimed to have experience in at least one PPP project. In ensuring the credibility of the respondents' answers, the analysis carried out for this study only covers experienced respondents. Out of 122 respondents, 52 are from the public sector whilst the remaining 70 respondents are from the private sector. The public sector respondents are from three categories – federal government (36.1%), state government (3.3%) and local government (3.3%). The private sector respondents are represented by the financiers (7.3%), facilities management (20.5%) and construction companies (29.5%). The respondents are mainly from the federal government, construction companies and facilities management companies. The main reason for this is because the majority of PPP projects in Malaysia are federal government projects. Moreover, the construction and facilities management companies are two key private sector companies that participate in PPP projects. In relation to working experience, over 70% of the respondents have more than 5 years' experience in the industry. Moreover, all of the respondents have experience in at least one PPP project and nearly 75 per cent of them have been involved in more than one project.

The demographic information of the respondents shows the credibility of the respondents of the present study, and, hence, the reliability of their perceptions in respect of the present study.

4. Results of PPP constraints

As shown in Table 2, the mean scores for the fourteen factors range from 1.42 to 4.14, which indicate that each factor is of different importance as perceived by the overall respondents as well as by each group of respondents as the constraints for successful implementation of PPP in Malaysia. The following two sub-sections discuss the results of the overall respondents and differences in the perceptions between the two groups of respondents, respectively.

Table 2. Perceptions of Survey Respondents Concerning the Relative Importance of Constraints in Adopting PPP Projects

No	Constraints	Public sector		Private Sector		Overall	
		Mean	Rank	Mean	Rank	Mean	Rank
1	Lack of government guidelines and procedures on PPP	1.42	1	1.48	1	1.45	1
2	Lengthy delays in negotiation	1.52	2	1.77	2	1.66	2
3	Higher charge to the direct users	2.17	3	2.13	3	2.15	3
4	Lengthy delays because of political debate	2.18	4	2.15	4	2.16	4
5	Confusion over government objectives and evaluation criteria	2.33	5	2.19	5	2.25	5
6	High risk relying on private sector	2.83	10	2.40	6	2.61	6
7	High project costs	2.40	6	2.84	10	2.62	7
8	A great deal of management time spent in contract transaction	2.71	8	2.64	7	2.67	8
9	High participation costs	2.77	9	2.79	9	2.78	9
10	Lack of experience and appropriate skills	2.63	7	2.93	11	2.80	10
11	Very few schemes have actually reached the contract stage (aborted before contract)	3.00	12	2.73	8	2.84	11
12	Excessive restrictions on participation	2.87	11	2.94	12	2.91	12
13	Reduce the project accountability	3.06	13	3.11	13	3.09	13
14	Less employment positions	3.87	14	4.14	14	4.02	14

4.1. Overall respondents' perceptions concerning the importance of hindrance factors

Table 2 depicts that the top five negative factors of PPP adoption are perceived as either most important or important by the overall respondents. Out of the five factors, one factor, 'lack of government guidelines and procedures on PPP', was perceived as the most important factor that impedes the implementation of a project via PPP. The remaining four factors were perceived as important hindrance factors in respect of adopting PPP. The factors in descending order of importance include 'lengthy delays in negotiation', 'higher charge to direct users', 'lengthy delays because of political debate' and 'confusion over government objectives and evaluation criteria'. While eight factors were perceived by the overall respondents as neither important nor not important obstacles for successful PPP implementation, one factor, 'less employment position', was perceived as unimportant in preventing the successful adoption of PPP in Malaysia.

The factor 'Insufficient government guidelines and procedures' (mean=1.45) is the most important factor that hinders the successful implementation of PPP in Malaysia. The result is evidenced by the fact that although PPP was officially unveiled in 2006, the first official PPP reference, that is, the Malaysian PPP Guidelines, was only published in 2009 by the Unit Kerjasama Awam Swasta (UKAS). Until recently, although there are six government guidelines on PPP implementation in Malaysia, the guidelines are too brief and may not be that useful to the users. It is crucial to have sufficient guidelines, particularly for the tendering and contract basis, effective supervisory frameworks and strong regulatory basis, as the lack of adequate guidelines may result in a reduction in project quality and an increase in the cost of the PPP project (Beh, 2010).

'Lengthy delay in negotiation process' (mean=1.66) was ranked as the second most important factor that hinders the adoption of PPP in Malaysia. The lengthy time consumed by the negotiation process of PPP

procurement may lead to a higher cost being incurred and greater possibility of a breach of contract (Singaravelloo, 2010). In a case study by Abd Karim (2011) on the Batu Pahat Bus Station PPP project, he reports that the project was considered a failure due to the long delay in the negotiation process between the contracting parties. This result is consistent with a study conducted by Li et al. (2005) in the United Kingdom and Cheung et al. (2010) in Hong Kong, where the factor was also ranked second in both countries.

The third most important negative factor for implementing PPP in Malaysia is 'Higher charges to the direct users' (mean=2.15). This refers particularly to those PPP projects that impose certain charges on users in order to get the services or facilities. For example, PPP highway projects, where the private consortium receives the payment through the toll income, which is charged directly to the highway users once the project is completed. The issue is that sometimes the charges are too high or continuously being increased, which results in complaints and the dissatisfaction of the end users; hence, the factor is perceived as a key hindrance factor for PPP implementation in Malaysia. In contrast, the studies by Li et al. (2005) and Cheung et al. (2010) reported that this factor was not ranked highly in the United Kingdom and Hong Kong as compared to Malaysia.

On the other hand, the factor 'Less employment positions' (mean= 4.02) was rated as not important and ranked as the least negative factor that hinders PPP adoption in Malaysia. This shows that the respondents do not view PPP adoption as having much of a negative effect on the employment issue. In fact, with more PPP projects being carried out, more employment opportunities are available to the public. This finding is consistent with Cheung et al. (2010) in Hong Kong and Li et al. (2005) in the United Kingdom for which this factor was ranked last and twelfth by the respondents from Hong Kong and the United Kingdom, respectively.

5. Implications, limitations, suggestions for future research and conclusion

The findings of the present study not only add to the limited knowledge in this field as PPP implementation is continuously progressing in Malaysia, but, to some extent, also contribute to practice. In particular, understanding the constraints or negative factors for successful PPP adoption allows relevant parties, either the Government or the private sector providers, to take the necessary measures as an effort in overcoming the identified constraints to ensure maximum benefit is achieved from the PPP projects.

In particular, the findings on the lack of government guidelines on PPP procedures provide a signal to the PPP regulatory body concerning the need to immediately overcome the issue. This is mainly because PPP implementation is still new and progressing in Malaysia, so the need for clear guidelines and procedures on PPP is considered important by the key players in the industry. Until now, only a few guidelines have been published on PPP implementation in Malaysia.

In addition, the Government needs to clearly state the objectives of promoting PPP as a mode to deliver public services in Malaysia, as was done previously with the introduction of the 1991 Malaysian Privatisation Master Plan, which provides clear objectives, methods and the implementation of the policies, while highlighting the progress achieved and addressing the future direction of the programme (Beh, 2010). Meanwhile, continuous economic development also requires the public sector to enhance the practice of PPP in Malaysia to ensure that the needs of the public can be met according to the required standard at the best cost to the public sector. For example, currently, PPP projects on highways require the Malaysian Government to subsidize a portion of the toll charges (Navaratnam, 2001 and Khairuddin, 2009). Therefore, the Government needs to set a win-win situation with the private sector provider without burdening the public as the end user of the facilities provided.

This study is not without limitations. Firstly, the sample of this study consists of participants from only one PPP workshop. It would be constructive for future studies to increase the sample size and distribute to a larger geographical area or have the questionnaire administered in more seminars. Secondly, this study only uses a questionnaire survey. Future studies may consider using qualitative instruments like interviews or open ended questions, which have access to rich and detailed sources of qualitative variation. There might be other important negative factors that are considered to be important and valuable for PPP implementation, not only for Malaysia but also for other countries that could be derived from using other research methods. In conclusion, despite the

limitations, this study offers some relevance concerning the perceptions of the public sector and private sector constraints of PPP in Malaysia.

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