



## **An Examination of Government Bureaucracy in Facilitating Business: Comparing Malaysia with Indonesia<sup>1</sup>**

Endi Haryono\*

Samihah Khalil

*College of Law, Government and International Studies, Universiti Utara Malaysia*

\*Corresponding author; email: endi@uum.edu.my / haryono\_endi@yahoo.com

### **ABSTRACT**

*Government of today must facilitate business activities and promote efficient policies to smoothen the processes of doing business. The Global Competitiveness Report 2010-2011 has listed inefficient government bureaucracy as top most problematic factor experienced by businesses in Malaysia and Indonesia. Despite immense efforts being taken by both governments to improve this negative image, bureaucracy efficiency rankings are still poor. Both Malaysia and Indonesia are gearing up systematic reform to raise efficiency of government machinery via combating corruption and red tape. This paper begins with a brief discussion on bureaucracy efficiency and its link with business growth from the perspective of three performance ranking reports which review Malaysia and Indonesia's recent performance years. A comparative note is presented to review what rankings and scores and how these dwindling positions reflect bureaucracy performance. The paper examines political and administration changes which contribute to low score of government machinery despite sound transformation policy for Malaysia and corruption initiatives for Indonesia. The study analyses Global Competitiveness Report, World Bank Doing Business report and Political and Economic Risk Consultancy Survey from 2008 to 2011 for Malaysia and Indonesia in order to portray the ranking and score of Malaysia and Indonesia bureaucracy. The annual report of Government Linked Companies (GLCs), auditing firms and government budget speeches of Malaysia were examined to find evidence for bureaucracy performance in Malaysia. In order to encompass a wider picture of the corruption in Indonesia, media source is taken as its main source. Ranking and score of analyses Global Competitiveness Report, World Bank Doing Business report and Political and Economic Risk Consultancy Survey are presented in tabular format followed by a discussion of the results. Textual analysis is performed on annual reports, budget speeches and media reports information and findings gathered from these sources are narrated to offer a perspective of the policy in Malaysia and corruption in Indonesia.*

**Keywords:** *government, bureaucracy, Global Competitiveness, corruption*

### **INTRODUCTION**

Bureaucracy was created in the public sector since the existence of the state and government. Originated in the field of public administration, today's bureaucracy is highly developed, depending on the country, and remains to exist as an evidence for its continuous functional purposes. However, in recent years, the government bureaucracy has grown dramatically (e.g. measured by the increased size of government

---

<sup>1</sup>Paper presented to The Annual Conference of the International Association of Schools and Institutes of Administration (IASIA), Rome - Italy, 13-18 June 2011.

employees and budget) while its efficiency has deteriorated in some manners (e.g. indicated by decreased ratio of revenue to staff numbers). What has bureaucracy done to contribute to this questioning issue? In the United States, for example, Freeman (1999) disputes the efficiency of the US government by making references to employment and output of government, “Trends in public education and in the American economy generally have been running in opposite directions. While throughout most of industry and agriculture, employee productivity, that is the ratio between manpower input and product output, has increased consistently and substantially, it has just as consistently and sharply decline in public education.” Aberbach and Rockman (2000) take this issue with this contention. They argue that the bureaucracy has changed significantly over time in response to changes desired by various political government administrations. In their opinion, many of the problems attributed to the bureaucracy are, in fact, a result of the political decision-making process. Therefore, attempts to ‘reinvent’ government by reinforcing bureaucracy are misplaced.

Bureaucracy is an open organization that affect and are affected by their environment. Although society and industry have changed enormously in the past century however, bureaucracy has changed only incrementally. Some believe that the nations’s diverse economic base cannot be administered competently by traditional bureaucratic organizations. The goal of this paper is to offer insight on how Malaysia’s bureaucracy and Indonesia’s bureaucracy work. Has bureaucracy changed significantly in response to changes desired by public and government administration? What are the governments of Malaysia and Indonesia doing in order to meet the expectation of and competition from developed countries in regard to cleaner and leaner bureaucracy? Are they relatively remaining the same over the decades despite of many encouraging reports by world institution point to the need to improve bureaucratic efficiency?

According to Kegley (2008), bureaucracy produces burdens as well as benefits. The distinct characteristics of bureaucracy (Weber’s division of labour, pyramidal hierarchy and functioning, uniform rules and procedures, rationality and impersonal) are very much adopted and adapted in government machinery today. What seems to be debated is that how bureaucracy is seen to work for the ‘government’ and not for the people. The UN Economic and Social Council Committee of Experts on Public Administration put bureaucracy as “centrally concerned with the organization of government policies and programmes” (The UN Report, 2008).

Bureaucracy in Malaysia and Indonesia was developed after the Second World War, specifically after their independence with the help of colonial government. The bureaucratic system in Malaysia and Indonesia are based on a foundation of antiquated and complex rules. These rules provide plenty of scope for government officials to justify their vested interests. In some areas, regulations and rules are still in archaic and complicated format, ridden with glitches which can work against businesses establishment which wanting to have a smooth bureaucratic functioning. This tends to create confusion, risk and insecurity.

Any modern governments should always be on an evolutionary path. In this regard, Welch and Wong (2001) see that with a set of common global pressures affecting government and bureaucracy, inevitable this has forced bureaucracy to show similar response to the pressures alike, thus, has caused public bureaucracies to converge to a common pattern. One of the global pressures affecting bureaucracy via government is the existence of so- called non-bias global-wide reports on governments’ performances. These kinds of reports have direct impact on how others perceive a government is responding to the global pressures. It creates standardized expectation of individual country, specifically the bureaucracy, to perform as what others have done well and are expected.

But how others outside the government assess the performances of government machinery? Are ranking of performances worthwhile to be looked at by the government in order to understand what others think of them? How important is an understanding of country’s bureaucracy performance for businesses?

Global reports and rankings provide accurate evidence for Malaysian and Indonesian bureaucracies to evaluate themselves? Most reports claim that they are independent and objective. But, do these rankings portray a true mirror for bureaucracy efficiency of a country? In principle, these measures provide useful ammunition for outsiders pushing for better government performance. ‘What gets measured, gets done’ and low rankings provide clear signal to bureaucracy of where scope exists for improvement in the government machinery. With the information obtained from several world indices, our intention in this paper is to unveil specific areas of inefficient government bureaucracy of two countries as pointed from these indices.

The efficient bureaucracy has a strong bearing on business growth. It influences attractiveness level of investments and business decisions and plays a key role in the ways in which government distributes the benefits and bear the costs of running the country. The GCI report incorporates bureaucracy efficiency and this scope is given value and one of its twelve pillars is called the institution pillar. The spirit of this pillar it examine how far is the role of government goes beyond its fiduciary duties and how this expectation is measured through government attitudes reflected in the policy, regulations and personnel. Overregulation, corruption, dishonesty in dealing with public contracts, lacks of transparency and trustworthiness, and the political dependence of the judicial system impose significant economic costs to businesses and slow the process of economic development (WEF Report, 2010-2011).

## LITERATURE ON GLOBAL RANKING

In general, many performance ranking reports are produced for many reasons and by different interest groups. World Economic Forum, a Geneva-based institution produced Government Competitiveness Index (GCI) which place country’s position and ranking and their ability to provide high levels of prosperity to their citizens. Specifically, it assesses how productive a country is in using available resources by setting a set of twelve measures of indicators which include institutions, policies, and factors that set the sustainable current and medium-term levels of economic prosperity. In GCI report, a section on what are most problematic areas affecting business doing is included and this paper did started from the informative note taken from this section. By virtue of this competitiveness measurement, it calls for a country to operate in an environment that facilitates well-functioning public and private institutions, appropriate infrastructure, a stable macroeconomic framework, and good health and primary education. Besides GCI ranking, Doing Business ranking by the World Bank is also given a place in this paper. Doing Business reports how government is facilitating business in regards to providing adequate regulatory environment - business policy instability, tax regulations and tax rates. Regulatory environment measures how business regulations have changed in countries such as reduction in time to start a business or the strength of regulations to protect investors as prescribed by stock exchange rules. If GCI and Doing Business rankings focus on wider scopes of assessment and country coverage, another ranking, produced by Political and Economic Risk Consultancy, on limited scale, examines how socio-political risks of sixteen Asian countries. The PERC survey covers how and why business risks are changing and what to expect for the coming year that could affect the business environment. This survey also includes corruption perception among politicians and civil servants. PERC polled 2,174 middle, senior, and expatriate business executives in Asia, Australia and the United States. The survey polled more than 2000 executives from expatriate businesses and they were asked to rank overall bureaucratic efficiency in 13 Asian countries. On a scale of zero to 10, zero is the best possible score. Among biggest issues concerning the bureaucracy are red tape and corruption. In general, these data provide essential information to research objective. Movement in ranking indicates relative changes in an economy’s performance or regulatory environment for businesses which are handled by bureaucracy.

From methodology’s point of view, some argue that these measures are not free from defects. But, it is not the intention of this paper to go into the methodology of the ranking or to compare the strengths and

weaknesses of one ranking to the other, but rather to generate discussion on how it can be an instrument to assess bureaucracy competency.

## METHODOLOGY

We use World Economic Forum's report on GCI, World Bank Survey on Ease of Doing Business and Political and Economic Risk Consultation Limited's survey to offer an insight on bureaucracy efficiency in Malaysia and Indonesia. The World Economic Forum report is selected due to its most comprehensive measures for economic growth and competitiveness ranking. The GCI report also provide an excellent report on Most Problematic Factors Facilitating Business Doing, providing global scoring of problems hindering good business venture and climate for over 100 countries. The World Bank Doing Business ranking produces comparison tables of three indices. On comparative note, this exercise offers a snapshot review of performances of bureaucracy from three similar measures.

To gather evidence of bureaucracy inefficiency, we use the method called 'opinion-shopping literature' (De Ford, 1998), to gather literature on bureaucracy practices in Malaysia and Indonesia. The pool of opinions is taken from several sources – the government, the business and the media. On the government part, bureaucracy performance can be traced from budget speeches presented by the Finance Minister every year. Budget speech-cum-budget document contains information on government previous year performances including bureaucracy's achievement. We cross-check what government claimed in budget speech with what private sector thinks and we use corporate documents to search for this information. For the private sector, these data can be traced from company's annual reports, auditing firms and media reports. We narrow the scope of private sector to Government Linked Companies (GLCs) in Malaysia and they are selected as they represent major national private key players regarded by the government. GLCs are relatively few in number in Malaysia and they are defined as:

*...companies that have a primary commercial objective and in which the Malaysian Government has a direct controlling stake. Apart from percentage ownership, controlling stake also refers to the Government's ability to appoint Board members, senior management and make major decisions (e.g. contract awards, strategy, restructuring and financing, acquisitions and divestments etc.) for GLCs either directly or through Government-Linked Investment Companies (Putrajaya Committee on GLC High Performance, 2007)*

We also review corporate reports of auditing firms which are major audit service providers to GLCs and they have rich client-specific knowledge which is vital in providing quality feedbacks on bureaucracy of the country where they operate. GLCs and the Big Four hold 75 percent of the market and their reports are perceived to be of high quality (Ayoib Che Ahmad *et al.*, 2003).

We perform textual analysis on three selected GLCs – PETRONAS, Telekom Malaysia and Sime Darby Berhad. Their annual reports of 2010, 2009 and 2008 were examined to search for subject of government efficiency on budget speeches and corporate reports and data is presented in tabular format.

## FINDINGS

### Bureaucracy and rankings

The 2010-11 World Economic Forum surveys contain an individual assessment profile on what could be the top 15 problematic factors affecting business doing in 139 countries. Table 1 shows this result for Malaysia and Indonesia.

**Table 1**  
**Ranking of 15 problematic factors for doing business in Malaysia and Indonesia**

| Ranking         | Malaysia                                  | % of response | Indonesia                                 | % of response |
|-----------------|---|---------------|---|---------------|
| <b>Top 5</b>    | <b>Inefficient government bureaucracy</b> |               | <b>Inefficient government bureaucracy</b> |               |
|                 | Access to financing                       | 13.0          | Corruption                                | 16.2          |
|                 | Policy instability                        | 10.5          | Inadequate supply of infrastructure       | 16.0          |
|                 | Inadequate educated workforce             | 9.9           | Access to financing                       | 8.4           |
|                 | Restrictive labor regulations             | 9.5           | Inflation                                 | 7.8           |
|                 |   | 9.4           |   | 6.7           |
| <b>Medium 5</b> | Corruption                                | 8.0           | Government instability/coups              | 6.4           |
|                 | Poor work ethics among workforce          | 7.9           | Policy instability                        | 6.0           |
|                 | Inadequate supply of infrastructure       | 6.3           | Tax regulations                           | 5.6           |
|                 | Tax regulations                           | 6.2           | Inadequate educated workforce             | 5.4           |
|                 | Tax rates                                 | 5.6           | Restrictive labor regulations             | 5.3           |
| <b>Bottom 5</b> | Inflation                                 | 4.7           | Poor work ethics among workforce          | 4.9           |
|                 | Crime and theft                           | 4.4           | Crime and theft                           | 3.6           |
|                 | Foreign currency regulations              | 1.8           | Tax rates                                 | 2.7           |
|                 | Government instability/coups              | 1.4           | Poor public health                        | 2.7           |
|                 | Poor public health                        | 1.4           | Foreign currency regulations              | 2.2           |

*Source:* The Global Competitiveness Report 2010-2011 (adapted)

Inefficient bureaucracy ranks first for Malaysia and Indonesia and this factor is believed to be the top problem faced by businesses that need to be seriously resolved by both governments. This finding is adequate to post several questions to why inefficient bureaucracy topped other fourteen factors. In the top five also, access to financing is another factor for Malaysia and Indonesia to be aware of. These fifteen factors if then to be broken down into two aspects - government driven and external driven – it tells us that among those factors majority are within the government prerogative and require the work of the government to overcome issues related to the factors. Malaysia’s competitiveness level in GCI has been on a decline trend as a result of unfavourable assessment of institutional framework within which individuals, firms and governments interact to generate income and wealth (Khalil & Haryono, 2010). Institutional framework includes the score of efficiency of bureaucracy to deliver quality services.

Table 2 provides comparative note on Malaysia’s and Indonesia’s ranking and score of GCI, WBDB and PERC. For GCI, Malaysia is on the better ranking as compared to Indonesia. However, Malaysia’s ranking dropped from the 21<sup>th</sup> in 2008 to 24<sup>th</sup> in 2009 and 26<sup>th</sup> in 2010. This drop is mostly due to lower score of Pillar 1, specifically the quality of public institutions which contains government inefficiency indicators. However, the problem of corruption and bureaucratic red-tape are still there as evidenced by the PERC in which Malaysia’s score is still high, 6.3, 6.7 and 6.4 for respective years. The score of 10 indicates worse scenario. The same goes to WBDB survey in which Malaysia’s ranking dropped from

21th place in 2009 to 24<sup>th</sup> place in 2010. These three findings corroborate among each other, proved that these ranking and score are reliable. On the other hand, Indonesia improved her ranking from the 55th in 2008 to 54<sup>th</sup> in 2009 and 44<sup>th</sup> in 2010. This gain is mostly contributed by higher score in macroeconomics environment where the government was able to keep the deficit under control and maintained low public debt. But, the problem of corruption and bureaucratic red-tape are still rampant. Indonesia’s PERC score increased from 7.98, 8.32 and 9.27 for respective years. It indicates the bad scores in corruption and red tape. The PERC 2010 survey places Indonesia among the Asia’s most inefficient bureaucracies at par

**Table 2**  
**Ranking and score – Selected Asian Countries performances in GCI, WBDB and PERC**

| Countries   | 2008                      |                   |                 | 2009                     |                   |                 | 2010                     |                   |                 |
|-------------|---------------------------|-------------------|-----------------|--------------------------|-------------------|-----------------|--------------------------|-------------------|-----------------|
|             | GCI*<br>(Ranking & score) | WBDB<br>(ranking) | PERC<br>(score) | GCI<br>(Ranking & score) | WBDB<br>(Ranking) | PERC<br>(score) | GCI<br>(Ranking & score) | WBDB<br>(ranking) | PERC<br>(score) |
| Singapore   | 5/5.5                     | n.a               | 1.13            | 3/5.5                    | 1                 | 1.07            | 3/5.5                    | 1                 | 1.42            |
| Malaysia    | 21/5.0                    | n.a               | 6.37            | 24/4.9                   | 21                | 6.70            | 26/4.9                   | 23                | 6.47            |
| Indonesia   | 55/4.3                    | n.a               | 7.98            | 54/4.3                   | 129               | 8.32            | 44/4.4                   | 122               | 9.27            |
| Thailand    | 34/4.6                    | n.a               | 8.00            | 36/4.6                   | 12                | 7.63            | 38/4.5                   | 12                | 7.60            |
| Philippines | 71/4.1                    | n.a               | 9.00            | 87/3.9                   | 141               | 7.0             | 85/4.0                   | 144               | 8.06            |

\*GCI covers 139 countries, WBDB cover 183 countries, PERC covers 13 countries. WBDB ranking for 2008 was not available through their website.

Source: The Global Competitiveness Reports, 2008-2010; PERC Reports, 2008-2010; World Bank Reports, 2008-2010

with the Philippines and India. For Indonesia, some of the elements or indicators to contribute to this inefficient bureaucracy included rampant corruptions at all level of governments, red-tape process in getting government license, and extra-cost that burdened foreign investment. Indonesia is ranked third with a score of 7.98. Corruption is perceived to have worsened a bit in Malaysia, which scored 6.37 in the survey, worse than last year’s grade of 6.25. The country retained its number six ranking in the poll. However, the WBDB survey does not corroborate with PERC’s result in which Indonesia’s ranking in fact improved from 129<sup>th</sup> place in 2009 to 122<sup>nd</sup> in 2010. By examining the WBDB ranking indicators, Table 3 helps us to see inefficiency issues further.

**Table 3**  
**World Bank doing business ranking for Malaysia and Indonesia, 2010**

| Indicators                        | Malaysia<br>(4/24 economies) | Indonesia<br>(19/24 economies) |
|-----------------------------------|------------------------------|--------------------------------|
| Starting A Business               | 17                           | 21                             |
| Dealing With Construction Permits | 18                           | 12                             |
| Registering Property              | 11                           | 14                             |
| Getting Credit                    | 1                            | 15                             |
| Protecting Investors              | 3                            | 7                              |
| Paying Taxes                      | 7                            | 24                             |
| Trading Across Borders            | 5                            | 6                              |
| Enforcing Contracts               | 8                            | 21                             |
| Closing A Business                | 7                            | 18                             |

Source: World Bank Report , 2010

A high ranking on WBDB index means that the regulatory environment is more conducive to the starting and operation of a local firm, a sign of efficient government machinery. This index averages the country's percentile rankings on 9 topics as listed in Table 3. The ranking on each topic is the simple average of the percentile rankings on its component indicators. In Malaysia, Getting credit is ranked top among nine

indicators, while Dealing with construction permit scored worsen. Relatively, Indonesia performed bad in these indicators and its very best score ranked 6<sup>th</sup> at par with the Malaysia 5<sup>th</sup> score of Trading across border. Malaysia introduced business online stamping, a procedure which reduced the time and cost to transfer property. Indonesia eased business start-up by reducing the cost for company name clearance and reservation and the time required to reserve the name and approve the deed of incorporation. Indonesia reduced its corporate income tax rate and reduced the time to export by launching a single-window service. By comparison, Malaysian bureaucracy operates smoother and with fewer hassles as compared to Indonesia due to earlier reforms initiated to cut down bureaucratic procedures. Malaysia has taken extra initiatives to make its bureaucratic functioning as simple as possible. Therefore, Malaysia tends to score better ranking due to expatriates and business responses.

What are the implications of these findings to Malaysia and Indonesia? Of course, both countries must provide strategic political and government programmes to promote efficiency of the bureaucracy in order to improve their ranking and score. For instance, Indonesia under Presiden Susilo Bambang Yudhoyono (SBY), is in the final stage of mapping at public sector reform called the Grand Design and Roadmap, a longterm mission to upgrade public sector service. Malaysia under Najib Tun Razak (NTR), is promoting nation's Transformation Programme in government and economic sectors.

### **Government-business relationships in Malaysia**

Efficient bureaucracy helps to smooth government-business relationship. Following the above discussion on the ranking, a review on bureaucracy efficiency by other key players in the economy is vital. This section will present what GLCs and the Big Four think about the government machinery. The textual analysis of GLCs reports produced limited findings. These reports, exclusive documents contain information on internal operations and achievements of the business, mention almost null comments and remarks directly about government inefficiency. Public-private collaboration has reached a new height in which GLCs are entrusted by the government to play a major role to spearhead economic growth. For instance, Sime Darby is given a frontline task to produce national transformation plan, starting with Sime Darby transformation programme in 2006.

*Sime Darby welcomes the Government's initiative to improve GLCs performance through the implementation of the GLC Transformation Programme. The Programme is broken into nine key initiatives of which eight have already been rolled out. The Group is on track to roll out all the nine initiatives by the end of 2006. The initiatives under the GLC Transformation Programme complement best practices across the Group which include amongst others, the enhancement in operational efficiency, capital structure, human resources and Board responsibilities. This programme will complement other initiatives for Sime Darby to achieve world-class performance (Sime Darby 2006 Report, 27).*

GLCs and the government are jointly undertaking high-impact projects with the role of the government to facilitate the provision of basic infrastructure to ensure project viability. The government will provide allocations as a tipping point for infrastructure support to ensure viability of private sector-led projects (Budget Speech 2011: 5).

PETRONAS, as a national company providing main revenues for the government is always in support of the government. Clearly, the President and Chief Executive Officer of PETRONAS expresses his feelings as an endorsement of reciprocal relationship.

*I would like to record my heartfelt appreciation to the entire PETRONAS family around the world for their contributions that have been instrumental to the success of the organisation thus far. I would also like to express my sincere gratitude to the*

*Government of Malaysia, the governments of our host countries and local communities for their support, our business partners and customers for their cooperation, and the members of the Board of Directors for their invaluable counsel and guidance. I look forward to the sustained support of everyone to ensure our continued success (PETRONAS 2008 Report: 150).*

Similarly, the corporate reports of the Big Four also mention little about government efficiency. PricewaterhouseCooper (PwC), among the few, brings forward an issue of trust between government and business in dealing with corporate responsibility, stakeholder interests and sustainability which indicates that government-business relationship is a matter of importance for the future.

*Because business impacts society at so many levels, society in turn claims a degree of authority in granting or withholding each business's 'license to operate'. Also, while profits, job creation and innovation are still important measures of a business's contribution to society, the fact is that governments, activists, academics and consumers now apply wider and more complicated measures of a company's worth and purpose. Issues regarding climate change, water use, worker exploitation, resource depletion and environmental degradation are now regularly laid at the door of the business community. Pleas by businesses to simply 'trust us' are now met by the blunt reply, 'show us' (PwC Global Annual Review, 2010: 19).*

We assume that the non-existence of issues raised by GLCs and the Big Four is due to the nature of the report, which only addresses company matters. The government, through *Khazanah Nasional*, is GLC's most important shareholder and we believe that such official documents do not carry negative remarks nor rub their partners on the wrong side.

On the other hand, budget speeches contain more information on government bureaucracy. We found several evidence of government claims that from time to time they made and plan major reforms to improve bureaucracy. Budget speech 2010, delivered by NTR, contains government new public sector agenda called the Government Transformation Programmed (GTP). Stated in the Prime Minister Department website, "government needs a new way of working" and put forward two principles for this "new way"- targets and reporting. Targets mean national key area goals that all government agencies must work to reach them and in the process of obtaining the results, reporting data must be furnished on a schedule basis and should be transparent. GTP is designed to increase efficiency in the federal workforce provided that bureaucrats must work to fulfill nine identified National Key Result Areas (NKRA). The implementation of GTP is a follow up step under the GLC Transformation Programme in which government and the private sector must work together to improve the country's resilience and competitiveness. "It is important to instill a culture of excellence and high performance at all level of the work force, both in the private and public sectors" (Budget Speech, 2009: 19).

Malaysia is in a better position compared to Indonesia in corruption. However, the government continues to improve this image, and bureaucrats are always reminded of this effort.

*Combating corruption is an important NKRA for bureaucrats. This effort aims at enhancing confidence and public perception, eliminating corruption among enforcement and public officers, as well as ensuring government procurement processes and procedures are adhered to. This measure will ensure the country is better ranked in the Corruption Perception Index (Budget Speech 2010: 30).*



To continuously create a conducive environment for business and investment, the government, from time to time, implements improvement measures in the way service is delivered by government departments.

*PEMANDU was established on 16 September 2009 to monitor the implementation of the Government Transformation Programme. The programme aims at enhancing the efficiency and transparency of government machinery. PEMANDU, comprising officers from the public and private sector, will cooperate with ministries and agencies to supervise and support the implementation of 6 NKRA and ministries' Key Results Areas (Budget Speech 2010: 35).*

*The government will address structural issues to provide a more conducive business environment and create a more market-oriented economy. Towards this, local authorities will take immediate steps to facilitate registration of businesses and expedite issuance of Development Orders. The government has established two new Commercial Division Courts to expedite the hearing of commercial cases and resolve them within 9 months compared with a longer duration prior to this (Budget Speech 2010: 7).*

How does GTP under NTR help to facilitate business doing in Malaysia? This new GTP emphasizes on target achievement by improving efficiency and quality of public services. This is a new expectation for bureaucrats in order to assist the country in stability and improved economy is important for the overall competitiveness of a country (GCR, 2010). To meet this requirement, public sector must work to support government's plan to raise the capacity of the nation and people to become a high income economy in 2020 (New Economic Model, 2010). Does government intervention hinder economy to perform in a full scale as the private sector remains to wait for government leadership and initiatives? The question is what should be the government's role today? And to what extent should this role be played. In the old paradigm, government's role is to allocate, distribute and stabilise the economy (Musgrave, 1990).

The government will gradually reduce its involvement in economic activities, particularly in areas where it competes with the private sector. For this, the government will privatise companies under the Ministry of Finance (MOF Inc.) and other viable government agencies. The second wave of privatisation aims to enable the companies and agencies to operate more efficiently and expand their activities. This will reduce their financial dependence on the government (Budget Speech, 2010: 9).

### **Corruption in Indonesia**

Indonesian bureaucracy is facing inefficiency attributed to corruption and red-tape. The history of corruption in Indonesia can be traced back to the Dutch colonial administration that continued after the independent. Indonesia did experienced corruption in its new bureaucracy after the independence, but serious corruption in terms of scale and money involved begin during the new order political regime in the end of 1960s. This section discusses how these bureaucracy's problems are so entwined with the politics of leadership. When President Soeharto embarked on the government-led economic development after succeeding Soekarno in 1966, he was supported, financially and technically, by Western countries through World Bank (WB), International Monetary Fund (IMF), and International Consortium for Indonesia (IGGI). Soeharto's administration adopted new policies on market economy and industrialization where a huge amount of foreign money poured into Indonesia in terms of foreign aid, foreign debt and foreign investment. Domestically, this had opened the door for rent-seeking bureaucrat and politicians, seeking opportunities to make money for any new business deals and at the same time withholding service to people and national interest. Soeharto, realised the condition of his bureaucracy, did not take necessary action as long as that same bureaucracy served to maintain his interest and national stability. In fact, he even made use of the existing corrupt bureaucracy to serve his power.

As with the international donors, they took the same attitude as Soeharto, tolerating corruption of the bureaucracy and its inefficiency as long as their political and economic interest in Indonesia is secured. The policy of the open economy and the use of foreign investment as the engine of the economic growth under the new regime opened up the opportunities to corrupt practices. The huge amount of foreign investment flowing into Indonesia, in the absence of sufficient rules and infrastructures, facilitated massive corruptions involving bureaucrats, families of the ruling elites, and businessmen under the patron of the ruling politicians (Girling, 1997).

Corruption schemes in Indonesia under the new order are popularly known in three terms: ‘korupsi’ (corruption), ‘kolusi’ (collusion), and ‘nepotisme’ (nepotism). As of corruption under Soeharto fully backed by WB and other international donors, Winters (2002) wrote:

*The World Bank began in the late 1990s to acknowledge publicly that corruption of development assistance was a serious problem and, more grudgingly, that its own loan funds were involved. However, the Bank has mis-diagnosed why and how corruption occurs. Partly as a result, the responses the Bank has adopted to combat corruption are unlikely to be effective. As for responsibility, the case of Indonesia, which is neither unusual in the developing world nor the most egregious example, shows that Bank officials were aware from the earliest years of the Soeharto regime in the 1960s that massive government corruption was a problem. They also knew that Bank loans were as vulnerable to theft as any other resources in the system. And yet the Bank did nothing of significance in Indonesia for three decades to safeguard the money it loaned. The Soeharto regime, which was overthrown in 1998, borrowed almost \$30 billion from the World Bank. According to the best estimates currently available, approximately a third of this, or \$10 billion, was systematically stolen with the Bank’s full knowledge and thus is Criminal Debt (Winters, 2002:2).*

The interesting thing is that the existing corruptions in Indonesia, as indicated also by the worsening Indonesia’s performance in rankings and scores by international corruption surveys, did not affect foreign investment to do business in Indonesia. Foreign investor were still eagerly investing in Indonesia and the amount of foreign investment was in uptrend figures until the end of the new order regime. Foreign investors to Indonesia seemed to accept the high-level of corruption as long as it remained stable and predictable so that it can be included in the cost of doing business in Indonesia. More importantly, they counted more on the ability of the bureaucracy under Soeharto to provide security and social stability rather than the existence of corruption that they can afford to buy.

The international donors only changed their attitude to Indonesia’s bureaucratic corruption under the new order in the late 1980s with the introduction of the new approach in delivering economic assistance to Indonesia initiated by IGGI in response to pressure by Non Government Organizations (NGOs) and some elements of civil societies. Then, IMF required Indonesia to follow the SAP procedures in having further foreign debt under WB and IMF auspices. But, in general the international donors for Indonesia – represented mostly by the WB – still tolerated corruption of the Indonesian bureaucracy, with only minor actions taken. These conditions continued until the end of Soeharto regime in 1998.

The Reform movement in 1998 ended the authoritarian rule of Soeharto, replaced by the liberal democratic system, intended to bring about the end of corruption and deliver a clean government to Indonesia. “End the korupsi, kolusi and nepotisme” was slogan to reform movement in Indonesia in 1998. There have been much talks and debates on the best practices to eradicate corruptions in Indonesia soon after the establishment of the new democratic system pact reform movement. But, the reform movement and the establishment of the democratic political system failed to tackle the problems of corruption and inefficient bureaucracy, two serious governance problems in Indonesia.

In 1997, a year before the end of the Soeharto's administration, Indonesia's perception of corruption index according to a survey by Transparency International was at 2.72. There was no progress in terms of the figures and the situation concerning the corruption in Indonesia. TI surveys on global corruption put Indonesia among the most corrupt countries in the world after 13 years of political reform, with corruption perception index at 2.6 (2008), 2.8 (2009), and 2.8 (2010). Among members the regional economic group the Association of South East Asian Countries (ASEAN), according to 2010 survey, Indonesia is worse than Malaysia (4.4), Brunei (5.5), Thailand (3.5), and Singapore (9.3) and only better compare to Myanmar and Laos.

Indonesian after Soeharto, was under several transitional governments - President BJ Habibie (May 21, 1998-October 20, 1999), President Abdurrahman Wahid (October 20, 1999-July 23, 2001), President Megawati Soekarnoputri (July 23, 2001-October 20, 2004), and current President Susilo Bambang Yudoyono (October 20, 2004-present). All took the eradication of corruption and bureaucratic reform as important programs, evidenced by the introduction of laws to combat corruption. Habibie introduced (1) The Decision of People Supreme Council (MPR) XI/1998 on national administration that is clean and free of corruption; (2) Presidential decree 30/1999 on the eradication of corruption, collusion, and nepotism; (3) Law 28/1999 on the national administration for clean and free of corruption; and (4) Law 31/1999 on the eradication of corruption. Habibie's effort to fight corruption was continued by President Wahid who introduced Presidential Decree 4/2000 on the establishment of ombudsman committee. Megawati seemed to focus more on bureaucratic reform to end corrupt practices but only made a little impact to improve the performance of the already corruption-ridden bureaucracy. Megawati established an independent body with the sole task to fight corruption, Committee Eradication Corruption (KPK).

SBY's war against corruption during his first five-year presidential terms should be seen as a dramatic effort. SBY needs important systematic actions to address the issue of corruption and inefficient bureaucracy. The most noticeable effort is the bureaucratic reform that had been initiated by former Finance Minister Sri Mulyani in her ministry, considered among the most corrupt government institutions in Indonesia with more than 60,000 civil servants and collects more than 75 percent of the government's revenues. Sri Mulyani since 2007 pursued bureaucratic reform in her ministry, has given special attention to tax and customs. As part of the reform, for officials in both institutions, the minister has set rigid deadlines for the provision of services to customers. For example, tax officials must complete a tax refund application within a month. They must finish special value-added tax (VAT) refunds within a minimum of two months and a maximum 12 months. Customs official, meanwhile, have to complete the processing of "priority lane" imported goods at ports within a minimum 20 minutes and a maximum four hours. The processing of "green lane" imported goods must be processed within 20 minutes and "red lane" imported goods within four hours. To make sure these reforms are followed as expected, the finance minister has raised the salaries of top officials in both institutions (Jakarta Post, 2007).

However, her positive initiative faltered and ended with the "resignation" of Sri Mulyani in 2009 following a crisis in cabinet after the House of Representatives held a special investigation and hearing over the so called Bank Century Scandal. This incident terminated the planned gradual bureaucratic reform in other ministries. SBY who supported Sri Mulyani's initiative during his first term of presidency, did not take necessary step to make bureaucratic reform work. The Bank Century Scandal, government bailout of the collapsed Bank Century that the parliament suspected to be a corrupt scheme to channel government's money to finance the reelection of SBY in the presidential election 2009, seemed to have affected the SBY in policies and actions to combat corruption and to reform bureaucracy. The national struggles to eradicate corruption and to deliver clean government were again back to zero. SBY's promise to wage war on corruption only affected petty cases and low-level corrupt politicians, bureaucrats, and businessmen. Those from the higher levels involving mega cases and high amount of public money being extorted, were still out of the reach of the authorities. In several cases, SBY even use

the war against corruption to punish politicians from different political parties and affiliations, but shielding those from his own political party or loose coalitions.

In describing corruption and inefficiency in Indonesian bureaucracy which persisted from the authoritarian new order under Presiden Soeharto up to the present democratic political system under the President Susilo, one of the Indonesian leading newspapers The Jakarta Post wrote in its editorial dated September 8, 2007:

*If we can make it difficult, why make it easy? So goes the cliché among government officials, especially those on the frontline. Those familiar with Indonesia's multifarious bureaucracy and high-cost economy will understand this perfectly. Government officials are just good at creating rules, and this means bureaucratic processes. Those on the frontline then transform these processes into money by demanding illicit payments from anyone who requires their services. There's little wonder why, then, when it comes to corruption, Indonesia scores so well. The concept of public service, where public servants serve the people, is just non-existent here in Indonesia. What we see is the people serving the public servants, with one-month-salary tips, one-car's-worth of thank you money and gifts, or simply just bribes (Jakarta Post, 2007).*

The lack of genuine opposition also contributed to the worsening condition of corruption in Indonesia. There is basically no powerful check on the executives from the opposition parties in legislative. The check and control on the executives in meaningful ways are still performed by the medias and several reputable NGOs but these are not enough to make a significant impact on the government bureaucracy. For Indonesia, in general, the prolonged corruption and inefficient bureaucracy can be attributed to at least three factors: (1) the lack of genuine opposition in the parliament that can check and control the executive; (2) the weakness of the judiciary and law enforcement bodies; and (3) the rampant use of money in the political process.

As the consequences of the mixture electoral system (mainly proportional with limited combination to single district level), the democratic political system in post-reform Indonesia encourages the rise of the multiparty system. Take the present situation, parties of different ideological affiliation having representation in the national parliament, formed a loose coalition with Democratic Party (PD) to support the present government of President SBY. In the opposition are parties with representatives in parliament but remain to be outside the loose coalition that support the present government. Those outside the government parties are not a single block of the opposition parties. These parties also have their own interests and some are ready to work with and support the government on some matters or issues based on the negotiations prior to each vote in the house of representatives.

All of these administrations failed to deliver significant change they promised, as the surveys by TI and PERC showed. Corruption was still rampant and affected both bureaucrats and politicians. The new administration under the new democratic regime even experiences new modes of corruption. The new politicians or political elite who rise to political power under the auspices of the new democratic political system also easily fall to corrupt practices since they were willing to collaborate with elites in bureaucracy to extort public money in various corruption practices. The latest report by Political and Economic Risk Consultancy in 2010 is in contrast to SBY's effort. PERC survey report came as a blow to President SBY and his multi-party support administration. Anyway, the PERC report did not come as a surprise to the Indonesian public who had for several years noticing 'the crippling' and 'inaction' of the President SBY in confronting so many things and to miss so many opportunities to deliver a better bureaucracy in Indonesia. The PERC survey report is actually a prelude to other revelations of the SBY. Based on the data of the US diplomatic cables provided by Wikileaks a prominent newspaper in Australia, The Age, in March 11, 2011 published an article implicating the president and his family in

corruptions in Indonesia (The Age, 2011: 1). SBY and some of his ministers denied this accusations, but some people believed that some of the accusations might be true, and Washington regretted this incident but never denied the content of its Jakarta diplomatic cables from which the wikileaks acquired the data.

## CONCLUSION

The Global Competitiveness Report 2010-2011 placed inefficient government bureaucracy as the most problematic factor for doing business in Malaysia and Indonesia. Malaysia and Indonesia performed differently in ranking and score but share similar bureaucracy issues with different magnitude. Other ranking and score also point to the similar conditions of Malaysian and Indonesian bureaucracy. Malaysia has a cleaner image and corruption is not as rampant as in Indonesia. The government of Malaysia under NTR is serious in promoting good government-business relationship, hoping that this positive change will increase bureaucratic efficiency. Evidenced by the economic and government transformation policy, the government of Malaysia is gearing up his machinery to facilitate business needs and expectations. Indonesia under SBY started his administration with a positive effort to fight corruption and received warm response from both domestic and international circles. However, SBY has more to do and to prove to his corruption critics about his government and bureaucracy during his second presidential term that started in 2009.

Malaysia-Indonesia comparative analysis of ranking and score portrays a rational assessment of bureaucracy's efficiency which we must take note and consider ways to improve ourselves. For the countries like Malaysia and Indonesia, the nature and performance of their bureaucracies are connected with the past experiences under the colonial administrations, political cultures, and socio-political contexts. The above surveys and figures on Malaysia and Indonesia showed that only the continue bureaucratic reforms will improve the efficiency of the bureaucracy. The political will of the chief executive to pursue continue bureaucratic reforms is an important key to both countries. Since the political will of the chief executive may sometimes absent, so it is important to keep the medias, civil societies and oppositions in both countries to always possible in asserting check on the executives to deliver clean and efficient bureaucracies.

## REFERENCES

- Aberbach, J.D. & Rockman, B. A. (2000). *In the wed of politics: three decades of U.S. Federal Executive*. Washington D.C: Brookings Institution Press.
- Ayoib Che Ahmad, Zuaini Ishak & Nor Aziah Abd Manaf (2003). Corporate government, ownership structure and corporate diversification: Evidence from the Malaysian listed companies. *Asian Academy of Management Journal* 8 (2), 67-89.
- Erb, C.B. & Viskanta, T.E. (1996, November-December). Political risk, economic risk and financial risk. *Financial Analysis Journal*.
- Girling, J. (1997). *Corruption, capitalism and democracy*. London: Routledge.
- Kegley, C. W. (2008). *World politics: Trend and transformation*. Sydney: Cengage Learning Publisher.
- Dorling, P (2011, March 11). Yudhoyono 'Abused Power' – Cables accused Indonesian President of corruption. *The age*.
- Musgrave, A. R. (1990, June). Horizontal equity, once more. *National Tax Journal* 43 (2), 113-220.
- Samihah Khalil & Endi Haryono (2010, December). Comparing Malaysia and Indonesia in post financial crisis of 2007-2009 from Global Competitiveness Index perspective. International Conference of International Studies.
- Welch, E.W. & Wong, W. (2001). Effects of global pressures on public bureaucracy, modelling a new theoretical framework, *administrative & society* 33 (4), 371-402.

Winters, J. (2002, March). Criminal debt, repayment burdens, and governance: Thoughts toward reinventing the World Bank. *ISA National Conference. Panel: International Financial Institutions and Challenges to Governance in a Global Economy*. New Orleans.

### Electronic Report

- Global Annual Review (2010). In Political and Economy Centre (PERC). Retrieved April 30, 2011, from PERC database [www.asiarisk.com](http://www.asiarisk.com).
- Global Competitiveness Index (GCI) (2009-2010). World economic forum-Global competitiveness. Retrieved 2 Mei, 2011, from [www.weforum.org/issues/global-competitiveness](http://www.weforum.org/issues/global-competitiveness).
- Global Competitiveness Index (GCI) (2010-2011). World economic forum-Global competitiveness. Retrieved 2 Mei, 2011, from [www.weforum.org/issues/global-competitiveness](http://www.weforum.org/issues/global-competitiveness).
- Petronas Annual Report (2009). Retrieved April 29, 2011, from <http://www.petronas.com/>.
- Petronas Annual Report (2010). Retrieved April 29, 2011, from <http://www.petronas.com/>.
- Petronas Annual Report (2011). Retrieved April 29, 2011, from <http://www.petronas.com/>.
- Sime Darby Annual Report (2009). Developing sustainable futures. Retrieved Mei 1, 2011, from <http://www.simedardy.com/>.
- Sime Darby Annual Report (2010). Developing sustainable futures. Retrieved Mei 1, 2011, from <http://www.simedardy.com/>.
- Sime Darby Annual Report (2011). Developing sustainable futures. Retrieved Mei 1, 2011, from <http://www.simedardy.com/>.
- Telekom Annual Report (2009). Connections make anything possible. Retrieved April 30, 2011, from <http://tm.com/>.
- Telekom Annual Report (2010). Connections make anything possible. Retrieved April 30, 2011, from <http://tm.com/>.
- Telekom Annual Report (2011). Connections make anything possible. Retrieved April 30, 2011, from <http://tm.com/>.
- The 2009 Budget Speech Report (August 29, 2008). A caring government. *Dewan Rakyat*. Retrieved April 25, 2011, from <http://www.treasury.gov.my/pdf/budget/bs09.pdf>.
- The 2010 Budget Speech Report (October 23, 2009). 1Malaysia, together we prosper. *Dewan Rakyat*. Retrieved April 26, 2011, from <http://www.treasury.gov.my/pdf/budget/bs10.pdf>.
- The 2011 Budget Speech Report (October 15, 2010). Transformation towards a developed and high-income nation. *Dewan Rakyat*. Retrieved April 27, 2011, from <http://www.treasury.gov.my/pdf/budget/bs11.pdf>.
- United Nations Economic and Social Council (2003). Committee of Experts on Public Administration. Supplement No. 44 (E/2003/44-E/C.16/2003/6). *Report on the second session*. United Nations: New York.
- World Bank Report (2009). On doing business 2011. Retrieved April 28, 2011, from <http://www.worldbank.org/>.
- World Bank Report (2010). On doing business 2011. Retrieved April 28, 2011, from <http://www.worldbank.org/>.
- The Jakarta Post (2007, September 8). Reforming Bureaucracy. Retrieved, March 20, 2011, from [www.jakartapost.com](http://www.jakartapost.com).