



**PERCEPTION ON THE IMPLEMENTATION OF PUBLIC
PRIVATE PARTNERSHIP (PPP) IN MALAYSIA**

BY

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**A dissertation submitted in fulfilment of the requirement for
the degree of Master of Science in Accounting**

**Kulliyyah of Economics and Management Sciences
International Islamic University Malaysia**

DECEMBER 2013

ABSTRACT

Public private partnership (PPP) has been continuously being a preferable procurement mode used by the Government. This present study is conducted to seek the perception of the main PPP contracting parties which are public sector and private sector on how they perceive the PPP implementation in Malaysia. In particular, the perception on the importance of PPP objectives, attractive factors, negative factors, driving forces and value for money (VFM) measures were sought from the respondents. Using a questionnaire survey, 180 completed responses were received representing 72% response rate. The results were then analysed using descriptive statistical tests which include mean and standard deviation. In addition, mean score ranking was also used to rank the factors according to the level of importance. The results show that the top three objectives are *'to enhance private sector involvement in economic development'*, *'to improve efficiency of public services delivery'* and *'to improve privatisation programme'*. In relation to the attractive factors for PPP adoption, the top five attractive factors are *'to facilitate innovative approaches'*, *'solve the problem of public sector budget restraint'*, *'provide an integrated solution for public infrastructure or services'*, *'save time in delivering the project'* and *'benefit to the local economic development'*. The top five negative factors that hinder the adoption of PPP are *'lengthy delay in negotiation'*, *'lack of government guidelines and procedures on PPP'*, *'higher charge to direct users'*, *'lengthy delay because of political debate'* and *'confusion over government objectives and evaluation criteria'*. The key driving forces for PPP implementation in Malaysia as perceived by the respondents include *'economic development pressure of demanding more facilities'*, *'high quality of service required'*, *'shortage of government funding'*, *'private incentives'* and *'social pressure of poor public facilities'*. Finally, the respondents perceived that *'competitive tender'*, *'private sector technical innovation'*, *'optimal use of asset/facilities to the public sector'*, *'efficiency in risk allocation'* and *'performance based payment mechanism'* as the top five most important measures to enhance VFM achievement from PPP projects in Malaysia. The findings of the present study are of practical significance to policy makers and practitioners of PPP in Malaysia. The study also expects to add to the limited knowledge in this field as PPP implementation is continuously progressing in Malaysia.

ملخص البحث

وقد شراكة العام - الخاص (PPP) يجري باستمرار وضع أفضل من الشراء المستخدمة من قبل الحكومة. وتجري هذه الدراسة للحصول على تصور للأطراف الرئيسية المتعاقدة في PPP على مدى الفهم وكيف التنفيذ PPP في ماليزيا. على وجه الخصوص، الإدراك على أهمية الأهداف PPP ، العوامل الجذابة، و العوامل السلبية ، الدافعة القوي والقيمة مقابل المال (VFM) من المستطلعين. باستخدام الاستبيان ، وردت 180 الردود من المستطلعين تمثل معدل الاستجابة 72٪. ثم تم تحليل النتائج باستخدام الاختبارات الإحصائية الوصفية والتي تشمل متوسط والانحراف المعياري. وبالإضافة إلى ذلك، كان يستخدم الترتيب النتيجة أيضا لترتيب العوامل وفقا لمستوى من الأهمية. تبين وتدل النتائج على أن الأهداف الثلاثة الأولى هي لتعزيز مشاركة القطاع الخاص في التنمية الاقتصادية، لتحسين الكفاءة في تقديم الخدمات العامة وتحسين برنامج الخصخصة. فيما يتعلق بعوامل جاذبة لتطبيق PPP ، هناك أفضل العوامل الخمسة هي جاذبة لتسهيل النهج المبتكرة، حل مشكلة ضبط النفس ميزانية القطاع العام، توفير حل متكامل للبنية التحتية أو الخدمات العامة، توفير الوقت في تقديم المشروع وفائدة لل تنمية الاقتصادية المحلية. خمسة عوامل سلبية الأعلى التي تعيق اعتماد PPP هي تأخير طويل في التفاوض، عدم وجود المبادئ التوجيهية والإجراءات الحكومية على PPP، أعلى تهمة لتوجيه المستخدمين، تأخير طويل بسبب الجدل السياسي والتباس حول أهداف الحكومة ومعايير التقييم. وأما الدافعة القوية الرئيسية لتنفيذ PPP في ماليزيا من وجهة نظر المستطلعين هي ضغط التنمية الاقتصادية من يطالب بمزيد من التسهيلات، وذات جودة عالية من الخدمة المطلوبة، ونقص التمويل الحكومي، والحوافز الخاصة والضغط الاجتماعي لضعف المرافق العامة. وأخيرا، فإن المستطلعين ينظر أن مناقصة تنافسية، وقطاع الابتكار التقني الخاص، والاستخدام الأمثل للأصول / خدمات للقطاع العام، والكفاءة في توزيع المخاطر وآلية الدفع على أساس الأداء هي الخمس الأكثر أهمية تدابير لتعزيز الإنجاز VFM من مشاريع PPP في ماليزيا . النتائج التي توصلت إليها الدراسة هي من الأهمية العملية لواقعي السياسات والممارسين من PPP في ماليزيا . وتتوقع الدراسة أيضا أن تضيف إلى معرفة محدودة في هذا المجال، حيث تنفيذ PPP يسير بشكل مستمر في ماليزيا.

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 in Accounting.

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DECLARATION

I hereby declare that this dissertation is the result of my own investigation, 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.

Fatimah Az-zahra binti Haris

Signature.....

Date

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ACKNOWLEDGEMENTS

Alhamdulillah, firstly I would like to thanks Allah for the completion of my study, which is the Master of Science in Accounting at the International Islamic University Malaysia.

I would like to express my special thanks and appreciation to my supportive supervisor, Associate Professor Dr. Suhaiza binti Ismail. This dissertation would not be completed without her valuable comment, feedback, encouragement and most importantly, her valuable time spent and patience to supervise my work. Again, thank you very much to you Dr. Suhaiza.

Furthermore, I would like to convey my appreciation to all the lecturers, the examiners and administrative staff in IIUM, fellow friends for their assistance throughout my study here. Thank you very much for all contributions to my master programme in IIUM.

Next, I would like to express my sincere and gratitude to my beloved family members who have continuously supported me all the way. Alhamdulillah, I thanked Allah for the memories and experiences gained throughout my master's study at IIUM.

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LIST OF ABBREVIATIONS

BLMT	Build, lease, maintain, transfer
BLT	Build, lease, transfer
BOO	Build, operate, own
BOT	Build, operate, transfer
BT	Build, transfer
EPU	Economic planning unit
IT	Information technology
LOA	Lease of asset
LRT	Light Rail Transit
MC	Management contract
NDP	National development policy
NPM	New Public Management
PFI	Private Finance Initiatives
PPP	Public Private Partnership
UKAS	Public Private Partnership Unit
PSC	Public sector comparator
PSR	Public sector reform
SOA	Sales of asset
SOE	Sales of equity
VFM	Value for Money

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The concept of Public Private Partnership (PPP) is progressing in Malaysia. With the introduction of the Malaysian Incorporated Policy in 1983; cooperation or partnership between the public and private sectors was encouraged to foster Malaysia's economic growth. The relationship between the two parties has continued to evolve with the introduction of the Privatisation Master Plan during the Sixth Malaysia Plan (1991).

Under the Ninth Malaysia Plan (2006), a notable form of PPP called the Private Finance Initiative (PFI) was introduced by the Malaysian Government as an alternative procurement method, which emphasises greater involvement of private sector in providing public services. In November 2009, the PPP Guidelines were published by the PPP unit of the Prime Minister's Department to serve as a guideline and also to provide greater understanding of the basic principles and procedures of PPP implementation in Malaysia (PPP Guidelines, 2009). Since then, the Government has continued to recognize the importance of PPP as a method for project procurement. This can be clearly seen with the new wave of PPP being further emphasized in the Tenth Malaysia Plan (2010) where RM20 billion was set aside as a Facilitation Fund as an initiative to rationalise the Government's seriousness in increasing private sector investment and participation in providing public facilities (Jayaseelan and Tan, 2007). PPP is defined in the Ninth Malaysia Plan (2006, p.230) 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.

The main reason why the Government opts to implement government projects through PPP is because the private sector is claimed to have more skills and expertise to efficiently design, construct, operate and maintain the projects (Li et al., 2005; Li, 2003; Akintoye et al., 2003). Meanwhile, the Government will facilitate and monitor the progress of the PPP project. The time saved can be used to focus more on the administrative side and on how to better serve the public (Coulson, 2008; Nisar, 2007; Burger and Hawkesworth, 2011).

The Star Online on 10th June 2010 stated that, *‘smart and effective partnerships between the public and private sectors will be established to drive the economic transformation agenda. This new wave of public-private partnership (PPP) will ensure equitable sharing of risks and returns’*.

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, highways, bus stations and others. (Abd Karim, 2011; Beh, 2010). However, there are also challenges to PPP project implementation 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) For example, a study conducted by Singaravello (2010) provides example of Batu Pahat Municipal Council (BPMC) where there is no clear agreement between BPMC and the developers, with regards to the proceeds received and penalties if there were any delays in the construction of the 15- storey complex replacing the old bus

station, resulted in taking legal action to retrieve the land that have been mortgaged twice.

Therefore, there is a need to seek the perception of key players concerning PPP implementation in Malaysia. This research seeks the perceptions of the public and private sector on various aspects of PPP implementation including the objectives of PPP, attractive and negative factors for adopting PPP, driving forces that lead to PPP adoption, and, finally, measures that can be used to enhance the achievement of value for money (VFM) in PPP projects.

In this study, the researcher attempts to seek the perceptions of the respondents on PPP project implementation in Malaysia. Due to the unique implementation of PPP in various countries whereby each country practises PPP differently according to the country's characteristics of PPP (Ministry of Finance, India, 2010). This present study attempts to examine the perceptions of the public and private sectors on PPP implementation in Malaysia.

1.2 MOTIVATION FOR THE STUDY

The Tenth Malaysia Plan (2010) highlighted ten premises, which include government initiatives to support PPP to drive the economic transformation agenda (Singaravelloo, 2010). Under this plan, the Government would implement 52 high impact PPP projects, worth RM63 billion, which consist of seven highways, two coal electricity generation plants and land development in Sungai Buloh (Tenth Malaysia Plan, 2010). The recognition and growing importance of PPP implementation in Malaysia motivates the researcher to undertake the present study.

Secondly, the unique nature of PPP between countries motivates the researcher to embark on the present study to determine the nature of PPP in the Malaysian environment. Therefore, in the present study, the researcher aims to seek the perceptions of both the public and private sectors with regard to the objectives of PPP, attractive and negative factors of PPP adoption, driving forces that lead to PPP being adopted and measures that can enhance the achievement of value for money in PPP projects.

In addition, the successful implementation of PPP requires commitment from the contracting parties. This motivates the researcher to conduct the present study with the purpose of understanding the perception of the respondents on PPP concepts in Malaysia that later will reflect their interest, acceptance and support for the implementation of PPP in Malaysia. The findings may benefit practitioners to further enhance PPP implementation in Malaysia. For example, the findings on the top three factors ranked by the respondents for PPP objectives, attractive and negative factors that might affect PPP adoption might be used by the regulatory body, such as the Economic Planning Unit (EPU) and private sector as guidance in evaluating the opportunity for PPP projects, as well as to have a greater chance of realising the successful implementation of PPP projects.

1.3 RESEARCH OBJECTIVES AND RESEARCH QUESTIONS

The primary objective of this study is to seek the perceptions of private sector and public sector on various aspects of PPP implementation in Malaysia. Specifically, there are five research objectives, as follows:

1. to identify the main objectives of PPP as perceived by the private and public sector;
2. to identify the attractive factors of PPP adoption in Malaysia;
3. to elicit the negative factors of PPP adoption in Malaysia;
4. to examine the driving forces leading to the adoption of PPP; and
5. to identify what measures can be used to enhance the achievements of value for money in PPP projects.

Therefore, in order to achieve the five objectives as listed above, five research questions are raised as follows:

1. What are the main objectives of using PPP as a procurement method?
2. What are the attractive factors of PPP adoption in Malaysia?
3. What are the negative factors of PPP adoption in Malaysia?
4. What are the main driving forces leading to the adoption of PPP?
5. What are the important measures that can enhance the achievements of value for money in PPP?

1.4 SIGNIFICANCE OF THE STUDY

The Malaysian Government is continuously emphasizing the benefits that the Government can realise through the implementation of PPP projects. This can be seen with the Facilitation Fund amounting to RM20 billion, which was provided in the Tenth Malaysia Plan (2010) to ensure the smoothness of initial PPP projects as well as to encourage private sector investment in PPP. Looking at the emphasis and opportunity given by the Government through PPP projects, it attracts the private sector, namely, construction companies, facilities management companies and financiers as well as researchers, to grab the opportunity to learn and benefit from the

PPP implementation either to gain knowledge or through the profitability realised from the implementation of projects.

Therefore, the findings of the present study are significant in a number of ways. Firstly, this study can provide ideas to the regulatory body (such as Public Private Partnership Unit or UKAS in Malaysia) concerning how to provide a regulatory framework that can help to ensure the achievement and realisation of value for money from the projects as well as the sustainability of projects. A supportive legal and regulatory framework will enhance the successful implementation of PPP projects in Malaysia.

Furthermore, by knowing what makes the PPP procurement method attractive and less attractive to the relevant party, the results of the present study will assist in preparing both the public and private sector to have a clearer and common understanding of the objectives, as well as the positive and negative factors surrounding the PPP project procurement method. This will lead to a more informed decision-making.

In addition, the implementation of PPP projects continues to evolve and expand. Therefore, this requires the relevant parties (public and private sectors) to be equipped with fundamental information on PPP to ensure that they are committed to the successful implementation of PPP projects. Therefore, this research is conducted with the hope that both public and private sectors to have better understanding concerning how PPP is perceived in Malaysia. By understanding the key concepts of PPP in Malaysia, it may benefit the decision-makers of both public and private parties in taking the risk and enable them to grab the opportunities in PPP projects.

It is believed that the findings of this research will also be valuable to researchers in that the findings may provide ideas concerning the unique

characteristics of PPP in Malaysia, especially in terms of the objectives, as well as the attractive and negative factors that may affect the adoption of PPP. The findings may help them to see the overview of PPP as perceived from the Malaysian perspective.

1.5 STRUCTURE OF THE STUDY

This research has been organised into six chapters. Chapter 1 provides an introduction to the study. It covers the background of the study, motivation of the study, research objectives and questions, significance of the research and the structure of the research.

The following Chapter 2 discusses on the New Public Management (NPM) and private sector involvement in Malaysia. The privatisation practice was one of the methods where private sector has been directly involved in government's economic transformation. Privatisation has been practice since the introduction of the Malaysian Incorporated Policy in 1983 and in the following Chapter 3, provides the introduction of Public Private Partnership (PPP), which was more commonly known as Private Finance Initiative (PFI).

Chapter 3 provides an explanation of PPP in Malaysia and reviews relevant literature on PPP, specifically the objectives of PPP, attractive and negative factors of PPP adoption, driving forces that lead to PPP adoption and the measures that can enhance value for money (VFM).

Chapter 4 discusses the conceptual framework and research method. Conceptual framework describes the research method used in this study, study sample, questionnaire development, questionnaire distribution and collection and data analysis technique adopted.

Chapter 5 presents the findings and discussion from the questionnaire survey conducted on 24th February 2011.

Chapter 6 concludes the study. It provides a summary of the findings, contributions and implications of the study, followed by the limitations of the study and recommendations for future research.

CHAPTER TWO

NEW PUBLIC MANAGEMENT AND PRIVATE SECTOR INVOLVEMENT IN MALAYSIA

2.1 INTRODUCTION

The wave of public sector reforms, branded as New Public Management (NPM) has had a huge impact on public sector management. The reforms resulted in changing the role of the public sector from being the engine of the country's economic growth into being a facilitator to the private sector to provide services to the public (Abdul Khalid, 2008). The reform requires both public and private sector to work together in serving the citizens better. Therefore, this chapter aims to further discuss the New Public Management concepts and private sector involvement in Malaysia. The chapter starts with an explanation of the concepts of NPM in Section 2.1 followed by Section 2.2, which discusses the rationale of NPM adoption. Section 2.3 further discusses the theories related to NPM and Section 2.4 elaborates on changes in public sector administration from traditional public administration to NPM as a result of public sector reform. Next, Section 2.5 discusses the private sector involvement in enhancing Malaysia's economy together with the public sector. Finally, Section 2.6 provides a summary of this chapter.

2.2 THE CONCEPTS OF NEW PUBLIC MANAGEMENT

The reform of the public sector from traditional public administration to public management or more commonly referred to as New Public Management (NPM) started in many countries, such as the United Kingdom, the United States and also Malaysia, in the late 1970s and early 1980s (Siddique, 2006; Gruening, 2001). Public

administration defined by Hughes (2003) as an activity where public servants were serving the public, by following the required procedures and policies. Whilst, public sector reform (PSR) is defined by Pollitt and Bouckaert (2000) as; *'deliberate changes to the structures and processes of public sector organizations with the objective of getting them (in some sense) to run better'*.

According to Siddique (2010), public sector reforms have been introduced in many countries with the hope of improving various aspects of public bureaucracy and public sector management. For example, the introduction of privatisation and corporatisation of public entities, reengineering the public sector rules and procedures, improving the quality of the services provided as well as improving the financial management. The reform was initiated by the public sector to enhance the efficiency and effectiveness of the services rendered to the public. The traditional public administration was changed into a more market-driven and result oriented culture. This was done in order to for the public sector to regain the trust of the public in serving their needs in an efficient and effective manner. Siddique (2006) stated that most of the recent administrative reforms are related to New Public Management. New public management (NPM) is a global phenomenon, which places more emphasis on competition, contracting, networks, delegation and performance management (Guthrie et al., 1999). Meanwhile, Eliassen and Sitter (2009) described NPM as one element in the quest for improved state capacity, together with privatisation and new management tools. The NPM reforms include improving the public sector information and control by reorganizing the public sector, increasing competition among the public sector and private sector and, finally, focusing on incentives based management, which includes importing management techniques

from the private sector and more discretionary power given to the managers (Eliassen and Sitter, 2009).

NPM was seen as a viable solution to solve the problems experienced under the traditional public administration. The aim of NPM is to lessen the differences in how the public and private sectors work, as well as to shift the emphasis from process accountability towards accountability for the results, which are more comprehensive and reliable (Hood, 1995). This includes reorganization of public bureaucracies by breaking up large bureaucracies and dividing them into units responsible for different aspects of policy provision, which permit more transparency and allow greater control (Dunleavy and Margetts, 2000) and introducing elements of competition to reduce the monopolistic characteristic of public bureaucracies, such as using compulsory competitive tendering and privatisation (Eliassen and Sitter, 2009). Proponents of NPM believe that in order to improve the quality provided by the public sector to the citizens, the public sector needs to reform itself into becoming more business-like (i.e. private sector) in the way it operates and manages (Diefenbach, 2009).

Hays and Kearneh (1997) found that the prior literature on NPM had mentioned five core principles of NPM, which include:

1. **Downsizing** – move from large, multilayer organizational forms into more lean, flat and more specialized organizational structure (Pollitt, 2007);
2. **Managerialism** –conducting government activities in a business-like manner like competitive tendering and performance-related pay (Gruening, 2001; Pollitt, 2007);
3. **Decentralization** –decision-making by those who are closer to the service recipients (Gruening, 2001; Kudo, 2004)

4. **Debureaucratisation** –greater emphasis on results compared to the processes. For example, the introduction of measurement for the output (Gruening, 2001; Pollitt, 2007);
5. **Privatisation** –allocating the government goods and services to the outside firms that can better manage the resources (Gruening, 2001; Pollitt, 2007).

Based on Dunleavy and Margetts (2000) in Eliassen and Sitter's (2009) study on NPM doctrine, Hood (1991) identified three main elements on NPM reforms. Firstly, reorganization of the public sector with a need to improve information and control, which includes explicit definition of standards and performance indicators, emphasis on controlling and measuring performance, as well as dividing the large units in bureaucracies into more manageable units and separating the personnel in charge of policy making and services delivery. The large units of bureaucracies were further divided into smaller units that are responsible for different aspects of the work scope. This permits more transparency, accountability and control.

Secondly, encouraging competition both internally (within the public sector) and externally (direct competition between public and private sectors) to break up the monopolistic characteristics of bureaucracies. Thirdly, public sector reform requires the public sector administration to focus more on incentives based management. This includes importing private sector personnel management techniques, more discretionary power given to the manager and clearer separation between political and operational activities.

Malaysia experienced public administration reform after the country was led by Prime Minister Mahathir Mohamed in 1981 followed by the introduction of the Privatisation Incorporated Policy in 1983 (Abdul Khalid, 2008; Siddique, 2007) to