The Determinants of Public Procurement Corruption in Malaysia

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Abstract: This paper investigates the determinant of public procurement corruption in Malaysia. Specifically, this paper examines the relationship between economic factor, politic factor, organizational factor, social factor and belief in religion factor, respectively and public procurement corruption. The respondents involved were the contractors in Malaysia. Data was collected through questionnaire and fifty five respondents who were contractors in Malaysia answered the questionnaire. Smart Partial least square (PLS) was used to analyze the data. This paper found that the economic factor is the main issue in public procurement corruption in Malaysia and thus Malaysia government should take seriously the economic factor. However, Malaysia government also has to consider other factors which are political and social factors because these factors also indirectly influenced the public procurement corruption.

Key words: Corruption, Factors, SmartPLS, Malaysia government

INTRODUCTION

Research literature on public procurement corruption has existed since the late 1980s [1]. However, the study of public procurement corruption in Malaysia is still underdeveloped as compared to the public procurement from other countries like Uganda, Singapore and Bangladesh [2]. This may be due to the lack of studies in the area of procurement itself, specifically in public procurement corruption in Malaysia. The reason behind this is that the procurement data cannot be used for public purpose because it is measured as private and confidential. A study by Abdullah [3] found that there were several weaknesses of accountability and integrity values of the government servants in term of financial managers, specifically in public procurement in Malaysia.

Every year, the Auditor-General’s Report always mentioned about public procurement corruption issues related to the government servant. However, it seems that no action is taken, with the public procurement corruption rate are still increasing annually [4]. This has been discussed in details in the background of the study. Therefore, this study investigates the relationship (or impact) between the determinants (factors) and perception of chief integrity officers (CIOs) in government agencies on public procurement corruption in Malaysia. The factors are perception of public procurement corruption as dependent variable and the economy, politics, society, organisation and religious belief as independent variables.

This study will be a good contribution to the literature of public procurement in Malaysia, since the study for public procurement corruption is not many in Malaysia as mentioned in the problem statement. Researchers will get the opportunity to study the determinant of public procurement corruption in Malaysia from different angles. Besides, this research will be an interesting source to practitioners, for example the manager of a company and other contractors. This is because this research will relate with their jobs and after they acknowledge this issue, they will have the awareness to support the government’s initiative to curb the public procurement corruption issues and monitor their organisation from corruption issues wisely. Finally, in order to curb the public procurement corruption issues, this research will help the government to recognise the determinants of public procurement corruption in Malaysia. With this, the government could identify the
cause of public procurement corruption; therefore they can take the action by reinforcing the public’s procurement policy as well as reducing the corruption issues in procurement itself.

Literature Review: In the context of Malaysia, public procurement refers to the purchasing of products, services and works [5] in accordance with Malaysia’s current rules and regulations to achieve the set objectives [6]. In a more recent study of corruption, there are various definitions that can describe corruption. According to Soreide [5], corruption means bribes in the form of gifts or other advantages of various.

Corruption in procurement can be defined as illegal conduct by which the offender gains an advantage, avoids an obligation, or causes damage to his organisation. The offender might be an employee, owner, statutory board member, an official, a public figure, or a vendor who was involved in the purchase of services, goods, or assets for the affected organisation.

For the purpose of this study, the exact definition of corruption, which is the ‘abuse of power for private gain’, has been used as the working definition [7]. As far as we are concerned regarding the public procurement corruption issues, corruption has become a culture in public procurement [8,9].

Although the expression of public procurement corruption view is not strictly defined in the accounting literature, we may derive the following general conclusions as to its meaning: “In most countries, procurement of goods, services and works required by government departments and agencies consume a considerable part of government resources. Corruption involves the behaviour of government servants in the public and private sectors to improperly and unlawfully enrich themselves and/or those close to them, or induce others to do so, by misusing the position for which they are placed.” [10]

Therefore, when this unlawful and improper behaviour is applied to the public acquisition process, it becomes public procurement corruption [11]. Public procurement corruption can be classified to include (1) supplier induced corruption as a result of stringent competition for government contracts (source), (2) public official induced corruption through creating bureaucratic hurdles that would necessitate seeking faster services (source). It may also be (3) politically induced corruption where contractors with political connections receive favours for the fear of political persecution (source) [11].

Having discussed the public procurement corruption, several authors [11, 12] have indicated that determinants or factors of public procurement corruption can be divided by five factors: economic factor, organisational factor, political commitment factor, social factor and religious belief factor. These kinds of factors are recognised as independent variables.

MATERIALS AND METHODS

The aim of this study is to identify the determinants of public procurement corruption in Malaysia. Thus, the research design of this study is descriptive research, which is called survey research. The purpose is to get the perceptions of government servants regarding to public procurement corruption issue in Malaysia.

Sample and Data Collection: The population of this research paper is the independent Chief Integrity Officer (CIOs) representing 24 ministries in the Malaysian government. The CIO was appointed by the government at the end of December 2013. They are independent officers and are not attached to any departments.

The function of the CIO is to plan any report regarding irregularities in the ministries and they will directly report to the Malaysian Anti-Corruption Commission (MACC). The CIO work in the ministry, but their employer is the ministry’s internal auditor. In other words, these officers will report directly to the Minister in the Prime Minister’s Department, Senator Datuk Paul Low Seng Kuan and MACC. In 2015, a total of 180 CeIO participants were involved in the survey. The sample size was determined pertaining to Krejcie and Morgan [13], (see Appendix 4). Based on Krejcie and Morgan’s table, if the population are 180 persons, the minimum sample size will be 118 persons. The sampling method used was the simple random sampling because each person in the population has an equal chance of being included.

Measurement of Public Procurement Corruption: There are many methods that can be used in measuring the corruption. For this study, three methodologies that are commonly applied by researchers were used. This table summarises the three methodologies and the measurement.
According to Farida and Ahmadi-Esfahani [17], the general perception methodology, the incidence-based methodology and Transparency International expert evaluation methodology are the three methods that hold values in achieving the goal of estimating the map of corruption.

In short, the level of corruption in an institution or a country is almost impossible to assess with an objective measurement. Nevertheless, this research will use the General Perception methodology due to some reasons; firstly, Transparency International also uses this methodology in their research to determine the determinant of corruption. Secondly, in order to get the general perception of procurement corruption, the general perception methodology will help to give the exact perception randomly from public.

However, the data for the perception of public procurement corruption issues in Malaysia is still insufficient. The reason behind this is that the procurement data cannot be used for public purposes because it is measured as private and confidential.

**RESULTS**

The beta value indicates the amount of variance in the dependent variables that is explained by the independent variables. Thus, a larger R² values increase the predictive ability of the structural model. In this study, the SmartPLS algorithm function is used to obtain the R² values, while the SmartPLS bootstrapping function is used to generate the t-statistics values. For this study, the bootstrapping function generated 55 samples. The results of the structural model are presented in Figure 1.

From Figure 1, the relationship between the Economy and Public Procurement Corruption (β = 0.289, p <.05), Politic and Public Procurement Corruption (β = 0.305, p <.05), Social and Public Procurement Corruption (β = 0.230, p <.05), Religious Belief and Public Procurement Corruption (β = 0.414, p <.05) were positively related to public procurement corruption with an R² of 0.444 indicating that 44.4% of the variance in public procurement corruption can be explained by the four constructs. Hence, H1, H3, H4 and H5 are supported. Then, the Organisation and Public Procurement Corruption (β = 0.028, p >.05) is not significant.
CONCLUSION

From this study it can be concluded that all objectives of the research have been achieved. The first objective is to gauge the perception of the government servants towards officers in the Procurement Unit, pertaining to the public procurement corruption. The second objective is to examine the relationship between the determinants of public procurement corruption and the government servant’s perception on officers in the Procurement Unit pertaining to the public procurement corruption.

This study brings some valuable theoretical contributions regarding the public procurement corruption in Malaysia, which is currently under research. In addition, this study included a new measurement factor - religious belief factor - as previous scholars stated that religious belief is a more important factor in influencing the public procurement corruption in Malaysia [1]. However, little attention has been given to it. This study provides some important insights to the authorities and practitioners regarding the influential factors of public procurement corruptions. The implications of this study can be examined from a government and authority body perspective to form an effective strategy to curb the procurement corruption issues in Malaysia. From this study, it can be concluded that economic factors have a strong positive relationship to commit the procurement corruption; whereas, the political and social factor directly influence the procurement corruption but does not directly affect the procurement corruption. To decrease the rate of public procurement corruption in Malaysia, the authorities should focus on educating citizens and awareness about procurement corruption generally. Specifically, the authorities should also focus more on government servants working in the procurement unit, because they are at higher risk to commit procurement corruption.

REFERENCES