

CRITICAL SUCCESS FACTOR OF PRIVATIZATION PROJECT

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ABSTRACT: Privatization is generally defined as the transfer of activity and function, particularly in the area of infrastructure development for the purpose of improving management efficiency, productivity as well as ensuring economic growth in tandem with the vision 2020. Although the privatization of certain property development projects has been successfully implemented, there are still a number of abandoned projects and the reasons for success are not fully explained. In Johor, there has been no study on the success factors of the privatization project for commercial buildings. Therefore, the objective of this study is to define critical success factors for privatized development projects and to identify developers' characteristics that affect the success factor of a privatization project by identify the successful privatization projects and selected 3 successful privatized commercial privatization projects. Furthermore, the characteristics of developers affecting the success of the project will be identified to facilitate the Johor State Economic Planning Division to identify the criteria of the developer to the project which has the potential of a successful privatization project.

Keywords: Critical Success Factor, Privatization Project, Commercial Project, Developer's Criteria, Success Criteria.

1. Introduction

The recession in the early 1980s had affected the government's ability to finance the country's development program and had forced the government to re-coordinate public sector spending. In line with the rapid expansion of the public sector around the world in the mid-1980s, Malaysia is no exception in taking the same steps. The Government has identified, selected and surrendered several public service providers to the private sector with the aim of reducing the involvement of the government in the economic sector while at the same time mitigating the country's financial burden through the Malaysian Privatization Master Plan (PMP) in 1991 followed by the Privatization Guidelines. Among the approaches that have been used by the government to privatize its public sector are, sell out shares, lease, sell-shares, BOT (build-own-transfer), corporatization and other forms yet (Private Public Co-operation Unit, 2015). the critical factor that led to the development of the privatization concept was due to the performance weakness shown by government corporations.

2. Privatization in Malaysia

In Malaysia, privatization was first introduced in March 1983 by then prime minister Tun Dr Mahathir Mohamad, seen as giving such functions to governments in developed countries. It aims to reduce the level and scope of public spending and enable the market to form the economy of the State. PPP or privatization was introduced during the mid-4th Malaysia Plan and later in 1983, Privatization Policy In 1983, Privatization Guidelines 1985. Since independence in 1957 ten Malaysia Plans have been planned to bring Malaysia to a more developed one. Private Public Partnership (PPP) in Malaysia is divided into 3 namely privatization, Private Finance Initiative (PFI) and Private Public Partnership (PPP). Privatization Policy 1983 was issued followed by the 1985 Privatization Guidelines and Privatization 1991. The Private Finance Initiative (PFI) began with the 2006 Treasury Guidelines and for the Private Public Partnership (PPP) UKAS Guidelines in 2009 and the New Wave of Public Private Partnerships (PPP) in 2010. The Privatization Policy is introduced by having the following objectives:

- Reducing Government Finance Loans
- Improve Efficiency and Job Creation

- Raising Efficiency and Job Creation
- Distribution of Resources and Efficiency
- Accelerate the achievement of the Basic Aims

3. Critical Success Factor

Several research and case studies, also have been conducted to investigate the factors contributing to the success of PPP projects as well as the stakeholders' objectives, among them are Ng et al. [1]; Zhang (2006); Qiao et al. [3]; Jefferies et al. [4]; Yuan et al. [5]. A large number of such studies categorized and assessed critical success factors (CSFs) in different countries, such

as UK [6], China (Chan et al., 2010; 8], Hong Kong [1], and Lithuania (Gudienė et al., 2013). Liu, Wang, & Wilkinson [10] concluded that the success of a development project depends on the quality of the short project, the public sector capability, the governance structure, the level of competition in the tender process and the level of transparency in the tender process. Hodge and Greve (2007) in Charles Nnason Adighibe, 2015) states that no meta-analysis or statistic can actually comment on or evaluate a PPP project's performance, as it is complicated to evaluate the infrastructure of compounded observations and various contracts the arrangement of Khairuddin (Rashid, 2012; 2012a; 2012b)

Table 1 The critical success factors and their subordinate success factors from literature.

*Sources have not necessarily used completely similar phrases

Critical Success Factor	Success Factor	References
1. Legal support and Encouraging politics	a) Complete guidelines	[4]
	b) Good control	[13]
	c) Abide by the contract of agreement	[3]
	d) Compliance control during the privatization project	[6]
	e) Level of transparency in the privatization process	[14]
	f) Stable political system and support	[15]
2. Promoting social support	a) The project is environmentally sustainable	[14]
	b) Acceptance and support from the community	[1]
	c) Solve the problem of surrounding people	[16]
	d) Benefit locals	[17]
	e) Meets the demands and capabilities of the population	[18]
	f) Scale of projects suitable for local socio-economy	
	g) Project creates job opportunities for the people	
	h) Project gives investment opportunities to the people	
	i) Project creates business opportunities for the people	
	j) Takes into account social responsibility and public interest.	
3. Stable macro-economics	a) Stable economic condition	[3]
	b) The ability to deal with interest rate / exchange fluctuations	[8]
4. Financial market conditions	a) There is a long-term debt financing that minimizes the risk of refinancing	[3]
	b) Mature and available local financial markets	[8]

5. Procurement of equipment / labor	a) Procurement capability of specialist workers for the private sector	[4] [3]
	b) Ability to acquire equipment on site	[19] [17]
6. Guarantee and government experience	a) The availability of government experience in packing similar projects	[4] [3]
	b) Match government and long-term strategic objectives	[16] [20]
	c) Guarantee / support and support from the government	
7. Good and strong partnership	a) Careful management	[21]
	b) Good compatibility / relationship between the two parties	[22] [23]
	c) Simple project and clear design development	[16] [17]
	d) Detailed project planning	
	e) Commitment and responsibility of both parties	
	f) Open and continuous communication	
	g) Clarity of roles and responsibilities of both parties	
	h) Trust	
8. Strong private consortium	a) Strong organizational structure	[3]
	b) Objective and objective goals	[1]
	c) Good leadership and entrepreneurial skills	[14] [24]
	d) Experience in privatization projects	
	e) Strong financial position of the company	
	f) Appropriate allocation and risk sharing	
	g) Resources of management and technical expertise	
	h) The choice of a specialist contractor	
	i) Efficiency in project management	
	j) Staff support and commitment to the project	
	k) Scale of the project is in line with the company's ability	

3.1 Data Collection Methodologies and Analysis

The 8 CSFs AND 44SFs were included in a questionnaire survey instrument that also addressed wider issues involved in privatization projects in the Johor. The complete questionnaire comprised three parts: questions about the respondents' individual and organizational backgrounds; issues about PPP/PFI projects, including questions about CSFs; and suggestion towards improvement of privatization projects. Opinions emanating from respondents' direct experiences were sought. This paper presents an analysis of the survey response data relating to the perceived relative importance of a catalogue of 8 CSFs for privatization projects. The questionnaire was distributed to the both public and private

sector that directly involved on the privatization projects which include Department Of Valuation And Property Management, Local Authority, State Treasury Department, State Economic Planning Division on private sector and 3 developers of those successful commercial project on private sector. With the total of 31 respondent and 10 interviewee all objective has been achieved. The method to be used in this study is to use the mean value analysis (descriptive analysis) and Multi-Dimensional Scaling (MDS). The data for this analysis is comprised of raw data i.e. data received through feedback from respondents obtained through questionnaire.

4. Results

The result of interview session, most of the interviewee agreed that stating a good financial position is a feature of the developers that will be highlighted in advance as it is based on previous experience, many privately owned development projects are unavoidable or inadequate in due time due to lack of capital. The expert's expertise is also a good developer feature where the privatization

project at BPENJ involves many people so experienced and expert developers will be picked up first compared to other developers. A responsible and non-profit developer solely. High commitment and competitive. Developers who are compliant to every detail of the Privatization Agreement, developers who are in compliance with government policies, prioritize the needs of the people. Careful management and authoritative and honest developers. Table 2 above shows the result of descriptive analysis:

Table 2 Descriptive Analysis Result

Success Factor	Sum	Mean Score	Rank
Strong organizational structure	140	4.52	1
Careful planning and management	139	4.48	2
Comply with contract agreement	137	4.42	3
Sources of management and technical expertise	136	4.39	4
A strong corporate financial position	136	4.39	4
Experience in privatization projects	136	4.39	4
Commitment and responsibility of both parties	136	4.39	4
compliance control during the privatization project	136	4.39	4
Open and continuous communication	135	4.35	5
Detailed project planning	135	4.35	5
Complete guidelines	135	4.35	5
Trust	135	4.35	5
The clarity of roles and responsibilities of both parties	135	4.35	5
Clear goals and goals	135	4.35	5
The scale of the project is in line with the company's ability	134	4.32	6
Stable economic conditions	134	4.32	6
Good control / good conduct	134	4.32	6
Project scale suitable to local socio-economy	134	4.32	6
Acceptance and support from the community	133	4.29	7
Staff support and commitment to the project	133	4.29	7
Capacity acquisition of specialist workers for the private sector	133	4.29	7
Capacity acquisition of specialist workers for the private sector	133	4.29	7
There is a long-term debt financing that minimizes the risk of refinancing	133	4.29	7
Capacity acquisition of specialist workers for the private sector	133	4.29	7
Solve the problems of the surrounding people	133	4.29	7
Stable system and political support	132	4.26	7
Short project and clear design development	132	4.26	7
Ability to acquire equipment on site	132	4.26	7
Take into account social responsibility and public interest.	132	4.26	7
The project creates job opportunities for the people	132	4.26	7
Efficiency in project management	132	4.26	7
Matching government and long-term strategic objectives	132	4.26	7
Availability of government experience in packing similar projects	132	4.26	7
Mature and available local financial markets	132	4.26	7

Good leadership and entrepreneurial skills	131	4.23	8
Expert selection of specialist contractors	131	4.23	8
Appropriate risk allocation and sharing	130	4.19	9
The project is environmentally sustainable	130	4.19	9
The project creates business opportunities for the people	129	4.16	10
Guarantee / support and Support from the government	129	4.16	10
The project creates investment opportunities for the people	128	4.13	11
Transparency level in the privatization process	127	4.1	12
Compatibility / Good relationship between both parties	123	3.97	13
Benefits the locals	119	3.84	14

Table 2 above, the analysis shows the results of the min score analysis of the factors that influence the success of the privatization development project. The results showed that the highest average score of 4.52 was that strong organizational structure was one of the main factors affecting the success of the privatization project and followed by the careful management factor of both government and private parties with an average score of 4.48. Orderly and thorough management can launch and accelerate the process of construction of the privatization project. Furthermore, developers who comply with all agreed upon terms of the contract may affect the success of the project with an average score of 4.42. Next, with the same average score of 4.39 factors such as resources of management and technical expertise, strong corporate financial standing, experience in privatization projects. the commitment and responsibility of both parties and the control of compliance during the privatization project have also been shown to have a significant influence on the success of the privatization project.

With the lowest average score of 3.84 and 3.97, social support factors that meet the demands and capabilities of the population and good compatibility / relationship between the two parties proved by meeting the demands and capabilities of the population did not result in a successful project and achieved the real objective of the privatization project . Respondents from various backgrounds agree that these two two most important factors are from CSF2 which is a social support that encourages the role of society at the very least play an important role in the success of the privatization project.

To reinforce the argument and analysis, will be using multidimensional scale analysis (MDS). The results obtained will be seen based on x axis and y axis. Furthermore, by using this MDS analysis, the writer can see the respondents' views through two different views in evaluating the same object. The 2-dimensional value above will describe the object to 2 perspectives that can be generally said that respondents are divided into large group as shown in Figure 1.

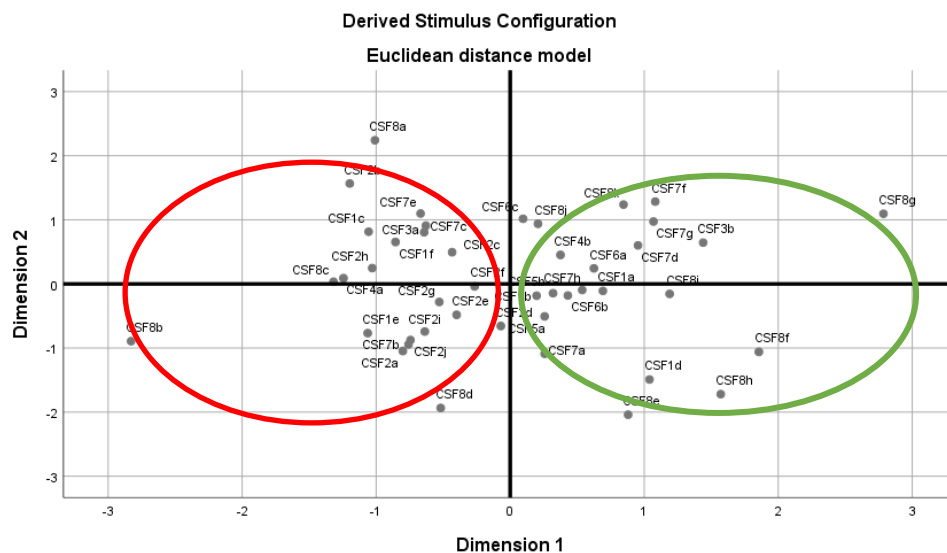


Figure 1 MDS Analysis

Outputs obtained should be arranged according to the priority of positive value to negative value. Positive values symbolize positive effects while negative values illustrate the negative effects on a particular subject. For values close to 0, it is likely not to have any effect on the

subject. Figure illustrates the different perceptions on respondents of factors that can influence the success of privatized development projects. The first group is a variable or factors that greatly affect respondents and consist of the following factors.

Table 3 Main Factor of Successful Privatization Project

	Main Factor of Successful Privatization Project	Dimension 1	Dimension 2
CSF8e	Strong financial position of the company	2.7851	1.0948
CSF3b	The ability to deal with interest rate / fluctuations	1.4393	0.644
CSF7d	Detailed project planning	1.0819	1.2842
CSF8b	Clear objective and goals	1.069	0.9725
CSF8g	Resources of management and technical expertise	0.9534	0.6014
CSF7e	Commitment and responsibility of both parties	0.8453	1.2375
CSF7g	Clarity of roles and responsibilities of both parties	0.6245	0.2429
CSF2b	Acceptance and support from the community	0.3751	0.4524
CSF8a	Strong organizational structure	0.2069	0.9388
CSF7h	Trust	0.0957	1.0163
CSF7c	Simple project and clear design development	0.2567	-0.5064
CSF2c	Solve the problem of surrounding people	0.197	-0.1838
CSF7a	Careful management	1.1898	-0.1559
CSF8i	Efficiency in project management	0.3196	-0.1453
CSF7f	Open and continuous communication	0.6917	-0.1087
CSF8f	Appropriate allocation and risk sharing	0.5373	-0.095
CSF3a	Stable economic condition	0.4302	-0.1808
CSF8c	Good leadership and entrepreneurial skills	1.0391	-1.4912
CSF8d	Experience in privatization projects	0.2573	-1.0889
CSF2i	Project creates business opportunities for the people	1.8553	-1.0596
CSF2e	Meets the demands and capabilities of the population	1.5708	-1.7198
CSF2a	The project is environmentally sustainable	0.8797	-2.0402

Table 4 Side Factor of Successful Privatization Project

	Side Factor of Successful Privatization Project	Dimension 1	Dimension 2
CSF1d	Compliance control during the privatization project	-1.0095	2.2412
CSF1f	Stable political system and support	-0.6686	1.098
CSF4a	Long-term debt financing that minimizes the risk of refinancing	-1.197	1.5662
CSF8h	Selection of specialist subcontractors	-0.4335	0.4952
CSF5a	Procurement capability of specialist workers	-0.6293	0.9095
CSF2f	Scale of projects suitable for local socio-economy	-0.8556	0.6538
CSF8k	The scale of the project is in line with the company's ability	-1.0298	0.2467
CSF6a	The availability of government experience in similar projects	-1.0561	0.8148
CSF1c	Abide by the contract of agreement	-1.2443	0.0897
CSF8j	Staff support and commitment to the project	-1.3183	0.0344

CSF6b	Match government and long-term strategic objectives	-0.6424	0.806
CSF4b	Mature and available local financial markets	-0.2657	-0.0397
CSF1b	Good control	-0.3997	-0.4822
CSF6c	Guarantee / support and support from the government	-0.5187	-1.9351
CSF5b	Ability to acquire equipment on site	-0.5291	-0.2815
CSF1a	Complete guidelines	-0.6373	-0.7427
CSF2j	Takes into account social responsibility and public interest	-1.0632	-0.7679
CSF2g	Project creates job opportunities for the people	-0.701	-0.6567
CSF2h	Project gives investment opportunities to the people	0.7441	-0.8753
CSF7b	Detailed project planning	-0.7588	-0.9438
CSF1e	Level of transparency in the privatization process	-0.8009	-1.0463

Based on Table 3 above, among the factors that greatly affected the success of the privatization project were the strong financial position of the company. Stable and capable financial management is a feature of developers that can have a great impact on the success of privatization projects. This is because having most companies suffer losses and negative cash flows during their initial period. Companies must ensure that they have enough cash to pay employees and suppliers even if they have more money coming out of the beginning of the business. As businesses grow and mature, they need more money to finance their growth. Planning and budgeting for financial needs are important. Financial management is looking for the appropriate source of funds at the lowest cost, controlling the company's capital costs and not allowing the balance sheet to be too high with debt with adverse effects from its credit rating as well as the curriculum should think about the profit distribution and in-kind cash and in-kind should be received by the public sector as a benefit from the privatization projects. Then followed by the ability to deal with the fluctuation of interest rates / exchange that is the ability of the project to survive in the exchange of financial mechanisms.

There are several criteria that are the side factors that influence the success of the privatization project. Table 4 above is a side-by-side factor affecting the success of privatization development projects from various background respondents. Among the side factors seen at least affecting the success of the privatization project is CSF1e which is the level of sincerity in the privatization process. As is known, many developers in the market are not sincere when applying for a privatization project such as manipulating the financial statements and balances statements. Compatibility / good relationship between both sides of the CSF7b has

a negative value from both sides of the dimension indicating that the relationship does not exist. The project creates investment opportunities for the people, projects generating investment opportunities to the people and considering social responsibility and public interest are all factors of CSF2 suggesting that favorable social support is the least contributing factor to the success of the project.

5. Conclusions

The success factor of the commercial privatization project mostly comes from the private consortium itself, as the company's strong financial position and strong organizational structure prove that it is a major factor influencing successful projects. The least successful factor mostly comes from legal support and promotes politics, financial market conditions and guarantees and governance experience shows that external factors do not really affect the success of the privatization project. Successful developers are strong financial conditions, smart financial management, expertise and experienced developers who have good track records and committed and competitive developers. Since almost all success factors from the SF8 level are high at objective 1, the result of objective 2 has shown that a strong private consortium is very important in determining the success factor of the privatization project.

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