

**APPLICATION OF PUBLIC-PRIVATE
PARTNERSHIP CONCEPT IN A TOURISM
DESTINATION: A CASE STUDY OF PENANG
HILL**

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DESTINATION: A CASE STUDY OF PENANG
HILL**

by

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LIST OF ABBREVIATIONS

AAGR	Annual Average Growth Rate
BOT	Build-Operate-Transfer
CC	Client's Charter
CMI	Chief Minister Incorporated
CSR	Corporate Social Responsibility
DBFO	Design-Build- Finance-Operate
DBO	Design-Build-Operate
EIA	Environmental Impact Assessment
EPU	Economic Planning Unit
GM	General Manager
HUL	Historic Urban Landscape
LA	Local Authorities
MBPP	Majlis Bandaraya Pulau Pinang
NCER	Northern Corridor Economic Region
NGO	Non-Government Organization
NPM	New Public Management
OUV	Outstanding Universal Value
PBAPP	Perbadanan Bekalan Air Pulau Pinang
PDC	Penang Development Corporation
PFI	Private Finance Initiatives
PHC	Penang Hill Corporation
PHSAP	Penang Hill Special Area Plan
PPP	Public Private Partnership

PPNPP	Public Private NGO Professional Body Partnership
PSDP	Penang Strategic Development Plan
PWD	Public Work Department
RFP	Request for Proposal
TDCM	Tourist Development Corporation Malaysia
TOL	Temporary Occupied License
UN	United Nation
UNEP	United Nations Environmental Programs
UNWTO	United Nation World Tourism Organization
VFM	Value for Money
WHS	World Heritage Sites
WTO	World Tourism Organization
WTTC	World travel & Tourism Council
WWF	World Wildlife Fund

**APLIKASI KONSEP KERJASAMA AWAM SWASTA DI KAWASAN
PELANCONGAN: KAJIAN KES BUKIT BENDERA**

ABSTRAK

Aspek pengurusan lestari stesen bukit sememangnya mempunyai pertalian langsung kepada alam sekitar dan komuniti. Terdapat banyak konsep pengurusan kearah pengurusan yang lebih baik pada masa ini. Walau bagaimanapun, hanya terdapat sedikit kajian ilmiah sahaja mengenai konsep pengurusan destinasi pelancongan. Penggunaan konsep PPP semasa di Bukit Bendera telah dianalisa dan dibandingkan dengan konsep PPP The Habitat. Konsep PPP sedia ada tidak memberikan tumpuan mendalam kepada pengurusan sebuah perbadanan dan kaitannya kepada penjagaan alam sekitar. Bagi meninjau fenomena ini Bukit Bendera dan Perbadanan Bukit Bendera (PHC) telah dipilih. Kajian kes kualitatif telah digunakan dengan temubual mendalam ke atas sepuluh orang pihak berkepentingan di Bukit Bendera. Data yang telah dikumpul telah dianalisis menggunakan kaedah tematik. Kajian ini mendapati bahawa model yang digunakan oleh The Habitat adalah lebih menyeluruh jika dibandingkan dengan model-model PPP sebelumnya. Kajian ini juga mendapati konsep kerjasama ini perlulah diperluaskan dengan menambah organisasi bukan kerajaan (NGO) dan badan professional dengan menjadikannya sebagai kerjasama awam, swasta, NGO dan badan professional (PPNPP). Bagi aspek penjagaan alam sekitar, konsep PPNPP telah dicadangkan bagi mengatasi isu alam sekitar dan sebagai panduan kearah pengurusan Bukit Bendera. Konsep PPNPP dicadangkan sebagai kerangka pengurusan kerjasama antara awam, swasta, NGO dan badan professional ke arah pengurusan Bukit Bendera yang lestari.

APPLICATION OF PUBLIC-PRIVATE PARTNERSHIP CONCEPT IN A TOURISM DESTINATION: A CASE STUDY OF PENANG HILL

ABSTRACT

Sustainable management aspects of a hill station are directly related to the environment and the community. There are currently numerous management practices for hill station management. However, scant attention has been paid to the approach of partnership in the management of a tourism destination. Current PPP approach on Penang Hill were analyzed and comparison with The Habitat's approach was done. The existing PPP concept has very limited association with the management of a corporation and its link to environmental protection. In order to explore this management approach, Penang Hill and Penang Hill Corporation (PHC) are chosen. Qualitative case study is used with in-depth interviews conducted with ten primary stakeholders of Penang Hill. The data collected was analyzed thematically. The study finds that The Habitat model of PPP on Penang Hill is more inclusive compared to the previous approach. The study also finds that the partnership should be extended to Non-governmental organizations (NGOs) and professional bodies and the concept of PPP should be Public, Private, NGO and Professional Bodies Partnership (PPNPP). With regards to environmental protection, the PPNPP concept is found to overcome the environmental threats and to guide PHC towards better management. The PPNPP concept is proposed as a management framework to guide the partnership between public, private, NGOs and professional bodies towards a sustainable management of Penang Hill.

CHAPTER 1

INTRODUCTION

1.1 Introduction

Hill stations were initially developed as sanatoria for colonists living in hot humid climates (Spencer & Thomas, 1948; Barr & Desmond, 1978; Aiken, 1994; Kennedy, 1996; Chatterji, 2003; Estoque & Murayama, 2014). Hill stations in Malaysia include Cameron Highlands, Maxwell Hill or Bukit Larut, Fraser's Hill and Penang Hill. Plans are continuously underway to develop these hills. Cameron Highlands for example has experienced appreciable growth, and that came mainly from the development of commercial agriculture, not from its role as a health and recreation resort (Freeman, 1999; Aiken, 2002; Barrow et al., 2009). In recent years, Cameron Highlands has been developed into a tourist attraction with a large number of short stay visitors being lured to tea estates, vegetables and flower farms and this contributed to the enhancement of Cameron Highlands as a tourist's destination (Chan, 2009; Herman et al., 2014; Weebers & Idris, 2016).

The East India Company established Penang Hill in the late 18th century, and since then, has been a place for colonialists to retreat to a place that has weather similar to the English weather to get respite from the tropical climate of George Town. Penang Hill is also one of the most significant and important places in Penang. As a hill resort, Penang Hill is very popular and is still attracting tourists even without many strong attractions apart from the view and cool climate. The Hill is located 830 meters above sea level and connected by hill railway that has been operating since 1922. The funicular railway was upgraded in the year 2011. Another way to access the hill is by a jeep track from the Botanical Garden. Penang Hill offers bio-diverse flora and fauna

which need to be protected from being destroyed by developmental works. Sustainable management will ensure the biodiversity of Penang Hill is conserved and at the same time, contribute to Penang's economy by being an important tourist attraction.

In Malaysia economic activities come under the purview of statutory and non-statutory bodies in this country. A statutory body is established under an act or enactment while non-statutory bodies are registered under the Companies Act 1965 (Abdul et al., 2013; Chong et al., 2011; Hussain, 2010). Public corporations are incorporated by the government, whether through law or established under the Companies Act for specific purposes (Hussein et al., 2014). Public corporations or semi government agencies are legally established by either the parliament or the state assembly. This research is on Penang Hill Corporation (PHC) who are the custodian of Penang Hill. PHC is a state public corporation set up in accordance with the Penang Hill Corporation Enactment, 2009.

According to Manaf & Hazilah (2011), the delivery of public services has not been efficient and effective to satisfy the needs and wants of the citizens, its red tape and bureaucracy have often been perceived to be less efficient compared to private sector services which are market-driven. In this regard, the public sector in Malaysia has not been spared from criticism of its incompetence. The former Chief Secretary to the Government, Tun Ahmad Sarji (1993) said:

“The public service was more than not associated with bureaucracy; which conjures in the minds of people inefficiency and the worst of organizational nightmares. The people who have been to the bureaucracy experience it as red tape, inflexible policies, and being hard to do business with when decision seems to take forever”.

Public services in Penang has been criticized for poor management too. Chan (1998),

mentioned that high demand for land on the island has made developers to turn to the hill, which has led to many environmental problems. In spite of this, the Penang State Government decided to lift the freeze on hill development. This criticism is supported by an article which concludes that Penangites feel that the State Government does not have their interests at heart (New Straits Times, 2017). The sale of state-owned land to developers and mega development projects are among the concerns of the public in Penang, specifically with the way Penang is being governed by the State Government. A coalition of Penang based NGOs called for a forum and listed down their concerns with the governance issues in a memorandum that was sent to the State Government. Their apprehensions include weak agreements which have led to loss of land rights on reclaimed land and discontinuing the practice of allowing politicians to sit in boards of government linked companies (Penang Forum Agenda, 2018).

Penang Hill Corporation was established after Penang Hill Corporation Enactment 2009 approved by Penang State Legislative Assembly. There are seven divisions in PHC namely, Management Services Division, Promotion and Marketing Division, Finance and Strategic Planning Division, Technical Planning and Development Division, Internal Operation Division and Funicular Engineering Division (Summugam, 2015). The PHC has experienced management issues as well, involving not only the management and financial aspects, but also in terms of its maintenance of the funicular trains which might pose a danger to visitors (Malaymail, 2014). The issues of governance need to be addressed seriously as it will affect tourists who visit Penang Hill. A media report in 2016 stated, hundreds of frustrated tourists had to trudge down Penang Hill here yesterday after the Penang Hill funicular train broke down (New Straits Times, 2016). There are evidences which proves Penang Hill is not governed affectively enough thus this research will focus on better management

efforts for Penang Hill.

As mentioned above, Penang Hill is very well known for its natural resources of untouched sub-mountain forest, rich with flora and fauna (Khor et al., 1991). The hill is also an important water catchment area for Penang. Penang Hill needs to be managed sustainably to maintain its delicate functions of being a forest reserve, water catchment area as well as one of the main tourist attractions. This research studies the management of Penang Hill via public-private partnership approach from the perspective of primary stakeholders.

Public-private partnership (PPP), or joint venture is one of the means used to maximize the pros of private and public sector in terms of performance. PPP has existed in Malaysia at least since the mid-1980s (Singaravelloo, 2017; Ismail & Harris, 2014). Malaysia has been using the concept of PPP for the development of some government projects. This concept has also been used in the UK where PPP is seen as a partnership to develop public infrastructure projects with financial assistance from the private sector. Examples of the usage of this PPP concept in Malaysia can be seen in the development of 12 Universiti Teknologi Mara (UiTM) campuses by the Prime Minister's Department of Malaysia. PPP concept has never been examined in Malaysia in terms of the management of a hill station. Hence, this research aims to identify and compare PPP practice on Penang Hill. Besides that, this research also outlines the possible introduction of the PPP concept for the internal management of PHC. Finally, suggestion of a management framework based on the concept of PPP will be made towards environmental protection of Penang Hill.

1.2 Problem Statement

Positioned in a strategic location, Penang Hill has always been seen as another money

making development scheme and has been eyed by many for years. The hill is a major target for tourism related development. Proposals for more hotels, tourism facilities and cable car to connect the hill station and botanical garden are among the proposals for the development of Penang Hill. The sensitivity and the pressure for development of Penang Hill is immense as the hill is one of the top hill stations in Malaysia. It is a challenge for Penang Hill to strike a balance between developing the hill and maintaining and conserving nature. Even though the National Physical Plan (2010-2030), outlines a development control policy for the safety of the people and to conserve the quality of the environment and biodiversity of Penang Hill, throughout the years, many developers have submitted proposals to further develop the hill. Besides the National Physical Plan, the Draft Local Plan for Penang Island (2008) and the Special Area Plan for Penang Hill (2017) also take into consideration the conservation of the natural heritage of Penang Hill.

Berjaya Plan, a massive resort development proposal by a private developer, was a wakeup call on the need for a more systematic governance of Penang Hill. As a result, an NGO called the Friends of Penang Hill in 1991 managed to put a stop to a development proposal which would have caused serious environmental degradation to Penang Hill (Khor et al., 1991). The Penang Hill Local Plan was commissioned to overcome this issue and this local plan spelt out development control measures on Penang Hill. The establishment of the PHC in the year 2009 is an effort not only to promote tourism but also as an institution to oversee the development projects on Penang Hill. However, its performance and management have been criticized (Summugam, 2015; Mike, 2017). A corporation, whether state or federal-owned, is as important as any other government agency in Malaysia. However, to this date, no research has been done to look into the governance of a corporation. This might be

because the management of a corporation should be in a better position to do so as they have autonomy in terms of finance and internal management compared to other government agencies. Unfortunately, this is not the case in this country as corporations have been slapped with issues, ranging from bad management, poor governance, cronyism and corruption. In Ishak's (2011) opinion, although the aim to establish corporations, owned either by the state or federal government, is to benefit the state, in recent years, their performance is being affected by poor management. Many scholars have studied the administration and governance of other public institutions, for example, studies on the governance and efficiency of local authorities (e.g., Nooi, 2006; Abdullah & Kalianan, 2008; Zaherawati et al., 2014; Muhammad et al., 2015). This research focuses on the concept of partnership between the public and private sectors from the stakeholders' perspective. Besides that, identification and comparison of existing PPP approaches on Penang Hill are also undertaken. It is hoped that adapting PPP's values for the internal management of PHC can be materialized. Finally, an assessment of whether or not the concept of PPP will contribute towards environmental protection is also carried out.

The PPP concept has often been used for public sector projects, including on Penang Hill. This is because the public sector is often faced with limited financial resources (Ismail et al., 2014; Singaravelloo, 2017). The definition of PPP is spelt out in the Ninth Malaysia Plan (2006), as the transfer to the private sector the responsibility to finance and manage a package of capital investment and services, including the construction, management, maintenance, refurbishment and replacement of the public sector assets which create a standalone business. Ismail & Azzahra (2014), confirmed that the introduction of PPP in the Ninth Malaysia Plan (2006), is another method to avail revenue for Malaysia by involving the private sector in public services. It is

widely known that the PPP initiatives were introduced to have a win-win situation for both sides. This is because there are concerns and uncertainties with total privatization when it comes to an environmentally sensitive area, like Penang Hill. Total privatization will not be a good initiative due to the possibility of environmental destruction and threats to the water catchment area. According to a study done by Goh (2014), a privatization program was introduced in Kinabalu Park, Sabah in 1998 to manage the tourism facilities however, the private sector failed to fulfil the objectives of sustainable tourism. This proves that total privatization is not an excellent solution in a tourism destination with natural attractions and resources, like Penang Hill. The reason why the PPP approach is being utilized on Penang Hill currently is because of the lack of financial and human resource capability of existing public agencies. The PPP approach in fact, has always been used since the year 2000, albeit in a fragmented manner by excluding the environmental and conservation agenda. For example, development without looking into the environmental impact on the hill. However, the PPP approach is still being used as a way to bring more development to Penang Hill until today. The latest PPP approach for the development of new tourism attractions on Penang Hill is known as The Habitat. This study aims to identify and compare PPP practices on Penang Hill with the latest PPP venture, The Habitat, to determine whether or not this new approach should be the way forward for the further development of the hill using the PPP concept.

Various studies have criticized the governance of public institutions in Malaysia. For example, Abdullah & Kalianan (2009), mentioned that poor management, incompetence, and often, lack of financial and human resources, make the services provided by the Local Authorities (LA) in Malaysia to be problematic. So far, no study has been undertaken to understand both the pros and cons of PPP in a

tourist destination. Hence, this research examines the introduction of the PPP concept for PHC from the perspective of primary stakeholders. Bearing in mind the uniqueness of a hill station, Penang Hill which has always been a very popular tourist attraction, insights from primary stakeholders can offer a clearer understanding of how the hill is being managed. The conflict between balancing the need to protect natural resources and simultaneously fulfilling tourists' need for protected areas, such as national parks and forest reserves, has been researched by many scholars. For example, according to Haukeland (2011), the managers of national parks need to find a balance between two competing goals, i.e., making sure the visitors enjoy the nature and landscape by providing them access and at the same time, preserving the environment. This is clearly a huge responsibility as this delicate balance can be easily hampered due to poor management. Input from the different stakeholders directly and indirectly involved in managing Penang Hill can be an opportunity to understand the actual governance and management processes of the hill. This claim has been agreed to by many scholars as stakeholders can offer unique perspectives of more effective policy decisions (Grimble & Wallard, 1997; Lester & Weeden, 2004; Sheehan & Ritchie, 2005; Buuren, 2009). Using PHC as a case study with primary stakeholders can allow a detailed study of the management issues of PHC for the benefit of the future generation, especially in terms of environmental conservation of Penang Hill.

1.3 Research Objectives

The objectives of this research are as follows:

- i. To examine the management aspects of Penang Hill from the stakeholders' perspective and to evaluate the adaptability of the PPP approach to the internal management of Penang Hill Corporation (PHC).

- ii. To identify and compare existing Public-Private Partnership (PPP) practices on Penang Hill with The Habitat model.
- iii. To develop a management framework for PHC based on the concept of PPP and its contributions to environmental protection.

1.4 Research Questions

The following are the research questions derived from the research objectives:

- i. What is the stakeholders' perception of the management by Penang Hill Corporation (PHC)?
- ii. What are the existing PPP practices on Penang Hill and what is the possibility of introducing the concept of Public-Private Partnership (PPP) in Penang Hill Corporation (PHC)? And what are the differences of previous PPP approach with The Habitat's model?
- iii. What is a suitable management framework for PHC that can contribute towards the environmental protection of Penang Hill?

1.5 Research Context of Penang, Malaysia

Malaysia has been blessed with hill resorts which offer cooler temperature compared to the excessive heat of the lowland. Besides having progressive economic development, Malaysia is generally safe and politically stable as tourist heaven. Some of the notable hill resorts in the country are Cameron Highlands, Maxwell Hill or Bukit Larut, Fraser Hill and Penang Hill the country's top destinations attracting both local and foreign tourists. The tourism sector in Malaysia was the third biggest contributor to the country's economy in 2017 after the manufacturing and palm oil sectors. Revenue generated from 25.9 million tourist arrivals in 2017 was RM82.2 billion. The

Tourism Ministry is targeting 33.1 million tourists in 2018 with a total income of RM103 billion (Malaysian Digest, 2018).

Penang is one of the 13 states in Peninsular Malaysia measuring 1,046 square kilometres in size, located in the Straits of Malacca. It is a melting pot of many different cultures and traditions and was home to more than 1.8 million people in 2017. Significantly Penang is a major international tourist destination because of its historical significance as a UNESCO world heritage site in George Town. Penang's attractions are street food, the sun and sea with more recently as a destination for a hill resort destination. With all these attractions, Penang has always been popular among the holiday makers. Penang recorded more than 3.8 million tourist arrivals in 2017 which is a significant contribution to Penang's economy. Sustainable tourism is among the 10 tiers of the tourism vision by the Penang State government besides medical, heritage and educational tourism (Khoo, 2001; Omar et al, 2017).

1.5.1 Penang Hill

Historically, Penang Hill was the first development project of the East India Company in the 18th century. Modestly developed, the hill catered for the need for resort and health facilities for British civil servants and military officers at that time. Because of Malaysia's hot climate, four hill stations were established by the British in Malaya, namely Penang Hill, Maxwell Hill, Fraser's Hill and Cameron Highlands. Cool breeze and a panoramic view of George Town made Penang Hill the earliest hill station to be set up by the British colonialists. Penang Hill is the oldest hill station of the British Empire (Fisher, 1948; Carlson, 1980; Doran, 1997; Freeman, 1999; Aiken, 2002; Ang, 2012; Bhati et al., 2014). Penang Hill offered temporary refuge from the humid tropical climate and was also used as a place to convalesce. It is still a retreat destination today,

and one of the many famous hill resorts in Peninsular Malaysia.

In terms of accessibility, the funicular train was constructed in 1923 and is now a famous tourism landmark of Penang. The railway has been upgraded a few times and is the main access besides a jeep track which is only accessible by the residents of the hill. The construction of the funicular railway encouraged the development of bungalows on the hill. A total of 44 bungalows occupy the hill currently with most of them listed as heritage buildings. Amat (2006), documented the important heritage and historical aspects of Penang Hill as follows:

- i. Cultural and natural features that express the hill's historic character.
- ii. Relationship between buildings and open spaces.
- iii. Pre-war buildings and their appearance (interior and exterior).
- iv. Historic surroundings of buildings.
- v. General historic ambiance of Penang Hill.
- vi. Views and vistas.
- vii. The Hill itself as a backdrop of Penang Island.

Penang City Council Plan (1987) for the development of Penang Hill states:

“Penang Hill shall be designated as an area of special characteristics. Its natural vegetation, topography and character as a hill resort must be maintained and conserved and development shall conform to and not destroy these special characteristics. Penang Hill shall be enhanced as a hill resort by improving and increasing the various lookout points and by the establishment and improvement of paths and walkways, gardens, natural areas and other facilities”.

This proves that special characteristic of Penang Hill was always meant to be

maintained and conserved. Attempts to redevelop and revitalize Penang Hill began since the early 1990s. However, the people of Penang strongly protested against the development intention of Berjaya Group also known as the Berjaya Plan when it was first published in the media. The Berjaya Plan is a development proposal from Berjaya Corporation's subsidiary, Bukit Pinang Sdn. Bhd. It comprised a large scale 900 acres development project, including hotels, condominiums, an acropolis centre, shopping malls, sports and golf centre in the year 1990. This proposal would essentially put the management of Penang Hill into private hand, the privatization effort started since the 1980's. The proposed development would occupy the forest reserve and water catchment area of Penang Hill. Fearful of privatization of Penang Hill and destruction of water catchment area, the protest led to the formation of Friends of Penang Hill which resulted in a Save Penang Hill campaign. Throughout the campaign, public forums and public petitions were held to request the state government to review the Berjaya Plan. As a result, representatives from Friends of Penang Hill were invited by the Department of Environment to sit on the Environmental Impact Assessment (EIA) Panel, this has led to the rejection of the EIA twice. This issue became a political issue in the 1990 elections. Following these events, this development proposal on Penang Hill was neglected by the Penang State Government.

In April 1997, the Bukit Bendera Local Plan done by the local authority which took public opinion into consideration was gazetted. Nevertheless, the development in Penang Hill never took place until the revitalization initiatives were proposed recently with the preparation of the Special Area Plan for Penang Hill. Still being treated as a political issue today, the development of Penang Hill will always be a hot topic among both the public and media.

A series of development plans started under the National Physical Plan

gazetted in August 2010, all of which emphasizes the protection and development of natural heritage assets, including hill stations and highlands. The National Physical Plan underlines Penang Hill as a major tourism destination with the provision of support facilities and infrastructure. There is also a provision for a special area plan for Penang Hill. Penang's State Structure Plan gazetted in June 2007 recognizes Penang Hill as a local centre with a special function as a hill station which should be managed in an integrated manner. The Penang Draft Local Plan 2020 (Island) lists Penang Hill as one of the ecotourism sites for Penang besides the Penang National Park, Batu Maung and Pulau Jerejak. It has also identified Penang Hill as a heritage zone with developmental control over its heritage buildings. The plan also spells out the visual preservation of its green area for the island's corridors. Penang Hill is ranked as a local commercial zone and a gazetted area of hill land besides being identified as an area with environmentally sensitive bio-diversity. Penang Hill currently has a Special Area Plan gazette in the year 2017 which will determine its future development.

1.5.2 Penang Hill Corporation (PHC)

In view of its importance as a tourist destination, the Penang Hill Corporation (PHC) was established in 2009 by the state government to take over the function of Keretapi Bukit Bendera (KBB). With the vision, "*A hill with a heart that binds us together with the environment*", PHC wishes to incorporate the principle of sustainable development in its mission. PHC's main objectives under the Enactment 2009 are to:

- a) Ensure that this enactment is administered, enforced, given effect to, carried out and complied with.
- b) Propose the formulation of policies and advice the State Authority on any

matter relating to the promotion, development and preservation in the area of the Corporation.

- c) Manage, operate and control and maintain the service of Penang Hill Railway.
- d) Promote, encourage, facilitate and undertake the development of economic, social and infrastructure development in the area of the Corporation.
- e) Promote, develop and encourage the area of the Corporation as a tourism destination.
- f) Control and coordinate the performance of the activities mentioned in paragraphs (c), (d) and (e) in the area of the Corporation.
- g) Advise the State Authority on the activities in the area of the Corporation.
- h) Carry out research or any activity relating to it in promoting and developing the area of the Corporation.
- i) Carry out such activities and do such things which are necessary or advantageous and proper for the administration of the Corporation or such other purpose consistent with this enactment.

As the custodian of Penang Hill, PHC's role is very important to ensure the hill will be a sustainable tourist site. The questions remain whether their current management approach is effective enough. If it is not, can the PPP approach be extended into the management of PHC? What are the existing PPP approach on Penang Hill and can PPP concept contribute towards the environmental protection? This is what this research aims to discover.

1.6 Research Significance

This research is unique as it takes into consideration the perspectives of stakeholders on the management and governance of Penang Hill. Especially on their views on the

possible introduction of PPP towards sustainable management of Penang Hill. This research will examine the examples of current PPP approach on Penang Hill with a comparison with latest PPP venture called The Habitat. The Habitat is a PPP approach involving the State Government of Penang and a private entity to focus towards nature tourism and environmental conservation. This research then will suggest a management framework based on the concept of PPP on how it can be used as a tool for effective management focusing on sustainability and environmental protection. A study to understand the view of stakeholders in terms of the management of a hill station has never been done in Malaysia. Stakeholder's insights are significant as it will contribute towards sustainable management of the hill. In addition, this study hopes to understand the advantages of the joint venture between the public and private sectors towards more sustainable management of Penang Hill. The outcomes from this study are expected to contribute to and assist in:

- i. managing Penang Hill in a more sustainable manner.
- ii. ensuring more inclusive management of Penang Hill using the PPP concept.
- iii. development of a PPP model which will contribute towards environmental protection.
- iv. safeguarding and conserving Penang Hill's environment, flora and fauna for the future generations.

1.7 Study Organization

This research is organized into six chapters. Chapter one consists of the introduction to the study, including problem statement, research objectives, research questions, study area and research significance. Chapter two includes literature review related to management, governance, model and theories, PPP concept and case study research,

including a conceptual framework used as a guide for this study. Chapter three outlines the methodological approaches used for this research, including procedures for data collection and data analysis. Chapter four provides a review of the study area and explains in detail in terms of management, tourism and environment of Penang Hill. Chapter five presents data analysis and discussion based on the findings. Chapter six is the conclusion chapter with suggestion of a management framework based on PPP's approach, including suggestions for future research to be undertaken.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter discusses sustainable management of hill station in the context of and management of public institutions and privatization. Explanation on public-private partnership (PPP) is given by focusing on the concepts of good governance, PPP practices on Penang Hill and how it can be a tool for environmental protection. Specifically, management of an organization is examined to determine how this can lead to determine sustainable management of environment, economy and society. The researcher adopts the sustainable management approach which is a good balance between economic development, environmental stewardship and social justice to analyse the management of a hill station (Sikdar, 2003; Go'ncz et al., 2007).

2.2 Government Centric Model

Malaysia's basic structure of government administration follows closely that of the British system. The Malaysian government has inherited from the British the principles of parliamentary democracy and incorporated them in its administration (Nooi, 2011).

The main theoretical foundation for the management of public institutions began in the late 19th century. The theories were derived from Woodrow Wilson and Frederick Taylor in the United States, (Hughes, 2012). Criticism of the traditional management and administration model has resulted in the introduction of new method, such as bureaucracy and political control to make sure the weaknesses of management in public institutions can be minimized. The PPP concept is one of the means to minimize the weaknesses of management in public institutions.

The civil service in Malaysia is divided into federal and state civil service. At the federal level, the administration of the country is undertaken by various ministries and departments, while at the state level, the civil service system includes local administration and local government. The fundamental differences between federal and state civil service is to who they report to. The federal civil service ultimately reports to the prime minister while state civil service reports to chief minister of the state concerned. In the case of Local Authorities (LA), the mayor usually is a political appointee chosen from among the civil servants in the LAs.

The economic and political context of Malaysia over the past decades has proven that the public administration in Malaysia has adapted itself to the changing situation in order to be able to play its new and emerging roles effectively (Mustafa, 2011). The role of Dr. Mahathir was very significant in Malaysian civil services as he introduced several changes in the administration of the civil service. The Client's Charter (CC) was initiated by Dr. Mahathir in 1993 for the civil service. The focus was on quality public services and public satisfaction (James, 2011). The main phase of public management reforms in Malaysia began when the nation decided to adopt the National Development Policy and Vision 2020. The New Public Management (NPM) policy comprising reforms and changes in the public service was the result of the financial pressures of the 1980s. NPM refers to a set of features aimed at responding to the assumed failures of the traditional modes of public administration (Wan, 2010). NPM is a strategy to introduce measures to enhance efficiency and give value for money in public service operations (Butcher, 2003). Malaysia was among the nations to quickly adapt to this policy as the nation depends heavily on international trade, which left Malaysia with very few options but to engage with the NPM policy (Siddiquee, 2010). The main aim of the public service in Malaysia is to implement

government decisions and policies towards achieving the country's goals (Hussain, 2001). The civil service in Malaysia exists in all three tiers of the government: federal, state and local governments. At the federal level, the administration of the country is performed by the various ministries and departments; while at the state level, the civil service system comprises the local government (Manaf & Hazilah, 2011). The civil service has always been viewed as an independent body that shows no favoritism in performing the policies of the government (Chin, 2011). Malaysia's efforts to improve the management of public institutions is ongoing. Special attention is paid to issues, such as corruption, integrity and cronyism, to ensure a more sustainable delivery of public services.

2.2.1 Government Centric Model, Penang Hill Corporation (PHC)

Tourism remains as one of the main economic contributors to the nation's economy. The tourism sector continues to play a vital role for Malaysia. It remains as an important source of income with earnings of RM72 billion in 2014, an increase of 27.4% from RM56.5 billion in 2010. The tourism industry provided 2.2 million jobs or 16.8% of total employment in 2013 (Eleventh Malaysia Plan, 2016). Due to uncertain world economic conditions, between the year of 2014 and 2015, tourism arrivals in Malaysia decreased from 27.44 million to 25.70 million with receipts from RM 72.0 billion to RM 69.1 billion. This is highly contributed by the uncertainty of world economy in the year 2015 and the figures are expected to increase this year too (Penang Monthly, 2016). Table 2.1 shows tourist arrival and receipts to Malaysia from the year 1998 to year 2016.

Table 2.1: Tourist Arrival and Receipts to Malaysia from 1998-2016

Year	Arrivals (Mil)	Receipts (RM) (Bil)
1998	5.56	8.6
1999	7.93	12.3
2000	10.22	17.3
2001	12.78	24.2
2002	13.29	25.8
2003	10.58	21.3
2004	15.70	29.7
2005	16.43	32.0
2006	17.55	36.3
2007	20.97	46.1
2008	22.05	49.6
2009	23.65	53.4
2010	24.58	56.5
2011	24.71	58.3
2012	25.03	60.6
2013	25.72	65.4
2014	27.44	72.0
2015	25.70	69.1
2016	26.8	82.1

(Source: Tourism Malaysia's website accessed June 2017)

Malaysia started focusing on the tourism industry as a main source of returns in the 1980's as tourism has become an increasingly important industry worldwide. The establishment of the Tourist Development Corporation Malaysia (TDCM) in 1972 is an indication of Malaysia's serious efforts in developing and promoting tourism (Hamzah, 2004). Better and cheaper connectivity as well as the improvement in communication has made Malaysia among the top tourism destinations in Asia. Among the main reasons for this growth were increased personal income and leisure time, improvement in international transportation system and greater public awareness of other parts of the world due to improved communication (Yasak, 2013). Provision for the development of the tourism industry started from the 2nd Malaysia Plan with an allocation of RM 8.59 million which increased to RM 1,847.9 million in the 9th

Malaysia Plan. This proves Malaysia's commitment to developing the tourism industry to greater heights. This allocation was used to improve and increase the physical and social infrastructure, facilities and services which are needed to support the future growth of the tourism industry. The industry provides an important source of income for the country's continued growth. Because of this, it is very important that the tourism industry remains both environmentally and economically viable. Realizing the huge potential, strategies and policies were allocated for tourism development to achieve sustainable growth in the 8th Malaysia Plan (2001-2005).

The development of the northern tourism sector in the 10th Malaysia Plan is under the jurisdiction of the Northern Corridor Economic Region (NCER) which includes the states of Kedah, Perlis, Pulau Pinang and the four northern districts in Perak. NCER focuses on ecotourism and heritage as niche attractions. Tourism continues to be among the major focus in the 11th Malaysia Plan (2016 – 2020) which continues to focus on ecotourism where social inclusion and the expansion of modern services are among its major efforts. Income from the tourism sector will continue to contribute hugely to Malaysia's revenue. However, the trend of tourism is moving towards environmental conservation and a greater involvement of local community. Sadly, environmental and social inclusiveness of this county still need major enhancement.

Penang Hill Corporation (PHC) was formed in 2009 to take on the responsibility of the management and maintenance of the hill. As a statutory body for Penang State Government, PHC's responsibilities covers the overall management and development of Penang Hill besides the maintenance and operation of Penang Hill Railway. The formation of PHC is to take over the function of a small unit called Unit Keretapi Bukit Bendera under Penang Secretarial Office. This is because Unit Keretapi

Bukit Bendera only focuses on the funicular railway without much focus on the overall management and development of Penang Hill. There are seven division in the management of PHC namely, General Manager's Office, Management Service Division, Finance Division, Operation Division, R& D Division, Marketing & Promotion Division and Safety & Security Division. The current core functions of PHC include the promotion of the hill besides maintaining, managing and operating the service of the Penang Hill Railway. PHC always wanted to increase the number of visitors to Penang Hill by introducing more attractions. PHC wants Penang Hill to be developed more than just for its nature attractions and breath-taking view (Summugam, 2015). Until this days PHC is still facing management problems as according to Summugam (2015), PHC has not focused on the overall development of Penang Hill due to lack of human resources. Besides that, Penang is famous for its ferocious and forceful NGO who are extremely sensitive when it comes to any hill development. Even though stakeholders will always be invited to given their views on the development of Penang Hill, it is not a compulsory for PHC to take all their views into account.

PHC was established to be the facilitator of the hill without any forward planning, for example, it did not have the financial capacity to develop tourist attractions. This is the reason why the PPP concept has been introduced to tap into the financial capacity and better services that can be availed by the private sector. Even though the PHC has done a good job, PPP can better unlock the economic potential of Penang Hill, by leveraging on the expertise of the private sector, for example, good services and experience. Improved services can be provided and tourists will not mind paying for the tourism experience. This research is aims to investigate on the possibility of PPP to be utilized for a better management of Penang Hill. This is the

reason the researcher has chosen Penang Hill and PHC as a case study for this research.

2.2.2 Government Centric Model, Chief Minister Incorporated (CMI)

Chief Minister Incorporated (CMI) was established in 2009 to manage, invest, develop and operate Penang State Government-owned land and properties. CMI is also responsible for the promotion of Penang in terms of tourism. Besides that, CMI initiates and spearheads infrastructure projects and encourages and supports agriculture, livestock and fishery projects. CMI also focuses on public transportation projects in Penang while formulating strategies to generate income or revenue from assets of the State Government (Penang State Government, 2018). As a representative of the Penang State Government, CMI has the authority to call for a (Request for Proposal) RFP for new development and make detailed assessment of the RFP. RFP for projects on Penang Hill comes under the jurisdiction of CMI. Besides calling for RFP, CMI also reviews the RFP by engaging technical and evaluation committees. PHC is one of the evaluation committees for RFP review on Penang Hill. CMI then awards PPP projects to the selected company. CMI then spearheads the implementation and procurement process while regularly monitoring the implementation and producing relevant reports. CMI has been initiating and managing RFP on the Penang State Government's own assets, comprising land and buildings, including the ones on Penang Hill. Existing PPP projects on Penang Hill unfortunately have been done in a fragmented manner, this study compares the existing PPP projects on Penang Hill with the latest PPP approach of The Habitat.

2.3 Privatization Model

Modern policies of privatization were created by Thatcher's government in 1979 and were then met with great scepticism by the public and professional economists (Megginson & Netter, 2001). Privatization refers to any measure to a public sector reform which has the effect of increasing efficiencies (Cook & Kirkpatrick, 1995). According to Savas (2000), Privatization is the act of reducing the role of government or increasing the role of private institutions of society in satisfying people's needs, it means relying more on the private sector and less on the government. The policy has been adopted by many countries, for example, Japan and China have privatized their state owned enterprises since the late 1970s and 1980s. Revenue from the investment by the government is a major boost for privatization (Yergin & Stanislaw, 1998). Besides being seen as a measure for the government to get funding from the private sector, privatization has been subject to criticism. Among the common criticisms on privatization is that it is actually an excuse for governments to step away from their responsibility. Transforming a public agency into an independent authority or a government corporation is also called privatization (Savas, 2000). Improvement in the management of public enterprises is also the reason for privatization according to a study done by Eckel & Singal (1997), on the British Airways. The study showed improved performance after it was privatized. Poor management by the civil service has paved the way towards privatization. General negative views towards public institutions alone cannot be used as an excuse to introduce privatization. Internal factors within the public institution itself, such as red tape, need to be addressed in order to achieve better management.

The Malaysian government is among the first countries to go on board with privatization. Spearheaded by the British and the US governments in the early 1980s,

privatization has become a fashionable economic policy around the world and Malaysia was one of the first among the developing countries to start its privatization program (Bakul & Dholakia, 1994). The Privatization Master Plan of 1991, has the main purpose of providing guidelines for the implementation of the privatization policy. Malaysia's Privatization Master Plan defines privatization as a strategy by the government of rolling back its involvement in favour of freedom, competition, efficiency and productivity. Full privatization means a complete transfer of ownership and control of a government enterprise or asset to the private sector. In Malaysia, such a practice is not the norm as less than half of the assets or shares in the state-owned enterprises (SOEs) are sold to the private shareholders with the government retaining control through majority ownership (Jomo & Tan, 2003). According to Bakul & Dholakia, (1994), Malaysia's privatization policy is designed to achieve the following objectives:

- a) Relieve the financial and administrative burden of the government.
- b) Improve efficiency and productivity.
- c) Facilitate economic growth.
- d) Reduce the size and presence of the public sector in the economy.
- e) Achieve the national economic policy targets.

In tandem with Malaysia's privatization policy, the Privatization Action Plan (PAP) was introduced to assist in its implementation. The main objective of privatization is to reduce the financial burden of the government. The sale of government entities to private companies has generated RM 1.18 billion while saving more than RM 8.2 billion in capital expenditure for infrastructural development (Jomo & Tan, 2003). The attractiveness of privatization is determined primarily by its