CORRUPTION IN CONSTRUCTION

B GEVANSRI K BASKRAN

A project report submitted in partial fulfillment of the requirement for the award of the degree of Master of Science (Construction Management)

Faculty of Civil Engineering
Universiti Teknologi Malaysia

JANUARY 2013
To my beloved mother, father, brother and sisters
ACKNOWLEDGEMENT

Praise to God, the Most Gracious and Most Merciful,

Who has created the mankind with knowledge, wisdom and power. Being the best creation of God, one still has to depend on others for many aspects directly and indirectly. This is, however, not an exception that during the course of study the author received so much of help, co-operation and encouragement that need to be duly acknowledged. First of all the author wishes to express profound gratitude to his supervisor Mr Abdul Rahim Abdul Hamid for the noble guidance and valuable advice throughout the period of study. A special gratitude to His Divine Grace Dato Seri Guruji, for love and dedication for promoting research and development have paved the way to attain a smooth finishing of the present study.

Acknowledgements are due to Associate Prof Dr Mohamad Ibrahim Mohamad and Prof Dr Salihuddin Radin Sumadi, for the advice and helpful cooperation during the study. Appreciation is also acknowledged to the Faculty of Civil Engineering, for providing research fellowship during the period of study at the university. With due respect the author remembers his parents and relatives for their countless blessing which have always been a source of inspiration in achieving success to this level. A very special gratitude is reserved for the author's friends, for their company and moral support that they have always rendered towards the accomplishment of the study. To them, this report earnestly dedicated.
Corruption in construction is a fiduciary crime that is believed to slowly penetrate the construction sectors in countries around the world. It that can reduce the efficiency, effectiveness and equity of infrastructure services that resulted in construction projects that is unnecessary, unsuitable, and defective. In order to control effectively the level of corruption in construction, the critical factors of corruption in construction need to be correctly diagnosed. Hence, the objective of this paper is to review the causes of corruption in construction, consequences and method to minimize corruption in construction industry. The aim of this project is to identify causes of corruption and determine method or strategy to minimize corruption effectively. Based on survey outcome it can be classified that objectives are achieved due to the information are tally based from literature review and survey. It has been agreed by most of the respondent on the listed objectives, and only differs in term of score of the attributes. Base on the data analyzed from this study the main causes of corruption are weakening of society value with highest score follows by bids and tender are ‘set up’ and the third attributes was inefficient administration, while the consequences are consultants increase the quantities of work and share the proceedings with contractors, demand payment for task carried out by consultants, and hike of cost due to the hidden cost. As for step to prevent following steps would probably be the strategy to minimize corruption in construction which, implementing a comprehensive ethics program, establishing a corporate code of conduct and report it to the police or anti-corruption bureau. Thus, throughout the study, individual attitude, laws and regulations and administrative control are imperative factors critical to corruption in construction.
ABSTRAK

# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>CHAPTER</th>
<th>TITLE</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>TITLE PAGE</td>
<td></td>
<td>i</td>
</tr>
<tr>
<td>DECLARATION</td>
<td></td>
<td>ii</td>
</tr>
<tr>
<td>DEDICATION</td>
<td></td>
<td>iii</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENTS</td>
<td></td>
<td>iv</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td></td>
<td>v</td>
</tr>
<tr>
<td>ABSTRAK</td>
<td></td>
<td>vi</td>
</tr>
<tr>
<td>TABLE OF CONTENTS</td>
<td></td>
<td>vi</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td></td>
<td>xi</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td></td>
<td>xiv</td>
</tr>
<tr>
<td>LIST OF ABBREVIATIONS</td>
<td></td>
<td>xv</td>
</tr>
<tr>
<td>LIST OF APPENDICES</td>
<td></td>
<td>xvi</td>
</tr>
</tbody>
</table>

## 1 INTRODUCTION

1.1 Introduction

1.2 Problem Statement

1.3 Aim and Objectives of Study

1.4 Scope of Study

1.6 Methodology of Study

1.7 Arrangement of Report

## 2 LITERATURE REVIEW

2.1 Introduction

2.2 Construction Process
2.2.1 Inception Stage
2.2.2 Conceptual Stage
2.2.3 Design Stage
2.2.4 Contractual Stage
2.2.5 Planning Stage
2.2.6 Construction Stage
2.2.7 Operation and Maintenance Stage

2.3 Phase of Contract and Individual Involved
2.3.1 Pre-qualification Tender Phase
2.3.2 Bidding Phase
2.3.3 Pre Qualification Phase
2.3.4 Contract Award Phase

2.4 Reason why corruption and bribery exist

2.5 Definitions
2.5.1 Corruption
2.5.2 Bribery
2.5.3 Fraud

2.6 Causes of Corruption
2.6.1 Economic Recession
2.6.2 Competitive Bidding
2.6.3 Lack of Control
2.6.4 Complexity of Tender Documents
2.6.5 Prevalence
2.6.6 Procurement Policies
2.6.7 High Cost of Tendering
2.6.8 Decay in the Professional Conduct
2.6.9 Susceptibility
2.6.10 High Poverty Level
2.6.11 Inequality in Education

2.7 Impact of Corruption in Construction
2.7.1 Economic Consequences
2.7.2 Impact of Economic Reform
2.7.3 Social Costs
2.7.4 Income Distribution
2.8 Fighting Corruption

2.8.1 World Wide Corruption Case
   2.8.1.1 Britain
   2.8.1.2 Kenya
   2.8.1.3 China
   2.8.1.4 United States of America

2.8.2 The Role of Government in the Construction Process

2.8.3 Government Transformation Program

2.8.4 Code of Ethics
   2.8.4.1 Importance of Code of Ethics

2.8.5 Attitude and Society Value Honesty

2.8.6 Content of Code of Ethics
   2.8.6.1 Consequences of Absence of Honesty
   2.8.6.2 Delayed Project
   2.8.6.3 Defective Projects
   2.8.6.4 Abondoned Projects

2.8.7 Clause 53 in PWD Form 203

2.8.8 Whisle Blower Act

2.8.9 Integrity Pact
   2.8.9.1 Significance of Integrity Pact

2.9 Ranking and Challenges in Corruption Prevention

3 METHODOLOGY OF STUDY

3.1 Introduction

3.2 Data
   3.2.1 Primary Data
   3.2.2 Secondary Data

3.3 Method
   3.3.1 The population and questionnaire administration
   3.3.2 Sampling method
   3.3.3 Sampling requirements

3.4 Data procurement

3.5 Questionnaire design and covering letter
# LIST OF TABLES

<table>
<thead>
<tr>
<th>TABLE NO.</th>
<th>TITLE</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>NKRA Six Field</td>
<td>43</td>
</tr>
<tr>
<td>2.2</td>
<td>Code of Ethics</td>
<td>48</td>
</tr>
<tr>
<td>3.1</td>
<td>Questionnaire Design</td>
<td>69</td>
</tr>
<tr>
<td>3.2</td>
<td>Rating Scale (Abd Majid and Mc Caffer, 1997)</td>
<td>74</td>
</tr>
<tr>
<td>4.1</td>
<td>Response Rate</td>
<td>79</td>
</tr>
<tr>
<td>4.2</td>
<td>Result of Respondents</td>
<td>81</td>
</tr>
<tr>
<td>4.3</td>
<td>Causes of Corruption</td>
<td>87</td>
</tr>
<tr>
<td>4.4</td>
<td>Impact of Corruption</td>
<td>94</td>
</tr>
<tr>
<td>4.5</td>
<td>Step to Minimize Corruption</td>
<td>102</td>
</tr>
<tr>
<td>4.3</td>
<td>Causes of Corruption</td>
<td>87</td>
</tr>
</tbody>
</table>
# LIST OF FIGURES

<table>
<thead>
<tr>
<th>FIGURE NO.</th>
<th>TITLE</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Methodology of Study</td>
<td>5</td>
</tr>
<tr>
<td>2.1</td>
<td>Construction Integrity Partners</td>
<td>58</td>
</tr>
<tr>
<td>3.1</td>
<td>Radar Plot for Cause of Corruption in Construction</td>
<td>73</td>
</tr>
<tr>
<td>3.2</td>
<td>Radar Plot for Impact of Corruption in Construction</td>
<td>73</td>
</tr>
<tr>
<td>3.3</td>
<td>Radar Plot for Step to Minimize Corruption in Construction</td>
<td>74</td>
</tr>
<tr>
<td>3.4</td>
<td>Methodology of the Study</td>
<td>77</td>
</tr>
<tr>
<td>4.1</td>
<td>Pie Chart for Distribution of Respondents</td>
<td>80</td>
</tr>
<tr>
<td>4.2</td>
<td>Bids of Tender been ‘Set Up’</td>
<td>82</td>
</tr>
<tr>
<td>4.3</td>
<td>Lack of Goods and Services which are in High Demand</td>
<td>82</td>
</tr>
<tr>
<td>4.4</td>
<td>Malfunctioning Inefficient Administration, Disorder and Confusion</td>
<td>83</td>
</tr>
<tr>
<td>4.5</td>
<td>Too Many Ambiguous Regulations, Loopholes in Legal Framework</td>
<td>83</td>
</tr>
<tr>
<td>4.6</td>
<td>Lack of High Moral Standards</td>
<td>84</td>
</tr>
<tr>
<td>4.7</td>
<td>The Wish to Get Rich</td>
<td>84</td>
</tr>
</tbody>
</table>
4.8 Greater Economic Pressure
4.9 More Sophisticated Criminals
4.10 Weakening Society's Value
4.11 High Poverty Level
4.12 Radar Plot on Causes of Corruption
4.13 Colluding of Tenders
4.14 Demand Payment for Task Carried Out by Consultant
4.15 Hike Cost Due to the Hidden Cost
4.16 One Supplier Quoting Differently on the Same Item for Different Contractors
4.17 Bid Rigging
4.18 Short Delivery of Goods Ordered
4.19 Lower Quality Good with High Charge
4.20 Contractor Work Charged for Uncompleted Work
4.21 Consultant Increase Quantities and Share with Contractor
4.22 Altering or Falsifying Documents
4.23 Radar Plot on Impact of Corruption
4.24 Establishing a Corporate Code of Conduct
4.25 Establishing a Bribery and Anti Corruption Policy
4.26 Implementing a Comprehensive Ethics Program
4.27 Increasing the Budget for Security
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.28</td>
<td>Offering Training Program</td>
<td>98</td>
</tr>
<tr>
<td>4.29</td>
<td>Reviewing and Improving Internal Control</td>
<td>99</td>
</tr>
<tr>
<td>4.30</td>
<td>Including Ethics in Education Curriculum</td>
<td>99</td>
</tr>
<tr>
<td>4.31</td>
<td>Report to Police or Anti Corruption Bureau</td>
<td>100</td>
</tr>
<tr>
<td>4.32</td>
<td>Conduct an Internal investigation</td>
<td>101</td>
</tr>
<tr>
<td>4.33</td>
<td>Negotiated Settlement</td>
<td>101</td>
</tr>
<tr>
<td>4.34</td>
<td>Radar Plot on Step to Minimize Corruption</td>
<td>103</td>
</tr>
</tbody>
</table>
# LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>ILO</td>
<td>International Labour Organization</td>
</tr>
<tr>
<td>TI</td>
<td>Transparency International</td>
</tr>
<tr>
<td>NKRA</td>
<td>National Key Results Area</td>
</tr>
<tr>
<td>CPI</td>
<td>Corruption Perception Index</td>
</tr>
<tr>
<td>CIDB</td>
<td>Construction Industry Development Board</td>
</tr>
<tr>
<td>NIS</td>
<td>National Integrity System</td>
</tr>
<tr>
<td>AI</td>
<td>Average Index</td>
</tr>
</tbody>
</table>
LIST OF APPENDICES

<table>
<thead>
<tr>
<th>APPENDIX</th>
<th>TITLE</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Questionnaire Survey Form</td>
<td>112</td>
</tr>
</tbody>
</table>
CHAPTER 1

INTRODUCTION

1.1 Introduction

Corruption is critical unforeseen virus which penetrating our construction industry since decades ago, corruption can be define as bribery extortion cheating misuse of power given for personal benefit without considering or by neglect others safety or privilege as well. Type of corruption can be group in to two which high level and low level which involving petty cash. Corruption has been defined as “dishonest or illegal behaviour, especially of people in authority making deals which come in many forms and can distort the allocation of resources and performance of firms or government in many ways” (Hornby 2002:261). Bribery as it is defined by the Shorter Oxford English Dictionary Based on Historical Principles, Third Edition published by Clarendon Press, Oxford (Volume 1, page 236) as “theft, robbery; extortion; the exaction or taking of a bribe”, clearly constitutes a type of the dishonest behaviour cited by Hornby (2002). The impact of corruption on the construction industry will depend on what bribery sets out to achieve and any form of corruption is harmful to economic growth. When corruption is associated with organised crime, legitimate business tends to be discouraged as potential clients become afraid to invest, and the allocation of resources is distorted by those in control of investment opportunities. Misuse of scarce
resources in the construction industry means less development in the country and, in terms of political legitimacy, any development, which may occur, is usually perceived as being compromised. Corruption has a pervasive and negative impact on the poor since it distorts both public and private choices in favour of the wealthy. The authorities’ powerfulness reduces the capacity of individuals, businesses and the State to provide a social safety net.

1.2 Problem Statement

Corruption is now widely recognized as a considerable obstacle to the efficiency of development aid (Soreide, 2005). Krishnan (2009) indicates that corruption in construction projects could only be eliminated if all participants in project cooperation in the development and implementation of effective anticorruption action which addressed both the supply (bribe giver) and demand (bribe taker). Fighting corruption is one out of six National Key Results Area (NKRA) of Malaysia. The aim is to arrest Malaysia’s Transparency International (TI). Corruption Perception Index (CPI) that drops from 23rd place in 1995 to 56th place in 2010. Numerous transparency initiative strategies have been formulated across the globe. For instance in Hong Kong is the establishment of Independent Commission against corruption, while in Singapore is the formation of Corruption Prevention Investigation Bureau and in our country Malaysia is by having Malaysia Anti Corruption Agent Commission and National Integrity Plan and Institute. These bodies are established as one of the method or strategies to combat corruption in construction. Corruption not only giving impact on economy but also infrastructure and lost of life. Corruption in construction project may give negative impact such as rise of cost cause by hidden cost used for bribery purpose, therefore some of the project will cost extremely high cost which is not plausible. (Datuk Ir. Hamzah Hasan, 2010)
1.3 **Aim and Objectives of Study**

The aim of this study is to identify causes of corruption and determine method or strategy to minimize corruption effectively and the objectives of this study are as follows:

I. To determine causes of corruption in construction

II. To determine impact of corruption in construction

III. To identify method or strategy to minimize corruption in construction

1.4 **Scope of Study**

The scopes of data collection in this study will focus on the aspects as follows:

i. The construction company such as contractor who involved in building and infrastructures construction.

ii. The selected construction company must be in the range of Class A till Class F for those register under Pusat Khidmat Kontractor (PKK) or Grade G1 till G6 for those register under Construction Industry Development Board (CIDB).

iii. The selected construction company also must have their own’s managerial staffs such as project managers and site manager as well as their subordinates like site supervisors, architect, quantity surveyor and administration staff excluding foreman and labours.

iv. The selected construction companies are located around the Johor Bahru due to the availability of good number of projects.
v. The respondent will focus on first line managers.

Furthermore the scope will covers on causes, and method or strategy to minimize corruption in construction industry.

1.5 Methodology of Study

In this study, the following methodology has been adopted in order to achieve the objective of the study and the methodology of study is illustrated in Figure 1.1 which is being carried out in four (4) stages.

i. In order to achieve the first objective review from previous research data and books while,

ii. The third and final objectives were achieved through the questionnaire survey in order to obtain real scenario data from managers.
Figure 1.1: Methodology of Study

Stage 1:
Topic Selection

First Stage
Preliminary study
- Selection title and field of research
- Identify issues and problems statement
- Establish objectives and scope of study

Stage 2:
Data Gathering

Second Stage
Data and information collection
- Primary data
  - Questionnaire Survey
- Secondary data
  - Article
  - Journal
  - Research paper
  - Published books
  - Website

Stage 3:
Data Processing

Third Stage
Data analysis and interpretation

Stage 4:
Documentation

Fourth Stage
Results, summary and recommendations

Documentation
1.6 **Arrangement of Report**

The study report consists of five chapters where the content of each chapter are summarized as follows:

Chapter 1 consist of introduction of the entire study and provides an overall view of the study. It covers the introduction, problem statement, aim and objectives of study, scope of the study, methodology of study and arrangement of report.

Chapter 2 focus in literature review that based on findings from various different sources of information such as journal, technical papers, books, research paper etc. This chapter includes introduction, definition of corruption, types of corruption, causes of corruption, impact of corruption, method or strategy to minimize corruption.

Chapter 3 describe in detail on the methodology of study which covered all the stages in preparation of this study report.

Chapter 4 analysed the data using frequency analysis and average index analysis from the questionnaire survey. Chapter 4 also will discuss in detail all the data analysed and the findings will be highlighted.

Chapter 5 concludes all the finding which leads to the achievement of the objectives of the study. This chapter also suggests some recommendation for further study.
REFERENCES


For this distinction, see Gerald E. Caiden and Naomi J. Caiden, "Administrative Corruption," Public Administration Review 37(3, May/June 1977)'301-309


Transparency International (2005). Preventing Corruption on Construction project. Online:www.transparency international.org/Preventing Corruption on Construction


