Electronic procurement: a case study of Malaysia’s e-Perolehan (e-procurement) initiative

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Abstract: This paper presents a case study of Malaysia’s e-procurement initiative. This initiative is locally known as e-Perolehan. The case reports among others, the vision of the Malaysian government in the light of embarking on e-procurement, the process flow within e-Perolehan, and the issues therein. The general consensus amongst both the buyer and seller communities is that e-procurement will become an important management tool to enhance the performance of the supply chain, especially in the public sector. We expect that between the next three and five years, more suppliers will grab the opportunity and benefit fully from the e-Perolehan initiative in Malaysia.

Keywords: electronic procurement; supply chain management; public sector.


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Introduction

Governments all over the world have demonstrated the need to improve service delivery and be able to handle issues swiftly and satisfactorily. The advent of internet technology has made it possible for governments to transform themselves by offering various traditional services online (Maniam et al., 2006). The use of ICT, in general, has also changed government service delivery processes, business models and people’s expectations of the quality and efficiency of information sharing and service delivery.

E-Government systems are not confined to automation of government service delivery systems targeted towards citizens at large. E-Government platforms also include the use of ICT to streamline the procurement processes within public sectors. E-procurement refers to “the use of electronic methods in every stage of the purchasing process from identification of requirements through payment, and potentially to contract management” (www.ogc.gov.uk).

There are significant benefits in adopting e-procurement technologies. These benefits are expected to accelerate the rate of adoption of these technologies once the uncertainties that remain are reduced to levels that encourage significant resource commitments. Organisations that use e-procurement technologies report savings of 42% in purchasing transaction costs (Davila et al., 2003). This cost reduction is associated with less paperwork, which translates into fewer mistakes and a more efficient purchasing process. Can governments within developing nations such as Malaysia benefit from e-procurement systems? How can governments in such nations embark on e-Government initiatives? What are potential pitfalls and challenges of getting involved in e-procurement systems for the government in Malaysia? These questions are the motivation for the writing of our paper.

The paper proceeds as follows. Section 2 provides some preliminary information about e-procurement. Section 3 presents the e-Perolehan case study in Malaysia. This includes a discussion about what e-Perolehan is, the entities involved in this initiative, and the overall procurement process in light of the project. Section 4 highlights the key issues/challenges faced within the e-Perolehan initiative in Malaysia. We end by providing some general guiding principles pertaining to e-procurement implementation that can be used by governments in developing countries, based on our findings from the Malaysian case study.
2 E-procurement-stylised facts

Information Technology (IT) has helped solve many administrative problems in the public sector and e-procurement has been introduced as a way to achieve better, more cost effective procurement systems (Moon, 2005).

E-procurement is defined as a comprehensive process in which governments use IT systems to establish agreements for the acquisition of products and services or to purchase products and services in exchange for payment (National Electronic Commerce Coordinating Council, 2000). The World Bank (2003) defined electronic Government Procurement (e-GP) as the use of information and communication technology (especially the internet) by governments in conducting their procurement relationships with suppliers for the acquisition of goods, works and consultancy services required by the public sector.

A successful e-procurement strategy for government is one which accelerates the take-up of online technologies not just within government bureaucracy but throughout the national economy and e-procurement represents one of the most powerful drivers available to the government for any technology activation strategy for their national economy (Schapper, 2003). The most often cited benefits of e-procurement can be summarised as in Table 1.

<table>
<thead>
<tr>
<th>No.</th>
<th>Benefits of e-procurement</th>
<th>Literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Electronic transactions offer improved efficiency for both the supplier and government (procurement office).</td>
<td>Henriksen and Mahnke (2005), Callender and Schapper (2003) and Callender and Matthews (2002)</td>
</tr>
<tr>
<td>3</td>
<td>Increases accountability and transparency</td>
<td>Jones (2002) and Henriksen and Mahnke (2005)</td>
</tr>
<tr>
<td>5</td>
<td>Improves the internal service and purchasing function</td>
<td>Stanley and Wisner (2001) and Croom and Brandon-Jones (2005)</td>
</tr>
<tr>
<td>6</td>
<td>Efficiency gains and price reductions</td>
<td>de Boer et al. (2002) and Panayiotou et al. (2004)</td>
</tr>
<tr>
<td>7</td>
<td>Increases customer satisfaction</td>
<td>Thai and Grimm (2000)</td>
</tr>
</tbody>
</table>

Although the benefits of adopting e-procurement systems are immense, literature indicates that the adoption of e-procurement technologies is still at the infant stage for many developing countries, including Malaysia (Maniam, 2005, 2006). Many organisations, either B2B or G2B, are still taking the attitude of ‘waiting and seeing’ other suppliers and organisations getting involved. In the case of Malaysia, the government has invested a great amount of money, time and effort in promoting and adopting the e-Perolehan system of procurement. The e-Perolehan project has attracted
major attention in recent years (after 1999) and a number of initiatives are already underway as part of e-Perolehan. However, on the suppliers’ side, there have been contradictory reactions i.e., only 30% have embraced this technology. Therefore, there is a need to study the level of adoption of e-Perolehan among the suppliers in order to understand the reasons for slow adoption and usage.

Key issues that prevent many governments and corporations from maximising the true value potential of e-procurement systems are (Reddick, 2004; Hiller and Belanger, 2001; Layne and Lee, 2001; Neef, 2001; Moon, 2003; Gansler et al., 2003):

- lack of awareness about the benefits of using electronic based procurement platforms
- issues pertaining to technical complexity-privacy, security, standardisation, within the business (supplier) and government sectors
- high cost for capital expenditure to ensure rapid rollout of e-Procurement initiatives
- issues with maintaining relationships with online vendors and application service providers involved in providing electronic-enabled procurement platforms for entities involved in e-Procurement transactions
- digital divide between small and minority owned businesses, and also within certain sectors of the small and medium sized enterprises.

3 E-Perolehan: case study of Malaysia’s e-procurement initiative

To support the MSC project objectives, the Malaysian government invested a significant amount of money under the Eighth Malaysian Plan (8MP, 2000–2005) through the various computerisation programmes that are driven by the relevant ministries and agencies. This effort is continued under the Ninth Malaysian Plan (9MP, 2006–2010) where a total of RM 12.9 billion ($US1 = RM3.5 approximately) is allocated for ICT related programmes and projects (refer to Table 2).

This case study is written based on our analysis of published material on e-Perolehan. In addition, we conducted two in-depth interviews with representatives from the Malaysian government (Ministry of Finance), and also the company appointed by the government to manage the implementation of the e-procurement project, Commerce Dot Com Sdn. Bhd. (www.commerdec.com.my).¹

The electronic procurement system in Malaysia, known as e-Perolehan, streamlines government procurement activities and improves the quality of the services it provides. e-Perolehan converts traditional manual procurement processes in the government machinery to electronic procurement on the internet. The new procurement system allows the government ministries to electronically select items to be procured from the desktop, initiate an electronic approval process and also create, submit and receive purchase orders, delivery orders and other related documents electronically.

E-perolehan deals with the Government to Business (G2B) relationship. On the supplier’s side, e-Perolehan allows them to present their products on the world wide web (www), receive, manage and process purchase orders and receive payments from government agencies via the internet. The supplier’s product catalogue, can be viewed from any desktop with a web browser. The supplier is able to submit quotations, obtain tender documents and submit tender bids through e-Perolehan. E-perolehan allows
Electronic procurement: a case study of Malaysia’s e-Perolehan

suppliers to register or renew their registration with the Ministry of Finance (MOF henceforth) through the internet. Suppliers are able to submit applications, check application status and pay registration fees through e-Perolehan.

### Table 2  Development expenditure and allocation for ICT related programmes

<table>
<thead>
<tr>
<th>Programmes</th>
<th>8MP (RM million) expenditure</th>
<th>9MP (RM million) allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computerisation of government agencies</td>
<td>2125.0</td>
<td>5734.2</td>
</tr>
<tr>
<td>Bridging the digital divide:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• School</td>
<td>2145.1</td>
<td>3279.2</td>
</tr>
<tr>
<td>• Communications infrastructure service provision programme</td>
<td>254.0</td>
<td>150.0</td>
</tr>
<tr>
<td>• Telecentres</td>
<td>18.1</td>
<td>101.1</td>
</tr>
<tr>
<td>• ICT Training/services</td>
<td>15.9</td>
<td>180.0</td>
</tr>
<tr>
<td>• ICT Funding</td>
<td>1125.6</td>
<td>1493.0</td>
</tr>
<tr>
<td>MSC multimedia applications:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• E-Government</td>
<td>537.7</td>
<td>572.7</td>
</tr>
<tr>
<td>• Smart school</td>
<td>363.9</td>
<td>169.8</td>
</tr>
<tr>
<td>• Telehealth</td>
<td>91.8</td>
<td>60.0</td>
</tr>
<tr>
<td>• Government multipurpose card</td>
<td>159.7</td>
<td>298.0</td>
</tr>
<tr>
<td>MSC development</td>
<td>320.8</td>
<td>377.0</td>
</tr>
<tr>
<td>ICT research and development</td>
<td>727.5</td>
<td>474.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7 885.1</strong></td>
<td><strong>12 888.9</strong></td>
</tr>
</tbody>
</table>


By subscribing to the e-Perolehan system, suppliers will be able to participate in the procurement exercise by the government. Upon final implementation of the e-Perolehan system, full services will be available to all four types of procurement, namely, Supplier Registration, and Central Contract, (upon Phase 1 of participation by the government suppliers), Direct Purchase, and Quotation and Tender (upon Phase 1 of participation by the government suppliers).

E-perolehan will be the single point of registration for the suppliers. All approvals of the application for registration remain with the Registration Department of Ministry of Finance. Services available in the supplier registration module include the following (www.commercecd.com.my):

- supplier registration can be done online via the internet using the e-Perolehan website
- e-Perolehan routes all successful supplier applications for online approval by the relevant authority upon full submission of completed documents
- e-Perolehan facilitates generation of certificates for registered and successful suppliers
the supplier registration module supports online renewal of registration by the suppliers

- the supplier registration allows online application for registration of additional category or ‘bidang’

- e-Perolehan supports online suspension or termination of the supplier registration.

Starting from 6 October 2000, all new registrations, renewals and re-application of suppliers of products and services with the Ministry of Finance are made online through the e-Perolehan system. In order to transact with government agencies, suppliers are required to be enabled. Figure 1 summarises the five step process that must be completed by all government suppliers, prior to achieving full status as an e-Perolehan enabled supplier (Commerce Dot Com, 2006):

**Figure 1** E-perolehan enablement process

3.1 *E-perolehan business model*

The business model that is used for the implementation of e-Perolehan is an end-to-end model (MAMPU, 1997a, 1997b). Procurement requires a complete integration of services from the buyer to the supplier and vice-versa. To ensure the success and consistency of procurement services, the responding organisation should provide an end-to-end solution. In this model, there are three distinct communities, namely, the supplier community, the buyer community, and the procurement service provider. Figure 2 illustrates the three core entities involved in Malaysia’s e-Perolehan initiative.
Electronic procurement: a case study of Malaysia’s e-Perolehan

Figure 2  E-perolehan model (see online version for colours)

a  Supplier community

The supplier community consists of suppliers who have registered with the MOF to provide supplies and services to the government. There are more than 100,000 registered suppliers (Commerce DotCom, 2006) supplying goods under four categories i.e., Central Contract, Direct Purchase, Quotation and Tender purchase. These suppliers bear the responsibility to coordinate with the procurement service provider and register on the new system with the Government Procurement Management Division, within MOF. All suppliers are required to provide and update the necessary information regarding the items that they supply online.

b  Buyer community

The government is the buyer community. The Malaysian government spent about RM 18 791 million on procurement in the year 2005 and has increased the amount to RM 21 425 million in for the year 2006 (www.mof.gov.my, 2006). The cost of processing and managing this process is extremely high with increasing expectations from the suppliers’ side for the government to be more efficient. It is the responsibility of the buyer, i.e., government, to have the necessary information in place to be able to accept and respond to the supplier electronically in the process of procurement.

c  Procurement service provider

The procurement service provider (Commerce. Com Sdn. Bhd.) provides the electronic concept solution which enables the full transaction of the procurement process between the buyer and the seller. The end-to-end model requires the service provider to provide a total solution to both the supplier and the buyer community. This includes application, hardware and software, if necessary and, more importantly, the capability to exchange business documents between the communities e.g., Purchase Orders, Request for Quotation, and Request for Tender Document etc. The security and confidentiality of this document should be ensured so as not to comprise the confidence of either community. The service provider should also adhere to all necessary government procurement policies and legal requirements. However, Commerce.com can provide advice and give suggestions to the government if necessary with the aim of improving the current processes in order
to enhance the efficiency and to lower the cost of operation for the government. Currently, Commerce.com is involved in two modules for e-Perolehan:

- **Module 1**: Registration of the suppliers on-line with Ministry of Finance
- **Module 2**: Transactions – Central Contract, Direct Purchase, Quotation and Tender purchase.

### 3.2 E-perolehan benefits

The e-Perolehan initiative is expected to provide significant benefits to both the buyer (government) and the supplier communities. The findings of our interview with an official of the MOF (project manager for the government) suggest the following benefits of e-Perolehan for the government:

- Offers more effective and efficient procurement process in line with the country’s transformation to the knowledge based economy (K-Economy). E-perolehan is a vehicle for the government to leapfrog into the new economy and promote the widespread adoption of e-business in the country.
- Lowers operational costs for the government over time. The government will be able to reduce administration and operational costs through the usage of e-Perolehan as business processes are reduced and streamlined.
- Better and up-to-date choice of products and services. A government buyer would have immediate access to a wide variety of products and services available to them via e-Perolehan, which will make them better informed buyers.
- Latest product information and pricing are available online. E-perolehan will always be up-to-date with the latest information that will help the buyer to make a more accurate procurement decision.
- A more skilled and knowledgeable workforce. Through its usage, e-Perolehan will indirectly promote a higher rate of IT literate workforce, both in the government and private sectors.
- Better management of purchases and payments. With e-Perolehan, the government buyer would be able to track or audit the procurement processes or transactions that have been made.
- Will benefit from improved purchasing control, scale economies and greater accuracy in the ordering and billing process. Off-contract and uncontrolled purchases that drive up product cost and reduce negotiation leverage will be minimised. It also prevents corruption by eliminating gate keepers and reduces abuse of discretion and other opportunities for corruption (UNDP, 2006). Besides, information such as status of back orders and delivery status will be up-to-date and available electronically. This will help the government agencies in the planning and budgeting process. The government ministries will also still maintain the freedom and responsiveness of decentralised purchasing, given the relevant information on the products and specification.
The potential benefits to the supplier community involved in e-Perolehan include the following:

- Suppliers become much more accessible to a government buyer, whenever and wherever the supplier is.
- E-perolehan enables the supplier’s transition into e-business, providing an entry point for e-Business capability.
- Suppliers will be able to adopt and grasp the e-business concept more rapidly, due to the usage of e-Perolehan.
- Advertising of goods and services is much cheaper and faster, and yet reaches a much broader base of buyers.
- With the internet platform, suppliers would virtually have a borderless advertising channel at a very low cost.
- Simplified processes and less manual work reduces administrative and operational costs. Through e-Perolehan, almost all the business operations will be automated, leading not only to lower operational costs, but also faster turnaround time to the buyer.
- Suppliers would be able to receive payments faster through electronic payment. Supported by a highly secured network infrastructure, suppliers would be able to receive payments for goods and services in a shorter period.
- Improved business planning and forecasting due to a more efficient and predictable procurement process. Due to the fact that e-Perolehan automates business processes and improves work efficiency, suppliers would be able to anticipate the procurement processes more accurately.
- Through the e-Perolehan system, the suppliers are able to use a single electronic catalogue for all government ministries while extending a global reach electronically to existing and new customers on the service (www.eperolehan.com). Suppliers should also benefit from improved information accuracy, increased productivity and reduced operational cost with the electronic retrieval and submission of quotation and tender information. Efficient processing from both the supplier and buyer communities will also translate to faster payment turnaround time.

Several responses from the interview with the two Ministry of Finance officials in support of the above statements are as follows:

“Overall, the government will benefit from improved purchasing control, scale economies and greater accuracy in the ordering and billing process. Off-contract and uncontrolled purchases that drive up product cost and reduce negotiation leverage will be minimised.”

Another official said:

“The system can prevent corruption by eliminating gate keepers and reduces abuse of discretion and other opportunities for corruption. Besides that, information such as status of back orders and delivery status will be up-to-date and available electronically. This will help the government agencies
in planning and budgeting process. The government ministries will also still maintain the freedom and responsiveness of decentralised purchasing, given the relevant information on the products and specification.”

Several responses captured from our interviews of suppliers are as follows:

“It is a good initiative by the government to enhance the effectiveness and efficiency of government procurement process.”

The same supplier indicated that if implemented well, the system would lead to a more transparent procurement process:

“There are a lot of benefits that can be achieved if the system is implemented properly, like faster payment period, issue of transparency in awarding the contract, faster process for the suppliers also. We can know for example, which officer is holding the process either the approval side or payment side. This will ensure the accountability of the officers in carrying out their duties.”

3.3 E-perolehan: project update

The scope of work and implementation schedule for e-Perolehan will be carried out in four phases (Surat Pekeliling Perbendaharaan Bil. 5 (SPP Bil. 5), 2000):

**Phase 1**

The first phase of the e-Perolehan initiative started in October 2000, with the intention of developing an e-Perolehan system for the purchase of goods involving Responsibility Centres (Pusat Tanggunggiawab/PTJ) within the government. The first phase of the project involved four central agencies, namely, the Administration Department, MOF, the MAMPU, Head Office, National Accountant Department (JPN), and the Head Office, National Audit Department (JAN). The objective of Phase 1 was to develop an online registration system in order to register suppliers/companies who supplies goods and services with the Department of Government Purchases, MOF.

**Phase 2**

The second phase of the project was started in January 2001. The objective of this phase was to expand the e-Perolehan system to one PTJ at the following Department and Ministries: Prime Minister’s Department, Ministry of Defense, Ministry of Home Affairs, Ministry of Education, Ministry of Health, Ministry of Works, Ministry of Agriculture, Ministry of International Trade and Industry, Ministry of Energy, Water and Telecommunications, and Ministry of Science, Technology and Innovations. Under Phase 2, the idea was to develop the e-Perolehan system for purchases through tenders, quotations and direct purchases for all agencies involved.

**Phase 3**

Phase 3 of the e-Perolehan project was started in January 2002. The focus of this phase was to roll-out of the systems developed in Phase 1 and Phase 2. Stated differently, while the first and second phases were akin to strategic formulation of the e-Perolehan initiative, the goal of Phase 3 was to get the various entities involved in the initiative into an execution mode.
Phase 4

The final (on-going) phase of the project started in January 2004, with the objective of improving the e-Perolehan system accordingly, based on feedback received from all three parties involved in the procurement process, i.e., the service provider, the buyer community and the various PTJ’s within the government sector.

4 Issues and challenges

Although there are benefits to be obtained by the new procurement system and process, the representatives from all the parties involved in the project agreed that the project is currently facing several challenges. Two main issues are the costs associated with e-Perolehan adoption and the lack of IT infrastructure and skills amongst the supplier community:

Cost

There are costs involved before a supplier becomes e-Perolehan enabled. The total cost for any company that intends to use the system and thus become part of the overall e-Perolehan initiative is RM1,500. Specifically, suppliers have to bear the cost of purchasing a smart card for transaction, pay for training, and also any software renewal cost that occurs. In addition to the enablement cost, suppliers are also subject to a service charge of 0.08% of the procurement value, up to a maximum of RM9,600. These payments are directed towards Commerce DotCom Sdn. Bhd. Given that the majority of the suppliers within the traditional category belong to the small-medium size operations scale, it is only natural that they are not keen on becoming players within e-Perolehan, given the costs involved, to become e-Perolehan enabled.

Infrastructure and skills

As mentioned, the majority of the supplier community falls within the small-medium size industry grouping. Traditionally, this sector has not been well versed in use of state-of-the-art information systems. Issues such as lack of bandwidth support, poor computing and information systems architecture in general, prevents the majority of the suppliers from playing a more active part in e-Perolehan.

Business focus/change management

The majority of the suppliers are not keen to do business with the federal government, given the e-Perolehan requirements. Suppliers prefer to do business with local and state governments as they can use traditional methods for selling their products. Furthermore, e-Perolehan has not yet gone into tender and quotation mode, compared to direct purchase and central contract, which is small in volume. This issue is also in line with the need for better change management to convert the mindset of traditional sellers to embrace change and use technology in the procurement process in general.

System constraints

The feedback we received from our interviews also suggests that the system, in its current incarnation, is not robust on several aspects. For examples, a supplier registered with the system, can only upload product information for ten different product areas, for free.
Additional charges will be incurred if more product lines are listed within the system. In short, for a company that has a wide product line, the additional cost involved to market the product via the system, might not be attractive.

Government policy

Although the Federal government of Malaysia encourages suppliers to become e-Perolehan enabled, the government can decide if it is willing to transact with a non e-Perolehan company, as long as the company is registered with the MOF. Stated differently, although, in theory, the supplier community must become part of the e-Perolehan system, in practice, this requirement has not been made mandatory as yet.

Despite the lacklustre response by the majority of the seller community, close to 6000 suppliers, as mentioned, have fully embraced, and are active participants of, the system. This situation is predominantly true for suppliers who visualise e-Procurement as an opportunity, given the fact that the government could make it mandatory for large scale suppliers to use the system actively.

5 Discussion and recommendation

One of the main challenges for an e-Procurement project is the establishment of an appropriate and context tailored strategy. Every project or initiative needs to be rooted in a very careful, analytical and dynamic strategy. This seems to be a very difficult task, requiring a focus on many aspects and processes, a holistic vision, long-term focus and objectives. Many public institutions limit their activities to a simple transfer of their information and services online without taking into consideration the re-engineering process needed to realise the full benefits. The government must have a clear strategy to overcome the barriers to change. Part of the strategy is to engage in a rigorous assessment of the current situation, the reality on the ground and the inventory of projects, articulate costs, impacts and benefits of the programme as well as continuously monitor and evaluate the project upgrading. Borrowing a lesson from the private sector, e-procurement must be customer-driven and service oriented. This means that a vision of e-procurement implies providing greater access to information as well as better, more equal services and procedures for public and businesses.

The e-Perolehan initiative in Malaysia is pretty much at an infant stage, albeit significant time, money, and efforts have already been invested into the project. To ensure the true potential and benefits of e-procurement is realised by all parties involved, emulating success stories from the e-procurement initiative such as in West Australia and in Andhra Pradesh, is a must for the Malaysian government. For a start, a significant change in the mindset of the traditional suppliers is required. This can be done via active and continuous promotion and education of e-Perolehan and the benefits it brings to the supplier community, and also to the government. In addition, the service providers, namely, Commerce.com should reconsider reducing the cost of training and purchasing of the smart cards, particularly for the small scale suppliers. Lastly, the Federal government should craft out policies that are favourable and non-conflicting with the policy objectives and implementation plan inherent within the e-Perolehan initiative.
6 Conclusion

The findings from our case study in Malaysia suggest that the government should take a more proactive role in promoting e-Perolehan in Malaysia. This includes, among others, making sure that the government’s policy on procurement avoids any contradiction with the e-Perolehan implementation plan. In addition, issues such as regulating the cost for training and purchase of the relevant equipment should also be within the control of the government to ensure that small scale suppliers can be enticed into becoming active participants of the system. In terms of the sellers (suppliers) two kinds of e-Perolehan adopters currently exist. The first is the aggressive adopters who are involved fully (3000 suppliers). These suppliers seem to benefiting from e-Perolehan and are trying to achieve competitive advantage by using IT in their procurement process. Nevertheless, there are the conservative adopters (the laggards) – are taking the ‘wait and see’ approach, before they are willing to actively become part of the system. On balance, the general consensus amongst both the buyer and seller communities is that e-procurement will become an important management tool to enhance the performance of the supply chain, especially in the public sector. In this regard, we expect that between the next three and five years, more suppliers will grab the opportunity and benefit fully from the e-Perolehan initiative in Malaysia.

References


**Malaysian Government Officials Documents**


**Notes**

1Interviews were conducted in June 2006 with:

a Two senior officials from Ministry of Finance, Malaysia as a lead agency to implement the e-Perolehan project

b Two senior officials from Commerce DotCom Sdn Bhd, the service provider and one appointed by the Ministry.

21 USD = RM 3.20.