

## Preliminary Survey of Modelling Rent-Seeking Behaviours (RsB) in Malaysia's Housing Planning Approval Process: Issues and Problems

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### Abstract

Malaysia's housing planning approval process is the most regulated sectors. Just like in various countries around the world, Malaysia's housing planning approval faced many issues and problems such as the lengthy, uncertain and onerous planning approval process. These issues and problems have prompted frustrated Malaysian housing developers to seek influence by paying approving officers. A preliminary survey was conducted in Malaysia to investigate in greater detail the issues and problems when applying for housing planning approval thus engaged them in rent-seeking behaviours. Semi-structured interviews were conducted with seven (7) developers and consultants who are involved in Malaysia's housing planning approval process. The transcription and interpretation from interview findings were carried out using Atlas.ti@qualitative software. The survey found, housing developers frustrated with the issues and problems when applying for housing planning approval are driven them to engage in rent-seeking behaviours to extract rents. Hence, the rent-seeking behaviours among the developers and approving officers is an urgent issue to be resolved as this will affect the housing planning approval process.

**Keywords:** Housing Planning Approval, Rent-Seeking, Extract Rents, Planning Permission, Housing Developers, Issues and Problems.

### Introduction

Numerous countries control the residential development sector. These countries, which include the United Kingdom (Ball, 2013), Pakistan (Hussnain et al., 2016), Singapore (Building and Construction Authority, 2019), and New Zealand (OECD, 2017), each have their own regulations. Developers in the United States (Dilworth & Stokes, 2013), India (Das et al., 2013), United Arab Emirates (Faridi & El-Sayegh, 2006), Hong Kong (Lai et al., 2016), Ghana

(Akrofi et al., 2019) and elsewhere face numerous obstacles when navigating the maze of pre-construction approvals processes presided over by various approving authorities, most notably the complex maze (Ball, 2011; Sanli & Townshend, 2018). Both developed and developing countries are burdened by lengthy and complicated procedures for obtaining building permits (World Bank, 2013).

Delay in getting approvals contributes to the high development cost (ACT Planning & Land Authority, 2005; Ball, 2013; Stephen et al., 2016). Friedman (1997) contends that developers in Canada lose money as a result of the lengthy approval procedure. In 2006, the estimated administrative cost of the planning application process in the United Kingdom was approximately £1.5 billion, while the annual cost of planning delays was anticipated to be between £700 million and £2.7 billion (Killian Pretty Review, 2008). In India, the cost of housing developments have been increased by up to 3% per year of delay due to the country's intricate and lengthy bureaucracy (Harshleen, 2017). Indian planning approvals typically take an unlimited amount of time, and disinformation results in confused applicants and the officers in charged exercising their discretion (Ray, 2010). Developers invest money and time on lobbying, public relations, and consultants to expedite the planning process (Murray, 2012; Ball, 2013; Sundaresan, 2017). In Ireland, developers lobby and seek favour, striking arrangements with county councillors and legislators for zoning and permissions in exchange for their support, votes, and different forms of remuneration (favours, kickbacks, fees for 'planning consultation') (Kitchin et al., 2012). In Ghana, developers disregard the permission process entirely (Parker et al., 2016; Tasantab, 2016). Abuse of public offices in the context of planning permission has also been documented in Spain (Quesada et al., 2013), Egypt (Hassan, 2011) and Zimbabwe (Chirisa, 2014).

Numerous scholars invoke the Rent-Seeking Theory when describing the developers' actions. Rent-related activities have grown exponentially, particularly in terms of privatisation and monopoly (Gordon Tullock, 1967; Tan, 2008, 2015; Aidt, 2016). Rent-seeking is defined as socially inefficient expenditures that result in unproductive activities (Gordon Tullock, 1967; Krueger, 1974; Posner, 1975; Buchanan et al., 1980; Murphy et al., 1989; Christine, 2013; Mueller, 2015). Rent-seeking behaviours (RsB) are motivated by anticipated earnings and the low probability of detection (Yang & Wei, 2016). Murray (2012) for example, notes that developers pursue individual rent-seeking relationships with discretionary government officials. Liu and Salzberg (2012) discovered that RsB was widely spread in China's urban land use and real estate markets, with negative consequences such as excessive speculation.

The rent-seeking theory serves as the foundation for this research. Several experts applied rent-seeking theory when examining inconsistencies in land-use and development approvals (Benson, 1984; Beck & Connolly, 1996; Gordon & Richardson, 1997; Antwi & Adams, 2003; Yang et al., 2007; He et al., 2010; Dreger & Zhang, 2013; Li, 2014; Nolte, 2014; Chitonge et al., 2017; Dambeebo & Jalloh, 2018). Numerous previous studies have examined the incentives for Malaysian housing developers to engage in RsB; for example Foo and Wong (2014) discussed the need to avoid bureaucracy and subjective interpretation by planning officials. Despite the fact that rent-seeking has been extensively studied, little attention has been paid to the role that approving agencies play in facilitating rent-seeking during the approval process for housing projects. With this in mind, this paper will examine the issues

and problems that Malaysian housing developers face in obtaining housing planning approval, which drives them to engage in RsB.

### Malaysia Housing Planning Approval Process

Housing development sector is one of the most regulated sectors of the economy in Malaysia. The controls are regulatory and non-regulatory in nature (Ho, 2013). Enactments and rules serve as regulatory restrictions, whereas non-regulatory interventions include financial support and special privileges. In Malaysia, there are more than 50 statutes, regulations and guidelines that dictate our housing development (Abdullah et al., 2011; Ho, 2013; Yam, 2014).

The planning approval phase involves the planning permission application (subsection 21(1), Act 172), building plan approval including road and drainage plan application (Section 9, Act 133) and the various 'works' plans (Section 70A, Act 133) as shown in Figure 1. Moreover, every stage involves various activities and processes and the most crucial part is during planning stage (Mohd et al., 2009; Ball, 2010; Abdullah et al., 2011; Nuruddin et al., 2015; REHDA, 2015). As a result, this study concentrated exclusively on the planning approval stage.

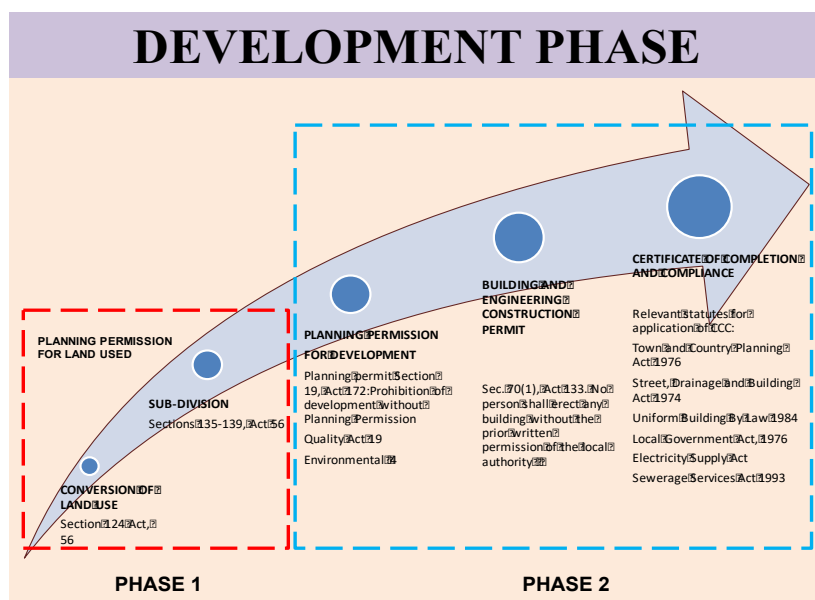


Figure 1: Process of development approval (Sources: Abdullah et al., 2011)

Planning approval will be granted if the proposed development complies with the statutory Local Plan, authorising agencies' requirements, and public objections (KPKT, 2010). The procurement of the housing planning approval is crucial for developers as it marks the vital starting point of a housing development project (Abdullah et al., 2011). The typical procedure for housing development varies by state and local planning authorities. Housing developers must adhere to state-developed planning requirements, which are, incidentally, quite dissimilar from one to the other (Othman, 2002; Foo, 2015; Foo & Wong, 2016). Only local planning authorities gave the authority to grant planning permission (Marzukhi, Omar, et al., 2019). The process of housing development requires the developers to undergo various procedures and requirements that needed to be prepared on each stage. Even though the regulations were meant to encourage a well-planned and orderly housing construction, they

have inadvertently made it more likely for people in power to manipulate them for their own benefit (EPU, 1976).

### **Issues and Problems in Obtaining Malaysia's Housing Planning Approval**

This section focuses to relevant issues and problems faced by housing developers during the housing planning approval process that lead them to adopt various strategies to smoothen the process.

The housing planning approval in Malaysia is no different from many other countries (Beer et al., 2007; Ball, 2011; Hassan, 2011; World-Bank, 2013). Planning approval is one of the most regulated sectors, complicated, involving numerous processes and stages of work, time-consuming, unclear, and onerous due to the involvement of numerous approving agencies (Mohd et al., 2007; Jaafar et al., 2008; Abdullah et al., 2011; Ho, 2013; Jang & Ami, 2014; Junaidi & Salleh, 2016).

Malaysia housing planning approval is a highly regulated sectors with a lengthy approval procedure. Approval can take up to 3-5 years (Mohd et al., 2007; Junaidi & Salleh, 2016), rather than normal one or two years. Foo and Wong (2016) observe however, that there are cases where developers had taken six months to two years or longer to obtain approvals for their development and building plans. It is easy to see why developers accused government officers who had the intention to extract rents, purposely bringing about administrative bottlenecks and delaying their projects and giving lame excuses (Sirat et al., 1999). Othman (2006) points out why some developers are frustrated; even though the requirements are fulfilled, the approvals are still beyond the expected time. Numerous previous issues persist, such as delays, despite the fact that the One Stop Centres (OSC) were established in 2007 to streamline the fragmented and bureaucratic approval process at the local level (Mohd et al., 2011; Yakob et al., 2016).

Following that, the ambiguity of the planning framework (Mohd et al., 2007) and planning guidelines (Foo & Wong, 2016) appears to have compelled planning officers to make their own subjective interpretations. Inconsistencies and confusion among private developers are explained by non-specific planning and design guidelines for housing (Shuid, 2004).

In addition, a lack of cooperation and commitment results in a protracted conditional approval and a delay in obtaining final approval (Abdullah et al., 2011; Mohd et al., 2011). They also pointed out that ineffective communication causes frustration and tension between both of them (Foo & Wong, 2014).

Lack of transparency also gives an opportunity for certain developers to brown-nose the authorities so they could further bend the rules (Abdul-Aziz et al., 2006). Lack of transparency, poor integrity among officers (Mohamed Osman et al., 2014) and zero trust (Foo & Wong, 2014) provide opportunities for corrupt and unaccountable practices.

Furthermore, the lack of manpower affects the cash-strapped local authorities and OSC, hence causing bottlenecks (Yakob et al., 2016; Marzukhi, Jaafar, et al., 2019). Local authorities receive minimal fiscal transfers from federal and state levels so they have to their

own revenues, which is very low (World-Bank, 2015). Bigger cities have their own technical departments so they are less dependent on the federal government technical agencies (Mohd et al., 2011).

The issues and problems in obtaining planning approval affected the overall performance of the planning approval. When challenges and delay occur, the total cost for the project would also escalate. Overall, the issues and problems faced by developers have led them to adopt strategies and prone to engage in RsB.

### **Rent-Seeking Behaviours (RsB)**

This section thoroughly examines the definitions of rent-seeking from various study perspectives.

Tullock's (1967) first thought dwells on the investment as a means of securing protection from the government. He evoked the idea of contestable rent which induces rent-seeking activities which seek to capture the rents (Tollison, 1982; Benson, 1984; Khan & Jomo, 2000; Aidt, 2016).

Then, Krueger (1974) extends Tullock's work and ascribes rent-seeking to actions which target at obtaining special government privilege. Generally, "rent" is defined as an income or payment which is return in excess which of the resource owner's opportunity cost (Tollison, 1982; Benson, 1984; Samuels, 1992; Khan & Jomo, 2000). Nonetheless, "rent" here does not mean payment in exchange for the use of a property (Evans, 2004). The term originates from two sources, either it emerges "naturally" in the price system (e.g., shifts in demand and supply curves) or contrived "artificially" (e.g., government action, government franchised and monopoly position) (Tollison, 1982). Contestable rents are controlled by government policy, its officials and politicians, who have the power and rent access (Aidt, 2016). Rent-seekers acquire the privilege of benefit from contestable rent (Tullock, 1989). The distinguishing feature that makes a rent contestable is that before it is assigned to any particular economic agent, it can be taken by anyone.

The fact that rent-seeking bears many definitions makes it a very vague notion. Two definitions are rent-seeking activities are usually done by special interest groups to increase the groups' benefits (Yamamura & Kondoh, 2013; Hillman & Long, 2017; Hillman & Qijun, 2017) and the quest for privileged benefits from the government or pursuit of profits through government coercion (Tullock, 1967, 1989; Krueger, 1974; Buchanan et al., 1980; Anderson et al., 1988; Gramc, 2007; Yang et al., 2007; Hillman, 2013, 2015; Aidt, 2016; Halliday & Flynn, 2018; Mei et al., 2018). Tollison (1982) observes rent-seeking is the expenditure of scarce resources to capture an artificially created transfer. Tullock et al (2002) regarded rent-seeking as the use of resources to gain rents for people where the rents themselves come from some ill-laden activities. Next, Halliday and Flynn (2018) described rent-seeking as an effort to allocate the resources or protections in ways that increase or preserve the income of a certain party at the expense of public good. Hillman and Ursprung (2015) also mentioned that the resources are used to influence assigned privileged benefit politically or administratively. "Resources" concerns with natural (e.g. land and oil) (Krueger, 1974) or company resources (e.g., time and effort, talent, training, vehicles and fuels, building and office supply and fees for a lobbyist) (Krueger, 1974; Munger, 2018; Don Boudreaux, 2019).



Another definition is that it is a contest in which challengers compete to win the rent (Gramsc, 2007). Benson (1984) described rent-seeking as an activity where people consume their real resources to compete with others for the purpose of winning the competition. A rent-seeking process is a game where multiple interest groups are vying with each other to influence government officials at their own expense (Patnaik, 2015). The competition to secure the rent usually originates from expenditures of resources by competing firms (Gramsc, 2007). Samuels (1992) discloses that rent-seeking is a competitive market economy; this is where firms are viewed as price takers, spending on wasteful investment and trying to maximize profits accordingly.

Rent-seeking should not be confused with corruption despite them being used interchangeably, which does not help matters (Aidt, 2016). There is no clear cut distinction between rent-seeking and corruption (Khan, 2000). Lambsdorff (2002); Ogwang et al (2019) classify corruption as a type of rent-seeking activity. The same view adopted by Li and Peng (2013), indicates that RsB is a precursor to corruption. Corruption is rent-seeking and it is the most illegal and destructive form (Patnaik, 2015). Corruption is defined in different ways, and the mostly cited is the misuse of public office for private gain (Pande, 2008; Hosseini et al., 2019), whereas rent-seeking is regarded as the use of resources in unproductive activity to gain privileged benefits as previously mentioned. Hillman and Qijun (2017) affirm that corruption (e.g. bribes) has been discussed outside the context of rents. Evans (2004) prefers to use the term premium seeking to avoid the word rent which carries a different meaning to its economic connotation. Foo and Wong (2014, 2016) label the informal relationships that developers forge with approving officers as 'guanxi'.

### **Research Methodology**

This research presents the findings of the preliminary survey, which has adopted the qualitative approach through a semi-structured interview. This research heavily relied on face-to-face interviews which were designed to gather richness and fullness of data on the housing developers' issues and problems in obtaining Malaysia's housing planning approval (Saunders et al., 2016). The preliminary study has provided the researcher a first-hand and unabridged account of the phenomenon under investigation. Semi-structured interviews were conducted with the seven (7) private housing developers and consultants on behalf of the developers (i.e. Architects Consultant, Engineer Consultant and Town Planner Consultant) who involved particularly in getting a planning approval from the approving agencies in Malaysia's housing development process. All of them were experts and experienced practitioner in the Malaysia's housing development process. Inputs from them are needed to establish the importance of this research. The transcription and interpretation from the semi-structured interview findings have been carried out by using Atlas.ti7©qualitative software.

The questions for the semi-structured interview are prepared in the interview form. The instrument drafted consist of a cover page and was divided into two sections. The first section (Section A) is demographic background, which comprises of questions related to the background of the participants. The second section (Section B) consists of open-ended questions to obtain the information on the issues and problems in Malaysia's housing planning approval process. However, the questions to be covered may vary from interview to interview because the questions will be omitted or additional from participant to other participants. This is because the objective of the interview is to explore the research question

and objectives given the nature of events within particular participants. In addition, the order of questions may also be varied depending on the flow of the conversation (Saunders et al., 2016).

The initial process of the semi-structured interview was conducted by communicating to housing developers and consultants from among researcher's network of friends and past industry contacts with the aim to immerse the information as much as possible in the subject matter. The researcher has used Atlas.ti7@qualitative software to conduct an analysis of the data in order to ascertain the issues and problems surrounding Malaysia's housing planning approval. The analysis was based on participant quotations, denoted by the abbreviations P=Participant and Q=Quotation (p:q).

### Findings: Preliminary Survey

The findings begin with the demographic background of interview participants and followed by the issues and problems in Malaysia's housing planning approval which are developers engage to RsB.

### Demographic Background of Interview Participants

A total 7 participants were interviewed. The demographic background of the participants is contained in Table 1. 2 of the participants (29%) were engineers. The remaining one (14%) was a manager, one (14%) was a senior project executive, one (14%) was an architect, one (14%) was a general manager and one (14%) was a project development executive. The participants' experiences varied from less than 5 years to 20 years and above. Therefore, all the participants had experience dealing with the planning approval stage. Expert opinion on the issues and problems confronting Malaysia's housing planning approval is more reliable, as the majority of participants have prior experience with the planning approval stage.

Table 1

*Demographic background of the participants interviewed*

Items	Respondent's position	Frequency (n)	Percentage (%)
Respondent's Position	Manager	1	14
	Engineer	2	29
	Senior Project Executive	1	14
	Architect	1	14
	General Manager	1	14
	Project Development Executive	1	14
Working Experience	> 5 years	2	29
	5-10 years	2	29
	11-15 years	1	14
	20 years and above	2	29
General task/duty	Planning approval stage	7	100

*n= 7*

### The Issues and Problems in Obtaining Malaysia's Housing Planning Approval

This section describes the issues and problems that housing developer face during the housing planning approval process that prompt them to engage in RsB.

**Error! Reference source not found.** shows the issues and problems in obtaining Malaysia's housing planning approval. The majority of participants indicated that the prolonged and delaying of planning approval is the most critical issue and problem throughout the entire planning approval process. Throughout the housing development process, the planning approval process was lengthy (p6:q2,p7:q13,p3:q10). The study found that officers intentionally prolong and delay the process in order to extract rent (p5:q157). Participant 2 commented that the officers purposefully put them in a difficult situation and caused them headaches. He agreed that there is a hidden agenda behind the officers' difficult situation.

Participant 5 opined that the various processes associated with planning approval take approximately three years and are extremely frustrating, not including the duration of the construction stage (p5:q34).

Some participants commented on the time management. Participant 3 mentioned that officers should be easily reachable.

Participant 4 and Participant 5 pointed out that the officers should be competent. As a result, developers can obtain accurate information about the comment or review of the development proposal they submitted (p2:q75, p4:q3, p4:q5). Some Participants mentioned that the officers' comments or reviews create a problem for them because they are repeated and ridiculous (p4:q41, p7:q13, p7:q19). Participant 2 and participant 4 mentioned that the officers do not give sufficient information. Due to that issue, developers have a perception that when their development proposal received repetitive unreasonable comments or reviews, officers will attempt to engage in RsB (p1:q51).

Following that, this study reveals that one of the issues and problems is the rigid requirements for developers to submit documentation (p3:q10, p5:q25, p6:q2).

Profitability is also a factor that developers must consider. Due to the numerous requirements to be met (p1:q26), as well as the lengthened and delayed approval process (p2:q74, p5:q30), this will have a detrimental effect on their profit in their development. Indirectly, it also identifies that, in order to maximise profit, developers, without realising it, actively cultivate RsB through actions that do not adhere to the prescribed specification for dealing with officers (p3:q10).

To summarise, housing developers face a variety of issues and problems when applying for housing planning approval: lengthy and delaying approval processes, various processes, time management, incompetent officers, unreasonable comments or reviews, rigid requirements and profitability. They are motivated to engage in RsB in order to obtain rent in order to expedite the housing planning approval process.



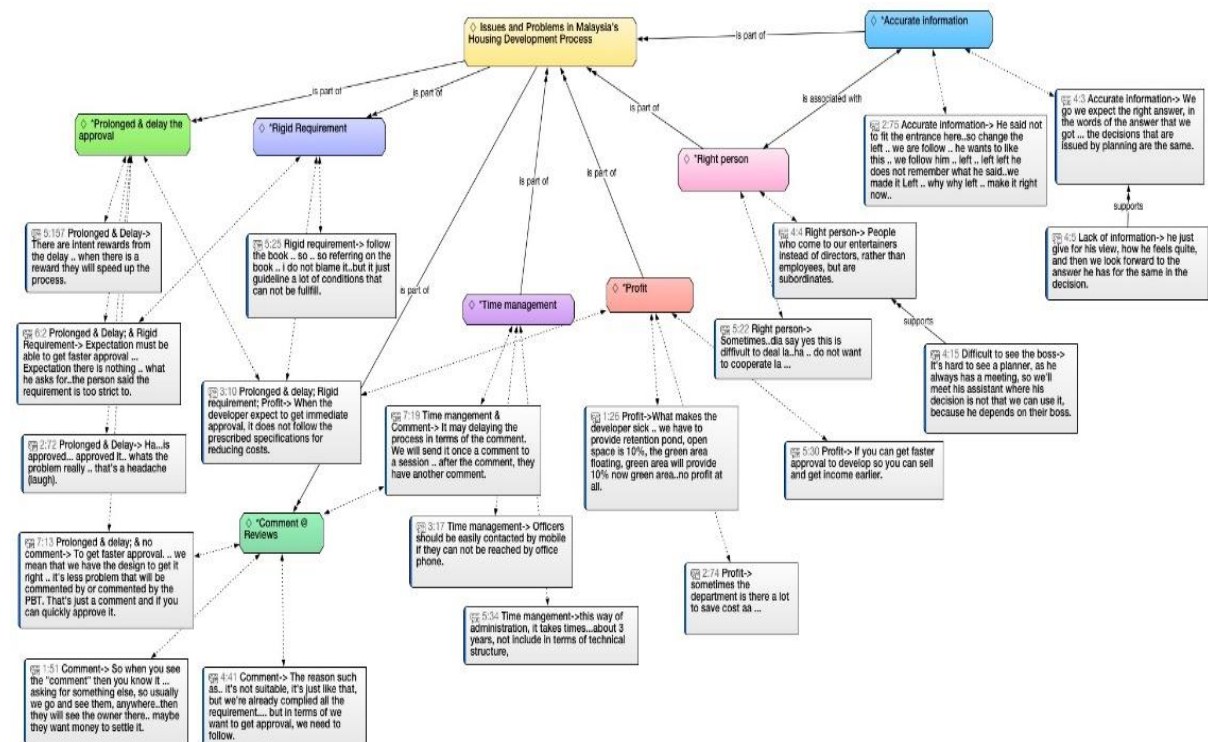


Figure 2: Results of the Atlas.ti pertaining to issues and problems in obtaining Malaysia’s housing planning approval

**Discussion**

This study affirms the past observations by Malaysian scholars (Agus, 2002; Othman, 2006; Mohd et al., 2007; Jaafar et al., 2008; Mohd et al., 2011; Foo & Wong, 2014, 2016; Mohamed Osman et al., 2014; Foo, 2015; Junaidi & Salleh, 2016; Yakob et al., 2016; Marzukhi, Jaafar, et al., 2019; Marzukhi, Omar, et al., 2019) that developers faced problems in the planning approval process, specifically in terms of the lengthy and delaying approval processes, uncertain and onerous process and planning guidelines.

Frustrated with the issues and problems associated with the housing planning approval, Malaysian property developers engage in RsB in order to seek privileged treatment. Rent-creating strategies as artificially created distortions as found from this research have not been mentioned by past Malaysian scholars before, though there has been a mention of it in the various studies from overseas (Krueger, 1974; Tollison, 1982; Beck & Connolly, 1996; Gramc, 2007). Chiodelli and Moroni (2015) are adamant that the planning system itself is to be blamed for incentivising certain behaviour from housing developers. They believe that developers are not more prone to corrupt compared to entrepreneurs in other economic spheres. This research found that to overcome the issues and problems in obtaining housing planning approval, developers are driven to engage in RsB to extract rents.

**Conclusion**

This research has presented the findings of a preliminary survey that was aimed at identifying the issues and problems associated with obtaining housing planning approval. It demonstrated that the RsB of developers and government officials is a critical issue that must be resolved immediately and amicably as it has an effect on the cost of housing development. Additionally, there is a need to establish an effective instrument as a device to tackle RsB,

particularly in property development, in order to uphold the government's anti-corruption agenda.

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