

# Toward Partnership for Government Construction Project in Indonesia

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**Abstract-** An increase of value in physical development of construction projects that sustain human life activities has been a major concern for many developing countries around the world, including Indonesia. The country faces an increasing value for project development which resulted in the increasing procurement for government goods and services. Meanwhile, some developed countries such as the United Kingdom (UK), the United States (US), and Hong Kong have successfully formulate an integrated policy for construction project partnerships to resolve the issue of project development and technologies value. Learning from the three countries, this study aims to explore the issue of the increasing of value of construction projects in Indonesia and identify the country's potentials that can be developed into approaches to successfully achieve project partnerships in sustainable development. It employs literature review in studies related to construction project partnerships particularly pertaining examples from the UK, the US, and Hong Kong as the basis of SWOT analysis. The study concludes that Indonesia needs to create an integrated project partnership policy construction in addressing sustainable development issues with respect to local cultural values that can strengthen the policy.

**Index Terms-** project development in Indonesia, procurement policy, partnership policy.

## I. INTRODUCTION

Many countries continue to take advantage of private capital and industry expertise. The UK's National Audit Office reports over £4 billion (\$5.8 billion) a year on average in capital investment from Public Private Partnership (P3s), or Private Finance Initiative (PFIs) as they're called in the United Kingdom (UK), over the past fifteen years. In the United States (US), where the economy is more than six times bigger, only five P3 deals worth a total of \$2.4 billion closed in 2015. (PPP Forum, Current Questions about PFI, <http://www.PPPforum.com/current-questions-about-pfi>, accessed June 21, 2016). Many government agencies lack experience with P3s. While 35 states, along with the District of Columbia and Puerto Rico, have legislation enabling P3s, only 18 states and Puerto Rico have ever reached financial close on a P3. (Colorado Department of Transportation, Update on the US 36 Public-Private Partnership: Understanding the Facts,

<<https://www.codot.gov/projects/US36.ExpressLanes/update-on-us-36-public-private-partnership-understanding-the-facts>>, accessed June 21, 2016).

National Audit Office 'Highways Agency: Procurement of the M25 private finance contract' November 2010: The recent National Audit Office (NAO) report on the £3.4bn M25 widening scheme has highlighted procurement on this PFI project as wasteful, primarily as the contract was too prescriptive and had little room for manoeuvre. In addition, the NAO states that the slowness of taking the project forward contributed heavily to the eventual 25% increase in cost.

Indonesian construction industry: market report (Published on 02/03/2016).

The Construction Industry Institute (CII, 1987) has conducted research on nearly 300 (three hundred) construction projects to the completion of project submissions applying partnering approaches, gaining significant benefits: reduction of total project cost by 10%, profits increased by 25 %, overall project completion time decreased by 20%, schedule change decreased 48%, number of claims decreased 83%, accidental loss of 1/83 of industry standard, change of order (CO) decreased 80%, job satisfaction increased 30%.

In general, construction project partnerships, especially in the supply chain approach, have a strategic role not yet developed in integrated collaborative design which involves three stages, namely: process management (identification); Supply Chain Management (SCM) is meaningful in the focus of design completion to provide better value; and facilitate the construction process (Austin et al, 2002).

The Indonesian government is planning to spend \$450 billion on infrastructure alone between now and 2020, with over \$22 billion of confirmed spending for 2016. But an even more promising area for investment and exporters exists—meeting the housing demands of Indonesia's enormous population.

Pricewaterhouse Coopers (PwC) International Limited, 2016.

The Indonesian government has in recent years put in place a robust institutional framework to support its infrastructure plans. In the last year it has announced 13 economic policy packages ("deregulation packages") focusing on the deregulation of investment and tax incentives. The government expects these deregulation packages to improve Indonesia's competitiveness and help to attract investment by cutting bureaucracy and providing greater legal and business certainty. Recommendations

for each infrastructure sector: Mining, Oil & Gas, Power, Water, Roads, Rail, Ports, Airports, Telecoms, Healthcare.

This paper is a study based on a literature review aimed at answering the question of how Indonesia faces construction project construction issues and what considerations should be considered in relation to the needs of construction project partnerships?

## II. STUDY METHODS

To answer the research questions presented in this paper, we will examine the literature on the theory of partnerships in construction projects in developed countries that have experience in anticipating the problems of construction project partnerships that support the achievement of value for money. In this case, partnership applications in developed countries that achieve success is a reference related to how the developed countries succeeded in conducting construction project partnerships. On this basis, literature studies cannot be separated from the historical development of public service policies. To achieve the objectives of this study, the Strength Weakness Opportunity Thread (SWOT) approach will be used in the analysis process based on the literature review. With this approach can be concluded about the potential and steps that need to be done well in further studies and in determining the policy in order to make the partnership construction project so that there is continuous improvement.

## III. RESULT AND DISCUSSION

### A. The Construction Partnership Issues and Policies in the UK, USA, Hong Kong

#### 3.1. Construction Partnership in the UK

Government of the United Kingdom, Her Majesty's Treasury.2006. Private Finance Initiative: Strengthening Long-Term Partnerships. London (March, p.15). Even in a mature market like the United Kingdom, PPPs (the United Kingdom uses the term "private finance initiative") play a small but important role in the government's investment in public services and represents about 10%–15% of overall public sector procurement. This represents more than £60 billion (\$100 billion) in capital value in 625 PPP deals from 1990/91 to 2005/06. Partnering construction projects from the process and product side can achieve things like: more efficient, cost effective, can be more optimum in planning, design and implementation. In this case the role of project manager is needed thoroughly (Schultz and Unruh, 1996). Because the use of partnering on large-scale projects can save costs up to 30%; reducing implementation time to 50%. These things are done in the UK (Bennett and Jayes, 1998). According to Latham, partnering in the UK there is a cost savings of up to 30% and reduced the implementation time by 50% for several construction projects (Bennett and Jayes, 1998:4).

#### 3.2. Construction Partnership in the USA

The concept of partnering was first introduced to the construction industry in United States in late 1980s and early

1990s. Warne (1994) indicated "in the late 1980s and early 1990s, some visionary leaders in the industry concluded that there had to be a better way.... If the owners and contractors could work together in a synergistic environment, then certainly everyone would benefit. Hence the concept of partnering was born..." Recently, the U.S. has shown the willingness to embrace large-scale projects again, making it a ripe P3 market. The U.S. Census Bureau announced late in 2012 that projected construction spending for the year is estimated to be \$851.6 billion, up 7.8% from the previous year. Today, private financing of public projects in the world's largest emerging P3 market is nearly nonexistent. Some experts estimate that U.S. private investments could reach 10% of the nation's total spend in construction. (US Census Bureau News, US Department of Commerce, Washington, DC, 1 November 2012).

Partnering is done to avoid conflict; reduce costs up to 10%; reducing implementation time up to 10%; reducing claims up to 87%. These things are done in the large-scale construction industry that collapsed then rose again in the USA (Lorraine and Williams, 2000). According to Latham, partnering not only avoids conflicts but also for example reducing 10% fees, 10% schedules and 87% claims in the USA (Lorraine and Williams, 2000: 13).

#### 3.3. Construction Partnership in Hong Kong

In Hong Kong, project partnering usually refers to a one-off partnering arrangement for most construction project participants. It is interesting to note that clients usually initiate partnering strategy in project procurement. The general perception gained by the project participants is quite positive and most of them found that partnering has increased open communication and sharing of common goals among stakeholders. As a result, working relationship and productivity have been improved.

Large corporations and government authorities like the Mass Transit Railway Corporation (MTRC) and the Hong Kong Housing Authority (HKHA) have also started to introduce project partnering in their infrastructure and building projects. The application of project partnering (large-scale project partnerships) in Hong Kong can be classified into sectors: public, private, and infrastructure (Construction Industry Institute, Hong Kong / CII-HK, 2004).

The main problem in the implementation of project partnerships is in terms of culture related to large bureaucratic organizations where appropriate project culture with high trust so that developing open communication and maintaining partnership relationships should be carried out in the early stages of the project, namely the planning stage (Zuo and Ma, 2005). In the other hand, the main benefit in the implementation of project partnerships is Improved relationship amongst the project participants (Chan et al, 2004).

#### 3.4. Summary

The building method is grouped into: Traditional or Design Bid Build (DBB), Design Build (DB), Engineering Procurement Construction (EPC). DBB has a design gap by consultants during the design process due to deficiencies, especially input constructability (Gransberg, et al, 2009), so that it is applied to projects not complex jobs. Furthermore, this method developed

into a DB method because there was a partnership of consultants and contractors during the design processes that were more appropriately applied to complex work (AIA, 2003). The latest development from the DB method to EPC was applied specifically to investment projects (Sarwono, 1993; Turner, 1995)

The development of partnering projects is then carried out on the sides of the partnering factor differentiator which is a series of steps with reference to the absolute requirements in general is a particular factor partnering, consist of: Top management support (Thompson and Sanders 1998, Black et al. 2000, Cheng and Li, 2001) and possible Adequate resources needed in all types of construction projects (Black et al. 2000, Cheng and Li 2001). Everything considered for the purpose of partnering is not only the study of the results. This leads to Continuous development (Naoum, 2003).

The criteria for the success of partnering construction projects have been carried out on the classification side, including AP Chan et al, 2004, that partnering success consists of factors: Support from Top Management, Adequate Resources, Mutual Trust, Long Term Commitment, Effective Communication, Efficient Coordination, Productive Conflict Resolution. Furthermore, the success of partnering in construction consists of: team culture, long-term focus quality, consistency of purpose, and sharing of resources. This is used as an effective strategy to achieve minimal conflict and efforts to improve project performance (Chan et al, 2004).

## B. The Partnership Policy in Indonesia Related to the problem of construction

### 3.5. Development Policy in Indonesia

The policy of construction project development in Indonesia is oriented primarily to the success of the achievement of Value for Money (VfM) through the Total Quality Management (TQM) effort in the project partnership resulting in a planning and control process known as the respective development control for the local scope (districts), regional (provincial), and national levels. For the project using Design Bid Build (DBB's) method of building, its approach is to public procurement and International Best Practice. For projects with Design Build (DB) and Engineering Procurement Construction (EPC)-building methods, an approach is made to the Public Private Partnership (PPP) or Private Finance Initiative (PFI).

Projects in Indonesia by function can be grouped into: residential housing, public building, heavy construction, and industrial buildings / factories. From a technical point of view, all building activities are generally oriented towards policies issued by the Ministry of Minister for Public Works and Human Settlements (Kementerian Pekerjaan Umum dan Perumahan Rakyat/PUPR), including the Minister of Public Works Regulation No.45 / 2007 on the technical guidance of the construction of state buildings. For water resources development work is used reference Law No. 7/2004 on Water Resources, Department of Public Work (DPU). For road construction oriented to Government Regulation No. 34/2006 on Roads.

### 3.6. Partnership Policy in Indonesia

The construction project partnership policy in Indonesia has been declared into regulatory tools comprising: partnerships

between business entities, partnerships between individuals who will become individual consultants, group partnerships in multiple disciplines. In the application, it can be Joint Venture, Joint Operation, Build Operate Transfer, Public Private Partnership, Project Partnership, Partnership Consultant-Consultant, Partnership of Contractor- Consultant, Small Medium Micro Enterprise Partnership, Small and Non-Small Business Partnership. All kinds of partnerships are carried out method of building DBB with the character of non-investment projects has been packaged into Presidential Regulation No.54 / 2010 on procurement of goods and services government with all derivatives rules change.

Large cost projects are applied to the DB and EPC building methods. The DB method is applied to the project at a smaller cost than the EPC project application project which emphasizes the investment aspect of high technology. The partnership in both types is an inhouse team contractor contracting partnership. These two methods of development are packed into Presidential Decree no. 15/1987 on Partnership Cooperation between Government and Private Business (Public Private Partnership) and Presidential Decree No.7 / 1998 on Cooperation of Government and Private Enterprise in Development and or Infrastructure Management.

The development of government and private cooperation policies has entered various sectors, for example: Minister of Finance Decree No.518 / KMK.01 / 2005 concerning Establishment of Risk Management Committees on the Provision of Infrastructure; Guidelines for the Cooperation between the Government and Private Enterprises in the Implementation and / or Management of Drinking Water and Sanitation.

## IV. FINDING AND DISCUSSION

This discussion examines the potential of Indonesia relating to the construction partnership as well as policies related to the SWOT analysis based on the literature review discussed earlier:

### 4.1. Strength (S)

The Government of Indonesia already has several policies related to construction project partnerships based on equality between service users and service providers. This equity consists of projects worth not more than two and a half billion rupiahs implemented by small and medium-sized micro enterprises, and projects worth over two and a half billion rupiahs implemented by non-small business. Regulation has been set to national, regional and local scale. Furthermore, it has been applied based on the building method: Design Bid Build/DBB or Traditional, Design Build/DB, and Engineering Procurement Construction/EPC (capital-intensive investment project). Construction project partnerships can be grouped internally: one project package includes more than one service user; and the external side: a project package of more than one service provider that is partnered in the form of, for example: Joint Venture, Joint Operation, Build Operation Transfer, and Public Private Partnership (specifically for infrastructure projects). Technical standards have been incorporated in the Indonesian National Standard (SNI) and use of ISO 9000, 14000, and 18000 standards and the national version of Health and Safety (K3) applications related to OHSAS. In the design phase has been

introduced the concept of Design Quality Indicator (DQI). Professional associations have grown and developed both for business entities and for individual experts.

**Guidance and empowerment:** At the national level, the central government has issued presidential regulation number 54/2010 concerning procurement of government goods and services as a legal basis for procurement applications in the field. Especially for the technical field, the Minister of Public Works number 45/2007 applies the Technical Guidelines for Building State Buildings. Both are a combination of guidance and empowerment of potential resources in national development. This is closely related to the Central Government's budget process which must be approved by the Republic of Indonesia's People's Representative Council for projects financed by the National Budget.

For the Regional Government, the development budget must be approved by the Regional House of Representatives.

#### **4.2. Weakness (W)**

In Indonesia, there are still many projects that have many deviations or corruption, construction failures, and building failures. This happens a lot on projects from small, medium to large (or so-called complex jobs) with the method of building a Design Bid Build (DBB). Human resources are still weak both from the business side (small business more than 60% total) and from the individual side with the most composition on the level of non-skilled (non-skilled labor). The deployment of construction engineering, electrical and mechanical engineering experts is uneven in Indonesia. Work experience to handle projects with medium and upper technology range (full industrialization) is still limited in both quality and quantity. This is due to the lack of aspects of guidance and empowerment of experts in a structured by the central government, regional, local area and professional associations.

Many construction projects of different sizes and levels of technology can be used as a gradual transfer of knowledge and technology and project management. Things like this have not been widely utilized by an educated workforce to become an educated expert. The result of this deficiency is a lot of design errors and / or construction errors in the project field. Thus, a construction project partnership is required in the form of project alliance strategy and construction strategy in the application of construction project between project owner, consultant, and contractor so that there is continuous improvement in the project process.

#### **4.3. Opportunities (O)**

The future challenge for achieving a successful construction project partnership in Indonesia is how to reduce the monopoly and oligopoly aspects of small, medium and large-scale projects. Where it results in the value of the project being greater than the fair price that could have been achieved through the process mechanism of the project package auction or the direct appointment process of the project package.

Indonesia has made a national development policy plan whereby there are sources of funds from State Budget (Anggaran Pendapatan dan Belanja Negara/APBN), Regional Revenue and Expenditure Budget (Anggaran Pendapatan dan Belanja Daerah/APBD), private, investment and / or combinations that

apply to DBB, DB, and EPC development methods that are available every year in many work packages. Specifically the investment projects applied with EPC building methods have now been realized on infrastructure projects in all sectors: Mining, Oil & Gas, Power, Water, Roads, Rail, Ports, Airports, Telecoms, and Healthcare.

#### **4.4. Threats (T)**

A future challenge for achieving successful construction project partnerships in Indonesia is that there are many projects that have monopoly and oligopoly nuances on both: small, medium and large-scale projects. As a result the value of the project becomes greater than the price should be through either the work auction process mechanism or direct appointment process.

As one of the developing countries, Indonesia is still experiencing a lot of deviations from construction projects such as corruption in various forms that are still difficult to overcome by the Central Government and Local Government. This will be an obstacle to the application of construction project partnership as one aspect of the system integration of a sustainable development in the scope of national development plans. However, the coordination policy related to construction project partnership issues as already achieved by the developed countries will be an obstacle to the realization of an integrated national development program. The cultural shift of irregularities such as corruption into culture *gotong-royong* as indigenous culture of Indonesia is of concern because it is a social phenomenon that will affect the total system of national development plans.

#### **• Conclusion**

The world of construction projects is dealing with issues related to public policy in relation to the choice of needs of construction project partnerships. Developed countries have started construction project partnerships and achieve success. Meanwhile, the present Indonesia with an increase in the value of government projects per year is heading towards the success of construction project partnerships. Therefore, related to the above study then the things to note are:

**• In general,** there is the government's desire to address the problem by creating policies that are integrated into each other strategic partnerships and project partnerships. The current policies are globalized and made reference primarily to technical standards: ISO, safety and health: OHSAS considered from mid-stage of the design process to the end of the construction phase and applied in the project field.

**• Indonesia** with the existing potential and existing constraints, requirements and external forces influence towards the partnership of the construction project. This is done on the basis of cultural "equality" between service users and service providers. The partnership principle is between small and non-small entrepreneurs who work together in a large-scale construction project of which the worth over twenty-five billion rupiah.

#### **• Recommendations:**

SWOT analysis is one of the strategic management that is able to determine the direction of national policies and strategies as leverage for project development based on the characteristics of potential and problems in Indonesia.

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