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New town development in Indonesia Renegotiating, shaping and replacing institutions

In line with the trend of urbanization in the developing world, Indonesia has undergone a rapid demographic shift from rural to urban areas. According to the United Nations, the proportion of urban dwellers in Indonesia was 17 per cent in 1970, 22 per cent in 1980, 31 per cent in 1990 and 42 per cent in 2000 and it has now surpassed 50 per cent (*Urbanization* 2007). This rapid urbanization is mirrored in the growth of Jabotabek¹ and other Indonesian cities such as Surabaya in the past decades. Prices of land and real estate in and around urban areas, as well as the density and size of the cities, have increased significantly. The growth of urban areas has intensified the need for more infrastructure and services in the form of roads, sewerage, water management, public transport, and housing. The Indonesian government has not always been able to keep up with the increased growth, and Jakarta currently faces an assortment of problems such as regular flooding, pollution, security problems, poor road and pavement conditions, persistent traffic jams and inadequate public transport.

Apart from urbanization, Indonesia has also witnessed significant economic growth in the past decades. During Soeharto's New Order, for example, the economy grew at an average of 7 per cent annually over a period of 32 years (1966-1998). Economic growth in turn has led to the emergence of a middle class who own a car and house, and who have access to private schools and private health care. A higher concentration of the middle class is found in urban areas. They can afford better living conditions, and are willing to pay for clean air, parking space, greenery, safety, nearby schools of high quality, and reliable supply of tap water.

The combination of a crowded city with poor urban infrastructure and a new class of affluent urban Indonesians has created business opportunities

¹ The acronym Jabotabek is often used to refer to the larger Jakarta Metropolitan Area, which includes Jakarta, Bogor, Tangerang and Bekasi.

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for private developers, who have transformed rural areas into suburban satellite cities fully equipped with amenities, including roads, sewerage, schools and health care facilities, security personnel and plenty of space and greenery. This process, also known as new town development, is by no means a new phenomenon (Sujarto 2003), but has gained importance especially since the 1970s with the accelerated growth of Jakarta.

The purpose of this article is to investigate the dynamics of new town development in Indonesia, and in particular the role of private developers in this process, using an in-depth and longitudinal case study of the Ciputra Group, one of the pioneers of new town development and one of Indonesia's most prominent developers.

Urbanization, a multifaceted process encompassing various areas of social life, is studied by a variety of scholars including sociologists, anthropologists, urban planners and architects. Most of the literature on new town development in Indonesia is based on the assumption that the Indonesian state should play a guiding role in urban development and that private sector players should operate within the rules and regulations defined by existing institutions. This view is consistent with institutional theory which sees corporations as entities that operate within and are shaped by institutional constraints (for example, Scott 1995).

The reality in Indonesia, however, is that private developers have taken over some of the roles traditionally attributed to the state (for example, Winarso and Firman 2002). For this reason, real estate companies are sometimes cast in a bad light as entities that manipulate, ignore or exploit government policies for private gain (for example, Pratiwo and Nas 2005). A recently developed idea within institutional theory is that actors can effect endogenous change in institutions in order to suit their own interests more closely. In this literature, actors are endowed with higher levels of agency that enable them to change the rules of the game, rather than be constrained by them. Such actors are referred to as institutional entrepreneurs, a term originally coined by Paul DiMaggio (1988). Institutional entrepreneurs are those actors that do not readily accept existing constraints but actively negotiate and shape them. Institutional entrepreneurship is therefore a process of institutional change with broader social and political implications.

While the opportunities for institutional entrepreneurship are more prevalent in emerging markets because of inherently weak or rapidly changing institutional frameworks, scholars still have little understanding of how private sector actors are able to shape different aspects of governance in emerging markets. To address this gap, the concept of institutional entrepreneurship is used in this article to present a novel perspective on new town development in Indonesia. By unravelling the ways in which private sector players proactively shape the institutions involved in urban development, this study deep-

ens our understanding of the mechanisms used by institutional entrepreneurs. The article also complements existing literature on urban development in Indonesia by stepping out of commonly used frames in which the state is the focal actor. Zooming in on the institutional strategies of a private sector actor will yield a deeper understanding of the process of new town development, which is an important aspect of Indonesia's urban development.

The article will proceed as follows. The first section reviews extant literature on institutional entrepreneurship and introduces the theoretical framework used for this study. The second section describes the activities of the Ciputra Group in new town development, paying attention to Ciputra, the company's founder, and his vision in the context of urban and economic development in Indonesia after independence. The subsequent section focuses on three areas in which the Ciputra Group negotiates the boundaries between public and private. The third section then analyses the emerging organizational field of new town development and outlines the roles that the Ciputra Group has played in shaping Indonesian cities, in light of which the Ciputra Group can be characterized as an institutional entrepreneur. The last section provides conclusions and suggestions for further research.

Institutional entrepreneurship

National development agendas often focus on creating the right institutions to foster development. However, which institutional arrangements work best in specific emerging markets is subject to debate, and increasing empirical evidence suggests that institutions in developed markets that exemplify best practice cannot be transplanted to emerging markets (Rodrik 2008). In emerging markets, new repertoires of institutions are being generated in which mutual responsibilities between different actors, such as NGOs, governments, and the private sector are re-shuffled in ways that suit local constraints better. Because of the tendency of scholars and international institutions such as the World Bank to focus on formal government institutions, there is still little understanding of how alternative forms of governance emerge as well as the roles that different actors play in this process.

A central concept in the literature on institutional formation and change is that of an organizational field, which has been described as 'sets of organizations that, in the aggregate, constitute an area of institutional life; key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products' (DiMaggio and Powell 1983:148-9). Organizational fields consist of a range of private and public actors, and are conceptualized as arenas in which various players seek control over the rules of the game (Fligstein 2001).

Scholars distinguish between organizational fields that are in the process of being formed and those that are mature – the latter are characterized by a stable set of actors and rules, and the former by a lack of structure and the presence of extreme ambiguity (Santos and Eisenhardt 2009). While mature fields also undergo change (Greenwood, Suddaby and Hinings 2002), it is in the relatively unformed or nascent fields that opportunities for agency in the form of institutional entrepreneurship are greatest (Fligstein 1997). Rapidly changing emerging markets more often feature such nascent fields (for example, Child, Lu and Tsai 2007), in particular in areas where companies create and control new markets by appropriating government roles.

Institutional entrepreneurship requires a specific set of organizational competencies and strategies such as using rhetoric, power, coalitions, negotiation, issue framing, maintaining ambiguity, resource mobilization, legitimacy seeking, and competing with other actors seeking to institute rival logics (Lawrence 1999; Leca, Battilana and Boxenbaum 2008). While some research on organizational competencies of institutional entrepreneurs in developed markets is under way, in particular NGOs or civil society action groups (Maguire, Hardy and Lawrence 2004), insights into the mechanisms used by private firms that become institutional entrepreneurs in emerging markets remain limited. Understanding processes of institutional entrepreneurship is vital for emerging market governments, because institutional entrepreneurs effect economic and social changes that carry important implications for national development.

New town development in Indonesia has all the characteristics of a nascent organizational field. Urban development is subject to rapid change because of growing cities and increased demand for urban infrastructure, which the government can only partly meet. The rapid rise of cities like Jakarta occurs in a rather haphazard fashion, creating ambiguity and discrepancies between rules and practices. Problems associated with rapid urbanization present developers with opportunities to develop semi-autonomous satellite cities. The roles of different public and private actors shift over time, and rules and responsibilities in connection with managing new towns are often informally negotiated. In this newly constructed space of urban governance, private sector actors have the opportunity to carve out new strategies to address the problems and circumstances arising from urban living. The objective of this article is to map out the organizational field of new town development and to unravel the institutional strategies used by private sector actors.

To achieve this, an in-depth, longitudinal study of one such private sector player – the Ciputra Group – is presented. Sources include interviews, annual reports, newspaper articles and books on the company (Table 1), as well as secondary literature on urban and economic development in Indonesia. A key analytical task is to distinguish between operational data, representing

actual behaviour, and presentational data, representing appearances respondents wish to project (Van Maanen 1979). Institutional change implies that actors try to influence perceptions and norms, which was also reflected in the data gathered. Ciputra sees himself as a visionary rags-to-riches entrepreneur whose primary goal is to 'enhance the quality of life for Indonesians' (*Pillars of Ciputra* 1995). However the view held by Indonesian officials evidences myth-making of another kind, in which a 'powerless' government is taken for a ride by unscrupulous and resourceful businessmen who compromise their good intentions for the country. Given these contrasting myth-making processes, we address possible biases in our results by selecting respondents across categories (theoretical sampling) and systematically comparing the narratives of different actors on similar topics (triangulation). The key theme that emerges after careful analysis of all sources is the negotiated boundary between the private and public sectors in new town development, which is further analysed in the following sections.

Table 1. Ciputra Group case database

Source type	Sub-categories	Amount
Interviews	Ciputra executives	13
	Government officials (at the level of former minister or director general)	6
	Competitors	2
	Partners	7
	Property/urban planning specialists	4
	Bankers/analysts/others	10
	Subtotal	42
Annual reports	Ciputra Development (1994-2007)	16
	Ciputra Surya (2000-2007)	10
	Ciputra Property (2007, plus IPO prospectus)	3 + 1
	Subtotal	30
News articles	Lexis Nexis search term 'Ciputra' (1980-2009)	2335
Video	1-hour talk show with Ciputra, transcribed	1
Company books	Ciputra (2008). <i>Quantum leap: Entrepreneurship mengubah masa depan bangsa dan masa depan anda</i> . Jakarta: Ciputra Group.	1
	Ciputra Group (2006) <i>Ciputra: The entrepreneurial developer: Nature, art and heart</i> . Jakarta: Ciputra Group	1
	Harefa, A. & Ezer Siadari, E. (2006). <i>The Ciputra's way: The best practice to be a true entrepreneur</i> . Jakarta: Ciputra Group.	1
	Winarno, B. (1987). <i>Tantangan jadi peluang: Kegagalan dan sukses Pembangunan Jaya selama 25 tahun</i> . Jakarta: Pustaka Grafiti Press.	1
	Subtotal	4

Introduction to Ciputra and the Ciputra Group

The history of Ciputra, the founder of the Ciputra Group, parallels Indonesia's urban growth and struggle for modernization. He was born in 1931 in Sulawesi, and his father passed away during imprisonment by the Japanese in the Pacific War when Ciputra was 12 years old. He went to Bandung to study at Institut Teknologi Bandung (ITB) and worked to help pay for his studies. Ciputra graduated as an architect in 1960, at a time when the then president of Indonesia, Soekarno, had nationalized most foreign companies, and foreign experts had left the country. Meanwhile, as Indonesia's capital city Jakarta grew rapidly, there was a pressing need to expand the supply of housing and provide more infrastructure. According to Silver (2008:92), Jakarta's population grew by an average of 167,000 every year between 1961 and 1971. In addition to practical needs, Soekarno, an architect by training, wanted to showcase Jakarta as the symbol of a modern city (Silver 2008).

With few local architects capable of filling the gap, there was a window of opportunity for young Indonesian architects like Ciputra. Due to a lack of money to fund his university studies at ITB, Ciputra set up a company in 1957 together with his friends Ismail Sofyan and Budi Brasali. After graduation in 1960, these friends who had already acquired some work experience decided to continue working together and sharing projects. Ismail Sofyan related in an interview how the friends divided the work geographically: Sofyan in Medan, Brasali in Bandung, and Ciputra in Jakarta. While they had hitherto focused on consulting, Ciputra was keen to develop something for himself. According to an interview with Ciputra, it was Ciputra himself who sought an audience with and convinced the then governor Soemarno, and subsequently Soekarno, of his ideas for Jakarta.

After obtaining approval for his plan to redevelop Senen, a major market area, into Indonesia's first modern shopping centre, Ciputra co-founded PT Pembangunan Ibu Kota Jakarta Raya (hereafter the Jaya Group) in 1961, a property developer partly established and controlled by Jakarta's provincial government, with which he stayed for 35 years. Ciputra worked closely with several of Jakarta's governors. The Jaya Group was an idea of Jakarta's governor Soemarno, who realized that while Soekarno had given approval for various real estate developments, the fact was that the government did not have the resources to fund them. Hence, he gathered people from the private sector and jointly established a new company. Ciputra became the professional manager and, initially, he was the only full-time board member of the newly established developer (Winarno 1987). Originally conceived by Soemarno as a cooperation between entrepreneurs and the provincial government, political sentiments at the time strongly opposed capitalism and Soekarno envisioned Indonesia as a socialist state with a strong role for the government. The Jaya

Group was forced to become a private company because a new law in 1962 did not allow government to be involved in the private sector. To overcome this obstacle, Jaya devised a profit-sharing scheme for the provincial government and appointed the governor of Jakarta as the president commissioner of the Jaya Group. Hence the Jaya Group maintained its links with the provincial government, on which it depended. The 1965 coup that brought Soeharto to power temporarily halted Jaya's activities, and also led to the replacement of Soemarno. However, the Jaya Group was able to resume its activities and build strong connections with subsequent governors of Jakarta, in particular Ali Sadikin, who was appointed in 1966. Following the political trend at the time, the Jaya Group carefully aligned itself with the national and local governments' goals, emphasizing in its keys to success 'service to society' above 'making profit' (Winarno 1987:33).

The second major project by the Jaya Group was more ambitious than the already extensive Senen project and involved redeveloping a large area of swampland in the northern seaside of Jakarta, a project which started in 1966. Under Ciputra's leadership, the Jaya Group transformed the area (which was uninviting at the time) into a recreational park and residential area known as Ancol. For inspiration, Ciputra travelled to Disneyland in the United States. The project started with the opening of Ancol beach, and went through various stages of development altogether spanning several decades. A recreational park, Dunia Fantasi, was opened in 1985. The project effectively re-positioned Jakarta as a beach city. Both Senen and Ancol were ground-breaking developments that came to symbolize modern Jakarta at the time. The scale and novelty of these developments demonstrated Ciputra's entrepreneurial capabilities as well as established his reputation as an architect. The Jaya Group came to be regarded not only as an esteemed developer, but also as one that was able to act upon opportunities that others missed.

Economic growth accelerated in the period when Soeharto was president (1966-1998), as Jakarta's population increased from 4 million in 1970 to 6 million in 1980 and 8 million in 1990. One of the methods of dealing with Jakarta's burgeoning population growth was de-concentration into suburban centres, and hence the concept of Jabotabek was introduced in the 1970s, encompassing not only Jakarta, but also the surrounding cities of Bogor, Tangerang and Bekasi (Cowherd 2003; Pratiwo and Nas 2005). In the New Order period, Ciputra and his friends built close connections with subsequent governors of Jakarta, most notably Ali Sadikin (1966-1977), who, according to a former Minister interviewed for this study, had come to rely on Ciputra's vision. During this time, the Jaya Group and other developers were able to use government connections to acquire land at low prices for projects that mutually benefited the local government and developers.

In turn, the government established regulations that aimed at aligning the

interests of private sector developers with those of the nation. An example was the regulation issued in 1974 that for every large house built, three smaller and six very small houses should be constructed to ensure that development projects would benefit both the rich and the poor and would encourage integration rather than promote economic segregation. In practice, however, developers either constructed the smaller houses elsewhere (with fewer facilities and on cheaper land) or paid fines or bribes that enabled them to get around this rule.

In the 1970s Ciputra, along with other partners, pioneered the development of the first privately built satellite city in Jakarta. In 1973, the three friends made a proposal to Ali Sadikin about the development of an area that later became Pondok Indah, targeted at the upper class and expatriates. Their argument (according to an interview with one of Ciputra's partners in the project) was that many expatriate families lived in Singapore, thus depriving Jakarta of an opportunity to earn an income. The government provided the permit and assisted with land clearing while Ciputra and his partners sought help from tycoon Liem Sioe Liong to finance the project. In Pondok Indah, the private sector already saw to the provision of amenities such as roads and connections to the national electricity grid as well as security, which were later transferred to the government.

After Pondok Indah, Ciputra and his friends continued developing large-scale residential projects, including Bintaro Jaya (through the Jaya Group) and Bumi Serpong Damai (with various partners including the Sinar Mas Group). The development of Bintaro Jaya was an opportunity for Ciputra to test his skills in mega-projects. On the one hand, such large-scale residential projects granted architects more freedom to design integrated areas, and on the other hand, it prevented competitors from piggybacking on and making use of the infrastructure and facilities developed by the Jaya Group. The area was marketed with the motto 'live a comfortable life in fresh nature' and came to symbolize a new standard of living (Winarno 1987). For the first time, the Jaya Group not only built facilities (such as roads), but also managed them. This included organizing waste collection, providing schools and clinics, road maintenance, maintenance of greenery, and also community development and sports activities.

The Bumi Serpong Daya project, initiated in 1989 and opened in 2004, was even larger in scope and combined residential function with commercial development, and it provided a range of privately built facilities. The targeted area covering 6,000 hectares was developed in stages (Silver 2008). As a consequence, Ciputra developed considerably broader expertise than an ordinary developer of buildings, including technical skills in areas such as the supply of water, sewerage, electricity as well as urban planning. In addition to basic infrastructure, the Ciputra Group also increasingly turned its attention to the provision of schools, hospitals and sports facilities for residents.

Ciputra and his associates were frequently the first to develop ideas and implement them, while other local players emulated their model. According to Winarno (1987), and backed up by interviews, Ciputra's key strengths include a keen nose for new opportunities and the confidence to embark on projects which nobody had ventured into. Ciputra also maintained good contacts with the Jakarta city government, and he became a trusted partner of the government as he consolidated his reputation. The government was essential in granting permits, access to relatively cheap land, and for clearing land for large projects, something that was still relatively easy under the Soeharto regime. Under Ciputra's leadership, the Jaya Group expanded and diversified rapidly, as did the Metropolitan Group – jointly owned by the three friends.

When their children grew older and graduated from university, the three friends decided that it was time to start their own companies and run their own projects, rather than share their projects. In 1981, Ciputra started his own Ciputra Group and continued a variety of property projects, including various new towns around Jakarta and in Surabaya. In the latter, one of the largest projects in Indonesia was realized, and the Ciputra Group became the largest developer there (Dick 2003). A piece of land was chosen that was situated far away from the city. It was bereft of amenities and was extremely dry. Ciputra knew that his company would be able to provide all amenities, including water, sewerage, roads and greenery, and that these would only add value to the land, contributing to a successful commercial model.

Property development is a highly cyclical industry, and to reduce some of the inherent risks, property developers are keen to supplement the traditional business model (buying land, developing it, and selling it) with activities that generate recurring (and therefore more stable) income. Recurring income can be obtained from the management of cities and facilities, rental space, shopping malls, and so on. Such business logic provides an additional impetus to developers to offer a larger range of activities. Moreover, well-run facilities are essential for maintaining high land prices.

Within the CitraLand (sometimes called CitraRaya) project in Surabaya, which started in 1993, the Ciputra Group increased its involvement compared to earlier projects, and it built as well as managed a large urban area and established its own governance structures in the form of privately run city management. As Winarso (2002) also shows, the existence of facilities and roads is no longer a criterion for the location of new developments – instead the land price constitutes the key factor, as developers like Ciputra derive their profits from the extra value they add to the land through the provision of tangible and intangible amenities. The success of this model is reflected in the swift growth of one of the Ciputra Group's listed companies, Ciputra Development. From an initial turnover of about USD 50 million in 1994, the company's turnover jumped to around USD 250 million prior to the Asian

financial crisis just a few years later (company annual reports). To date, the Surabaya project contributes substantially to Ciputra Development's profits.

Although developers claimed as early as in the 1980s that their new towns would be self-sufficient, in practice this was not the case, and the majority of the residents still commute to Jakarta for work (Sujarto 2003). However, alongside the increasingly integrated manner in which new towns are constructed, more and more jobs are created within the new town. For example, the construction of a university or hospital creates jobs, and attracts new residents at the same time. Nowadays most developers also build office towers and hotels in the new towns, all of which generate jobs in both the higher and lower labour market segments. The lowly paid jobs generated in the new towns, for example in the maintenance of greenery, as golf caddies, security personnel, or household personnel of the residents, are often taken up by the villagers from the surrounding areas, which creates more trickle-down effects from the larger and more modern integrated new towns than the earlier models.

Over time, Ciputra's pioneering spirit and keen eye for new opportunities have made him a central player in the Indonesian property development arena. Not only is his vision appreciated by local governments, he is also recognized as the pioneer of the real estate sector. He founded and presided over the Indonesian Real Estate Association as well as the Asian Real Estate Foundation. He also became the president of the International Real Estate Federation (FIABCI). Despite the problems the Ciputra Group encountered during the Asian crisis when it became technically bankrupt, the group has again emerged as an important and well-connected player in the real estate sector.

Since the 1990s, other private developers have started to emulate the new town development models pioneered, expanded and refined by Ciputra. Some competitors, such as the LIPPO Group in its LIPPO Karawaci project and Agung Podomoro, have gone even further than Ciputra in terms of the scope of the project and the control exercised over the development project and its surroundings. All these projects overlap with government roles in relation to urban governance and development. This has resulted in a business model in which private developers develop, maintain and govern large urban areas underpinned by commercial objectives. While this is not uncommon, for example in the United States, government ministers interviewed for the study think that the dominant role played by the developers stands in stark contrast to the perceived ideal role of the Indonesian government. According to the Indonesian constitution, the government should remain in control of those sectors of the economy that are important to its people. The Indonesian state views the provision of running water, electricity, health care and other basic services as a public task. By providing some of these facilities privately to the rich, government officials argue that new towns contribute to social inequality (for example, Silver 2008:199; interviews). Yet, at the same time,

the cabinet members, both incumbent and former, interviewed for this study acknowledge that given budget and capacity constraints, the government has been unable to fulfil its promise to all citizens, and that the private developers are an inevitable and more capable partner in modernizing urban Indonesia.

In the more mature market for new towns from the year 2000 onwards, the Ciputra Group appears to have lost its leading position as an entrepreneurial player to other competitors who are more aggressive in marketing real estate and in procuring project financing on a large scale. Because of the increasingly competitive situation, the Ciputra Group has implemented two new strategies. One is to move into real estate in the provincial cities, following opportunities created by the re-distribution of wealth after the decentralization of authority in Indonesia. The second is a strategy of internationalization. The Ciputra Group is now active in countries that are undergoing similar urbanization and economic growth processes such as those that took place in Indonesia in the previous decades, but whose local property players have not yet acquired the skills to build large new towns, for example in Vietnam. According to a Ciputra partner, the Ciputra Group has 'set the benchmark in property development' in Vietnam. A former minister comments that 'developers like Ciputra thrive in immature systems, they find loopholes, that's why they go to Vietnam, Cambodia – those are also immature systems'. To quote a Ciputra director, 'developing countries [...] are not yet established in their regulation, legal framework and urban planning. Everything becomes a grey area. It is both an opportunity and an uncertainty.' These remarks show that the Ciputra Group has been able to carve out a role for itself in new town development through careful manoeuvring in weak institutional settings. Both strategies have made the company a prominent mover in property development and enabled the company to meet the real needs of consumers in a less competitive and less regulated institutional arena.

Analysis: Negotiating public-private boundaries

While new towns for the middle and upper classes are primarily based on a commercial business model, their development straddles the boundaries between the responsibilities of the state and the private sector. Based on an analysis of the data gathered for this research project three boundary areas have been identified in which the Ciputra Group was able to renegotiate existing practices and rules: 1. taking the initiative in large-scale urban development; 2. construction, ownership and maintenance of amenities; and 3. governance of urban areas. In all these areas, the Ciputra Group has successfully interacted with institutions and proactively changed the rules of the game in order to design an effective business model that caters to middle- and upper-class customers.

Initiative-taking

With regard to urban planning and development, it is often assumed that the government develops a master plan for urban and rural regions, which then forms the basic framework that encourages or restricts various types of land use. Officials at several levels within the Indonesian government have drawn up detailed spatial plans for the special region of Jakarta. Developers must apply for a range of permits and comply with existing spatial plans and other relevant regulations. Cowherd (2003:23) comments that 'taken together, these planning, regulatory and policy mechanisms represent a formidable program for guiding the formation of the Jakarta region'. Nevertheless, he observes a huge discrepancy between planning and reality.

New town development outside main city centres such as Jakarta and Surabaya was in line with official urban planning concepts, which promoted multi-centre urban complexes (Sujarto 2003). But the initiative for large-scale new towns, especially after the 1980s, often came from the developers, who, where necessary, renegotiated regulations or urban master plans to obtain government permission. While in the 1960s and 1970s, government and private sector often worked hand in hand in the development of Jakarta (for instance, the Jaya Group), from the 1980s onwards, the initiative for new town development has increasingly come from developers. To quote a former Minister in an interview, 'Indonesia underwent a drastic change from government-led urban development policies in the 1980s, but after deregulation, it became private sector-led. The private sector took over, and it was mainly those with close personal connections to the political elite.' In the words of Sujarto (2003:86), 'the experience of new town development in the Jabotabek region has shown that, on the whole, new towns were created without following the regional master plan prepared by local governments'. This was connected to the end of the oil boom in 1982, which resulted in lower revenues and adversely affected the investment capacity of the Indonesian government, and induced deregulation and liberalization, thus providing more space for the private sector to play a bigger role, for example, in urban development. The opening up and development of the banking sector and stock exchange has provided developers with the necessary access to funding.

In addition, the interests of business elites took on a more significant role as the Soeharto regime increasingly evolved into a corrupt crony regime in the late 1980s and 1990s. Under Soeharto's New Order regime, if projects ran into difficulties, the right connections would ensure government support even if developments were not in line with government planning or regulations. Because many regulations and plans were negotiable, good contacts with local and central governments were indispensable, and especially the most well-connected developers profited the most (according to several for-

mer ministers interviewed). A former Minister recounted in interviews that Ciputra and others used their political leverage to bypass or manipulate regulations around land use and environmental protection. To quote a property expert who was interviewed:

In the Soeharto era, the speed of development was very fast. The regime was not democratic, but authoritarian. The government maintained close relationships with the developers. Because Soeharto's family members were involved in the projects, the government did not want to restrict them.

The Pantai Indah Kapuk project in Jakarta, for example, was criticized in interviews with various officials for its potentially negative environmental impact and incompatibility with existing regulations. According to a newspaper report:

The 1,160-hectare complex has long sparked controversy as it was built in 1989 on an area formerly covered by mangrove forest and swamps. The construction of the project was approved by then minister of forestry Hasjrul Harahap and then governor Wiyogo Atmodarminto. Several NGOs are planning to file a class action suit against the developer for causing floods in the nearby Penjaringan area. They accused the developer of violating the city's land-use plan for building the complex on a protected green belt area. According to the city's master land-use plan for 1985 and 2005, the location was still designated a green belt area. But it was changed into a residential area in 1995. (*Developer challenges public* 2002.)

For this project, Ciputra sought the support of the Salim Group, which had close connections with Soeharto. In this way, Ciputra was able to ensure that the project could continue, according to an informant who was familiar with the project and interviewed for this study. The project was authorized by Soeharto by means of a special presidential decree in 1995, despite its location in a designated green area. Following Soeharto's fall from power, the decree was revoked (*Jakarta's megaprojects* 1998). However the project was again allowed to continue, despite continued criticism. Other projects, including parts of the Ancol development, also apparently went ahead despite protests that they were not in line with existing regulations (*Reclamation gets go-ahead* 1995).

After the fall of the Soeharto regime, it was acknowledged that lobbying by developers had often led to bending of the rules. Citing the *Jakarta Post*:

Head of the City Planning Agency, Setiawan Kanani, admitted that agency officials often issued permits for housing projects in prohibited areas after being pressured by their superiors and powerful businessmen. 'In the past, we were forced to issue such permits as there were instructions from our superiors', said Setiawan. (*Developer challenges public* 2002.)

Hardly any of the large-scale new town projects was subjected to a competitive bidding process by the government, as is customary in many other countries. The same applies to current-day projects. As a consequence, a proactive and entrepreneurial attitude, such as Ciputra's, as well as access to the right connections pay off and often pave the way for large-scale projects.

In the acquisition of land for new towns, developers are guided by two criteria: price and total available area of land (Winarso 2002). These companies often opt for the less favourable locations, where land prices are low and value can be added by upgrading the area. The commercial success of Ciputra's projects rests upon the difference between the land price without any planning and the land and real estate prices after the construction and provision of amenities. The larger the scale of the project, the lower the relative cost of such provision. This business logic often contradicts the starting premises of city planners. Ciputra's Surabaya project is a case in point, as the company acquired land that was considered unappealing and quite bare. A Ciputra Group director explains:

The satellite city was an opportunity [...] but the government could not provide infrastructure. [...] We picked the location, we requested the permit. The local government had no ideas for the area.

As a result of the project, which realized the construction of what is currently the largest new town in Surabaya, other requirements arose, such as requirements for new roads. The Ciputra project therefore impacted spatial planning in ways not foreseen or planned by the government. The local government, however, continues to support and acknowledge the benefits of this new town project.

With the demise of the Soeharto regime in 1998, the playing field for developers changed. More political and bureaucratic decisions were decentralized, and the new legal framework also gave local representative councils greater discretion in matters of urban development. In some respects, local officials wielded less countervailing power as they had lower budgets, less technical capacity, and needed developers to raise the local government's income accruing from taxes and to build infrastructure they themselves could not afford. Often, developers of new towns would be among the largest contributors of local taxes. For this reason, the developers often met with little resistance when they took the initiative to develop certain areas. Furthermore, new towns now boast a successful track record in addressing the needs of the middle class, something which has also contributed to a positive attitude among local governments.

By the late 1990s some developers had grown into significant companies with budgets that far exceeded those of regional and local authorities. It was

not uncommon for developers to offer officials 'incentives' to foster cooperation. A former Minister of the Environment interviewed for this study asserts that he was offered a house at a very substantial discount, which he refused. In this way, developers ensured throughout the New Order and in the period thereafter that the different permits were issued and regulations were applied flexibly (for example, *Swampy areas* 2003).

Amenities

Ciputra's projects over time increasingly incorporated privately built amenities. While such amenities were more or less limited in earlier projects to essentials such as roads and sewerage, the scope and sophistication increased over time, in part to match the increasing expectations and buying power of upper-class residents. Developers nowadays routinely take care of infrastructure, such as roads, sewerage, waste treatment, street lighting, water treatment plants, and so on. In addition, developers also build international schools, well-equipped private hospitals and superior sports facilities. A Ciputra director explains in an interview:

We learnt this the hard way. With Jaya and Bintaro, it was in cooperation with the city government. We expected that, as a partner, the government would provide something, but the government could not provide anything.

The idea of private parties replacing the government in developing public facilities is also voiced by the *Jakarta Post*:

While the city administration has not been able to provide adequate waterworks infrastructure for the city – having only a sewage treatment plant in Setiabudi, South Jakarta, and waste treatment facilities in Pulo Gebang, East Jakarta, and Duri Kosambi, West Jakarta – the private sector (i.e. real estate developers) is investing in sanitation systems (*Developers start building* 2009).

For example, in the CitraLand project in Surabaya, the Ciputra Group operates sophisticated water treatment facilities that offer piped water at government-mandated prices to residents, a service from which the Ciputra Group makes a profit. In many a case, a property developer actually prefers to construct its own facilities, believing that they will be of a better quality than those constructed by the government. A town manager of a new town (owned by a competitor of Ciputra) described the procedure in his town whenever there was a problem with the water supply. All affected residents would receive an SMS message within an hour of the problem occurring, in which information about the problem was given, the estimated time needed to resolve it, and an offer to supply

extra buckets of water for those interested. The town manager says that 'it is true that the government calls us arrogant, but they cannot deliver this level of service'. Similarly, a Ciputra city manager states, 'We promise a certain quality of water to our residents, consistently, 24h and at a certain minimum pressure. The local government cannot compete in terms of quality and consistency.' The fact that private developers can provide water supply of higher quality, higher pressure and higher reliability than the government, and also make a profit, has in turn put pressure on publicly owned water companies to improve their standard. Leisch (2003:99) comments with regard to private new towns that 'only a private company will be able to maintain the existing standards. The government will not be able to keep the new towns at the level they are now.'

To pay for the privately constructed facilities the project's scale is essential; some projects encompass thousands of hectares. Residents pay the developer fees for various services (for example, garbage collection, and water supply) that the government would usually provide and on which taxes are levied. In this way, some of the cost of infrastructure is recovered and in practice the developers obtain the right to tax residents in the form of service fees. According to a former Minister:

The property owner operates everything until the amenities are in place. They carry out garbage disposal and supply water, for which they also collect a fee. The fee collected is shared between the developer and the government. Sometimes there are informal arrangements with the local population. So the government gives the developers the right to tax.

While some amenities may be profitable (for example, water) others are loss-making (for example, maintenance of greenery) and the developers cross-subsidize the different amenities not unlike the manner in which governments levy taxes and redistribute the income derived from investment in public goods.

Whereas Indonesian law stipulates that assets such as water treatment plants and roads need to be transferred to the government, in practice this does not happen. The reason is provided by one of Ciputra's competitors:

I cannot hand all this over to the government because they cannot maintain it. For example, we have some pretty sophisticated water treatment plants – the government will not even have the expertise to maintain these.

In some of the older new towns – including those built by Ciputra – the lack of maintenance has negatively impacted the value of the land and property. Property developers realize that maintenance of transferred public assets is a key to maintaining high price levels of real estate. Therefore, informal ar-

rangements with the local government have been made to allow developers to take charge of the maintenance of roads, lamp posts, sewerage, and so on. Such negotiated arrangements often operate in a grey area. In practice, since the developers have more incentive to ensure a high level of quality of infrastructure as long as they are still developing and selling property in the area, they tend to spend a considerable amount of time and funds on maintenance, only nominally making the government the owners of the assets. In this way, developers like the Ciputra Group replace the role of local institutions.

Governance

Because the value of land is linked to the quality of urban management, Ciputra is keenly aware of the need to keep control over not only the construction of new towns, but also over its governance. Property experts interviewed for this study describe the older towns as 'messy' and 'not well managed'. This insight, combined with the realization that many aspects of town management could be run profitably, has increasingly led Ciputra and other developers to take care of services such as health care, education, security, entertainment options and community development. Most new towns boast the presence of private schools and hospitals. The large number of upper-class homeowners ensures sufficient clientele for such privately arranged services.

Security is another area in which government authority and private sector responsibilities overlap. In theory, the police are responsible for safety. But since budgets for police officers are limited, and the police are often corrupt, developers take over a large proportion of their responsibilities. Security in new towns is not limited to checking cars at the city gates, but also involves activities such as catching thieves or enforcing speed limits. In order not to create problems with the local police, informal arrangements are made to divide the tasks, while nominally the police remain responsible for law enforcement. According to a Ciputra town manager, 'We don't take over their [the police's] duty, we just make it easier'. The developers often maintain a higher standard of law enforcement in their new towns than elsewhere. They may, for example, require motorcyclists to use helmets when they enter the city, or they may be stricter about enforcement and issue fines for cutting trees.

Indonesian property developers administer the city and appoint a town manager or city manager (rather than a mayor) to supervise a 'regulatory framework' and its enforcement, which include traffic rules, restrictions concerning building and renovating houses, and so on. A competitor's town manager, interviewed for this study, explains to us that if temperature and pollution levels were too high he prohibited motorcycles from entering the city, and provided bus shuttle services instead, so as to maintain a clean and cool environment. New town managers therefore have rather far-reaching

responsibilities. They may even assume responsibilities that extend beyond their town borders, for example to appease poor neighbouring villagers they build roads and traditional markets where villagers can sell agricultural produce, and maintain good contact with local *preman* (gangsters) in the area. The division of authority between the town manager and official local authorities is often blurred, and in some cases entirely under the influence of the developer. A former Minister claims that developers 'bankroll the local elections by sponsoring candidates. If you are a rich developer, you can buy all the candidates, so that you are sure that whoever wins is your man.'

The government does not object to new towns becoming a state-within-a-state. To quote a property expert:

The problems start once the new town is developed. For instance, the estate management is private. There is no clarity about the boundary between private and public. The local government does not want another burden on its budget, so it will close its eyes. The government does not care, they say: 'go ahead'. There is no regulation to control the developers.

A former Director General at a relevant Ministry contends that the government undertakes urban planning, but lacks the capability to implement its plans: 'The government also cannot manage so many satellite cities, so let the private sector and the local governments do it themselves – why not?' Moreover, developers, by virtue of raising the value of the land, often generate income in the form of taxes for the local government. Hence, it is not in the interest of the local government to hinder new town development.

On the contrary, the government acknowledges that privately run new towns are setting the standard for urban governance. Because developers operate in the upper segments of the market, they have an incentive to maintain a high standard of living for their clients who reside in these new towns. As such, many of the new towns offer a quality of living not found elsewhere. While part of this can be attributed to meeting the expectations of upper-class home buyers, the high standard sends an important signal to the government and people living in the surroundings of the new town as a Ciputra city manager's comments show:

[the local government is happy] because we set a new standard: greener, cleaner, good systems for traffic. [...] They send government employees to our city for on-the-job training. The mayor always comes here – it is already a major landmark.

Because of the existence of new towns like those pioneered by Ciputra, people realize that clean and green cities are indeed possible, and non-residents increasingly demand a higher standard from their local authorities. Even resi-

dents in areas bordering the new towns become aware of the possibility of higher standards and are more vocal in their demands to the government.

Findings: Shifting roles in new town development

In this article, new town development is conceptualized as an organizational field. The use of this concept allows one to analyse how certain areas of economic activity develop over time while taking into account a variety of relevant actors such as private developers, residents (middle- and upper-class Indonesians), capital providers, and local and central authorities. The manner in which this field has emerged over time in Indonesia is linked to political, economic and demographic developments. After Indonesia's independence, the desire to modernize Jakarta in spite of the new government's limited funds created the conditions for the birth of private-public partnerships in the development of new towns to cope with the growth of Jakarta. It can be argued that in the initial stages, the government played a leading role in urban development, taking on private or public-private parties as an instrument for funding and execution. This can be seen for example in the early projects of the Jaya Group, which often arose as a result of government initiatives.

However, over time, the capabilities and ambitions of private developers increased, as did their access to funding, enabling a few pioneers, such as Ciputra, to drive new initiatives rather than just to implement them. According to the logic of economies of scale, the larger the project, the more amenities and services can be built and offered, which adds value to the land and generates recurring income, and therefore increases profit margins and reduces risks. However, the expanding scale of projects has increased the complexity of such projects and prompted developers to seek control over a broadening range of activities that often overlap with government responsibilities, ranging from levying 'taxes' to ensuring safety. While officially the mutual responsibilities remain clear, in practice many informal arrangements exist.

Eventually, the few private developers that had expanded and become influential in the New Order era became more and more powerful, and they were able to circumvent regulations and shape spatial plans. This was possible not only because of the relative power of the developer vis-à-vis the government, but also because developers like Ciputra pioneered a new business model and took on responsibilities for which no prior regulations existed. By the end of the Soeharto era, the more powerful developers had acquired not only capital, sophisticated knowledge, and management skills to run urban areas, but also political connections, all of which allowed them to take initiative and shape the rules of the organizational field.

Ciputra's rise did not go unnoticed, and several other companies, nota-

bly the large conglomerates, joined in as well, with some of them outdoing Ciputra in quality and size of new town projects. This led to a more mature market in which various companies compete for a limited pool of middle- and upper-class consumers. New players, such as Agung Podomoro, have also embarked on new town development. As the supply of new town housing increased, and land acquisition became more difficult and expensive, the market became more saturated, and competition intensified. Ciputra's annual reports show a declining trend in profit margins over the last 15 years (gross profit margins declined from about 52 per cent before the Asian crisis of 1997-1998 to about 44 per cent in 2007, according to annual reports).

The balance of power between public and private entities within the field of new town development does not appear to have altered, despite the fact that the private sector has become more diverse. This is because the public sector has also become fragmented as a result of decentralization in the post-Soeharto period. Local officials have their own agenda and generally preside over a local bureaucracy that may be underfunded and not sufficiently competent to cope with the task of providing even the most basic public facilities (Firman 2002), or a bureaucracy that treats urban development policy as a source of income, rather than as an instrument for guiding urban development (Firman 2004). Private developers of new towns have partly taken over the local governments' role in urban planning and in the construction of public amenities. Moreover, they account for a substantial share of taxed income. Therefore, most local authorities welcome new town developers. Bribes in exchange for permits or for bypassing regulations are common, giving the more affluent developers an edge over their local government counterparts.

This does not imply that such a balance of power will continue indefinitely. Organizational fields are dynamic and actors continuously change their strategies. The field has matured and respective roles of the private and public sectors have become more accepted and stable, resulting in a new set of 'rules of the game'. In recent years competition has become more pronounced, with a larger and less concentrated group of private developers active in the market. Indonesian citizens and NGOs have become increasingly vocal and may offer checks and balances to counter the power of developers, and local governments may progressively become stronger and more capable of guiding urban development. As such, the rules of the game continue to be renegotiated.

There are two unique aspects of the business model developed by the Ciputra Group. The first is a keen eye for opportunities in the market in the form of new services that cater to the expectations of a new breed of consumers. In many aspects of property development, Ciputra is a pioneer. Urban development is complex and requires the integration of planning, construction, implementation, and maintenance skills, as well as the social skills to deal with relevant actors, including the government, home buyers, and

small landowners. In this sense, it goes far beyond the simple construction of buildings. It encompasses skills in the areas of community development, traffic flow analysis, water management and environmental management. These skills, which were gradually developed and expanded by Ciputra are incorporated into increasingly sophisticated master plans for new town development. While every new town is different, basic principles of planning, development and management have become ingrained in the Ciputra Group and form part of its set of competencies. According to management literature, companies are often considered to be competitive if they possess a bundle of capabilities that cannot easily be imitated and that together allow them to generate value (Barney 1991). The activities pioneered by Ciputra himself became part of a business model that was fine-tuned over time and has proven to be commercially viable, both in Indonesia and abroad.

The second unique aspect of the Ciputra Group's business model is that it does not simply act on market opportunities. It creates its own market by taking over government roles, recognizing that it is able to offer better living conditions that appeal to the middle and upper classes. This has enabled the Ciputra Group to develop skills such as influencing public opinion, operating in ambiguous regulatory environments, negotiating tasks with local governments and advising Jakarta's governors on urban development. As such, the company is not simply an entrepreneur in the conventional sense, but it can be seen as an institutional entrepreneur which has shaped the rules of the game to suit its own interests. Ciputra has been successful in taking the initiative in large-scale urban development as well as in raising its standards. The company renegotiates respective roles with the government, such as in the construction of public facilities and in urban governance. In doing so, the Ciputra Group has appropriated and internalized certain tasks that were hitherto regarded as typical government roles. At present, private estate management is a generally accepted practice in Indonesia.

Since this type of boundary-spanning activity involves negotiating, shaping and replacing government institutions, there is also criticism. Ciputra's influence on new town development has given rise to the creation of gated communities or 'cities for the rich' (Winarso 2005) that amplify social inequality and transfer social and environmental problems to the surrounding environment (Pratiwo and Nas 2005). There is also criticism of the methods used by property firms to circumvent regulations that are designed for environmental protection and of how developers overshadow the government in urban planning, helped by connections, power and money. Nevertheless, government officials adopt a pragmatic attitude and accept private developers as inevitable partners. By nature, processes of institutional entrepreneurship are value-laden. Institutional entrepreneurship in the area of urban development is even more sensitive, as cities symbolize the cultural and political structures of a country.

By creating relatively segregated living spaces for the different economic classes (and often inducing ethnic segregation, as new towns have high proportions of ethnic Chinese), private developers in Indonesia actively engage in a process of social engineering that has important social implications.

While acknowledging the issues already mentioned, the lens of institutional entrepreneurship used in this article shows that private sector players also provide important institutional functions. Governments find it hard to fulfil these functions because of limited budgets and governance capabilities, effectively leaving an 'institutional void' that is filled by other actors in an organizational field. Property firms have positively influenced Indonesia's development by providing a higher standard of living, which in turn leads Indonesian citizens to expect higher standards from their government. Furthermore, this study has argued that new town developers such as the Ciputra Group have moved into the institutional void created by poor government performance in the provision of public infrastructure and public services, exploiting this opportunity to their advantage. Residents of new towns generally have a positive view of the added value provided by new town developers, and therefore it can be argued that the private sector is answering an actual need of a segment of the Indonesian population, one that cannot easily be met by the government. Therefore, a nuanced view of the role of institutional entrepreneurs, such as the Ciputra Group in urban development, is necessary.

To what extent is the re-arrangement of institutional functions in new town development typical of Indonesia? The broad dynamics of urbanization, economic growth and new town development are obviously not unique to Indonesia, and it is found in various developing economies, such as Thailand, Vietnam and China. In fact, the Ciputra Group is active in several other countries, suggesting that the phenomenon of private creation and governance of new towns is present in various emerging markets. Public-private partnerships are now being considered as a promising way to develop urban infrastructure in emerging markets (Koppenjan and Enserink 2009), but the arrangements differ. For example, one of the Ciputra directors points out that 'in China, the government does everything, even the road. But not in Indonesia'. In China the Ciputra Group participated in a tender procedure initiated by the government (*Property project China* 2009). It appears, however, that in countries such as China and Vietnam, the Ciputra Group undertakes a more limited role than in Indonesia. Research on other urban planning projects also confirms the presence of private sector actors that fulfil certain institutional functions. A study in Suzhou, China, shows the participation of a foreign government, together with private players, in the development of a new industrial park in China, arguably a case of 'transnational state entrepreneurship' (Pereira 2007). In this instance, the Singapore government acted as

an institutional entrepreneur supplying capital and administrative expertise.

Thus, the current case study and other scholarly research suggest that the distribution of responsibilities in new town development differs in various emerging markets, depending on the relative power and capabilities of different actors in the organizational field. While the single case study presented here does not allow one to draw conclusions on broader populations of firms or countries, it does suggest that a fruitful future line of research lies in international comparative studies to understand the variety of institutional arrangements and their relative merits.

Conclusion

Viewed through the lens of an organizational field in which various players and interest groups compete for power, this article has shown how real estate developers can emerge as the dominant actor in new town development. Using the Ciputra Group as a case study, we see how companies have been able to venture into areas which are traditionally the domain of the government because of weak government and that some of the government's functions could be incorporated into a commercial business model. This business model was expanded over time and developers such as Ciputra, Agong Podomo and the Lippo Group have undertaken a range of activities that in fact blurred the boundary between public and private roles. Because of the successes of the model these developers built up skills, knowledge, connections and capital that have allowed them to eventually dominate the government in urban planning and urban governance in selected areas. Their business model is based on filling institutional voids arising from the state's inability to offer the type of urban living conditions that affluent citizens are willing to pay for.

Ciputra has emerged as one of the pioneers that shaped the organizational field of new town development. He is a true entrepreneur in that he offers new products and services in different areas. By building up a position of influence over time, he was able to shape urban planning and urban governance with respect to new towns, renegotiating the rules of the game with the government. As this study has shown, his influence extended to re-defining the boundaries between public and private in new town development, in areas such as taking the lead in urban planning, constructing and maintaining amenities such as water and roads, and in urban governance including safety and community development. The manner in which Ciputra increased the scope of his company's activities and embedded tasks traditionally associated with the government within a commercial business model makes him an institutional entrepreneur.

The institutional entrepreneurial activities of Ciputra and those who followed in his footsteps have changed the conceptions of the role of the government and private sector in the domain of new town development. A new set of 'rules of the game' has emerged in which private developers take on broad responsibilities for constructing and managing large urban areas, which is now accepted by most parties in Indonesia, including the government. In this way, a pioneering architect was able to change the broader conceptual norms and practices public and private tasks in Indonesia. A similar process has occurred in other emerging markets, where private parties are also filling institutional voids that arise from rapid urbanization. Without passing judgement on the appropriate roles of public and private sector, this article has discussed mechanisms by which developers implemented solutions for urban problems. By using the framework of institutional entrepreneurship in organizational fields and applying it to new town planning in Indonesia, this article has uncovered new institutional arrangements that shape urbanization today and that force us to re-think the notion that the Indonesian government is and should be the primary institution shaping urban development.

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