NEGOTIATION FOR DISPUTES SETTLEMENT IN CONSTRUCTION CLAIM

(A CASE STUDY ON AIR LAKITAN IRRIGATION SUB-PROJECT – STAGE-1, INDONESIA)

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

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> > **JULY 2011**

ABSTRACT

The construction industry has many factors which contribute to disputes. Disputes waste money and also take attention and energy away from the project. Disputes limit and distort communication and destroy relationships. Dispute can also arisen from construction claim. The contractor can be a claimant and submit their claim documents when they feel they are entitled to be paid some additional money in respect of additional costs they incurred. Negotiation process, as one of ADR methods has been used throughout history to settle disputes. Negotiation involves fewer people, takes less times and usually results in strengthened relationships. The people involved in the negotiation maintain control over negotiation process.

The objective of this study is to investigate the negotiation process for disputes settlement on the construction claims for the case study, Air Lakitan Irrigation Sub-Project - Stage-1, Indonesia. The methodology of the study is documentary analysis based on the documents of the project with additional analysis of questionnaire results from the Contractor's perspective. It is found that the negotiation conducted in Air Lakitan Project is an Integrative Negotiation, or winwin approach to negotiation. The stages involved in negotiation process are; the beginning stage to identify and define the problem/issue; the middle stage to conduct meetings, understand the problem/issue fully, and generate alternative solutions; and the end stage to evaluate and select the alternative to be a deal/agreement. The easiest part of negotiation is the end stage and the hardest part is the beginning stage. Five important elements which have been contributed to the successful negotiation are good communication; skill to negotiate; willingness to work with the other party for a proper understanding of a problem and the needs of other party; willingness to bring all concerns out in the open so that the issues can be resolved in the best possible way; and the effort to investigate issues so well with the other to find a solution that would be acceptable to everyone involved.

ABSTRAK

Industri pembinaan mempunyai banyak faktor yang menyumbangkan kepada pertelingkahan. Pertelingkahan membazirkan wang dan juga mengambil perhatian dan tenaga dari projek tersebut. Pertelingkahan menghadkan dan memutarbelitkan komunikasi dan memusnahkan hubungan. Pertelingkahan boleh juga timbul dari tuntutan pembinaan. Kontraktor boleh menuntut dan mengemukakan dokumen tuntutan apabila ia merasai berhak dibayar sedikit wang tambahan berkenaan dengan kos tambahan yang ditanggung olehnya. Proses rundingan, sebagai salah satu kaedah ADR, telah digunakan sepanjang sejarah untuk menyelesaikan pertelingkahan. Rundingan kurang melibatkan orang, mengambil masa kurang dan biasanya keputusan rundingan memperkukuhkan hubungan. Orang-orang yang terlibat dalam rundingan mengekalkan kawalan ke atas proses rundingan.

Objektif kajian ini adalah untuk menyiasat mengenai proses rundingan untuk penyelesaian pertelingkahan ke atas tuntutan pembinaan bagi kajian kes yang dipilih, iaitu Air Lakitan Irrigation Sub-Project - Stage-1, Indonesia. Metodologi kajian ini adalah analisis dokumen berdasarkan dokumen-dokumen projek dengan analisis tambahan hasil borang soal selidik dari perspektif Kontraktor. Kajian ini mendapati bahawa rundingan yang telah diadakan di Air Lakitan Project adalah Rundingan Integratif, atau pendekatan menang-menang bagi rundingan. Peringkat-peringkat dalam rundingan adalah peringkat awal untuk mengenalpasti dan menentukan masalah / isu; peringkat pertengahan untuk menjalankan mesyuarat, memahami masalah / isu sepenuhnya, dan menjana penyelesaian alternatif; dan peringkat akhir untuk menilai dan memilih alternatif yang akan menjadi perjanjian. Bahagian paling mudah rundingan ialah peringkat akhir dan bahagian paling sukar ialah peringkat awal.

Lima elemen penting yang telah menyumbang kepada rundingan yang berjaya ialah komunikasi yang baik; kemahiran untuk berunding; keinginan untuk bekerja dengan pihak lain untuk pemahaman masalah yang betul dan pemahaman keperluan pihak lain; kesediaan untuk membawa semua kebimbangan di tempat terbuka supaya bahawa isu-isu boleh diselesaikan dengan cara yang terbaik dan usaha untuk menyiasat isu-isu dengan begitu baik dengan yang lain untuk mencari penyelesaian yang akan diterima oleh semua orang yang terlibat.

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LIST OF ABBREVIATIONS

ABMI Asian Bond Markets Initiative

ADR Alternative Dispute Resolution

BM Bench Mark

BOQ Bill Of Quantity

BPKP Badan Pengawasan Keuangan dan Pembangunan

BWS Balai Wilayah Sungai

CCO Construction Change Order

FIDIC Federation Internationale Des Ingenieurs-Conseils

GCC General Condition of Contract

JBIC Japan Bank for International Cooperation

JFC Japan Finance Corporation

MC Mutual Check

NWL Normal Water Level

SNVT Satuan Non Vertikal Tertentu

CHAPTER 1

Introduction

CHAPTER 1

INTRODUCTION

1.1 Background of Research

The construction industry is a great industry for creating disputes. So many factors in construction can bring out the disputes. Disputes not only waste money, but also destroy relationships. They take attention and energy away from the project, and the focus is no longer on successful completion but on the impending fight. Disputes limit and often distort communication, raise suspicion and threaten financial instability. Four common categories of dispute in construction life include: contract, finance, culture of construction, and external factors (D.Richbell, 2008).

In financing the activities of the project, the contractors are always concern to make higher profit. It is common to see the contractors submit a claim to save their profit margin as high as possible. Meanwhile, the employers always try to keep the project cost still on track and be under the budgeted cost.

Claim is a general term for the assertion of a right to money, property or a remedy. Garner's *Dictionary of Modern Legal Usage (Oxford University Press, 1995)* gives 'to take or demand as one's right' as the primary meaning of the word.

Jeremy Hackett (2000) explained that main contractor claims are more often brought as a defensive mechanism as against the risk of late completion, which gives the employer the right on most contracts to deduct Liquidated Damages. Where it appears to the Contractor that he is entitled to be paid some additional money in respect of additional costs incurred by him, he should set out the facts giving rise to claim, identify the clause of the contract entitling him to payment, and calculate the amount of the claim, including where appropriate allowances for on costs and for profit. In general such a claim should be lodged as soon as possible after the events from which it originates and where necessary, information should be given piecemeal, as it becomes available (Douglas A. Stephenson, 1982).

In developed countries, where construction industry had grown rapidly and using high technologies, claim problems have been well-known and become common matter that happened between the employer and the contractor within construction projects. The contractors in those countries compete with one another in order to win the tender and carry out the project (Ir.H.Nazarkhan Yasin, 2004). Working relationships, communications, and contractual commitments in construction industry are often carried out not in good faith. This has led to most developed countries to search for better alternatives on how to manage disputes in the construction industry. Though it has been seen that disputes in the industry is like incurable an disease, means the disputes usually are done with fighting/bargaining/arguing between parties.

Developing countries are still facing with dispute problems. Alternative dispute resolution is therefore essential for the industry in order to improve its performance. In its pristine form, Alternative Dispute Resolution (ADR) is originally referred to as a variety of techniques for resolving disputes without litigation. But, having regard to the evolution of modern techniques, such as caseload management and the ever-growing prevalence of ADR within the litigation context, it might be more accurate now to describe ADR not as an alternative to litigation but one technique which is appropriate in the context of dispute resolution generally. Following that way of thinking, litigation is considered as just one of a variety of methods of dispute resolution (A.Fiadjoe, 2004).

David Richbell (2008) explained the various methods of resolving disputes, such as Negotiation, Conciliation, Mediation, Arb/Med and Adj/Med, and Court Settlement Procedure.

Turner and Turner (1999) stated three ways of dispute resolution;

- a) self-help method which is counter-productive and lacks finality consisting of beating the opponent over the head with a club
- b) Submit the argument to be settled by someone who has a bigger club than either of the disputants
- c) The agreement by both disputing parties to submit it to a third person in whom they have confidence and to take to abide by his or her decision.

Classification of Alternative Dispute Resolution by Sourdin (2005) would be;

- Facilitative processes involving a third party often with no advisory or determinative role, providing assistance in managing the process of dispute resolution.
- 2. Advisory processes involving a third party who investigates the dispute and provides advice on the facts and possible outcomes.
- 3. Determinative process involving a third party investigating the dispute, which may include a formal hearing, and the making of a determination which is potentially enforceable.

Sourdin (2005) classified facilitative modes in ADR as Negotiation, Facilitation, Partnering, Conferencing and Mediation. Negotiation is ADR which is considered facilitative in nature.

Negotiation has been used throughout history to settle disputes. Negotiation is often conducted on a "without prejudice" basis, where any comments made or documents produced are confidential and cannot be used in subsequent proceedings. Negotiation is any form of communication between two or more people for the purpose of arriving at a mutually agreeable solution. In a negotiation, the disputants may represent themselves or may be represented by a negotiating agent or agents. The people involved in the negotiation, whether the disputants or their agents, maintain control over the negotiation process (A.Fiadjoe, 2004).

Effective negotiation is more than just securing a settlement as near as possible to one's opening position. It also implies ensuring that the settlement is consistent with, and contributes to the achievement of, the organization's whole business objectives and purpose. Effective negotiation is rarely limited to the sheer exploitation of a power advantage. The best settlement is one in which both sides can recognize their own and mutual advantages (Alan Fowler, 1986).

Air Lakitan Irrigation Project is one of multipurpose dam projects in Indonesia located at Lubuk Linggau, South Sumatera Province. Air Lakitan Irrigation Sub-Project – Stage-1 was the first stage in the construction of multipurpose dam in Lakitan river area, to supply water for Lakitan irrigation area (DI Lakitan) at Musi Rawas District with 13.950 hectares area. Method of procurement was one envelope with pre-qualification. The opening of Contractor's Biddings was on November 21, 2005 and Acceptance Letter was issued on May 06, 2006.

Figure 1.1 below shows the location of Air Lakitan Irrigation Project in South Sumatera Province, Indonesia.



Figure 1.1. South Sumatera Province

PT. Brantas Abipraya (Persero), who was appointed as contractor, entered the contract in May 29, 2006. Time for completion of the Works was within 910 consecutive days calculated from the last day of the stipulated Period of Commencement after receipt of the Notice of Proceed, issued on June 26, 2006. Figure 1.2 below shows the Weir Downstream of Air Lakitan Multipurpose Dam.

During construction period, many differences and changes occurred. There were amendments for price adjustment, changes of contract volume, new work items, change of master schedule and volume revision based on Construction Change Order (CCO). These factors affected the time for completion and contract price. There were extension of time and additional cost that changed the contract price that had been claimed by the Contractor to counter many changes within construction period.



Figure 1.2. Weir Downstream of Air Lakitan Multipurpose Dam

1.2 Problem Statement

Negotiation has been used throughout history to settle disputes. Negotiation is often conducted on a "without prejudice" basis, where any comments made or documents produced are confidential and cannot be used in subsequent proceedings. Negotiation is any form of communication between two or more people for the purpose of arriving at a mutually agreeable solution. In a negotiation, the disputants may represent themselves or may be represented by a negotiating agent or agents. The people involved in the negotiation, whether the disputants or their agents, maintain control over the negotiation process (A.Fiadjoe, 2004).

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This Air Lakitan Irrigation Sub-Project – Stage-1 has been chosen as the case study for the research due to the negotiation process which involved a lot of money nonetheless had been able to be solved within a short period of time. There were many factors which can be learnt from the negotiation process in this project.

One of the claims in Air Lakitan Irrigation Sub-Project – Stage-1 which was brought successfully by the Contractor's Claim Team was a claim for extension of time and additional cost as a result from failure of the Employer to give possession of part(s) of the Site and variation works.

Giving possession of the site to the Contractor is one of implied duties of the Employer. The site is needed for the Contractor to commence the Works. Failure of giving the site or part(s) of the site will lead to a delay of the Works or part(s) of the Works. This gives the Contractor a right for extension of time or perhaps additional cost that the Contractor incurs.

The Letter of Intention to Submit Claim was dated on 7 August 2008 for the period of claim from June 2006 to May 2008. The negotiation meetings started from November 9, 2009 and achieved the conclusion on November 21, 2009, without interrupting construction works in the site. The Preliminary Meeting was held on November 9, 2009, after the Negotiation Team from the Employer finished the evaluation on claim documents. The first Evaluation and Negotiation meeting was held on 23 November 2009. When the agreement was not achieved, the Employer and the Contractor agreed to hold the next meeting in the following week, until the agreement was achieved in the 5th meeting on December 21, 2009.

Issues that need to be determined in this negotiation process would include:

- 1. How was the preparation of the Contractor before the negotiation process,
- 2. How the negotiation process was carried out

The negotiation has been considered as successful taken into account the time and amount of claim involved. It was settled without the involvement of an ADR practitioner.

1.3 Objective of the Research

To investigate the negotiation process for disputes settlement on the construction claims from the Contractor's perspective.

1.4 Scope of the Research

This research has been carried out with a careful study on data collected mainly on case study and questionnaire survey exercise conducted on the Contractor's personnel who have been involved in the negotiation process. Scope of the study has been focused on the negotiation process at Air Lakitan Irrigation Sub-Project – Stage-1, Indonesia for Contractor's Construction Claim, especially how the contractor used his right to claim, and how the Contractors experienced the process of negotiation and their opinions on the whole process itself.

Contactors have been the focus of this study because they were the party who submitted the claim and agreed to the decision made by the negotiation team. The other reason why they have been chosen is because the Client does not want to reveal any information that they have during the negotiation process.

1.5 Importance of the Research

The importance of the research is to give us knowledge about the benefit of negotiation for disputes settlement in construction claim and how to make the process become effective.

1.6 Methodology

The methodology of the research was a case study of negotiation process on Air Lakitan Irrigation Sub-Project – Stage-1, Indonesia. Based on the case study, documentary analysis based on the contract documents of the project, the documents of Contractor's Construction Claim and the conclusion in the amendments of the contract document have been made.

1. Contract Documents

The study has focused on the legal basis of the claim from the Contractor's side. The provisions which have been looked into covers the claim of failure to give possession and variation works.

2. Claim Documents

The study has used documentary analysis by analysing the supporting documents that were prepared by the contractor to submit the claim for failure to give possession and variation works.

3. The Amendment

An agreement between parties for the contractor's claim was pre-audited by Badan Pengawasan Keuangan dan Pembangunan (BPKP) before being approved as the amendment of the project.

In addition to the documentary analysis, the study also analyzed the results of questionnaires filled by the respondents who consisted of Contractors who have been involved in the negotiation process.

1.7 Organization of the Thesis

This research covers five (5) segments as follows:-

Chapter 1: Introduction

This segment introduces the focus of the research. An introduction to theory of negotiation and construction claim and the case study chosen for the study has been discussed. The objective undertaken for this thesis is presented in Chapter 1. It also presents the scope; objective of the research; as well as the methodology and the outline of this research.

Chapter 2: Construction Claim and Negotiation

This chapter discusses further about construction claim and negotiation theories.

Chapter 3 : Methodology of Case Study on Air Lakitan Irrigation Sub-Project – Stage-1, Indonesia

This chapter discusses in detail about methodology of the case study on construction claim of the project and how negotiation was carried out. The methodology is documentary analysis in nature and has been backed up by questionnaire surveys filled by the respondents.

Chapter 4: Analysis on Negotiation Process on Case Study

This chapter consists of the analysis on the negotiation process that was carried out for disputes settlement in the case study.

Chapter 5 : Conclusion and Recommendations

This chapter consolidates the research findings which constitute as conclusions for this study. This section also includes recommendations and suggestions for future research.

1.8 Summary

This chapter covered the introduction problem statement of negotiation process for disputes settlement in construction claim that has been conducted in this study. This chapter states the objectives, scope, methodology used and organization of the thesis. Air Lakitan Irrigation Sub-Project – Stage-1 has been chosen as the case study for the research due to the negotiation process which involved a lot of money nonetheless had been able to be solved within a short period of time. The results to be obtained from the research can give knowledge about the benefit of negotiation for disputes settlement in construction claims and how to make the process become effective.

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