

**A COMPARATIVE STUDY ON INDONESIA AND MALAYSIA
CONTRACTOR SELECTION PRACTICES**

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UNIVERSITI TEKNOLOGI MALAYSIA

**A COMPARATIVE STUDY ON INDONESIA AND MALAYSIA
CONTRACTOR SELECTION PRACTICES**

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**A thesis submitted in fulfillment of the
requirements for the award of the degree of
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DEDICATION***Always...***

To my beloved wife and son,
Whom I will always come to;

Not to Forget...

My beloved family (parents, sister)
Whom I can always return to

And Last but Not Least...

To Dr Roslan, and
The numbered acquaintances out there
For your unrelenting patience, and
For the insights and guidance, which I will treasure

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ABSTRACT

Contractor selection is one of the main phases in the construction project faced by the clients. The contractor roles is to transform the design into reality. It plays an important role in the successful of the project because wrongful in selecting a contractor will result in failure of the construction project. Previously predominant contractor selection process used is 'low-bid'. But right now, clients tend to move away from a "lowest price wins" principle, to multi criteria selection approach.

In order to procure the capable contractor, every country including Indonesia and Malaysia has guideline for contractor selection. In Indonesia, the guideline is Permen PU No. 43/2007. This guideline predominantly use an approach called "the lowest bid". In some instances it is occasionally unsatisfactory, the lowest bid is considered too low and it becomes a major concern for the owner. Meanwhile, in Malaysia, the various criteria for selection of contractors were practiced by the government. Public Work Department (PWD) issued a Tender Assessment Guide through SPKPKR Bil. 4/1993 and use of "Cut-Off" Price method for tender evaluation. Therefore, there is different in approach in the current tender evaluation practice between Indonesia and Malaysia.

The aim of this study is to identify areas for improvement in contractor selection through comparative study between Malaysian and Indonesian practice. To achieve the aim of the study a documentary analysis on the current tender evaluation practice for the project that used government funds in both countries is conducted using the SWOT analysis.

According to the results of the comparative SWOT analysis of tender evaluation practice in both countries, there are 8 (eight) areas for improvement to the current Indonesian tender evaluation practice which consist of 3 (three) areas which can be done by maintaining the strengths of the current tender evaluation practice and 5 (five) areas of improvements to overcome the weaknesses of the current practice. In conclusion, the result of this study can be used by the related bodies to improve the tender evaluation practice in Indonesia.

ABSTRAK

Pemilihan kontraktor adalah salah satu daripada fasa utama dalam projek pembinaan yang dihadapi oleh clients. Peranan kontraktor ialah untuk mengubah reka bentuk ke dalam realiti. Ia memainkan peranan penting dalam kejayaan projek kerana salah dalam memilih kontraktor akan menyebabkan kegagalan projek pembinaan. Proses pemilihan kontraktor sebelum ini yang utama digunakan adalah 'lowest-bid'. Tetapi sekarang, clients cenderung untuk beralih daripada "lowest price wins" prinsip kepada kriteria pemilihan dengan pelbagai kriteria.

Dalam usaha untuk mendapatkan kontraktor yang mampu, setiap negara termasuk Indonesia dan Malaysia mempunyai garis panduan bagi pemilihan kontraktor. Di Indonesia, garis panduan ialah Permen PU No 43/2007. Garis panduan ini lebih banyak menggunakan pendekatan yang dipanggil "the lowest bid". Dalam keadaan tertentu, ia kadang-kala tidak memuaskan, tawaran yang paling rendah dianggap terlalu rendah dan ia menjadi kebimbangan utama bagi clients. Sementara itu, di Malaysia, pelbagai kriteria untuk pemilihan kontraktor yang diamalkan oleh Kerajaan. Jabatan Kerja Umum (JKR) mengeluarkan Panduan Penilaian Tender melalui SPKPKR Bil. 4 / 1993 dan penggunaan kaedah Harga "Cut-Off" untuk penilaian tender. Oleh itu, ada yang berbeza dalam pendekatan dalam amalan penilaian tender semasa antara Indonesia dan Malaysia.

Tujuan kajian ini adalah untuk mengenal pasti kawasan untuk peningkatan dalam pemilihan kontraktor melalui kajian perbandingan antara amalan Malaysia dan Indonesia. Untuk mencapai matlamat kajian analisis dokumentar pada amalan semasa penilaian tender bagi projek yang menggunakan dana Kerajaan di kedua-dua negara adalah dijalankan menggunakan analisis SWOT.

Menurut hasil analisis perbandingan SWOT amalan penilaian tender di kedua-dua negara, terdapat 8 (lapan) bidang yang perlu diperbaiki Indonesia amalan semasa penilaian tender yang terdiri daripada 3 (tiga) bidang-bidang yang boleh dilakukan dengan mengekalkan kekuatan amalan penilaian tender semasa dan 5 (lima) bidang penambahbaikan bagi mengatasi kelemahan amalan semasa. Kesimpulannya, hasil kajian ini boleh digunakan oleh badan-badan berkaitan untuk memperbaiki amalan penilaian tender di Indonesia.

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CHAPTER 1

INTRODUCTION

1.1 Background of Study

Tender means make a formal written offer to carry out work, supply goods, etc. for a stated fixed price (Oxford Dictionary, 2002). The greater part of the work carried out in the construction industry is secured through a process of tendering which is intended to be an unbiased means of selecting a contractor to carry out work (Brook, 2008). Tendering is considered as the most important phase of construction project life cycle since the process is the first transaction between the owner and the contractor (Abduh and Wirahadikusumah, 2005). Evaluation of tenders is one of the pre-contract activities to select the most qualified contractor to carry out a project. Wrongful in selecting a contractor will result in failure of the construction project.

According to Latham (1994), clients should obtain projects to which they aspire is a goal worth striving for. However, unlike a typical consumer, the construction client, once committed to acquisition, is reliant upon a successful production process to achieve this level of satisfaction. Such satisfaction may be defined in terms of time, cost and quality standards which are not mutually exclusive (Holt *et al*, 1995).

The new and fast developments and needs in different aspects of human life, has lead the professionals in construction industry to use alternative forms of project delivery system, but the tendering and awarding systems are still largely in their original form (Hatush and Skitmore, 1997). The “lowest bidder” is the most commonly used criterion in public project procurement Contractor, when faced with a shortage of works, are more likely to enter low bids simply to stay in business in the short term and in the hope of somehow raising additional income through “claims” or cutting costs to compensate. From a clients’ point of view, such contractors are risky (Hatush and Skitmore, 1998). The insufficiency and inappropriateness of the awarded contractor has lead to sub-standard work, delays, disputes, or even bankruptcy (Hatush and Skitmore, 1997).

In order to cope with new developments and invite suitable bidders it is necessary to clarify and develop pre-determined selection criteria, to improve and organize the assessment of information relating to these criteria, and to develop methods for evaluating the criteria against the owner’s goals in the prequalification and bid evaluation stages of the procurement process (Hatush and Skitmore, 1997). Most public sector and some private sector clients still find it difficult to accept anything other than the lowest bid from tenderers. However, many instances of poor performance and hence higher overall costs, arising from this “easy” choice on previous projects, have now motivated clients to seek ways of assessing potential performance (Kumaraswamy, 1996).

The findings from investigation which held by Wong *et al* (1999) into the use of project specific criteria and / or the lowest price wins principle during evaluation of tendering contractor, reveals that the industry is moving to a multi-criteria approach. This shows that choice of contractor is being made on a value rather than lowest-price judgment and is therefore in harmony with the aspirations of CIRIA (1998). The Construction Industry Council (1994), Latham (1995) and UECO (1995) have also advocated this concept. This indicates that there has been consciousness in the construction industry to improve the implementation of contractor selection. Selection of contractor has long been concerned with the tender price with no consideration for the ability of the contractor. Therefore, the selection of contractor

which based on various criteria has been studied by many researchers to produce a selection of contractors who can choose the best contractor.

In summary, a satisfactory process of procuring a contractor is critical in achieving a successful construction project. The choice of contractor should be made on a value for money basis rather than automatically accepting the lowest bid. Therefore, the decision to select the best contractor has to be based on objective criteria. These criteria should assure the interest of the clients' need. The ultimate aim should be to identify best tender not lowest bidder, i.e. to procure the best contractor (Holt *et al*, 1995).

1.2 Statement of Problem

As highlighted before, one of the problems that exist in the construction industry is the selection of a contractor which is not qualified to carry out the project. The insufficiency and inappropriateness of the awarded contractor has lead to sub-standard work, delays, disputes, or even bankruptcy (Hatush and Skitmore, 1997).

In Indonesia, for the guidance in contractor selection the government issued a Minister Public Works Regulation (Permen PU) No. 43/2007 on the Standards and Guidelines for the Procurement of Construction Services. The contractor selection for public works project that use state funds should follow this regulation. The objective of the regulation is to provide standards and guidelines for more operational and effective in the implementation of procurement of construction services (contractor selection). The process should be efficient, effective, transparent, competitive, fair, and accountable.

However, in Indonesia the most commonly used evaluation method is “the lowest bid.” This parameter is relevant in most cases, however, it is occasionally unsatisfactory. In some instances, the lowest bid is considered too low and it becomes a major concern for the owner. The government projects require rigid procedures to benefit broader community involvement, to provide higher competition

among contractors, and to prevent collusion and corruption. The challenges are mostly include the practice of collusion and corruption. These include the collusion among all the bid participants, the submission of unreasonably low bid, the unreasonably high owner's estimate, and the use of unbalanced bid. These frequently result in higher disputes and wasting taxpayers' already limited fund (Abduh and Wirahadikusumah, 2005).

Meanwhile, in Malaysia, the various criteria for selection of contractors were practiced by the government. Public Works Department (PWD) is a government agency that most of its work focuses on construction contracts for all of its ministries and government departments. Public Work Department (PWD) issued a Tender Assessment Guide through the Circular of the Director General of Public Work (SPKPKR) Bil. 4/1993. And then in 2004, the Public Work Department (PWD) also decided the use of "Cut-Off" Price method for tender evaluation. The presence those two guidelines were the effort of the department to improve the quality of service of contractor selection process in Malaysia.

Therefore, there is different in approach in the current tender evaluation practice in Indonesia and Malaysia. Its then lead to the need for an investigation of what the strengths and weaknesses in the implementation of current contractor selection in Indonesia to determine the improvement needed to be conducted. That is what the researcher is trying to study which is to identify areas of improvement for current contractor selection practices in Indonesia by comparing to the contractor selection practices in Malaysia.

1.3 Objective of Study

The aim of this study is to identify areas for improvement in contractor selection through comparative study between Malaysian and Indonesian practice.

The objective of this study are as follows :

- 1) To identify the strengths and the weaknesses of the current contractor selection practice
- 2) To determine the areas for improvement which need to be done

1.4 Scope of Study

The scope of this study is focused on the tender evaluation in contractor selection practices for public sector which use government fund in Indonesia and Malaysia. This study also only will delimited on the building project used traditional procurement system and competitive tendering.

1.5 Significant of Study

The significant of this research study is that it can be used as an input to the Ministry of Public works Republic Indonesia concerning with the method of contractor selection to improve the current contractor selection guidelines.

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