New Town Development in Indonesia: Renegotiating, Shaping and Replacing Institutions

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Abstract:
This article explores how private sector players in new town development in Indonesia have worked around, shaped and replaced urban governance and planning institutions, effectively re-negotiating the boundaries between public and private sector. While most literature views urban development from the perspective of the state, this article complements this with a study of a prominent private sector player, the Ciputra Group. The results of the study suggest that private sector players have appropriated a much larger role in areas such as urban planning, constructing public infrastructure and urban governance than previously acknowledged. This could happen because public institutions were weak and unable to provide basic infrastructure and services to an increasing middle class. While most literature points at the lack of alignment of private developers with national priorities, this article suggests that a more nuanced view of the respective roles of public and private players in urban development in Indonesia is necessary.

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In line with the trend of urbanization in the developing world, Indonesia has witnessed a rapid demographic shift from rural to urban living. The United Nations estimates that the percentage of Indonesia's population living in urban areas was 17% in 1970, 22% in 1980, 31% in 1990 and 42% in 2000 and has now surpassed 50% (UNCTAD World Urbanization Prospects 2007). This rapid urbanization is mirrored in the growth of Jabotabek[1] 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 presented the Indonesian government with increased demands for infrastructure, such as roads, sewerage, water management, public transport, and housing. The government has not always been able to keep up with the increased growth, and Jakarta today faces an assortment of problems such as regular flooding, pollution, security problems, poor road and pavement conditions, persistent traffic jams and weak public transport.

Next to urbanization, Indonesia also witnessed significant economic growth in the past decades. During Suharto's New Order, for example, the economy grew with an average of 7% annually over a period of 32 years (1966-1998). Economic growth in turn has led to the emergence of a middle class of people owning cars, a house, and who have access to private schools and private health care. The middle class, frequently located in urban areas, could afford better living conditions, and was willing to pay for the conveniences of clean air, a parking space, greenery, safety, nearby schools of high quality, or reliable tap water.

The combination of a crowded city with poor urban infrastructure and a new class of affluent urban Indonesians created a business opportunity for private developers, which started to transform rural areas away from the city centre into suburban satellite cities fully equipped with facilities, including roads, sewerage, own schools and healthcare, own 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 when the growth of Jakarta accelerated.

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 this type of activity and one of Indonesia's most prominent developers.

Urbanization is a multifaceted process encompassing various areas of social life, and 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 commanding 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 (e.g. Scott 1995).

[1] The acronym Jabotabek is often used when referring to the larger Jakarta Metropolitan Area, and refers to Jakarta, Bogor, Tangerang and Bekasi.

The reality in Indonesia, however, is that private developers have taken over part of the roles attributed to the state (e.g. Winarso & Firman 2002). For this reason, real estate companies are sometimes cast in a dark light as entities that manipulate, ignore or exploit government policies for private gain (e.g. Pratiwo & Nas 2005). The idea that actors can change institutions endogenously to better suit their own interests is discussed in a more recent stream within institutional theory. In this literature, actors are endowed with greater 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 they exhibit weak or rapidly changing institutional frameworks, scholars still have little understanding of how private sector actors can 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 in what ways private sector players proactively shape the institutions relevant to urban development, this study deepens 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 enable a more complete 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 Mr. Ciputra's activities in new town development, placed within the context of urban and economic development in Indonesia since independence. The subsequent section focuses on three areas in which the Ciputra Group negotiated the boundaries between public and private. The third section then analyzes the emerging organizational field of new town development and outlines the roles that the Ciputra Group played in shaping Indonesian cities, proposing that the Ciputra Group can be seen 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 each emerging market is subject to debate, and increasingly there are suggestions that best practice institutions in developed markets cannot be transplanted to emerging markets (Rodrik 2008). In emerging markets, new repertories of institutions are being generated in which mutual responsibilities between different actors, such as NGOs, governments, the private sector are re-shuffled in ways that better suit local constraints. Because scholars and international institutions such as the World Bank have a tendency to focus on formal government institutions, there is still little understanding of how alternative forms of governance emerge, and what roles different actors play in this process. To allow scholars to capture processes of institutional formation and change, a central concept in the institutional literature 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 & 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 forming and those that are mature, where 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 & Eisenhardt 2009). While mature fields are also characterized by change (Greenwood, Suddaby & 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 (e.g. Child, Lu & 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 & Boxenbaum 2008). While some research has been underway on organizational competencies of institutional entrepreneurs in developed markets, in particular NGOs or civil society action groups (Maguire, Hardy & Lawrence 2004), we still have limited insights in the mechanisms used by private firms who become institutional entrepreneurs in emerging markets. Understanding processes of institutional entrepreneurship is vital for emerging market governments, because institutional entrepreneurs enact economic and social changes with 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 demands for urban infrastructure, which the government can only partly meet. The rapid rise of cities like Jakarta occurs in a rather unplanned manner, creating ambiguity and discrepancies between rules and practices. Problems associated with rapid urbanization present developers with opportunities in the form of developing semi-autonomous satellite cities. The roles of different public and private actors are shifting over time, and rules and responsibilities in 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 opportunities associated with urban living. The objective of this article is to map out the organizational field of new town development, and 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 included 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 was 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 actively presents himself as a visionary rags-to-riches entrepreneur whose primary goal is to “enhance the quality of life for Indonesians" (quoted in: Business Times, July 3 1995). From the side of Indonesian officials, there was myth-making of another kind, in which a "powerless" government was taken for a ride by unscrupulous and resourceful businessmen that jeopardized their good intentions for the country. Given these contrasting myth-making processes, we addressed possible biases in our results through selecting respondents across categories (theoretical sampling) and through systematically comparing the narratives of different actors on similar topics (triangulation). The key theme that emerged after careful analysis of all sources was the negotiated boundary between private and public sector in new town development, which is further analyzed in the next sections.

Table 1 about here

Introduction to Ciputra and the Ciputra Group

The history of Mr. 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 while imprisoned by the Japanese in the Pacific War when Ciputra was 12 years old. He went to Bandung to study at ITB and partly funded his studies by working. Ciputra graduated as an architect in 1960, at a time when the then president of Indonesia, Sukarno, had nationalized most foreign companies, and foreign experts had left the country. Meanwhile, as Indonesia's capital city Jakarta grew rapidly, there was a necessity to expand the supply of housing and other infrastructure. According to Silver (2008:92) an average of 167,000 people were added to Jakarta's population every year between 1961 and 1971. In additional to practical needs, Sukarno, himself an architect, 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, Ciputra had already set up a company in 1957 while at ITB together with his friends Ismail Sofyan and Budi Brasali. After their graduation in 1960, these friends thus already had some experience and decided to continue working collectively and sharing projects. Ismail Sofyan described in an interview how the friends divided the work geographically, Sofyan focusing on Medan, Brasali remaining in Bandung and Ciputra moving to Jakarta. While they had hitherto focused on consulting, Ciputra was keen to develop something himself. According to an interview with Ciputra it was Ciputra himself who sought an audience and convinced the then governor Soemarno, and subsequently Sukarno of his ideas for Jakarta.

After obtaining approval for his plan to renovate 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 developer partly founded and controlled by Jakarta's provincial government, where he stayed for 35 years and worked closely with several of Jakarta's governors. The Jaya Group was an idea of Jakarta's governor Soemarno, who realized that whereas Sukarno had given approval for various real estate developments, in fact the government did not have the resources to fund them. Hence, he gathered people from the private sector to lend a hand by jointly establishing a new company. Ciputra became the professional manager and initially 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, the political flavour at the time was strongly opposed to capitalism and Sukarno envisioned Indonesia as a socialist state with a strong role for the government. Jaya was forced to become a private company because a new law in 1962 did not allow governments to be involved in the private sector. To address this problem, the Jaya Group 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 Suharto 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 the 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 government's goals, emphasizing in its keys to success "service to society" before "making profit" (Winarno 1987:33).

The second major project by the Jaya Group was more ambitious than the already vast Senen project and involved redeveloping a large swampland in the northern seaside of Jakarta, a project 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 covering several decades. The recreational park known as *Dunia Fantasi* was opened in 1985. The effect of the project was that Jakarta was repositioned as a beach city. Both Senen and Ancol were path-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 was now not only seen as an esteemed developer, but also as one that was able to act upon opportunities that others could not perceive.

Economic growth accelerated in the period when Suharto was president (1966-1998), with Jakarta's population increasing from 4 million in 1970 to 6 million in 1980 and 8 million in 1990. One of the methods of dealing with Jakarta's 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 & Nas 2005). In the New Order period, Ciputra and his friends built close connections with subsequent governors of Jakarta, most notably Ali Sadikin (governor from 1966-1977), who, according to a former minister interviewed for this study, came 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 the developer.

In turn, the government established regulations that aimed at aligning the interests of private sector developers with those of the nation. An example of this was the regulation issued in 1974 that for every large house built, 3 smaller and 6 very small houses should be constructed, to ensure that developments would benefit both the rich and the poor and would encourage integration rather than promote economic segregation. In practice, however, developers were able to either construct the smaller houses elsewhere (with less facilities and on cheaper land) or to pay fines or bribes that enabled them to get around this rule.

In the 1970s Mr. Ciputra, along with other partners, pioneered the development of the first privately built satellite city in Jakarta. In 1973, the three friends proposed to Ali Sadikin to develop an area that later became Pondok Indah, targeted at the upper class and at 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 the friends sought help from tycoon Liem Sioe Liong to finance the project. In Pondok Indah, the private sector already took care of building facilities such as roads and connections to the state electricity network, as well as security, but these assets and facilities were later transferred to the government.

After Pondok Indah, Ciputra and his friends continued developing experience in 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 very large projects. On the one hand, such large scale residential projects granted architects more freedom to design integrated areas, and on the other hand, it did not permit competitors to be free riders and make 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, schools and clinics, road maintenance, maintenance of greenery, and also community development and sports activities.

The BSD project, initiated in 1989 and opened in 2004, was even larger in scope and combined residential with commercial development, as well as with a range of privately built facilities. The targeted area encompassed 6,000 hectares, to be developed in stages (Silver 2008). As a consequence, Ciputra developed a much broader expertise than an ordinary developer of buildings, including technical skills in areas such as water, sewerage, electricity and in urban planning. In addition to basic infrastructure, Ciputra also increasingly built other services such as 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 later emulated their model. According to Winarno (1987), and supported by interviews, one of Ciputra's key characteristics was to see new opportunities and to go into areas where nobody had ventured before. Ciputra also maintained good contacts with the Jakarta city government, and became a trusted government partner as his reputation formed. The government was essential to obtain permits, access to relatively cheap land, and for clearing land for large projects, something that was still relatively easy under the Suharto 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 came back from university, the three friends decided that they could now start their own groups and own projects, rather than sharing their projects. In 1981, Mr. Ciputra started his own Ciputra Group and continued a variety of property projects, including various new towns around Jakarta and in Surabaya. In Surabaya, one of the largest projects in Indonesia arose, 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, had no facilities and that was extremely dry. Ciputra now knew that he would be able to build all facilities, including water, sewerage, roads and greenery himself, 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 city and facility management, rental, running shopping malls, and so on. Such business logic provides an additional reason for developers to offer a larger scale of activities. Moreover, well-run facilities are essential to maintain high land prices.

Within the CitraLand (sometimes called CitraRaya) project in Surabaya, started in 1993, the Ciputra Group increased its involvement compared to earlier projects, and it built as well as managed a large urban area putting up its own governance structures in the form of privately run city management. As Winarso (2002) also showed, the existence of facilities and roads was not any more a decision criteria for the location of new developments – instead the land price became the key factor, as developers like Ciputra derived their profits from the extra value they could add to the land by building proprietary facilities. The success of this model was 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 crisis just a few years later (source: annual reports). Till date, the Surabaya project contributes substantially to Ciputra Development's profits.

Although developers claimed already in the 1980s that their new towns would be self-sufficient, in practice this was not the case, and the majority of the inhabitants still commute to Jakarta for their jobs (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. Most developers nowadays also build office towers and hotels within the new towns, all of which generate jobs in both the higher and lower segments. The lowly paid jobs generated in the new towns, for example in maintenance of greenery, as golf caddies, in security, or as household personnel of the residents, are often taken up by the inhabitants of surrounding villages, so that the larger and more modern integrated new towns have more trickle down effects than the earlier models.

Over time, Mr. Ciputra, with his pioneering spirit and keen eye for new opportunities, became a central player in Indonesian property. Not only was his vision appreciated by local governments, he also became 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 in the Asian Crisis, when it was technically bankrupt, the group has again gained importance and remains an important and well-connected player in the real estate sector.

Since the 1990s, other private developers had 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 or Agung Podomoro even went further than Ciputra in terms of the scope of the project and the control it exercised over the area and its surroundings. All these projects overlapped with government roles in governing and developing urban areas. A business model was born in Indonesia in which private developers developed, maintained and governed large urban areas with a commercial objective. While this is not uncommon, for example in the United States, ministers interviewed for the study thought the dominant role of the developers stood in stark contrast to the perceived ideal role of the Indonesian government as a welfare state in which the government would take care of basic services (water, electricity, transport) for all its citizens. By providing part of these facilities privately for the rich, government officials argued that new towns contributed to social inequality (e.g. Silver 2008:199; interviews). Yet, at the same time, the (former) cabinet members interviewed for this study acknowledged that given budget and capacity constraints, the government could not fulfil its promise to all citizens, and that the private developers were an inevitable and more capable partner in modernizing urban Indonesia.

In the more mature market for new towns from the year 2000 onward, 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 witness similar urbanization and economic growth processes as those in Indonesia in the previous decades, but where local property players have not yet acquired the skills to build large new towns, for example in Vietnam, where The Ciputra Group "set the benchmark in property", according to a Ciputra partner. A former minister commented that "Developers like Ciputra thrive in immature systems, they find loopholes, that's why they go to Vietnam, Cambodia – those are also immature systems". A Ciputra director said that "developing countries [..] are not yet so 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 allowed the company to be a first mover by meeting a real need of consumers in a less competitive and less regulated institutional arena.

Analysis: Negotiating public-private boundaries

While new towns for the middle and upper class 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 were 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 facilities; and 3. Governance of urban areas. In all these areas, the Ciputra Group was able to interact with institutions and proactively change the rules of the game in order to design an effective business model that would work for 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 and restricts various types of land use. Officials at several layers of the Indonesian government indeed produced detailed spatial plans for the special region of Jakarta. A range of permits was necessary to develop an area and to ensure compliance 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". Despite this, he argues that planning and reality diverged greatly.

The general notion of new town development outside the main city centres like Jakarta and Surabaya was in line with official urban planning concepts, which promoted multicentre urban complexes (Sujarto 2003). But the initiative for large scale new towns, especially after the 1980s, often came from the developers, who, if necessary, re-negotiated 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 in the Jaya Group), from the 1980s onward, the initiative for new towns was increasingly coming from developers. A former minister said in an interview that "Indonesia had 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 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 the end of the oil boom in 1982, which left the Indonesian government lower revenues and investment capacity, and induced deregulation and liberalization, thus providing more space for the private sector, including in urban development. The opening up and development of the banking sector and stock exchange provided the developers with the necessary access to funding.

In addition, the interest of business elites played a more important role as the Suharto regime was increasingly evolving into a corrupt crony regime in the late 1980s and 1990s. Under Suharto's New Order regime, if projects ran into difficulties, the right connections could 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 grew rapidly (according to several former ministers interviewed). A former minister recounted in interviews that Mr. Ciputra (and others) used their political leverage to bypass or manipulate regulations around land use and environmental protection. A property expert supported this in an interview saying: "In the Suharto era, the speed of development was very fast. The regime was not democratic, but authoritarian. The government maintained close relationships with the developers. Because Suharto'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 potential negative environmental impact and incompatibility with existing regulations. A newspaper reported that "The 1,160-hectare complex has long sparked controversy as it was built in 1989 on 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" (Jakarta Post, February 19 2002). For this project, Ciputra sought support of the Salim Group, which had close connections to Suharto. In this way, Ciputra was able to ensure that the project could continue, according to a person familiar with the project, and interviewed for this study. The project was authorized by Suharto by means of a special presidential decree in 1995, despite being located in a designated green area. Following Suharto's fall from power, the decree was revoked (Jakarta Post, December 31 1998), and later the project was again allowed to continue, although it has continued to draw criticism. Other projects, including parts of the Ancol development, also apparently went ahead despite protests that they were not in line with existing regulations (e.g. Asian Infrastructure Monthly, October 1 1995).

After the Suharto regime, it was acknowledged that lobbying by developers had often led to bending the rules. For instance, the Jakarta Post (February 14 2002) reported that "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". Hardly any of the large-scale new town projects – to this day - are initiated through a competitive bidding process by the government, as is customary in many other nations. As a consequence, a proactive and entrepreneurial attitude, such as that of Ciputra, plus access to the right connections paid off and often paved the way for large-scale projects.

Developers' main criterion for land acquisition for new towns is the price and total available area of land (Winarso 2002). These companies therefore 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 rested upon the difference between the land price without any planning and the land and real estate prices after facilities were built. The larger the scale of the project, the lower was the relative cost of facilities. This business logic was often not in line with starting premises of city planners. Ciputra's Surabaya project is a case in point, as the company acquired land that was considered unappealing and almost empty. A Ciputra Group director explained: "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 consequence of the development, which 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 guided by the government, although the local government supports and acknowledges the benefits of this new town project.

With the demise of the Suharto regime in 1998 the environment changed for developers. 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 had less countervailing power as they had lower budgets, less technical capacity, and needed developers to raise their tax income and 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 boasted a successful track record in addressing the needs of middle-class inhabitants, which also contributed to a positive attitude from local governments.

By the late 1990s some developers had grown into significant companies with budgets that far exceeded that of regional and local authorities. It was not uncommon for developers to offer officials "incentives" to stimulate a cooperative attitude. One former minister for environment interviewed for this study said he was offered a heavily discounted house which he refused. In this way, developers ensured throughout the New Order and in the period thereafter that the different permits and regulations were applied flexibly (e.g. Jakarta Post, April 15 2003).

Facilities. Ciputra's projects over time increasingly incorporated privately built facilities. While such facilities were still limited in earlier projects to essentials such as roads and sewerage, the scope of facilities and their 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 said in an interview that "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 can provide something, but the government cannot 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" (Jakarta Post, February 25 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 inhabitants, on which the Ciputra Group makes a profit. In many a case, the 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 city when there was a problem with water supply. All affected residents would receive an sms message within an hour of the problem occurring describing the problem, the estimated time needed to resolve it and an offer to supply extra buckets of water for those interested, supplied promptly. The town manager said that "it is true that the government calls us arrogant, but they cannot deliver this level of service". Similarly, a Ciputra city manager says that "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 operate water supply of a higher quality, higher pressure and higher reliability than the government, and also make a profit has put pressure on publicly owned water companies to increase their standards in response. Leisch (2003:99) commented 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, with some projects encompassing thousands of hectares. Inhabitants pay the developer fees for various services (e.g. garbage collection, water charges) that the government would usually levy taxes for. In this way, some of the cost of infrastructure is recovered and in practice the developers receive the right to tax the people in the form of service fees. A former minister phrased it as follows: "The property owner operates everything until the facilities are set up. They run garbage disposal and 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 populations. So the government gives the developers the right to tax". While some facilities may be profitable (e.g. water) others are loss-making (e.g. maintenance of greenery) and the developers cross-subsidize the different facilities not unlike the manner in which governments levy taxes and redistribute the income by investing 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 voiced 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 initiated by Ciputra - a lack of maintenance has negatively impacted the value of the land and property. Property developers realized that maintenance of transferred public assets was a key to maintaining high price levels for real estate. Therefore, informal arrangements with the local government are made that allow developers to control 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 quality level of infrastructure as long as they are still developing and selling property in the area, they tend to spend most 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 realized that it was essential to keep control over not only construction of new towns, but also over its governance. Property experts interviewed for this study described the problems of older towns as "messy" and "not well-managed". This insight, combined with the realization that many aspects of town management could be run profitably, led Ciputra and other developers to increasingly take care of services such as healthcare, education, security, entertainment options and community development. Most new towns boast having private schools and hospitals. The presence of a large number of upper class inhabitants ensure sufficient clientele for such privately arranged services.

Security is another area in which government authority and private sector responsibilities overlap. In theory, the police is responsible for safety. But since budgets for police officers are limited, and the police is often corrupt, developers take over large parts of their task. Security in new towns is not limited to checking cars at the city gates, but also involves activities like catching thieves or limiting speeding. In order not to create problems with the local police, informal arrangements are made to divide the tasks, while nominally the police remains responsible for law enforcement. A Ciputra town manager says that "We don't take over their [the police's] duty, we just make it easier". The developers often maintain higher standards of law enforcement in their new towns than elsewhere. They may for example mandate helmets for every motorcycle entering the city, or they may be stricter on enforcement and issue fines for cutting trees.

To provide value for inhabitants, the developers administer the city, and appoint a town manager or city manager (rather than a mayor) to take care of a "regulatory framework" and its enforcement. These encompass traffic rules, limitations around building and renovating houses, and so on. A competitor's town manager, interviewed for this study, explained to us that if temperature and pollution levels were too high he prohibited motorcycles from entering the city, instead providing bus services, so as to maintain a clean and cool environment. Town managers therefore have rather far-reaching responsibilities. They may even assume responsibilities that extend beyond new town borders, for example to appease poor neighbouring villagers by building roads, building traditional markets where villagers can sell agricultural produce, and maintaining contacts 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 claimed 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. A property expert describes this as follows: "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 to be a burden to the 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 said that the government has urban planning, but lacks the capability to implement: "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 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 standards for urban governance. Because developers operate in the upper segments of the market, they have an incentive to maintain high standards of living for inhabitants. As such, many of the new towns offer a quality of living that exceeds that in other areas. While part of this is due to the upper-class model, the high standards send an important signal to the government and people surrounding the new town. A Ciputra city manager commented that "[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-inhabitants increasingly demand from their local authorities that they also increase standards. Even residents in areas bordering the new towns become aware of the possibility of higher standards and are more vocal in their demands on 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 analyze how certain areas of economic activity develop over time while taking into account a variety of relevant actors such as private developers, inhabitants (middle and upper class Indonesians), the capital markets, and the local and central authorities. The manner in which this field emerged over time in Indonesia was linked to political, economic and demographic developments. After Indonesia's independence, the desire to modernize Jakarta while the new government had limited funds created the conditions in which private-public partnerships were established for the development of new towns to cope with the growth of Jakarta. It can be argued that in the initial stages, the government provided 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 a government initiative.

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 to just implement them. According to the logic of economies of scale, the larger the project, the more common facilities and services could be built and offered, which added value to the land and produced recurring income, and therefore increased profit margins and reduced risks. However, increased project scale increased the complexity and prompted developers to seek control over an expanding range of activities that often overlapped with government responsibilities, ranging from levying “taxes” to ensuring safety. While the mutual responsibilities were officially clear, in practice many informal arrangements existed.

Eventually, the few private developers that had grown large and influential in the New Order era, became more and more powerful, and could set aside regulations and shape spatial plans. This was possible not only because of the relative power of the developer vis a vis the government, but also because developers like Ciputra pioneered a new business model and took on responsibilities for which no prior regulations existed. At the end of the Suharto era, the more powerful developers were now endowed with capital, sophisticated knowledge, management capabilities to run urban areas, and political connections, all of which allowed them to take initiative and shape the rules of the field.

Ciputra’s rise did not go unnoticed, and several other companies, notably the large conglomerates, entered the field, sometimes 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 set of middle and upper class consumers. New players, such as Agung Podomoro, have also entered new town development. As the supply of new town housing increased, and land acquisition became more difficult and expensive, the market became more saturated, with competition becoming more intense. Ciputra’s annual reports show that profit margins display a declining trend over the last 15 years (gross profit margins declined from about 52% before the Asian Crisis of 1997-1998 to about 44% 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 is now more fragmented. This is because the public sector has also become fragmented as authority was decentralized in the post-Suharto 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 2003), or 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 partly take over the local governments’ role in urban planning and in the construction of public facilities and addition they provide a substantial share of tax income. Therefore, most local authorities welcome new town developers. Bribes in exchange for permits or other 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 sector have become more accepted and stable, resulting in a new set of "rules of the game". In recent years competition is more pronounced, with a larger and less concentrated group of private developers active in the market. Indonesian citizens and NGOs are also increasingly vocal and may offer checks and balances countering the power of developers, and local governments may progressively become stronger and better able to guide urban development. As such, the rules of the game will continue to be renegotiated.

There are two unique aspects to the business model developed by the Ciputra Group. The first is a keen eye for opportunities by offering new services that did not exist before. In many aspect of property, Ciputra was 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 other relevant actors, including the government, inhabitants and small land owners. In this sense, it goes far beyond the simple construction of a building. It encompasses skills in the areas of community development, traffic flow analysis, water management and environmental management. These skills were gradually developed expanded by Ciputra over time, and are laid down in increasingly sophisticated master plans for new town development. While every new town is different, basic principles of planning, development and management have become ingrained within the Ciputra Group and form part of its set of capabilities. Within the management literature, companies are often argued to be competitive if they possess a bundle of capabilities that cannot easily be imitated and that together allow it generate value (Barney 1991). The activities pioneered by Mr. Ciputra became part of a business model that was perfected over time and has proven to be commercially viable, both in Indonesia and abroad.

The second unique aspect of the Ciputra Group business model was that it did not simply act on market opportunities. It created its own market by taking over government roles, recognizing that it could offer better living conditions to the middle and upper classes. This resulted in the Ciputra Group developing skills like 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 was not simply an entrepreneur, but it can be seen as an *institutional entrepreneur*, which shaped the rules of the game to suit its own interests. Ciputra was able to take the initiative in large scale urban development as well as raise its standards. He re-negotiated respective roles with the government, such as in the construction of public facilities and in urban governance. In doing this, the Ciputra Group appropriated and internalized certain tasks that were hitherto typically thought as government roles. At present, private estate management is considered to be a generally accepted phenomenon in Indonesia.

Since this type of boundary-spanning activity involved negotiating, shaping and replacing government institutions, there is also criticism. Ciputra's influence on new town development is seen as the creation of gated communities or "cities for the rich" (Winarso 2005) that amplify social inequality and externalize social and environmental problems onto the surrounding environment (Pratiwo & Nas 2005). There is also criticism of how property firms circumvent regulations to protect the environment and how they overshadow the government in urban planning, helped by connections, power and money. Despite this, government officials also displayed pragmatism and accepted 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 the city symbolizes cultural and political structures in the country. By creating relatively segregated living spaces for the different economic classes (and often also inducing ethnic segregation, as new towns have high proportions of ethnic Chinese inhabitants), private developers actively engage in a process of social engineering that has important social implications.

While acknowledging the issues mentioned above, the lens of institutional entrepreneurship used in this article shows that private sector players also replace important institutional functions. Governments find it hard to fulfil these functions because of limited budgets and governance capabilities, effectively leaving an “institutional void” that can be filled by other actors in an organizational field. Property firms have positively influenced Indonesia’s development by providing higher standards of living and in turn inciting Indonesian citizens to demand higher standards from their government. Furthermore, this study has argued that new town developers such as the Ciputra Group moved into a gap created by poor government performance in public infrastructure and public services, exploiting this opportunity to their advantage. Inhabitants of new towns generally have a positive view of the value provided by new town developers, and therefore it can be argued that the private sector is meeting an actual need in a segment of the Indonesian population, 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 for Indonesia? The broad dynamics of urbanization, economic growth and new town development are obviously not unique to Indonesia, and occur in various developing economies, such as Thailand, Vietnam and China. In fact, the Ciputra Group itself 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 & Enserink 2009), but the arrangements differ. One of the Ciputra directors said 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 (Asia Pulse, November 24 2009). It appears that, however, that in countries such as China and Vietnam, the Ciputra Group fulfils a more limited role than in Indonesia. Research on other urban planning projects also confirms the presence of private sector actors to fulfil certain institutional functions. A study showed that in Suzhou (China) a foreign government, together with private players, developed a new industrial park in China, arguably a case of “transnational state entrepreneurship” (Pereira 2007) where the Singapore government acted as an institutional entrepreneur supplying capital and administrative expertise.

Thus, this case study and other scholarly research suggest that the arrangement 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 enable drawing 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 that real estate developers could arise as the dominant actor in new town development. Using a case study of the Ciputra Group, it became clear that companies were able to venture into areas traditionally the domain of the government because the government was weak and some of its functions could be incorporated into a commercial business model. This business model was expanded over time and developers like Ciputra came to assume a range of activities that in fact blurred the boundary between public and private roles. Because the model was successful, developers like Ciputra built up skills, knowledge, connections and capital that allowed them to eventually dominate the government in urban planning and urban governance in selected areas. The private developers designed a business model based on filling institutional voids as the state was not able to offer the type of urban living conditions that affluent citizens were willing to pay for.

Mr. Ciputra was one of the pioneers that shaped the organizational field of new town development. He was a true entrepreneur in the sense of offering new products and services in Indonesia, each time venturing into new areas. However, he was not only an entrepreneur in the traditional sense. By building up a position of influence over time, he was able to shape urban planning and urban governance with respect to new towns, re-negotiating 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 initiative in urban planning, constructing and maintaining facilities like water and roads, and in urban governance including safety and community development. The manner in which Ciputra increased the scope of his activities and embedded tasks traditionally associated with the government within a commercial business model makes him an example of an institutional entrepreneur.

The institutional entrepreneurship activities of Ciputra and those who followed him later changed the conceptions of the role of the government and the private sector in the domain of new town development. A new set of "rules of the game" emerged in which private developers have 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 around propriety in Indonesia. A similar process has occurred in other emerging markets, where private parties are also filling institutional voids that occur due to rapid urbanization. Without passing judgment on the appropriate roles of public and private sector, this article 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 is and should be the primary institution shaping urban development.

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Table 1: Ciputra Group Case Database

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