Southeast Asia
Centre of
Asia-Pacific Excellence

BECA:

THE CHALLENGES OF ESTABLISHING AN ENDURING REPUTATION IN INDONESIA

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THE COMPANY

Beca is one of Asia-Pacific's largest 100% employee-owned engineering and related consultancy firms. Its headquarters are in Auckland, New Zealand. It delivers a variety of services including engineering services, planning, architecture, project and cost management, software technology and valuation. Founded in 1920 by Arthur Gray in New Zealand, the firm reached an estimated revenue of $419 million in 2014 and currently employs 3,000 people across 20 offices around the world.

Beca works across the industrial, infrastructure, buildings and the public sector markets and operates from main hubs in Australia, New Zealand and Asia. It also has had subsidiaries and affiliated offices in China, Indonesia, Myanmar, Chile, Fiji, Papua New Guinea and New Caledonia. It earns around half of its revenues offshore.

Beca's notable projects include consultation to infrastructure providers such as the New Zealand Transport Authority, Auckland Airport, Melbourne Airport and Melbourne Water. Beca has also been working with power and industrial clients in New Zealand on energy generation and transmission, delivering alternative energy sources such as wind farms, hydro dams and transmission stations. Additionally, Beca has amassed over two decades of experience with the building of breweries and food processing plants for large food and beverage manufacturers in the region, including for Nestle and Coca Cola Amatil in Indonesia. Beca has helped deliver prominent buildings around the world, such as the Sky Tower in Auckland, Macau Tower in China and Singapore's Zero Energy Building.

The market for large-scale engineering services that Beca competes in is characterized by some specific dynamics. Jobs are generally unique and technically complex, creating significant commercial risk for clients – and thus the professional services providers, who are increasingly required to take on cost risk. According to figures reported by market research firm Dun and Bradstreet, worldwide spending on engineering services was US$840 billion in 2016 and is expected to exceed US$1 trillion by 2021. The research firm also notes that smaller firms "can effectively compete with larger ones by having expertise in a particular field or region." Such firms "are often hired as consultants on larger projects if they have applicable expertise. Large firms are advantaged in designing and managing large projects, but may face challenges on smaller projects in fields where they lack specialization."

This case study focuses on Beca's early entry challenges and strategy in Indonesia. Beca Indonesia, now locally known as PT Bimatekno Karyatama Konsultan, started operations in the early 1970s. The firm now has a thriving Indonesia business with long-lasting partnerships and high-profile projects. It engineered the 750,000sqm Ciputra World Jakarta development as well as over 30 other high-rise buildings in Indonesia, including the 111-storey Signature Tower Jakarta, Tunjungan Plaza 6 and World Trade Centre 3. The foundations for this success were laid decades ago.

THE CHALLENGES

Beca began its first moves to explore overseas revenue opportunities in 1968, starting in Australia and Papua New Guinea. It sent a relatively young engineering partner, Ron Carter, on a first visit to Indonesia in 1971. Carter, now Sir Ron Carter after being knighted for services to engineering and business administration in 1998, recalls that the firm had been growing strongly in New Zealand, with staff numbers rising from 10 at the time he joined in 1959 to about 150 people in 1970.

But they faced a problem of continuity in business. Within New Zealand, demand for the specialised work that required Beca's engineers to develop high levels of specific expertise was very uneven and these people needed a supply of work. "When you employ 150 people, the important thing is to remember to pay them at the end of the week," Sir Ron says. Beca knew it had to perform to a world class standard and would need to have a workforce with appropriate skills. In New Zealand, "you might get one major job to learn on" but the next opportunity calling for those skills might not arise for years. "The problem with that is once you know how to do it, what do you do with the staff you have now employed on Monday morning when the job was finished on Friday afternoon?"

Sir Ron viewed Indonesia as a promising market with lots of potential: a large population, rich in natural resources including minerals, and a huge unmet demand for infrastructure. However, it also presented a challenging and risky business environment. Indonesia had just been through a violent power transition from a chaotic 'Guided Democracy' to a military-dominated government focused on restoring relations with the US and other Western countries. In sharp contrast to today's Indonesia, which is a lively and decentralized democracy, Indonesia in the 1970s was under centralised, authoritarian government.

Other features of the business environment, however, have been enduring: Indonesia was, and remains today, a country in which nationalistic commitments to developing resources are at the forefront of government policy and practice, often creating barriers for foreign firms. It has long struggled with a variety of governance problems, from a large informal economy to political and bureaucratic corruption, legal uncertainty and opaque regulation.

The country's underdeveloped infrastructure – while suggesting strong potential demand for engineering services – also created logistical challenges. Journeys out of the capital city, Jakarta, to project sites were long and arduous. Although Indonesia today is vastly more developed than in the 1970s, with gleaming skyscrapers and modern infrastructure in major cities, in more rural areas transport links can be tenuous, delays are common and ensuring the health and security of company employees can still be challenging. Outside of major urban centres, many key partners and stakeholders are not comfortable communicating in English.

Despite these challenges, Indonesia became a target for Beca as a country where it might be possible for New Zealand companies to gain a foothold, unlike places such as the Philippines and Singapore where American and British businesses already dominated. Its large population and rich resource endowments suggested enormous potential.

The difficulty was in securing Beca's first clients in the country. As Sir Ron put it, "It's not sufficient to just be able to do the job. You need to get someone to employ you to do it and that's a completely different matter." Beca at the time did not have a reputation outside of New Zealand, and it needed clients and partners who would trust it to deliver a high quality, world-class service.

It also needed to identify local partners who would in turn prove trustworthy. There is high inherent risk associated with operating in an environment with an opaque regulatory and legal system, as well as language and other barriers facing foreign firms. A local partner may provide essential insider information (and may be a legal requirement), yet dependence on such a partner creates vulnerabilities.

STRATEGY:
LEVERAGING STRENGTHS AND RELATIONSHIPS

A solid base

As an engineering firm with professional expertise at the heart of its operations, Beca had built up a core of engineering strength and experience in New Zealand. Further, it had developed not only professional engineering skills, but also operational competence as a company in managing workflows and operations. When it stepped out internationally it was not a new and unproven company, but one with a store of human expertise and a well-honed organizational machinery to deploy its skills efficiently.

Beca's store of reputational value has also been built on its distinctive record as a responsible company. Former executive chairman Richard Aitken previously observed that "responsible governance has always underpinned the company ethos," with the founders and long-serving executives such as Sir Ron Carter "committed to the principle of taking responsibility" for things that happened both inside the firm and outside.

This commitment was supported by its company structure, which evolved from a professional partnership to employee-ownership. About one-third of all employees hold shares in the company, which helps account for the diffusion of commitment and responsibility. According to Aitken, employee motivation was enhanced by Sir Ron's belief in delegating responsibility down "so that everyone could make a meaningful contribution." Employee ownership also enables the company to take a long-term view rather than seeking quick fixes.

Partnerships and networks

Three types of relationships were critical to the company's successful expansion in Indonesia, each taking on more or less importance at different phases.

During the first phase, critical relationships were with New Zealand government organisations, primarily the Ministry of Foreign Affairs as it was then known, and the New Zealand Overseas Aid Programme. Sir Ron says, "The New Zealand government itself was very conscious of exploring opportunities in other countries" and had made Southeast Asia a focus of its aid programme. The Colombo Plan brought many Southeast Asians to study in New Zealand. Sir Ron notes that not only did the Colombo Plan earn goodwill, it also meant that "we had been at university with young people who had come from Southeast Asian countries – so we had some friendships that were current." Tax exemptions for the costs of business development overseas were useful, but even more so were the connections and collaborative relationships supported by a government that was keen to see New Zealand firms grow internationally.

Although government aid-funded projects provided opportunities for several New Zealand companies to get a foothold in Southeast Asia, often in collaborative ventures with each other, Sir Ron notes that in Indonesia, "We were really putting our efforts into the commercial market and not into the government market…The perception I had was the aid business would have a limited life." Nonetheless, Sir Ron made it a point to call on the New Zealand embassy in Jakarta almost every time he made a visit to the country, valuing the connections and insights provided by embassy staff, whose jobs focused on understanding the Indonesian environment and developing relationships with key local insiders.

A second type of key relationship was with partner firms and personal connections, out of which came enduring client relationships and collaborations. Sir Ron recalls a pivotal early government-supported trade mission to Southeast Asia which brought together several New Zealand firms and provided significant introductions. The mission was organized by the CEO of Fletcher Holdings, already a major company on the New Zealand landscape with roots stretching back to 1909. Beca was on friendly terms with Fletcher Construction (a subsidiary of Fletcher Holdings), having cooperated on a few projects, including a Fletcher-led tender for the development of Manukau City Centre. Another Fletcher subsidiary, Fletcher Trust and Investment, would go on to invite Beca to provide the engineering services for a hotel project in Jakarta that they had undertaken as part of a major international consortium. Sir Ron says, "[Fletchers] were in charge of running the project. They asked me would I go up and look at the engineering side of things. That was my introduction to Indonesia."

Personal connections and relationships continued to be significant. Sir Ron Carter's written memoirs describe several instances of how personal connections in New Zealand and elsewhere, along with fortuitous introductions (sometimes provided by the New Zealand embassy) laid the basis for Beca's growth in Indonesia. In one case, an introduction to a representative of the mining services company Bechtel of California led to him embarking on a cross-country journey to view a nickel mine on an island in eastern Indonesia. The journey required a week of travel by plane and boat, into malarial territory where English was not much spoken.

Having made it once to see for himself, Carter was then asked to lead team of Bechtel employees there. This trip saw four of the six who embarked drop out due to various misadventures – and failed to result in a project at the remote mine site. What it did establish was Carter's competence in the eyes of key people at Bechtel, a major international firm with huge prospects in Indonesia. And Beca Indonesia went on to partner with Bechtel on many of their mining and other development projects in the country, each project adding to Beca's technical experience, competence and reputation.

Local legitimacy

Beca's strategy in Indonesia recognized the need to gain local legitimacy. Although they could operate temporarily without an established local presence on the Fletcher-led hotel project that was their first job in the country, growth would mean putting down roots. For this it was necessary to gain approval as a locally-incorporated company. In Sir Ron's assessment, that meant "We needed a partner with suitable credibility to satisfy the Indonesian government."

The story of how they formed such a partnership reinforces the value of personal connections. As part of the initial Fletcher mission to Indonesia, the group was introduced to a representative of the then Vice President, also the Sultan of Yogjakarta, and developed a relationship with the Sultan's son to support his career development by making him a partner in the new venture. Eventually, the son inherited the Sultan's title and ended his association with Beca in Indonesia, which restructured its local operations to include local staff as shareholders. The value of the association, in terms of prestige and credibility, was enduring for Beca.

Local legitimacy was also a key element in what can be seen, in hindsight, as a way of mitigating risk given the opaque and unreliable legal environment. Picking local actors with solid and legitimate reputations to be associated with was a crucial factor in mitigating risk. While Sir Ron's first priority was "getting the job done correctly and efficiently," he saw that "when you are dealing in the commercial market, you want to deal with reliable people."

Corruption is a scourge for efficient businesses and – even in countries with a reputation for corrupt dealings – there are honest players who want to do things in the right way, with a focus on quality and efficiency. Sir Ron recalls that Beca was dealt with honestly in Indonesia. This may have involved a measure of luck, but also can be attributed to both Beca's reputation for professionalism and the respect it garnered because of the expertise of its engineers.

Beca's "luck" in partnering with reliable local partners also reflects the care it took to secure the right introductions to Indonesians with good reputations. Right at the start of Beca's Indonesia journey, while part of the Fletcher-led trade mission to the country in 1971, Carter was introduced to an Indonesian architect and entrepreneur, Ciputra, who later became a major Indonesian property developer.

The connection to Ciputra proved an enduring one and Beca found work on Ciputra's later flagship property developments in Jakarta. Other introductions came "through the good offices of Indonesian officials, who provided connections for the firm with the heads of substantial, reputable companies in Indonesia." Carter knew they wouldn't find the right partner sitting in the bar of a 5-star hotel or through casual social interactions among expatriates.

Earning and nurturing local legitimacy involved a continuous process of investing time and effort in the country, working within its laws and cultural norms. Sir Ron realised early on that he would need to acquire a level of proficiency in the Indonesian language. Even if he sometimes made embarrassing mistakes, his effort meant that Indonesians were forgiving. Investing time in-country saw him travel to Indonesia as much as ten times a year in the early years, representing a significant sacrifice of his time for Beca as a company. He also worked hard to translate the trust he and his team of early managers built up to newcomers to the firm.

They developed local employees and brought them on board as part of the company's employee ownership scheme. Sir Ron's sums it up in the reflection that when expatriate staff from New Zealand were flown in, they needed to recognise that, "The opportunity we had to win work was dependant on the legitimacy of the company's presence in a sovereign country."

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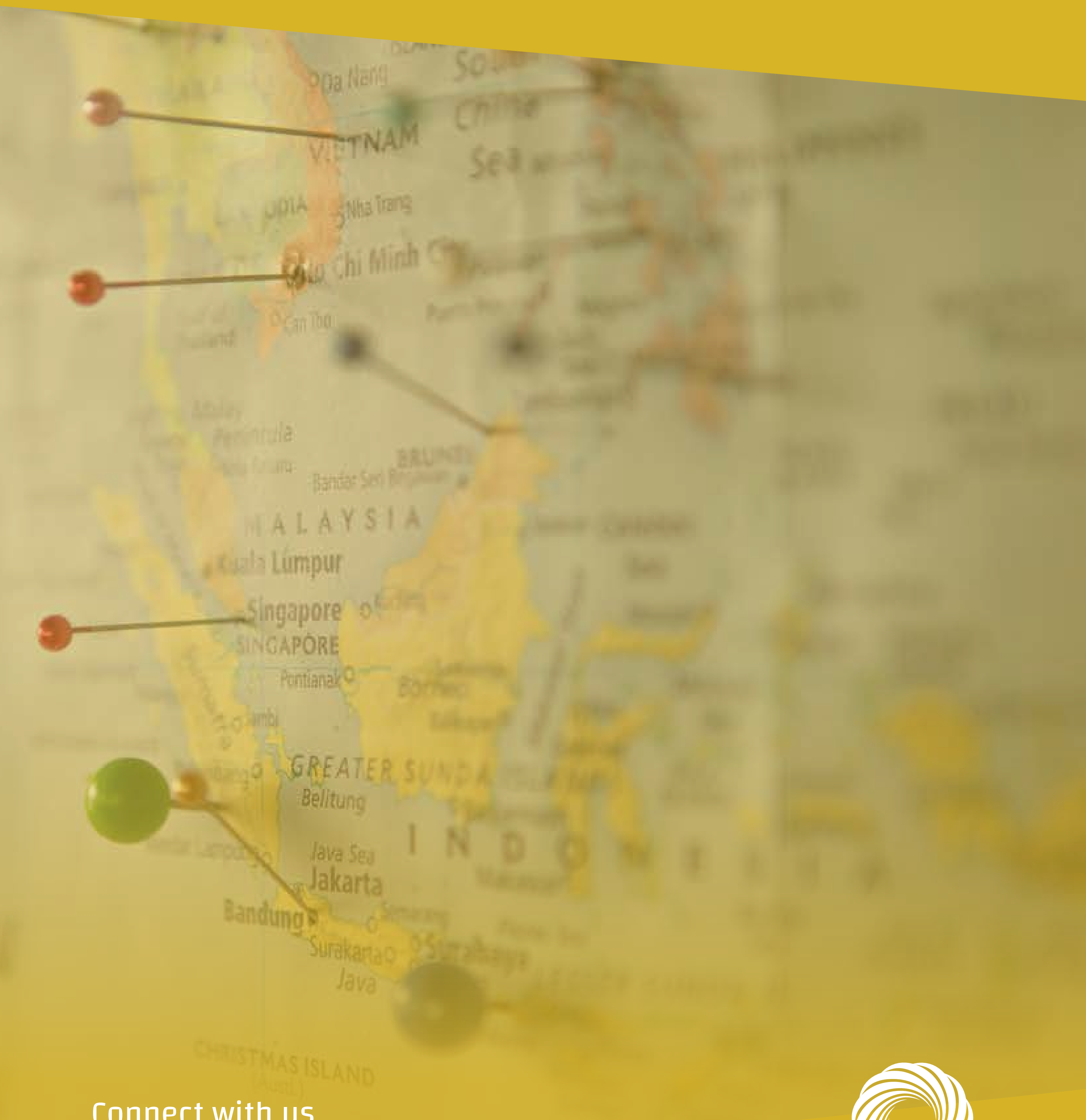

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