

# CHAPTER I

## INTRODUCTION

### 1.1. Background

Construction industry is one of the major contributors to the economic development in Indonesia. It can be seen by its contribution to the Gross Domestic Product (GDP) (Pamulu, 2013). In 2016, construction industry accounts 10,38 % of the country's GDP, put it in the 4<sup>th</sup> highest contribution sector after industry, agriculture, and trading (pu.go.id, 2017).

Furthermore, Indonesian government is now focusing on escalating the infrastructure development in Indonesia. Along with the increase number in government infrastructure projects and private sector projects, construction industry in Indonesia is forecasted to grow (bappenas.go.id, 2016). One of the challenge of construction industry growth is the increasing competitiveness in the construction market. Therefore, it is important for Indonesia's construction industry to improve their competitiveness by designing their competitive strategies as they will face great competitive environment in the future. According to Tan et al. (2012), performance is one major measurement to evaluate the successness of competitive strategies since the right selection of strategy will result in good performance.

However, there are few studies investigating competitive strategy and contractors' performance in Indonesia construction industry. There is a need for parties which involved in construction industry to understand the competition

environment in construction industry, and to design their competitive strategy in order to achieve superior performance. Therefore, author is interested to discuss about competitive strategy and contractors' performance in Yogyakarta.

### **1.2. Problem Statement**

The following research questions were formulated to further examine the problem statement:

1. What are the external and internal environments of construction industry in Yogyakarta?
2. What are the competitive strategies that have been applied by contractors in Yogyakarta?
3. What is the relationship between competitive strategy and contractors' performance?

### **1.3. Research Objectives**

This research are aimed to:

1. Identify the external and internal environments of construction industry in Yogyakarta.
2. Identify the competitive strategy that have been applied by contractors in Yogyakarta.
3. Examine the relationship between competitive strategy and contractors' performance.

#### 1.4. **Expected Benefits**

The result of this study is expected to be useful for various parties, among others:

1. For the contractors: This research can be as references to help contractors choose competitive strategies and help them adjust their competitive strategies to improve their performance.
2. For academicians / readers: This research can give information about the competitive environments in construction industry along with the competitive strategy applied by the contractors and how it affects contractor's performance.

