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Strategies of Multinational Corporations in Emerging Markets in Indonesia

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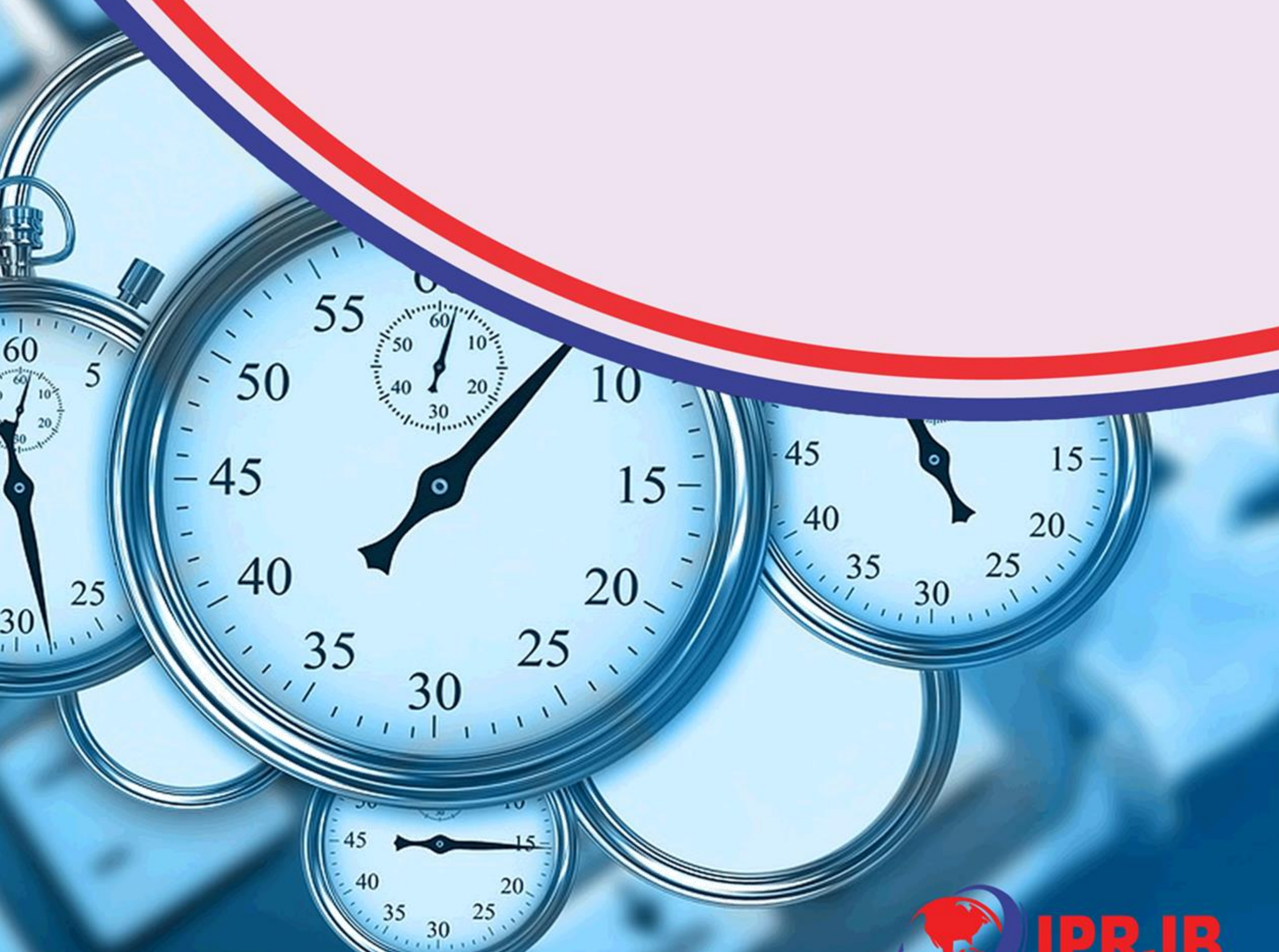

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Abstract

Purpose: The aim of the study was to examine the strategies of multinational corporations in emerging markets in Indonesia

Methodology: The study adopted a desktop methodology. Desk research refers to secondary data or that which can be collected without fieldwork. Desk research is basically involved in collecting data from existing resources hence it is often considered a low cost technique as compared to field research, as the main cost is involved in executive's time, telephone charges and directories. Thus, the study relied on already published studies, reports and statistics. This secondary data was easily accessed through the online journals and library

Findings: Multinational corporations (MNCs) in Indonesia's emerging markets exhibit a preference for collaborative entry strategies, emphasizing joint ventures and strategic alliances. These approaches enable MNCs to harness local expertise and navigate the complexities of the Indonesian market effectively. Government policies play a pivotal role in shaping MNC strategies, with favorable policies attracting greater foreign investment and expansion. Industry-specific competitive strategies, including price competition, technology differentiation, and product innovation, are tailored to meet local market demands. Additionally, MNCs actively engage with the

Unique Contribution to Theory, Practice and Policy: Eclectic paradigm (OLI Framework), Resource-based view (RBV) & Institutional theory may be used to anchor future studies on the examining the strategies of multinational corporations in emerging markets in Indonesia. Encourages MNCs to build meaningful partnerships, leveraging local expertise and networks, which can be crucial for navigating complex regulatory environments and market dynamics. Engaging in policy advocacy represents a proactive approach by MNCs to shape the regulatory landscape in their favor while contributing to the host country's economic development.

Keywords: *Strategies of Multinational Corporations in Emerging Markets*

INTRODUCTION

Business performance in emerging markets is a topic of interest for many researchers and practitioners, as these markets offer opportunities and challenges for growth and development. In this text, we will describe the business performance in Nigeria, an emerging market in Africa, and compare it with some examples from developed economies such as the USA, Japan, and the UK. Nigeria is the largest economy in Africa, with a GDP of $448 billion in 2020, according to the World Bank. However, its GDP per capita was only $2,229, indicating a low level of income and development. Nigeria's economy is mainly dependent on oil and gas exports, which account for about 90% of its foreign exchange earnings and 60% of its government revenue. However, the oil sector has been affected by low prices, production disruptions, and environmental issues. Nigeria also faces challenges such as insecurity, corruption, infrastructure deficits, and high unemployment. According to a recent study by Ogbuabor (2020), Nigeria's business performance is influenced by factors such as entrepreneurial orientation, structural infrastructure capability, market orientation, and innovation capability.

In contrast, developed economies such as the USA, Japan, and the UK have higher levels of income, development, and diversification. Their GDP per capita in 2020 were $63,051, $40,247, and $42,330 respectively, according to the World Bank. Their economies are more resilient to external shocks and have more advanced technological and institutional capabilities. They also have more competitive and innovative business sectors that can operate in global markets. According to the OECD (2021), their FDI inflows in 2020 were $156 billion, $17 billion, and $61 billion respectively, reflecting their attractiveness for foreign investors. However, they also face challenges such as aging populations, rising inequality, environmental sustainability, and geopolitical tensions.

Business performance in emerging markets has exhibited dynamic trends in recent years. According to a study by Khanna and Palepu (2017), emerging markets have experienced significant fluctuations in economic growth, with some years witnessing robust expansion and others marked by challenges. For instance, in the context of developed economies like the USA and Japan, trends in business performance have shown relative stability. The USA has maintained a steady GDP growth rate, averaging around 2-3% annually (World Bank, 2021), while Japan has faced slower growth due to demographic challenges but has still maintained consistent business performance (OECD, 2021). These developed economies benefit from established infrastructure, stable political environments, and mature financial systems, contributing to their relatively stable business performance.

Business performance in emerging markets, such as Nigeria, has been characterized by both opportunities and challenges. In Nigeria, for instance, the business environment has witnessed significant growth in recent years, driven by factors such as a large and youthful population, increasing urbanization, and abundant natural resources. According to data from the World Bank (World Bank, 2021), Nigeria's GDP grew by an average of 2.3% annually from 2015 to 2019. However, it is important to note that the country faces challenges such as infrastructure deficits, regulatory hurdles, and political instability, which can hinder business performance.

In developed economies like the United States and Japan, business performance has been more stable and mature. For example, the United States experienced consistent economic growth, with a GDP growth rate of 2.3% in 2019 (World Bank, 2021). The country benefits from a welldeveloped infrastructure, access to capital, and a robust legal framework, all of which contribute to a favorable business environment. Similarly, Japan has maintained a stable economic performance, with a GDP growth rate of 1.0% in 2019 (World Bank, 2021). These developed economies provide a contrast to the opportunities and challenges faced by businesses in emerging markets like Nigeria, where growth potential is higher but so are the risks.

In contrast, Brazil, another prominent developing economy, has faced economic challenges during the same period. According to the World Bank (2021), Brazil had an average annual GDP growth rate of -0.1% from 2015 to 2019. Political instability, fiscal issues, and corruption scandals have hampered the country's economic performance. These challenges have had repercussions on businesses operating in Brazil, as uncertainty and an unpredictable regulatory environment can deter investments. Despite its vast natural resources and consumer market, Brazil's business landscape remains complex (PwC, 2021). In sub-Saharan African economies, business performance is shaped by factors like infrastructure deficits, governance issues, and economic diversification. For instance, South Africa, one of the more developed economies in the region, had an average annual GDP growth rate of just 0.9% from 2015 to 2019 (World Bank, 2021), reflecting the challenges it faces. Meanwhile, smaller economies like Kenya have experienced more robust growth, with an average annual GDP growth rate of 5.7% during the same period (World Bank, 2021), driven by investments in technology and a growing consumer base.

In contrast, developing economies such as India and Brazil have exhibited more volatility in business performance. For instance, India has experienced fluctuating GDP growth rates in recent years, ranging from 6.1% in 2018 to 3.1% in 2020 (World Bank, 2021). Brazil has faced similar challenges, with its economy contracting by 3.8% in 2015 and then rebounding with growth of 1.1% in 2017 (World Bank, 2021). These fluctuations are often attributed to factors like political instability, infrastructure gaps, and regulatory hurdles (Khanna & Palepu, 2017). These trends highlight the unique challenges and opportunities that emerging markets present for businesses.

Market Entry Strategies involve the methods and approaches that a firm utilizes to establish its presence and operations in a new market, and these strategies play a pivotal role in determining a firm's performance, particularly in emerging markets. One prominent strategy is Exporting, where a company sells its products or services to foreign markets directly or indirectly. Exporting offers relatively low initial investment and risk but may yield limited control over the distribution and market presence. Studies, such as that by Lu and Beamish (2001), have shown that exporting can positively impact a firm's performance in emerging markets by providing access to new customer bases and revenue streams. Joint Ventures and Strategic Alliances involve collaboration with local partners or other international firms to access local knowledge, distribution channels, and resources. These strategies, as researched by Xu and Shenkar (2002), can enhance business performance in emerging markets by combining the strengths of multiple entities, reducing risks, and facilitating market entry. However, the success of joint ventures and alliances depends on effective partnership management and alignment of interests.

Wholly Owned Subsidiaries entail establishing a new entity or acquiring an existing one in the target market. This strategy offers maximum control but often involves significant financial commitments and risks. Research by Hitt (2006) suggests that wholly owned subsidiaries can lead to superior business performance in emerging markets, as they provide full autonomy and the ability to tailor strategies to local conditions.

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Franchising involves granting a license to local entrepreneurs to operate under an established brand and business model. It is a lower-cost entry strategy that can tap into local expertise and cultural nuances. Studies by Shane (1996) have shown that franchising can contribute to business performance in emerging markets by leveraging local entrepreneurship and reducing operational complexities.

Theoretical Framework

Eclectic Paradigm (OLI Framework)

Originated by John Dunning, the eclectic paradigm, also known as the OLI framework (Ownership, Location, Internalization), focuses on why firms engage in foreign direct investment (FDI). It emphasizes three key factors: ownership advantages, location advantages, and internalization advantages. In the context of MNCs in Indonesia, this theory is relevant because it helps to analyze why certain MNCs invest in Indonesia (ownership advantages), why they choose specific locations within Indonesia (location advantages), and whether they prefer to serve the market through wholly-owned subsidiaries or partnerships (internalization advantages). For instance, an MNC may invest in Indonesia to leverage its ownership advantages such as technology, brands, or managerial expertise and may choose particular Indonesian regions based on their location advantages like access to resources or consumer markets (Dunning, 1981).

Resource-Based View (RBV)

The resource-based view, pioneered by scholars like Jay Barney, focuses on a firm's internal resources and capabilities as the primary drivers of competitive advantage. In the context of MNCs in Indonesia, this theory is relevant as it helps examine how MNCs leverage their unique resources and capabilities to gain a competitive edge in the Indonesian market. For example, an MNC may possess superior R&D capabilities or a well-established supply chain network, which can be crucial in navigating Indonesia's challenging business environment (Barney, 1991).

Institutional Theory

Institutional theory, developed by scholars like John W. Meyer and Brian Rowan, highlights the role of formal and informal institutions in shaping organizational behavior. In Indonesia, where cultural, legal, and regulatory factors significantly impact business operations, this theory is pertinent. It can shed light on how MNCs adapt their strategies to align with local norms and regulations, ensuring legitimacy and minimizing institutional voids. For instance, an MNC operating in Indonesia may need to adopt local customs, adhere to specific corporate governance standards, and navigate complex bureaucratic processes to thrive in this institutional environment (Meyer & Rowan, 1977).

Empirical Studies

Ramadhani and Santosa (2018) investigated the entry strategies of multinational corporations (MNCs) in the Indonesian market. The research employed a mixed-method approach, combining qualitative interviews with executives of MNCs and a quantitative survey of Indonesian consumers. The study found that most MNCs preferred joint ventures and strategic alliances as entry strategies, which allowed them to navigate the complexities of the Indonesian market effectively. It also revealed that understanding local consumer preferences and cultural nuances was crucial for market success. The researchers recommended that MNCs continue to build strong local partnerships and invest in market research to tailor their products and services to the unique Indonesian market demands.

Susanto and Wibowo (2017) explored the influence of government policies on the strategies adopted by MNCs in Indonesia. The research employed a case study approach, analyzing the experiences of several MNCs operating in different industries. The study found that government policies, such as tax incentives and investment regulations, significantly impacted the strategies of MNCs in Indonesia. MNCs were more likely to invest and expand when favorable policies were in place. The researchers recommended that the Indonesian government maintain a stable and transparent policy environment to attract and retain foreign investment.

Utama and Ng (2016) assessed the competitive strategies of MNCs in Indonesia's telecommunications industry. The research utilized a qualitative case study approach, conducting in-depth interviews with key industry stakeholders. The study identified that MNCs in the telecommunications sector adopted various strategies, including price competition and technology differentiation, to gain a competitive edge in Indonesia. The researchers recommended that MNCs in the telecommunications industry focus on innovative service offerings and network quality to remain competitive.

Ratama and Soesilowati (2015) examined the marketing strategies employed by MNCs to target the Indonesian youth market. The research combined a survey of Indonesian youth and content analysis of marketing campaigns.The study found that MNCs often used digital and social media platforms to engage with the youth market in Indonesia, emphasizing brand awareness and lifestyle associations. The researchers recommended that MNCs continue to invest in digital marketing and engage with local influencers to effectively reach the Indonesian youth demographic.

Wirakusumah and Putri (2014) investigated the sustainability strategies adopted by MNCs operating in natural resource-intensive sectors in Indonesia. The research used a combination of interviews, company reports analysis, and sustainability performance indicators assessment. The study revealed that MNCs in sectors like mining and forestry adopted sustainability strategies primarily driven by regulatory compliance and stakeholder pressures. These strategies included environmental management systems and community engagement initiatives. The researchers recommended that MNCs in natural resource-intensive sectors should proactively engage with local communities, enhance environmental stewardship, and align their sustainability practices with global standards.

Hidayat and Nugroho (2013) investigated the innovation strategies of MNCs in the Indonesian automotive industry. The research employed a quantitative survey and in-depth interviews with industry experts. The study found that MNCs in the automotive sector focused on product innovation and customization to meet the specific demands of the Indonesian market, leading to increased market share and brand loyalty. The researchers recommended that MNCs continue investing in research and development to sustain their competitive advantage in Indonesia's automotive market.

Wijaya and Susanto (2012) examined the human resource management strategies employed by MNCs in Indonesia to enhance organizational performance. The research used a mixed-method approach, including surveys and qualitative interviews with HR executives. The study found that MNCs in Indonesia prioritized talent acquisition, training, and development to build a skilled and motivated workforce. Additionally, a strong emphasis on local talent management was observed. The researchers recommended that MNCs continue investing in local talent development and align their HR strategies with the cultural and economic context of Indonesia.

METHODOLOGY

This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low-cost advantage as compared to field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.

FINDINGS

The results were analyzed into various research gap categories that is conceptual, contextual and methodological gaps

Conceptual Research Gap: While the studies mentioned by Wijaya and Susanto (2012) provided valuable insights into various aspects of multinational corporations' (MNCs) strategies in Indonesia, there is a notable gap in terms of a comprehensive theoretical framework that integrates the findings across these studies. A conceptual research gap exists in the absence of a unified framework that synthesizes the impact of government policies, competitive strategies, sustainability practices, innovation strategies, and human resource management on MNCs' entry and operations in Indonesia. Developing such a holistic framework would contribute to a deeper theoretical understanding of how these factors interact and influence MNC behavior in the Indonesian market.

Contextual Research Gap: One contextual research gap lies in the need for a more detailed exploration of the unique challenges and opportunities MNCs face within specific Indonesian industries. While some studies have focused on particular sectors like telecommunications or natural resource-intensive industries, a comprehensive comparative analysis across a broader spectrum of industries is lacking. A contextual research gap also emerges regarding the long-term sustainability practices of MNCs, as most existing studies focus on regulatory compliance and stakeholder pressures, without delving into the comprehensive sustainability strategies that align with global standards (Ratama and Soesilowati, 2015)

Geographical Research Gap: A geographical research gap is evident in the limited geographical scope of these studies, which primarily concentrate on the Indonesian market. To gain a more holistic perspective of MNC strategies, it would be valuable to compare and contrast their approaches in Indonesia with those in other Southeast Asian countries or emerging markets. Such a comparative analysis could shed light on whether the strategies employed by MNCs in Indonesia are unique to the country or represent broader regional trends. Additionally, considering the geographical diversity within Indonesia, future research could explore variations in MNC strategies and their success across different regions within the country (Susanto and Wibowo ,2017)

CONCLUSION AND RECOMMENDATIONS

Conclusion

The strategies employed by multinational corporations (MNCs) in emerging markets, particularly Indonesia, reflect the dynamic and evolving nature of global business operations. Indonesia, with its vast potential and unique challenges, has attracted MNCs seeking to tap into its growing consumer base and abundant resources. Throughout this process, MNCs have adopted a range of strategies to navigate the complexities of the Indonesian market.

One key strategy has been localization, wherein MNCs tailor their products and services to meet the specific needs and preferences of Indonesian consumers. This approach allows them to gain a competitive edge and build stronger relationships with local customers. Additionally, partnerships and collaborations with local businesses and governments have played a significant role in MNCs' success, helping them navigate regulatory hurdles and establish a foothold in the market. However, it's essential to note that the strategies of MNCs in Indonesia are not one-size-fits-all; they vary based on industry, market conditions, and the ever-changing economic landscape. Overall, these strategies underscore the importance of adaptability, cultural sensitivity, and a deep understanding of the local business environment for MNCs seeking to thrive in emerging markets like Indonesia.

Recommendations

Theory

The emphasis on investing in local talent development contributes to the theory of international business by highlighting the importance of knowledge transfer and capacity building in host countries. It underscores the need for MNCs to go beyond short-term expatriate staffing and focus on nurturing local talent as a long-term strategy. Integrating sustainability practices in emerging markets, as recommended, advances the theory of sustainable business in diverse contexts. It challenges the perception that sustainability is primarily a concern for developed economies and emphasizes its relevance in emerging markets like Indonesia, where environmental and social challenges often intersect with business operations.

Practice

The recommendation to collaborate with local businesses and government agencies addresses the practical challenges faced by MNCs in emerging markets. It encourages MNCs to build meaningful partnerships, leveraging local expertise and networks, which can be crucial for navigating complex regulatory environments and market dynamics. The emphasis on cross-cultural management practices provides practical guidance for MNCs in building effective relationships with local stakeholders. This practical approach recognizes that cultural sensitivity is not just a theoretical concept but an essential aspect of day-to-day operations in diverse markets like Indonesia.

Policy

Engaging in policy advocacy represents a proactive approach by MNCs to shape the regulatory landscape in their favor while contributing to the host country's economic development. This recommendation encourages MNCs to actively participate in policy discussions, emphasizing their role as stakeholders in the policymaking process.

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