The business environment in Indonesia

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Annotation: Business entities develop to be the leader as the main objective of an entity is satisfying customer needs by the production of goods and services for revenue motive. Adaptation of an entity to the environment in which it is functioning is the success for every business entity. Such as changes in the policies of government, there need to be business adjustments along with the changed policies. Accordingly, business environment takes account of institutions and factors over which the environment does not have a direct control (Reinecke and Schoell).

Key words: Influence, adaptation, production, marketing, distribution, consumers, factors: Political, Economic, Socio-cultural, Technological, Legal, Environmental

As such, Unilever Indonesia has developed to become a leader company in the field of marketing, manufacturing and distributing consumer products through operating segments of home and personal care along with the products of ice cream and foods in Indonesia.

To evaluate how the environmental changes in the country affect on the business entity, impacts of external macro analysis of Indonesia on Unilever Indonesia Tbk will be examined and The Belt and Road Initiative in Indonesia will also be examined briefly.

Introduction

Purpose

It is clear that the business is an entity dealing with the production for profit. Business succeeds by settling in to the environment in which the business is functioning.

Hence, the objective of this study is to reveal the adaptation of an entity to the business environment on the example of PT Unilever Indonesia Tbk and most importantly to explain the impact of the country's recent developments on this company and to analyze whether the company benefits or not from those developments.

Company Background

PT Unilever Indonesia Tbk deals with manufacturing, marketing and distributing consumer goods in Indonesia. The company production comprises of detergents, soaps, margarine, ice creams, dairy based foods, fruit juices, and tea based beverages, cosmetic goods, edible oil and snacks as well[1].

The company operates as a subsidiary of Unilever Indonesia Holdings B.V. and was established in1933, headquartered in Jakarta, Indonesia[2].

Unilever Indonesia Tbk has around 5.7 million employees [3].

The company presents food productions under the brand names of Bango, Royco, Blue Band, Taro and Sariwangi; and home care products under the names of Rinso and Sunlight, personal care products under the Citra, Axe, Lifebuoy, Clear, Rexona, Pepsodent, Lux, Sunsilk and Pond's brand names.

Analyses

Belt and Road Initiative

In 2013, the president of China Xi Jinping proclaimed an initiative, which is commonly known as "The Belt and Road Initiative (BRI)". To support an idea of improvement of world economy with promoting trade, technological and cultural exchanges between Eurasian states, government of China has encouraging infrastructure development, comprising of railways and highways to improve trade and logistics between the participants. There are about 60 states expressed their attention on the BRI which jointly signify more than a half of the international population and about one-third of international GDP (Gill, 2017). If the BRI reached, the countries that are participating would finally be over 4.4 billion population and contribute more than $ 21 trillion to the global GDP (Meltzer, 2017).

The BRI's Six Economic Corridors
Source: ESCAP

Indonesia has a significant function in BRI by providing a chance to improve its infrastructure and connectivity and to reinforce the position in the market. The government of Indonesia has been extremely opened through any initiative that can support infrastructure development.

By joining the BRI, Indonesia reacted confidently, thus, gives Indonesia a chance to get another source of financing in favor of the infrastructure development. In 2017, Joko Widodo, the president of Indonesia participated in BRI summit in Beijing. Recall that key objective of BRI to assist regional, sub-regional and inter-regional integration through recovering transportation and logistics facilities of participated countries, such as ports and railroads that are needed for trade improvement between them. Furthermore, the initiative is along the lines of the aspiration of Indonesia to be a better maritime-oriented nation as declared in Joko Widodo's Global Maritime Fulcrum program.

Components of Business Environment
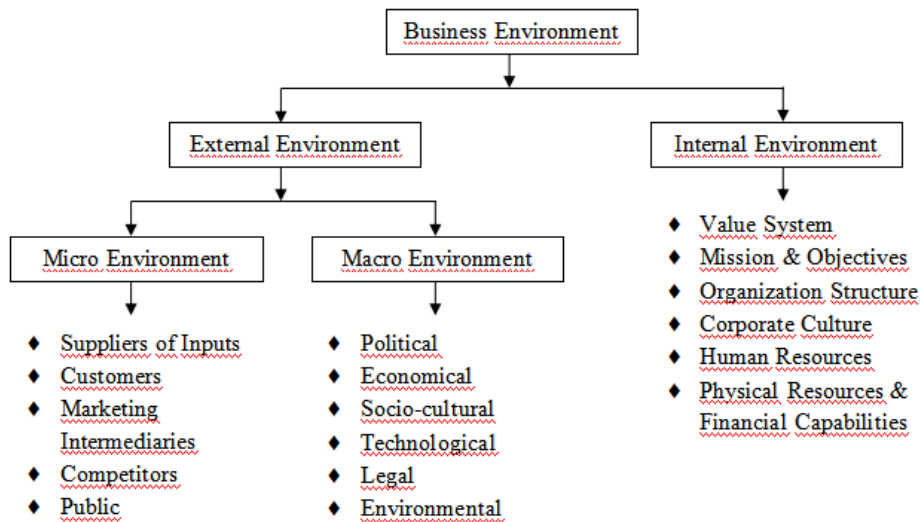
Business Environment

The performance of an entity is influenced by the business environment. It impacts on survival, growth and profit. The entity is forced by certain substances inside and outside the firm which can positively or negatively impact the business.

External macro-environmental analyses have a great impact on the performance of all entities. PESTLE analysis enables a manager to examine significant factors that can have a potential effect on the success or failure of a business entity by identifying major macroeconomic factors for the future development of the entity[4].

Indonesia is known as the fourth most populous nation in the globe. It is possible for Indonesia to be the large marketplace for tech investments subsequent to China and India. According to the recent developments in Indonesia, there are several factors affecting the developments of industries. The following PESTLE analysis will show the external environment that can impact the Unilever Indonesia Tbk.

Political

Firms conduct and make decisions in accordance with political policy, taxation policy and fiscal stability of government.

❖ Political Policy:

Indonesia is presidential, constitutional republic with the president - head of government, head of state as well as the commander of the Indonesian National Armed Forces. The country service of the president is limited to maximum two consecutive five-year period. Indonesia has a great foreign relationship with neighboring countries and founding part of the Association of Southeast Asian Nations (ASEAN) and the East Asia Summit. It is a member of UN, World Trade Organization (WTO) and the Organization of Islamic Cooperation (OIC). But in 2016 it postponed the connection of the Organization of Petroleum Exporting Countries (OPEC) (Asmarini & Jensen, 2016).

❖ Tax Policy:

Tax rate reduction of the government is advantageous for Unilever Indonesia because a lower amount could be spent as taxation (Williamson, 2018).

Economic

Firms are affected by economic factors with their ability to make revenues for example, interest rate, raw material price, employment rate, growth rate and currency rate.

❖ Gross Domestic Product:

Indonesia's economy is the 16th largest in the globe with the nominal GDP of $1.02 trillion in 2018 (Country Economy, 2019). Then it rose to $1.112 trillion in 2019. And now it is expected to reach $1.150 trillion by the end of 2020. Moreover, if the growth rate maintains to increase by 5% every year, Indonesia would become one of the top five economies in the world as Indonesia's President Joko Widodo expressed parliament subsequent to his inauguration [5].

❖ Tax rate:

The corporate taxation rate is 25 percent. The calculation of the personal tax is in accordance with the individuals' residential status. Residents pay from 5 percent to 30 percent based on their income. A flat rate is 20 percent on the gross income of non-residents.

❖ Consumer spending:

Increased average household earnings together with the increased consumer spending subsequent to the recession can cause growth in the target market of Unilever Indonesia by means of new customers.

❖ Inflation:

Low inflation rate still estimated to stay low in the subsequent two years. This a very good chance for Unilever Indonesia as the cost of inputs of the company would stay low for those years.

Socio-Cultural

Social factors deal with norms and cultures of a society and classify trends of religion, education, demographics, cultural changes and et cetera.

❖ Population:

Despite the large population of 260 million, it has been growing and still expected to increase at a higher positive percentage. This is favorable for the company of Unilever Indonesia by the increased potential customers. From the statistics, the population is expected to be more than 310 million by 2045.

❖ Age factor:

Demographics is a key constituent of Indonesia's future growth as more than 50 percent of the population is younger than 30. Total median age is 27.6 years; male -27.1, female – 28.1.

❖ Education:

As a result of raise in training and education by many institutes, availability of skilled labor has increased. This denotes that if Unilever Indonesia has the ability to employ skilled labor, the company would not have to expense out more on development and training.

❖ Social conditions:

Indonesia's healthy environment is beneficial for the democracy's future developments in support of open discussion and debate providing straightforward access to the entire market research data.

Technological

Technological aspects examine development and technological innovation rates that can impact an entity forthcoming periods.

Technology has an impact by bringing various advantages between lots of departments. Operations are able to be automated in the direction of reducing costs. Technology facilitates improved data to be gathered on consumers as well as develops on marketing efforts (Williamson, 2018).

Indonesia is very active in using Twitter in the world. The rest of social networks are also performing well such as WhatsApp, YouTube, Facebook, Instagram and Pinterest.

In the technology adoption, there made several good progresses over the years. The government planned to enhance technology use to encourage growth and enhance industrial capacity in the five major areas of automotive, food and beverages, textile, chemicals and electronics. These are the main parts where

Indonesia would be a world leader in forthcoming years. The most vital government focused tech areas are the Internet, human-machine interface, artificial intelligence, robot and sensor technology, and 3D printing (Oxford Business Group, 2019).

However, technology development relied on the skilled labor force availabilities which are not adequate in Indonesia. Further challenges of the country are protectionist regulations, data security and shortages of infrastructure for deliveries payments [5].

Legal

Revenues of an entity can be directly influenced by the results of political proceedings as in mandates, court decisions, laws and regulations.

❖ Company Law:

As the most significant framework of the Indonesia's current legislation, The Indonesian Company law of 1995 rules every company. Under this law, the Memorandum of Act of the company has to be registered (Inc of company law Indonesia).

The Government also set rules to Administration and Utilization of Market Research industry in Presidential Decree 11/2008.

In accordance with the 2018 Global law, 69 percent of population is confident with the local police. That makes the Indonesia the highest law ratings in the globe (Asian Correspondent, 2019).

However, corruption is prevalent in the country; in particular, it is observed mostly in businesses and government institutions.

Environmental

Company can also be affected by the ecological aspects such as recycling processes, waste disposals, sustainability, and carbon footprint and so on.

❖ Location:

Indonesia's geographic position is the most complex and diverse in the world. It is located among Pacific Ocean and Indian Ocean and it has the area of 1,904,569 square kilometers from the land makes up 1,811,569 square kilometers and water 93,000 sq km. Unilever Indonesia's location and geography give cost advantages when serving customers in contrast to that by means of competition.

❖ Time Zone:

Time zone of UTC+7 mean 7 hours ahead of GMT and 16 hours ahead of U.S. Pacific Time.

❖ Natural Disaster:

Because of the location, Indonesia has experienced numerous disasters for example, earthquake in 2004 led to a powerful tsunami in the Indian Ocean causing the death of 155,000 populations.

Conclusion

In consistent with the study above, the data can classify external aspect used for growing market research industry of Indonesia. There are several beneficial and unbeneficial sides in terms of economic aspects, legal policy, social, technological and geographic factors.

Overall Indonesia has excellent opportunity because of some macro environmental aspects:

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Overall Indonesia has excellent opportunity because of some macro environmental aspects:

High population about over 270 million in 2020, most of the population is young people, and the country is leading internet user in the globe. This is one of the biggest opportunities in favor of online industry. Market research companies are affected by healthy democratic environment via the access of opened and detailed data research.

There is international labor law, GDP are growing in accordance with the exchange rate of stabilize forecast as it would be the best five economies internationally by 2045, which lets the president's dream come true.

Likely to the open market designed for market research industry, there is provision of data analysis, by reason of every political shifting it affects on the whole industrial environment.

In accordance with the analysis and evaluation it can be clarified that a business entity can be affected by the external business environment in several factors of surroundings. The analysis demonstrates that Unilever Indonesia Tbk is being impacted by the recent development of Indonesia such as population growth, inflation, interest rates, and most importantly GDP is growing at an expected rate, which can make Indonesia one of the top five economies in the world by 2045. In addition financial position is very strong with successful profits, and tourism is providing new customers, technology is also improving.

However, technology development is relied on the availabilities of skilled labor force which are not adequate in Indonesia. Further challenges of the country are protectionist regulations, data security, and shortages of infrastructure for delivery payments.

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