The 5th International Seminar on Sustainable Urban Development
IOP Publishing
IOP Conf. Series: Earth and Environmental Science 737 (2021) 012031
doi:10.1088/1755-1315/737/1/012031

Locational choice strategy: How FDI’s choice of Indonesia as an investment location towards competitiveness advantage

A S Wartaman1,*, D Kusumadewi1, A Ramadhani1 and R D Andajani2
1 Urban and Regional Planning Department, Faculty of Landscape Architecture and Environmental Technology, Universitas Trisakti, Jakarta, Indonesia
2 Department of Earth Resources Engineering, Kyushu University, Japan

*asitawati@trisakti.ac.id

Abstract. Globalization causes the world to appear flat without borders. Currently, business actors have the freedom to choose investment locations that can increase vantage for the company. This paper aimed to bring insight into Foreign Direct Investment (FDI)’s decision in relocating to Indonesia and the impact towards the company’s performance. The research approaches are: 1) imitating referenced companies, and 2) supply chain as variables in the selection of investment destination. This study was done in quantitative method. The population of this study was FDI companies in Jababeka Industrial Area. Partial Least Squares-Structural Equation Modelling (PLS-SEM) was chosen in statistical data processing stage. This study concluded that (i) FDI is likely to ignore imitating approach in choosing Indonesia as investment location (ii) Supply chain becomes the main consideration of FDI in choosing Indonesia as investment destination, (iii) agglomeration of similar FDI is likely to benefit organizational competitiveness and (iv) FDI that choose Indonesia as investment destination using supply chain approach gains an advantage of higher organizational competitiveness.

1. Introduction
Globalization causes the world to appear flat with knowledge and capital is now able to across borders at a far greater speed and far less friction compared to a few years ago [1]. Globalization also causes the world today as if to become a large region with no boundaries. This condition causes every business actor are free to choose their business locations in any part of the world.

In the interest to improve company performance, more business actors are moving their business locations outside the geographical boundaries [1-3]. The purpose of business relocation is to obtain a locational advantage possessed by the destination location (host country). Locational advantages can come in many forms such as cheap labor costs, availability of abundant natural resources, and many others. The business strategy by relocating business area out of the boundaries of its geographical area is called the International Strategy [1-3], while entrepreneurs who move across geographical borders are known as Foreign Direct Investment (FDI).

One of the keys to an organization's success in carrying out an international strategy is the accuracy of choosing investment destination locations. According to Salvaneschi, site selection decisions are the most critical decisions of all business decisions [4]. One example of an organization that has successfully carried out an international strategy is the International Business Machine (IBM).
On the other hand, like most other developing countries, Indonesia is in dire need of FDI. FDI is stated as the government's main key to achieve economic growth of seven percent in 2019 [5]. However, the realization of FDI investment in Indonesia in the period 2014 to June 2019 was relatively unstable [6]. Thus, Indonesia needs to accelerate more efforts to increase its competitiveness to attract foreign investors.

Based on that description, this research will elaborate the factors that influence FDI in choosing Indonesia as investment destination location. An understanding of the factors that influence FDI in choosing Indonesia as a host country, is expected to provide suggestions for policy development to improve Indonesia's competitiveness in attracting investors.

2. Literature review

The importance role of location choice is explained by Salvaneschi, who states that almost all business failures are caused by mistakes in occupying location [4]. For this reason, the aspect of location selection becomes an important concern, both for the spatial planner as the party planning the distribution of the location in the spatial arrangement, and for the activity actors as the party who will occupy the space.

Experts have conducted many studies on the factors that influence the selection of investment destination locations, both from a regional economic and business perspective. Some experts state that physical, social and economic advantages are the important factors that influence the selection of investment destination locations [2,3,7,8]. Another view states that the investment climate is an important consideration that can motivate foreign companies to invest in a location [9].

In the perspective of the organization, Wheelen and Hunger explained that many companies are found to be successful in adapting to a location by imitating the company's management strategies and techniques as a reference [1]. Companies used as references are generally operating on a large scale and categorized as experienced companies. Mimicking these admired organizations is practiced when there is high environmental uncertainty in the destination investment location. Of all Americans FDI in China, around 7,000 of them use the approach of mimicking reference companies in choosing China as an investment destination location [10].

Other experts highlighted the choice of investment destination locations based on the perspective of environmental sustainability, specifically with regards to the impacts of climate change. Wheelen and Hunger argues that one of the impacts of climate change that influence business decisions is the problem of supply chain continuity [1]. One of the main impacts of climate change that might have an impact on supply chain continuity is the existence of international regulations on emission limits available for ships utilization [11].

Research related to the selection of investment destination locations has been carried out by previous researchers [12-16]. The previous researchers examined the effect of choosing an investment destination location based on physical, social, economic, and investment climate approaches. Unlike the previous research, this study utilizes 2 approaches in analyzing the selection of FDI investment destination locations in Indonesia, namely (1) imitating reference company and (2) supply chain. In addition, this research is not limited only to the selection of FDI investment destination locations in Indonesia; but also investigate the impact on increasing FDI performance after operating in Indonesia. The hypotheses established in this study were:

- H1: Imitating reference company influences the choice of investment destination
- H2: Supply chain influences the choice of investment destination
- H3: Imitating reference company as a basis for investment destination choice affects organizational performance
- H4: Establishing supply Chain as a basis for investment destination choice affects organizational performance.
- H5: Choosing investment destination influences organizational performance.
3. Research method
This research was a quantitative research. This study was a cross section type. Based on its purpose, this research was an explanatory research. The sample in this study was the Electronic and Automotive manufacturing industry. The number of samples was 80 industries, consisting of investors from Korea (36 industries), Japan (30 industries), Taiwan (6 industries), Malaysia (5 industries), Hongkong (1 industry), France (1 industry) and Germany (1 industry). The unit of analysis of this research was companies, represented by Director of Operationalization or equals from multinational companies of electrical and automotive manufacturing industries.

This study used primary data in the form of respondents’ perceptions. The questionnaires were closed questionnaire where the answers are already available. Alternative answers were provided in the form of Likert scale with 5 answer scales, from strongly agreeing to strongly disagree.

There were four variables used in this study: imitating reference company, supply chain, choice of investment destination, and organizational performance. Explanation of variables and indicators used in this study is as follows:

| Variables | Indicators |
|-----------|------------|
| X1 = Imitating reference company | X1.1 = The number of FDI from experienced companies in specific location  
X1.2 = The number of FDI from home country companies located in the host country |
| X2 = Supply chain | X2.1 = Travel route from the host country to the market  
X2.2 = Port Geographical Position |
| Y1 = Choice of investment destination | Y1.1 = Indonesia becomes the main investment destination |
| Y2 = Organizational performance | Y2.1 = Production capability  
Y2.2 = Innovation capability |

Source: Proposed by Authors

Conclusions are drawn in this research using the Structural Equation Model (SEM) approach. In this research, the software used in the SEM approach is Smart PLS 3.2.8.

4. Results and discussion

4.1. Result
The hypothesis testing result showed that the relationship between imitating reference company and a choice of investment destination was not significant with the T-statistic of 0.231 (<1.96) and the P Value of 0.409 (> 5%). As such, the H1 in this study stating "Imitating reference company influences the choice of investment destination" was rejected.

Meanwhile, the relationship between supply chain and choice of investment destination was significant with the T-statistic of 7.716 (> 1.96) and the P Value of 0.000 (<5%). The original sample value was positive with a value of 0.740, indicating the positive relationship between imitating reference company and organizational performance. Therefore, the H2 stating "supply chain influences the choice of investment destination" was accepted.

The relationship between imitating reference company and organizational performance was significant with the T-statistic of 5.111 (> 1.96) and the P Value of 0.000 (<5%). The original sample value was positive with a value of 0.525, indicating the positive relationship between imitating referenced company and organizational performance. Thus, the H3 stating "Imitating reference company influences organizational performance" was accepted.

Similarly, the relationship between supply chain and organizational performance was significant with the T-statistic of 2.237 (> 1.96) and the P Value of 0.013 (<5%). The original sample value was positive
with a value of 0.279, indicating the positive relationship between supply chain and organizational performance. Therefore, the H4 stating that "Supply chain influences organizational performance" was accepted.

On the other hand, the relationship between choice of investment destination and organizational performance was not significant with the T-statistic of 0.005 (<1.96) and the P Value of 0.498 (>5%). Thus, the H5 stating "Choice of investment destination location influences organizational performance" was rejected.

4.2. Discussion
Hypothesis 1, which is imitating a reference company influences the choice of investment destination location is rejected. This means that in general, FDI in Indonesia does not use the approach of mimicking reference companies as a consideration in choosing Indonesia as an investment destination location.

Copying a reference company is usually used by FDI as an approach in choosing an investment destination location when faced with an environmental situation full of uncertainties and when information is quite difficult to obtain. With the rejection of hypothesis 1, it means that information disclosure in Indonesia is considered quite well by investors. Thus, potential investors can obtain information relevant to decision making. This condition is different from what is identified in China, where almost around 7,000 American FDI residing in China use the approach of mimicking reference companies in choosing China as an investment destination [10]. Thus, organizational theory which states that corporations can adapt by imitating other successful organizations in choosing investment destination locations, is not applied in Indonesia.

One of the efforts implemented by Indonesian government in increasing information disclosure is to establish an Online Single Submission (OSS) system as bureaucracy shortening program. In OSS platform, various systems from other licensing institutions such as the General Law Administration System of the Ministry of Law and Human Rights, the Indonesia National Single Window (INSW), and the Ministry of Home Affairs Administration Information System is highly integrated. With an integrated system that provides all the information needed for business licensing, the entire licensing process will become easier and faster. All permit data in the regions can be accessed more quickly without having to go to the related offices.

Hypothesis 2, namely the supply chain related to the impact of climate change affects the choice of investment destination location is accepted. The results showed that the supply chain is influential in the selection of investment destination locations in Indonesia. This means that the decision of FDI choosing Indonesia as their investment destination country is influenced by supply chain continuity considerations.

The research results support Wheelen & Hunger theory which states that the consideration of supply chain continuity becomes an important consideration in the selection of investment destination locations in the 20th century [1]. This consideration arises in line with the increasing impact of climate change [1]. The results of this study also prove the accuracy of Wheelen and Hunger opinion, which states that environmental problems, including climate change, are the most important problems that will be faced by organizations in the next five years [1].

The majority of FDI originates from Japan and Korea. The two countries of origin of these investments occupy around 82.50% of all FDI in Jababeka. The voyage from the two countries to Indonesia does not cross the Pacific Ocean. Because of that, investors from both countries will be able to travel from their original country without risk of getting attacked by sea storms often found in the Pacific Ocean. Another aspect that increases Indonesia's attractiveness as an investment destination country is that Indonesia is relatively unaffected by tropical storms due to its geographic location in the equatorial zone. The position of Japan and Korea towards Indonesia can be seen in the following figure.
Another attraction of Indonesia is the existence of Tanjung Priok port which is the main port in Indonesia that can be visited by ships with a capacity of 10,000 TEUs with a sea depth of 16 meters below sea level. In future developments, Indonesian government is planning to increase the depth of the sea waters to 20 meters below sea level which is equivalent to the depth of the Malacca Strait. From the perspective of climate change impact on supply chains, the condition of the main ports in Indonesia available for large vessels causes investors to fulfil agreements of an acceptable international regulatory framework to reduce the amount of green-house gases emitted by ships.

Hypothesis 3, which is to mimics the reference company as the basis for choosing the investment destination location influences organizational performance is accepted. This means that the increasing number of similar industries gathering in an area can improve organizational performance. The theory that can explain this situation is the theory of agglomeration. According to agglomeration theory, there are several benefits if companies gather in an area. One of them is the benefit that comes from providing shared welfare facilities for workers. Completeness of the provision of facilities that can be used together such as day care facilities, gyms, or cafeterias in an integrated manner can motivate workers, thus indirectly succeeding in improving organizational performance [17]. The use of joint facilities, such as landfills, waste treatment processes, security posts, fire stations and other facilities can also reduce production costs. Thus, economies of scale are one of the benefits of the concept of agglomeration.

The research results also show that the supply chain approach in selecting investment destination locations in Indonesia has a positive effect on organizational performance (hypothesis 4 is accepted). This can be interpreted that FDI which applies a supply chain continuity approach to the selection of investment destination locations in Indonesia has succeeded in improving the performance of their organization. The results of this study support the International Strategy theory which states that moving the location of a facility outside its boundary is one of the strategies to improve organizational competitiveness [1-3].

From the supply chain management perspective, several aspects that contribute to improving organizational performance by moving locations to Indonesia, among others, are the availability of time consumption reduction and the availability to fulfil agreements with an acceptable international regulatory framework to reduce the amount of green-house gases emitted by ships.

Hypothesis 5, namely the choice of investment destination location influences organizational performance is rejected. The results showed that the choice of investment destination location had no effect on organizational performance. The results of the study are different from hypothetical expectations. In this study, organizational performance is only measured by 2 approaches, namely the ability to innovate and the ability to produce. In fact, in addition to the two approaches above, organizational performance can be measured by various other indicators, such as profit margin Return on Assets (ROA), Return on investment (ROI), and Sales growth [18]. Thus, outside of the 2 indicators...
used to measure the performance of the organization mentioned above, there are still many other indicators that have an important influence contribution in measuring organizational performance which is unable to be explained in this study.

5. Conclusion
Based on the result of the study, supply chain becomes the main consideration of FDI in choosing Indonesia as investment destination. FDI that choose Indonesia as investment destination using supply chain approach gains an advantage of higher organizational competitiveness. FDI is likely to ignore imitating approach in choosing Indonesia as investment location. Agglomeration of similar FDI is likely to benefit organizational competitiveness.

References
[1] Wheelen T L and Hunger J D 2012 Strategic Management and Business Policy (United States of America: Pearson Education Inc.)
[2] Ireland R D, Hoskisson R E and Hitt M A 2013 The Management of Strategy (Canada: Cengage Learning)
[3] Luthans F and Doh J 2015 International Management: Culture, Strategy, and Behavior (New York: McGraw-Hill)
[4] Salvaneschi L 2002 Location Location Location (Oregon: The Oasis Press)
[5] Bambang P J 2016 Posisi Daya Saing Indonesia Turun [Online] Retrieved from: https://money.kompas.com/read/2016/09/30/141541126/posisi.daya.saing.indonesia.turun?page=all, Accessed on: Kompas News 30 sptember 2016
[6] Badan Koordinasi Penanaman Modal (BKPM) RI 2019 Realisasi Investasi 2014-2019 Retrieved from: https://www.bkpm.go.id/id/publikasi/siaran-pers
[7] Dunning J H 2000 The Eclectic Paradigm as An Envelope for Economic and Business Theories of MNE Activity International Business Review 9 163–190
[8] Hoover E M and Giarratani F 1984 An Introduction to Regional Economics (New York: McGraw-Hill)
[9] World Bank Group 2011 Attracting FDI (New York)
[10] Li J, Qian C and Yao F K 2015 Confidence in Learning: Inter and Intraorganizational Learning in Foreign Market Entry Decisions Strategic Management Journal 918-929
[11] Wright P 2013 Impacts of Climate Change on Ports and Shipping Marine Climate Change Impacts Partnership: Science Review 263-270
[12] Okafor G 2015 Locational Determinants of US Outward FDI Into Sub-Saharan Africa The Journal of Developing Areas 49 1 187-205
[13] Gani A and Clemes M D 2015 Business Environment and Investment Potentials in Selected Pacific Island Countries The Journal of Developing Areas 49 4 69-87
[14] Li S, Angelino A and Spigarelli F 2017 Determinants of FDI Localization in China: A County-Level Analysis for the Pharmaceutical Industry International Journal of Environmental Research and Public Health 14 1 1-20
[15] Sikharulidze D and Kikutadze V 2013 Location Advantage and Georgia's Potential to Attract Foreign Direct Investment European Scientific Journal 1 101-105
[16] Rikalovic A and Cosic I 2015 A Fuzzy Expert System for Industrial Location Factor Analysis Acta Polytechnica Hungarica Journal 12 2 33-51
[17] Alcácer J and Delgado M 2013 Spatial organization of firms and location choice through the value chain Working paper Harvard Business School 1-31
[18] Richard P J, Devinney T M, Yip G S and Johnson G 2009 Measuring organizational performance: Towards methodological best practice Journal of management 35 3 718-804