

Balancing Coordination and Configuration: KT&G in the Middle East and Indonesia*

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KT&G, a Korean tobacco company, has experienced substantial growth since 1998, expanding its reach to 143 countries by 2023. This article examines KT&G's strategies for balancing global coordination with regional configuration, particularly by comparing its operations in the Middle East and Indonesia. The study highlights that KT&G leveraged the anti-Western sentiment in the Middle East, forming strategic alliances to overcome regulatory challenges and cater to cultural preferences. KT&G took advantage of the relatively less regulated tobacco market in Indonesia by partnering with local experts to navigate diverse market conditions. The research also reveals similar efforts across both regions to achieve operational efficiencies alongside distinctive adaptations tailored to each market. This analysis enriches the Integration-Responsiveness framework by illustrating how KT&G successfully balances global coordination with local configuration. This approach enabled KT&G to effectively meet regional consumer preferences and cultural differences, underscoring the importance of adaptability in global business strategies. These insights deepen our understanding of globalization complexities and offer a valuable framework for other companies looking to expand internationally.

Key Words: KT&G, Global Integration, Local Responsiveness, Integration-Responsive, Localization, Tobacco Industry, Middle East, Indonesia

1. Introduction

International business expansion requires firms to develop strategies that balance global integration with local responsiveness (Bartlett & Ghoshal, 1989). Firms must ensure operational efficiency through global coordination while adapting to region-specific consumer demands and regulations (Porter, 1990). The Integration-Responsiveness (IR) framework

has been widely used to analyze how multinational enterprises (MNEs) manage these conflicting demands.

The tobacco industry presents a unique case due to its high profitability yet significant regulatory constraints. Despite cigarettes being standardized in composition and packaging, local factors such as consumer preferences, cultural attitudes, and national regulations create diverse market conditions (Chaloupka & Warner, 2000). Tobacco firms must balance

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brand consistency with adaptation to local laws and preferences while navigating strict regulatory environments (Lee, Eckhardt, & Holden, 2016).

While electronics (Lee & Kim, 1998; Kim & Aguilera, 2016; Kwon & Kim, 2021) and automobile industries (Chung & Beamish, 2012) have been extensively studied, the tobacco industry's internationalization strategies remain underexplored. Prior studies on multinational tobacco firms focus largely on Western corporations such as British American Tobacco (BAT) and Philip Morris International (PMI) (Lee et al., 2017; Holden et al., 2010). However, research on Asian tobacco firms navigating global-local tensions in diverse regulatory markets is limited. Although the IR framework has been applied across industries (Yip, 1992; Rugman & Verbeke, 2004), its use in the tobacco industry is relatively scarce. To address the research gap, this study is analyzing how KT&G balances global coordination and local responsiveness in its expansion into the Middle East and Indonesia.

This study investigates KT&G's international expansion strategy by addressing four key objectives, firstly, identify the motivations behind KT&G's international expansion, secondly, analyze KT&G's market entry and operational strategies in the Middle East and Indonesia, thirdly, explore how KT&G balances global efficiency with local responsiveness under different regulatory pressures, and finally, evaluate whether KT&G's strategies are standardized or regionally tailored across

different markets.

This research follows a qualitative case study approach, utilizing secondary data sources such as corporate reports, industry analyses, and academic studies. The IR framework (Bartlett & Ghoshal, 1989) serves as the analytical basis for evaluating KT&G's global-local strategy balance. By comparing KT&G's approach in two culturally and regulatorily distinct markets, this study provides insights into how MNEs in highly regulated industries manage international expansion.

This study contributes to both theory and practice in international business strategy by extending the IR framework by applying it to the tobacco industry and offers insights into how Asian firms manage internationalization under regulatory constraints. This study also provides practical insights on balancing global efficiency and local responsiveness, emphasizing strategic alliances, regulatory adaptation, and localized product development. These findings are relevant to consumer goods firms in highly regulated industries.

KT&G's expansion into the Middle East and Indonesia demonstrates how firms can balance global standardization with regional adaptation. The company has employed localized strategies, such as forming local partnerships in the Middle East and acquiring a Kretek cigarette manufacturer in Indonesia. Through the IR Grid analysis, this study offers insights into how MNEs in the tobacco industry navigate global challenges. Future research should examine how KT&G's strategies evolve over

time and compare them to Western tobacco giants like BAT and PMI, offering a broader perspective on the global tobacco market's competitive dynamics.

II. Literature Review and Theories

2.1 Internationalization and Strategic Challenges

As firms internationalize, they encounter diverse business environments that differ significantly from their domestic operations in terms of scale, operational scope, market complexities, cultural differences, and national economic structures (Stonehouse et al., 2004). The expansion into foreign markets necessitates distinct strategic approaches, as domestic strategies often prove insufficient in navigating the global competitive landscape.

Levitt (1983) argued that global markets are increasingly homogeneous, advocating for standardized global strategies to achieve economies of scale. However, Yip (1992) contended that industries vary in their degree of globalization, necessitating more complex strategies that balance global efficiency with local responsiveness. This strategic duality remains a core issue in international business strategy and serves as the foundation for subsequent theoretical developments.

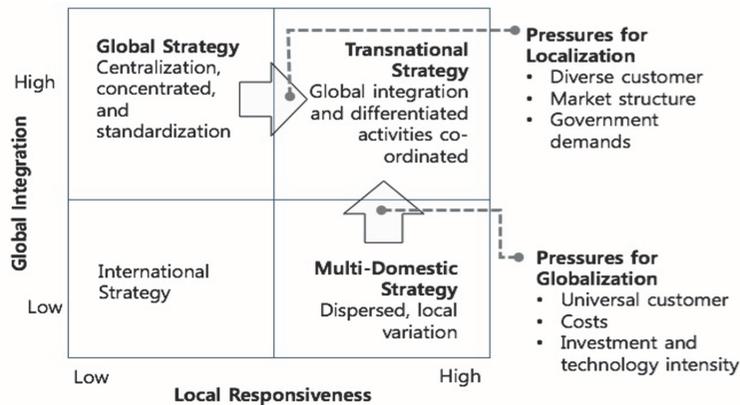
2.2 Global Strategy Frameworks

Porter (1986, 1990) introduced global generic strategies, emphasizing how firms can structure their value-adding activities through global configuration and coordination. The configuration decision relates to whether firms concentrate or disperse these activities, whereas coordination involves how firms align their global operations to ensure strategic consistency.

Recent studies, such as Chen, Sun, and McQueen (2020), have expanded upon Porter's ideas, examining how MNEs integrate their operations while responding to regional variations. Their findings highlight that firms must constantly adapt their configuration-coordination balance depending on regulatory pressures, market structures, and industry characteristics.

The Integration-Responsiveness (IR) Grid (Bartlett & Ghoshal, 1989) has been widely used to classify MNE strategies based on their emphasis on global integration and local responsiveness. Prahalad and Doz (1986) previously conceptualized global integration and local responsiveness as competing pressures influencing MNEs' strategic decisions. They identified key factors that drive integration, such as economies of scale, global customers, and cost reduction pressures, while also recognizing that regulatory diversity, cultural variations, and consumer preferences necessitate localized strategies.

Recent empirical studies, such as Pudelko (2022), provide contemporary insights into



Source: Bartlett and Ghosal (1989), edited by the author

〈Figure 1〉 Transnational Strategy: Integration-Responsiveness Framework

how MNEs navigate this dual challenge. Their findings suggest that highly regulated industries, such as pharmaceuticals and tobacco, often require hybrid strategies that balance efficiency with local adaptation.

Bartlett and Ghoshal (1989) expanded upon these theories, introducing the concept of transnational capabilities, where firms combine global coordination with localized flexibility. Their model suggests that firms can achieve competitive advantage by leveraging both global scale and local differentiation.

Recent research has examined the practical difficulties of implementing transnational strategies, such as managing complex organizational structures and ensuring knowledge transfer across borders (Chen et al., 2020). These challenges are particularly pronounced in industries where regulatory barriers vary significantly across markets, such as the tobacco industry.

2.3 Industry-Specific Considerations:

Globalization in the Tobacco Industry

The degree to which firms emphasize global integration or local responsiveness varies across industries. For instance, Porter (1986) found that the automobile and home appliance sectors typically favor global integration due to standardized production processes. Conversely, consumer goods industries, such as the tobacco sector, require higher local responsiveness to adapt to regional preferences and regulations (Choe & Kang, 2020; Rosenzweig, 2006).

In the case of the tobacco industry, firms must navigate strict regulations, cultural attitudes toward smoking, and diverse consumer behaviors. Research by Holden et al. (2010) and Lee et al. (2017) found that Western tobacco firms, such as British American Tobacco (BAT) and Philip Morris International (PMI), predominantly adopt adaptive localization

strategies, tailoring products and marketing to comply with regional regulatory frameworks. However, fewer studies have explored how Asian tobacco firms, such as KT&G, develop internationalization strategies to balance global efficiency and regional customization in terms of customers, cost and technology intensity.

By applying the IR framework to KT&G's expansion strategies in the Middle East and Indonesia, this study contributes to understanding how non-Western tobacco firms manage their internationalization process while responding to regulatory constraints and cultural preferences.

2.4 Research Propositions

Based on the theoretical considerations and the industrial context of the company, this study raised research questions as follows: firstly, what were the reasons and motivations of the rather rapid globalization of KT&G? Secondly, how did KT&G configure its activities in the Middle East and Indonesia? Thirdly, has this company attempted to gain efficiencies together with localization efforts to balance coordination and configuration? Finally, are KT&G's globalization strategies in the dispersed regions identical or specific for each region?

The following propositions are derived from the research questions outlined above. They aim to encapsulate the key areas of inquiry explored in the study, providing a focused framework for understanding the factors that

drive KT&G's globalization strategies, the configuration of its activities in diverse regions, and the balance between global coordination and local adaptation. These propositions serve as the foundational hypotheses that guide the analysis of KT&G's international expansion efforts in the Middle East and Indonesia.

Proposition 1: KT&G's rapid globalization was driven by domestic market saturation, international growth opportunities, and increasing regulatory pressures at home.

Proposition 2: KT&G configured its operations in the Middle East and Indonesia to meet region-specific regulatory, cultural, and competitive conditions.

Proposition 3: KT&G balanced global efficiency and local responsiveness through strategic alliances, operational integration, and localized product offerings.

Proposition 4: KT&G customizes its globalization strategies based on regional institutional environments, consumer preferences, and competitive landscapes.

III. Methodology

This study adopts a qualitative case study approach to analyze KT&G's international expansion strategies in the Middle East and Indonesia. The case study method is appropriate for investigating complex, context-

dependent business strategies, allowing for an in-depth examination of how KT&G navigated global and local market challenges. A comparative analysis of the company's operations in both regions enables a nuanced understanding of the factors influencing its internationalization process.

3.1 Data Collection

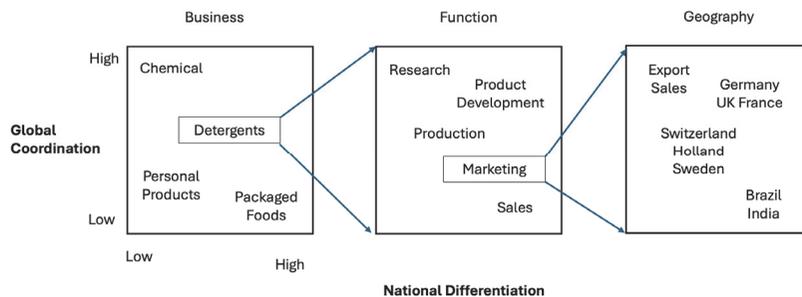
The research relies on secondary data sources, which provide comprehensive insights into KT&G's internationalization strategies. The data was gathered from, firstly, corporate Reports such as annual reports, investor presentations, and official statements from KT&G detailing its overseas expansion, secondly, market analysis and industry publications including reports from industry research firms, trade associations, and consulting firms providing sectoral insights. In addition, academic articles and case studies also referred by looking at peer-reviewed journal articles and case studies examining MNEs and globalization

strategies, particularly within the consumer goods and tobacco industries. Finally, policy papers, government reports, and regulatory guidelines from the Middle East and Indonesia that influence the tobacco industry. The use of multiple data sources enhances the study's credibility and validity, allowing for triangulation of findings and ensuring a robust analysis of KT&G's strategic decisions in these markets.

3.2 Analytical Framework: Integration-Responsiveness Framework

This study applies the I-R framework (Bartlett & Ghoshal, 1989) as the primary analytical tool to examine KT&G's approach to global integration and local responsiveness. The I-R framework is particularly relevant for assessing how MNEs manage the tensions between global standardization and regional adaptation.

To provide a more comprehensive assessment, the study incorporates a multi-dimensional perspective, visually represented in Figure 2.



Source: Bartlett and Ghoshal (1987, 2002)

(Figure 2) The Integration-Responsiveness framework: Unilever's differentiated organization

This model evaluates KT&G's strategic decisions across three dimensions including business, functional, and geographic dimension. Business dimension examines KT&G's product localization, brand positioning, and competitive strategies in the Middle East and Indonesia. Functional dimension analyzes strategic alliances, supply chain coordination, and marketing localization efforts. Geographical Dimension investigates how KT&G's global strategy adapts to region-specific regulatory, economic, and cultural factors. By adopting this three-dimensional framework, the study provides a holistic view of how KT&G balances economies of scale while addressing local market conditions.

The I-R framework is used to assess the relative degree of global coordination and local differentiation in KT&G's strategies. Firstly, the analysis focuses on global pressures which KT&G pursued cost efficiencies, brand standardization, and centralized operations. Secondly, local adaptation to show how KT&G responded to cultural preferences, regulatory variations, and consumer behaviors in each region. Finally, strategic balance indicating the company's ability to simultaneously achieve global competitiveness and regional responsiveness through tailored product offerings, strategic partnerships, and localized marketing campaigns.

The findings from this framework will illustrate how KT&G effectively leveraged its transnational capabilities to expand into complex and highly regulated international markets.

3.3 Comparative Case Analysis

A comparative case study design is employed to examine the differences and similarities in KT&G's strategies across the Middle East and Indonesia. The analysis involves identifying market entry strategies and adaptation mechanisms in both regions, comparing levels of global coordination versus local responsiveness in KT&G's operations, and evaluating key success factors and challenges faced in each market. This comparative approach helps generate generalizable insights into how MNEs in highly regulated industries manage global expansion, contributing to both theoretical advancements and practical implications for international business strategy.

By employing a qualitative case study approach and integrating the I-R framework with a multi-dimensional analysis, this study systematically examines KT&G's strategic decision-making in international markets. The methodological approach ensures a structured, in-depth exploration of the company's expansion into the Middle East and Indonesia, offering valuable insights into balancing global efficiencies with local market adaptation.

IV. Case Analysis

4.1 Motivations for Globalization

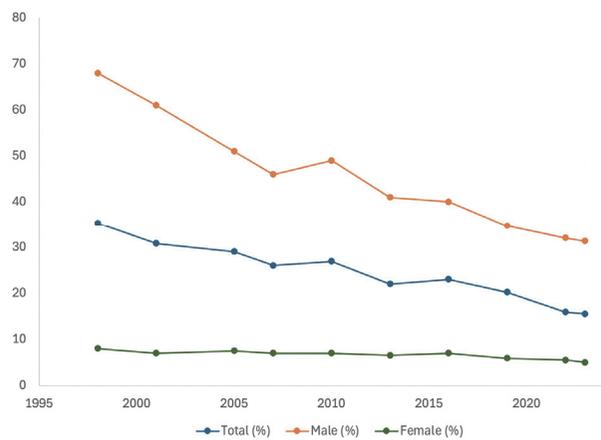
As of 2023, KT&G is the world's fifth-largest

tobacco company and has established itself as a globally recognized tobacco company. The company posted annual sales revenue of KRW 5.3016 trillion and operating profit of KRW 1.4824 trillion in 2021, which was higher than that of Samsung Electronics that year, and in the first quarter of 2022, it achieved an operating profit of KRW 272.6 billion, an increase of about 10% from the previous quarter. As of 2023, KT&G exports to 143 countries based on 482 brands. Major exporters include Indonesia, Russia, Turkey, and the Middle East (Chosun Biz, 2023).

KT&G, a major tobacco manufacturer in Korea, was established as a public company, namely, the Korea Tobacco & Ginseng Corporation, and went through the privatization process in 1998. Together with the growing anti-smoking sentiments in Korea, multiple smoking-related regulations hampered the growth of the domestic tobacco market and began to

slow down (Lim and Khang, 2021).

In 1997, a cigarette tax was imposed under the National Health Promotion Law. This was followed by subsequent increases in market prices. In 2003, South Korea signed the WHO Framework Convention on Tobacco Control (FCTC) and this led to the introduction of more comprehensive tobacco control measures (WHO, 2021). Restrictions on tobacco advertising were also implemented in 2007 then warnings about carcinogens were required on tobacco packaging. Duty-free tobacco for military personnel was abolished in 2009, and smoking in public facilities began to be prohibited from 2012 onwards (KHEPI, 2024). Consequently, the overall smoking rate in Korea dropped sharply from 35 percent in 1998 to 25 percent in 2007 and the figures decreased consistently in the subsequent years. These regulatory impediments and market conditions have given KT&G a challenge of



Source: Ministry of Health and Welfare, Korea Centers for Disease Control and Prevention

<Figure 3> Decreasing Smoking Rate in Korea

overseas expansion (Kim, H.K., 2013, Park and Paik, 2017).

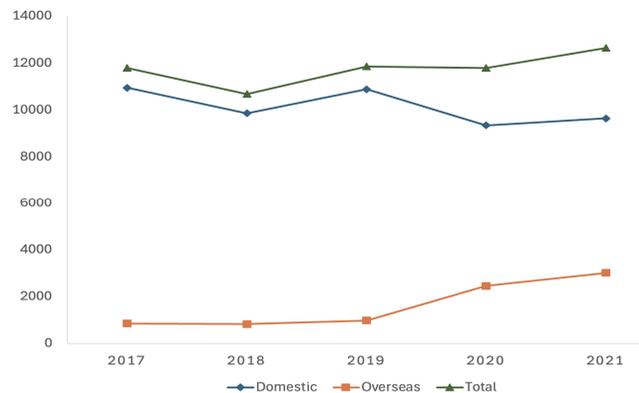
KT&G's Annual sales in 2021 recorded KRW 1.4026 trillion, up 16.1% from the previous year. Its overall sales have shown an increasing trend since 2019 when domestic sales were stagnant (Figure 4). This indicates overseas sales became important for sustainable growth from the end of the 2010s. KT&G's ultra-slim cigarette, ESSE, has sold over 324 billion units as of December 2022 which means 1 in 3 ultra-slim cigarette consumers worldwide have chosen this particular product (KT&G, 2024).

In the early stage of overseas expansion, US markets were the main target but declined sharply from 2010 and withdrew from the market as KT&G shifted to other regions. According to the regional spread of global sales (Figure 5), the Middle East, Asia Pacific, Russia and CIS were the relatively important and other markets in such as Africa and

Central America showed gradually growth in recent years. By 2023, Indonesia (22.6%) and the Middle East (21.2%) took major portion of KT&G's overseas sales. The Middle East has been one of the main markets and the recent years witnessed remarkable growth in Indonesian market. It is therefore necessary to take a close look at those region and country to understand the KT&G's strategies for overseas expansion.

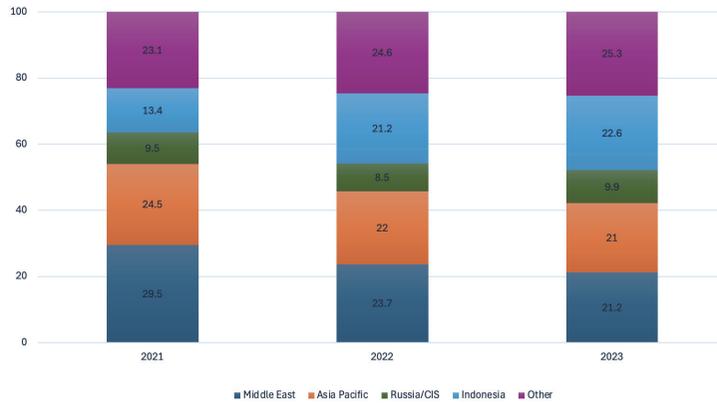
4.2 KT&G in the Middle East

The Middle East presents a complex tobacco market influenced by cultural traditions and evolving consumer behaviors. The market is projected to grow at a compound annual growth rate (CAGR) of 2.10% during the period from 2024 to 2032 (IMARC Group, 2024). Smoking, including the use of waterpipes (shisha), is often perceived as a social activity, contributing to the sustained demand for tobacco products.



Source: Financial Supervisory Service Electronic Disclosure System

〈Figure 4〉 KT&G's domestic and overseas sales (unit: KRW billion)



Source: KT&G

〈Figure 5〉 KT&G Overseas Sales by Region

The region's tobacco market is diverse, with consumption patterns varying across countries. Key markets include Saudi Arabia, Turkey, Israel, the United Arab Emirates, Iran, and Iraq (IMARC Group, 2024). The market comprises both international and local tobacco companies, with major players such as Altria Group Inc., British American Tobacco, Swedish Match AB, Japan Tobacco International, and Philip Morris International operating in the region (Business Market Insights, 2024).

Despite increasing health awareness and regulatory measures, the tobacco industry in the Middle East continues to adapt. The co-existence of traditional practices and modern attitudes towards smoking underscores the intricate nature of the market. The introduction of alternative nicotine products, such as e-vapour and heated tobacco, is also gaining traction, although their future depends on regulatory developments and consumer acceptance (Euromonitor International, 2024).

The Middle East was selectively targeted by KT&G not only because of its growth potential but the region was relatively less competitive compared to other tobacco markets where major global tobacco companies dominated. KT&G identified the culture of antipathy towards Western companies in the Middle East as the reason behind the less influences from the established tobacco brands. The anti-Western culture in the Middle East soon minimized the barriers to entry for KT&G, lowering foreign costs and giving it a relative advantage over its Western competitors.

The high smoking rate in the Middle East is relatively higher than any other regions and this can be attributed to KT&G's expansion to this part of the world. According to the WHO Global Report, the Middle East has a smoking rate of about 18.6% as of 2020 (WHO, 2021). Despite the decline in the number of smokers globally, this region seems least affected by this trend and the number of

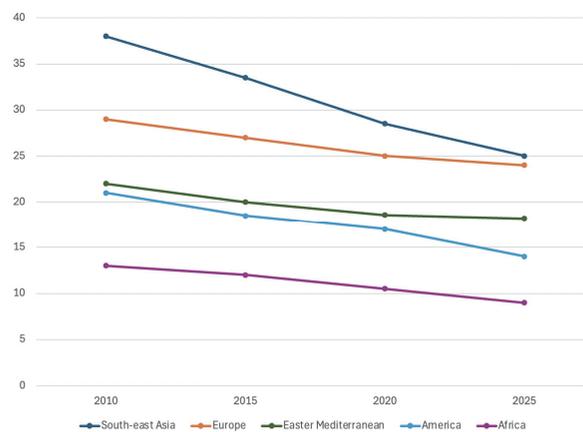
smokers has remained high over the past 20 years particularly in the Eastern Mediterranean Region.

KT&G was able to enter the Middle East market with comparatively less efforts based on these backgrounds. The Middle East was the largest market for KT&G until 2022 and the share of overseas recorded over 41% sales in 2016. For instance, Korean tobacco products recorded the first place in the UAE tobacco imports in 2014 with total amount of USD597 million or 37 per cent of total tobacco imports.

KT&G's marketing efforts in the Middle East have been centered around localization and catering to regional preferences. The company has adopted a multifaceted approach to establish a strong presence in the market. Firstly, KT&G had chosen way to enter the Middle East market is through strategic alliances. Considering the lack of understanding of the

local market and the instability of the market, KT&G chose to share resources and capabilities with local partners and divide risks rather than entering the market independently. KT&G has signed a KRW2.2 trillion (US\$1.8 billion) contract with Dubai-based consumer brand Alokozay International, granting the right to sell its cigarettes in the Middle East and the Commonwealth of Independent States (CIS) that will run till 2027 (Chosun Biz, 2020).

The partnership through the formation of 'relationship capital' with local companies was established and secured an efficient distribution network which has high growth potential, and it is expected that the alliance will allow it to secure a more efficient local distribution network. KT&G's local partnership was generally accepted and welcome by local media as well as customers (Chosun Biz, 2020). KT&G showed sound performance in the year of alliance despite the unstable busi-



Source: WHO (2021). WHO global report on trends in prevalence of tobacco use

(Figure 6) Trends in Smoking Rates in People 15 and Over by Region (%)

ness environment of the coronavirus, due to the continuation of the solid flow of domestic cigarette sales, the normalization of exports to the main market and the full-fledged export of e-cigarettes.

Second, KT&G understood local preferences and successfully developed highly localized products in the Middle East. As a result of in-depth research endeavor, KT&G found consumers in the Middle East consumers prefer stronger aromas and developed local brand 'Pine' that is highly customized products to suit the tastes of local consumers. For 500 years, the Middle East has enjoyed shisha, a hookah. Shisha has an average smoking time of 60 minutes, so you are exposed to the toxins in tobacco leaves and spices for a longer time than regular cigarettes. This tradition has influenced the current preference for cigarettes in the Middle East, preferring strong, flavored cigarettes.

Pine has positioned itself as a regional favorite in the Middle East, with high tar content, and distinctive flavors including various menthol and flavored options like Pine Prime Fresh Apple appealing to younger, active consumers who prefer a bold and rich smoking experience (DBR, 2018). The packaging of Pine cigarettes was in octagonal hard packs and this unique design element adds to the brand's premium image, appealing to smokers who seek both quality and style. This differs from some of KT&G's other brands like Esse, which targets a more health-conscious demographic with super-slim designs and lower

tar content featuring milder flavors.

Thirdly, KT&G actively challenged to promote its brands in the region with various methods. Together with localized products to meet local preferences, the company also made efforts to transform its main brand Esse to appeal in the Middle East. KT&G's Esse is 5.4mm in diameter, thinner than the 8~9mm common products and it used to have a negative image to a certain extent. KT&G focused on Dubai Airport and actively advertised Esse via trolleys, billboards, and shopping bags used at airports. In addition, wholesalers and major retailers were often invited to product conferences to introduce new products and explain the advantages of Esse (KOTRA, 2009b). KT&G marketers frequently visited the distribution network under their jurisdiction to ensure that the Esse could be displayed in a conspicuous place, and if it was difficult to preempt the visible shelves, they set up a pop-up stand to promote. As a result, the positive brand image of Esse is successfully established as "less harmful", "fashionable", and "professional". To start with its popularity in Iran and Turkey, Esse in Middle Eastern exports of Esse Mini rapidly rose from \$1.1 million in 2011 to \$24.7 million in 2015 (KOTRA, 2018).

4.3 KT&G in Indonesia

Indonesia stands as one of the world's largest tobacco markets, with a deeply ingrained smoking culture. Approximately 63% of Indonesian

men and 5% of women are smokers, resulting in a national smoking rate of about 34% (Wikipedia, 2024). The market is predominantly driven by the popularity of kretek cigarettes, which are clove-flavored and account for 88% of the cigarettes consumed in the country. The industry is characterized by the dominance of both local and international players. Major companies include, HM Sampoerna as a subsidiary of Philip Morris International, holding a significant market share and Bentoel Group owned by British American Tobacco. There are leading local producers such as Gudang Garam and Djarum. These companies collectively control a substantial portion of the market (Tobacco Free Kids, 2024).

Despite global anti-smoking campaigns, Indonesia's tobacco market continues to grow. In 2025, the market is projected to generate approximately US\$38.07 billion in revenue, with an annual growth rate of 2.86% from 2025 to 2029 (Statista, 2024). This growth is partly attributed to the country's cultural acceptance of smoking and the significant economic role of the tobacco industry, which provides employment to over 180,000 people directly and supports an additional 10 million indirectly (Wikipedia, 2024).

This high prevalence was partly due to the affordability of cigarettes, widespread advertising, and cultural factors that normalized smoking (Asia Economy, 2017). In addition, despite signing the WHO Framework Convention on Tobacco Control (FCTC) in 2003, Indonesia did not ratify it, which limited the implementation

of stringent tobacco control measures (WHO, 2021). The FCTC's goals include reducing smoking rates through measures such as higher taxes, advertising bans, and health warnings. However, Indonesia's delay in ratifying the FCTC and the influence of the powerful domestic tobacco industry hindered the implementation of these measures. As such, Indonesia's tobacco market remained largely unregulated. The failure to fully implement FCTC measures and the influence of the tobacco industry left the country with persistently high smoking rates and related health issues. Nevertheless, Indonesia, a country with low regulatory barriers compared to other countries from the business perspective, it was a market where the tobacco industry could be expanded more easily compared to other markets with stringent regulations (KOTRA 2009a).

Acquisition has often been employed by Korean firms as a strategic approach to expedite local embeddedness in foreign markets particularly in South East Asia (Choi & Kang, 2017; Jung, Lee and Choi, 2002). KT&G's Indonesian tobacco manufacturing started in 2011 by acquiring a 61% stake in PT Tri Sakti Purwosari Makmur, one of Indonesia's prominent kretek cigarette producers. This acquisition allowed KT&G to tap into the local market's preferences for kretek cigarettes, which are a unique blend of tobacco and cloves popular in Indonesia (Tobacco Reporters, 2024). By acquiring Tri Sakti, KT&G gained access to established local brands and a robust distribution network, crucial for penetrating the

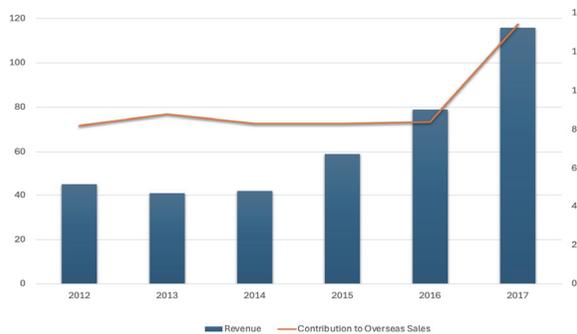
Indonesian market. Indonesian sales subsidiaries accounted for 13.4% of overseas cigarette sales, and 36.1% of total overseas tobacco manufacturing and sales subsidiaries. From 2011 to 2014, the production of cigarettes increased steadily, and the growth rate grew steadily in line with the production volume, and it was evaluated as a market that is growing steadily along with its size. In 2015, the sales volume of the Indonesian subsidiary reached 2.15 billion units. This is 940 million more cigarettes sold than the 1.21 billion cigarettes sold in the previous year, an increase of 78%.

KT&G had captured the cultural aspect of smoking in Indonesia from the early stage of its expansion. In Indonesia, cigarettes act as a medium of relationships and conversations with people. Indonesian consumers therefore have a high tendency to chain smoke for longer conversations. 88% of tobacco consumers prefer Kretek cigarettes with clove flavor which is gentle for the throat and features cooling

effects even under the longer smoking time.

KT&G established an R&D center in its production plant located in Surabaya and started research and development tailored to Indonesia focusing on Kretek blending and attempting to develop a new localized product. About 30 kinds of leaf tobacco samples were mixed with clove flower buds, and various samples and cloves were blended. As a result, in 2017, KT&G launched the Kretek version of Korea's first capsule-type cigarette, 'Esse Change' and it recorded the achievement of selling 300 million cigarettes a year within two years of its launch.

The R&D center researched adding fruit flavor together with Kretek blending. This attempt was based on the findings about dietary understanding. Flavor samples of mango, honey, and apple mint were placed in the R&D center to be mixed with leaf tobacco to add flavor to cigarette capsules, and repeated experiments were made to develop products with both kretek and fruit flavors (Dong-A



Source: KT&G

<Figure 7> KT&G's revenue in Indonesia (unit: KRW billion, %)

Daily, 2019). After continuous R&D efforts, KT&G launched 'Esse Change Berry Pop' which has berry flavor to the capsules and contained 15mg of tar to have a deeper tobacco flavor and slower burning speed. Figure 7 shows rapid increase in sales that reached KRW 115.9 billion in 2017, a growth of about 50% compared to the previous year. This significant improvement in sales was coincident with launch of localized product indicates that the launch of locally customized products had a significant impact on the performance.

In the subsequent years, KT&G continued development of new products with more fruits flavors in one cigarette launched 'Esse Change Shuffle Pop.' was a Kretek flavored product like the previous 'Esse Change Berry Pop' but with a mixture of caramel mint, mango mint, berry mint, apple mint, and orange mint to make it sweeter and more added more fruity characteristics. In particular, KT&G hired local researcher from Samporna in 2019 to oversee leaf tobacco blending research and developed 'Esse Change Jushi', which adds the scent of mangosteen, one of the favorite fruits of locals, and recorded 400 million cigarettes in five months of sales.

The company's commitment to the Indonesian market extended beyond commercial ventures: KT&G also engaged in corporate social responsibility (CSR) activities, addressing various social, educational, and environmental issues by establishing vocational training centers and supporting local communities. Firstly, KT&G has established multiple programs to

support vocational training and job creation in Indonesia. In 2019, they opened the Coffee Lab and later established a vocational training center at Universitas Kristen Cipta Wacana (UKCW) in Malang in March 2021 (Data News, 2021). This center focuses on teaching skills like sewing and computer technology to marginalized youth. By 2022, a total of 243 people had completed the curriculum, and many participants secured jobs or started their own businesses. Secondly, KT&G has been actively involved in environmental conservation in Indonesia. In August 2022, the company, along with Sangsang Univ Indonesia, organized a mangrove planting project in Northern Jakarta. Volunteers planted mangrove trees and collected trash, aiming to combat climate change and reduce flooding risks (KT&G, 2023). Additionally, KT&G led cleanup efforts along the Ciliwung River, involving tree planting, fish releases, and ecosystem education. Thirdly, KT&G has made significant contributions to education in Indonesia. In 2014, they established the KT&G Korean Language Institute, which has since provided Korean language education to approximately 2,800 people. They also operate "Imagination University," supporting cultural experiences and capacity development for Indonesian youth. Moreover, KT&G has been involved in improving the infrastructure of educational institutions, such as renovating an elementary school in Bogor and building a new facility with earthquake-resistant construction (Financial News, 2022)

To sum, KT&G quickly learned the local

culture through the establishment of a local R&D center and incorporated it into product development to launch differentiated products. Starting with the launch of Kretek cigarettes, the company launched ultra-slim to slim types since locals prefer high-tar cigarettes with high haze content, and also launched a differentiated product with sweet flavor for the first time among overseas products in consideration of the dietary culture of the locals, and successfully entered the Indonesian market by advancing the degree of localization. In addition, through the CSR efforts tailored to the local community, KT&G was able to enhance its brand image and acceptance in Indonesia.

4.4 Comparative Analysis and Discussions

4.4.1 Drivers of KT&G's Rapid Globalization

KT&G's rapid globalization was driven by a combination of domestic market saturation, strategic international expansion opportunities, and external regulatory pressures. As the Korean tobacco market became increasingly competitive and subject to stringent regulations, KT&G sought new avenues for growth in international markets. The Middle East and Indonesia emerged as key destinations due to their high smoking rates, relatively accommodating regulatory environments, and strong demand for diverse tobacco products. These conditions enabled KT&G to accelerate its internationalization strategy by capitalizing

on favorable market dynamics and leveraging its competitive strengths.

4.4.2 Market Entry and Operational Strategies

KT&G's market entry and operational strategies in the Middle East and Indonesia were designed to address region-specific challenges, including regulatory constraints, cultural preferences, and competitive dynamics. In the Middle East, KT&G strategically positioned itself by aligning with local consumer sentiments, particularly the preference for non-Western brands. The delayed ratification of the FCTC in Indonesia also provided an opportunity for KT&G to establish a strong presence before regulatory tightening. The company adopted a dual approach—establishing strategic alliances with local partners while developing regionally tailored products—to ensure effective market penetration. By integrating global brand positioning with localized adaptations, KT&G maintained consistency in its international presence while catering to specific market demands.

4.4.3 Balancing Global Coordination and Local Adaptation

Achieving a balance between global coordination and local adaptation, KT&G leveraged operational efficiencies, strategic alliances, and localized product innovations. The company introduced products that resonated with cultural preferences, such as 'Pine' for the

〈Table 1〉 Comparative table of cases from the Middle East and Indonesia

		Middle East	Indonesia
Regional Context		Antipathy towards Western companies	Delay in ratifying the FCTC
		High smoking rate (18.6%)	Male smoking rate (70%)
		Favor High tar contents and, bold and rich aroma	Favor Kretek cigarette and sweet flavor
Multi-layered Strategy	Global Integration	Low tar global model 'Esse'	Applying Korean production technology to Surabaya plant
	Local Responsiveness	Strategic alliance with local brand	Developing Kretek cigarette 'Esse Change'
		Locally developed product 'Pine'	Locally developed fruit flavored products in line with dietary culture
		Localized marketing efforts	Customized CSR efforts

Source: The Author

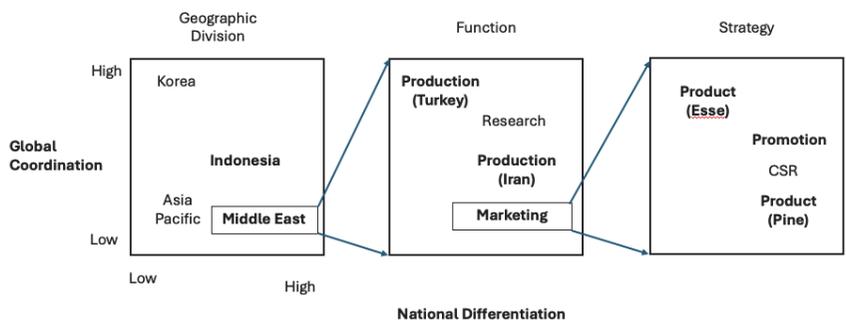
Middle Eastern market, reflecting the region's preference for high-tar cigarettes with bold flavors influenced by shisha culture. Similarly, in Indonesia, KT&G developed 'Esse Change,' incorporating sweet flavors aligned with local Kretek smoking traditions. These product innovations were supported by local R&D efforts, partnerships with local distributors, and manufacturing investments that optimized cost efficiencies. By integrating standardized production processes with locally adapted product offerings, KT&G successfully harmonized global efficiency with regional market responsiveness.

4.4.4 Standardization vs. Differentiation in Global Strategy

The extent to which KT&G standardizes or differentiates its global strategies depends on market-specific institutional environments, consumer behavior patterns, and competitive forces. While KT&G maintains brand con-

sistency through its global flagship product, 'Esse,' it strategically modifies product formulations and marketing approaches to align with regional preferences. In Indonesia, KT&G's acquisition of Tri Sakti enabled it to internalize Kretek cigarette production, further embedding itself within the local industry. In contrast, the Middle East market emphasized brand differentiation through highly localized product development and strategic marketing efforts. Additionally, KT&G's investments in production hubs—such as Turkey for the Middle East and Surabaya for Southeast Asia—demonstrate its commitment to scaling operations while maintaining flexibility for localized manufacturing.

The following figures are the summary of the case analysis to identify implications from the findings of this study. Firstly, figure 8 shows the geographic division of KT&G and the strategic position of the Middle East from the global coordination and national differ-



〈Figure 8〉 The Integration-Responsiveness Framework: KT&G in the Middle East

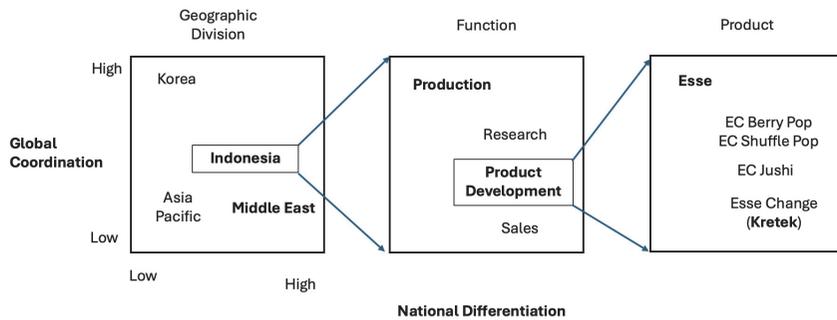
entiation perspectives. The Middle East compared to Indonesia and other regions seems positioned as a highly localized region and this view is supported by its marketing strategies including the development of the local product 'Pine' to meet specific local preferences.

Distinctive efforts for promotion in the region to establish its brand image by increasing visibility were worth noting and found to be effective in positioning as modern, professional images with high quality. There are 2 different locations for production in the region. One is in Turkey and the other is in Iran. Turkey is a significant hub for producing various KT&G brands, including Pine, tailored to meet the preferences and regulatory requirements and plays a crucial role in KT&G's global production network in the Middle East and nearby markets. The plant in Iran is considered a center for local production in the relatively narrow geographical span for consumers in Iran (Lee, K. et al., 2017).

Figure 9 shows the strategic position of Indonesia in KT&G's global strategy. National differentiation via localization seems also im-

portant in Indonesia but not as much as in the Middle East. This is partially due to the strategic importance of this country as the production hub for the pan-Southeast Asian region (Ko and Kim, 2018). This plant is known to apply standard cigarette production processes and technologies proven in the Korean factory (Chosun Biz, 2017; YTN, 2019). In this way, KT&G was able to achieve efficiency from the economies of scale and benefits from global coordination. Nevertheless, localization and adapting its strategy for national differentiation were not the least for the success in Indonesia. The collaborative research with the local tobacco company, Samporna, brought a positive result with a localized product using the scent of local fruit, Mangosteen.

The development of Kretek cigarettes in Indonesia to meet local needs seems the most important localization effort in Indonesia. By acquiring Tri Sakti, KT&G internalized the capability to produce Kretek and the company went beyond passive localization by local innovation by developing various products featuring different fruit scents and ingredients



〈Figure 9〉 The Integration-Responsiveness Framework: KT&G in Indonesia

to create local demands. These subsequent products are offspring of *Esse Change*, the locally developed *Kretek* solely for the Indonesian market.

These findings highlight KT&G's ability to execute a nuanced globalization strategy that balances efficiency and market responsiveness. Its approach is neither purely standardized nor wholly localized but strategically calibrated based on market conditions, regulatory landscapes, and consumer preferences. The case of KT&G underscores the necessity of a multi-layered international expansion model, where companies must integrate global coordination with local adaptability to sustain long-term competitive advantage in diverse regional markets.

V. Implications

5.1 Theoretical Implications

This study makes a significant contribution

to international business research by both supporting existing theories and addressing the shortcomings of previous studies on the I-R framework, MNE strategy, and industry-specific globalization challenges. By analyzing KT&G's differentiated strategies in Indonesia and the Middle East, this study provides empirical insights that refine our understanding of how MNEs balance global standardization with local responsiveness in highly regulated consumer goods industries.

The I-R Grid proposed by Bartlett & Ghoshal (1989) remains a foundational model for understanding MNE strategy. However, this study extends its applicability by demonstrating that firms do not adopt fixed positions within the framework but dynamically adjust their strategies across different markets. The I-R Grid classifies MNEs into four strategic orientations but, Rugman & Verbeke (2004) argued that MNEs often operate regionally rather than globally, challenging the assumption of fixed I-R positions. The findings from KT&G's dual strategy support this flexibility hypothesis by showing that, in the Middle East, KT&G

adopts a multidomestic strategy, prioritizing local responsiveness due to strong cultural and regulatory constraints. In Indonesia, KT&G follows a transnational strategy, balancing global efficiency with local responsiveness by leveraging regional production hubs. This study empirically demonstrates that MNEs' positioning within the I-R Grid is dynamic, not static, reinforcing the arguments of Pudelko (2022) and Chen et al. (2020), who suggested that firms continuously adapt to external institutional pressures.

While prior studies have recognized the influence of regulatory environments on international business strategies (Porter, 1986; Yip, 1992), few have explicitly examined how regulations shape an MNE's movement within the I-R Grid. Choe & Kang (2020) found that consumer goods industries face unique localization pressures due to strict national regulations and tax policies. This study extends their work by showing that KT&G faced more stringent restrictions in the Middle East, leading to a higher degree of localization, while Indonesia's more flexible but cost-intensive tax system allowed KT&G to integrate global efficiency with local adaptation by establishing a regional production hub.

This study also extends the I-R framework by integrating consumer behavior as a critical determinant of localization intensity in culturally sensitive industries. Prior research on I-R strategies has primarily focused on economic and operational factors, often underestimating the importance of consumer culture

in driving localization strategies (Rosenzweig, 2006). Rosenzweig (2006) and Chen et al. (2020) argue that consumer goods MNEs face stronger local adaptation pressures than manufacturing MNEs due to variations in consumer taste, brand perception, and product preferences. In the Middle East, KT&G fully localized its product portfolio (Pine) to match consumer preferences shaped by shisha culture. In Indonesia, KT&G adopted a hybrid localization approach, modifying its global brand (Esse Change) to include locally preferred Kretek flavors, rather than creating an entirely separate product.

While the literature has long recognized the importance of strategic alliances in international expansion (Porter, 1990; Bartlett & Ghoshal, 1989), there has been little focus on how alliances function as a tool for adjusting an MNE's position within the I-R Grid. Chen et al. (2020) argue that alliances provide flexibility in balancing efficiency with responsiveness, allowing MNEs to adapt without committing to a wholly owned subsidiary. This study extends the strategic alliance literature by demonstrating that partnerships act as a mechanism for adjusting I-R balance, allowing firms to localize effectively without fully committing to a decentralized structure. KT&G formed a strategic alliance with Alokozay International in the Middle East to navigate regulatory restrictions and improve market penetration through local partners. In Indonesia, KT&G acquired Tri Sakti, allowing it to internalize local knowledge and production ca-

pabilities while still maintaining elements of global efficiency.

Previous studies have highlighted the importance of regional production hubs in optimizing global supply chains (Porter, 1986), but few have examined their role within the I-R Grid. This study enhances the I-R Grid by demonstrating how regional production hubs function as an enabler of transnational strategies, allowing MNEs to balance efficiency with local responsiveness. Indonesia serves as KT&G's regional production hub, allowing the company to achieve economies of scale while adapting localized product variations for different Southeast Asian markets. Middle East production is more fragmented (small-scale plants in Turkey and Iran) due to regulatory constraints and market differences, limiting the potential for large-scale standardization.

5.2 Managerial Implications

This study provides practical insights for managers navigating the challenges of international expansion, particularly in highly regulated and culturally diverse markets. The case of KT&G in Indonesia and the Middle East highlights critical factors for success, including understanding local market conditions, leveraging strategic partnerships, balancing global efficiency with local responsiveness, and utilizing regional production hubs. These findings offer guidance for MNEs seeking to optimize their global operations while effectively addressing local market demands.

Firstly, one of the key managerial implications from this study is the importance of understanding and adapting to local regulatory frameworks and cultural norms. Many industries, particularly those in tobacco, pharmaceuticals, and consumer goods, face strict regulations and diverse consumer preferences that require careful market entry planning (Choe & Kang, 2020). KT&G's success in both regions demonstrates that thorough market research is essential before expansion. For the effective implementation of global strategies, managers should conduct in-depth market research using consumer preference surveys, local focus groups, and regulatory reviews. Engaging local experts and policymakers early in the expansion process can help companies navigate complex legal environments and tailor products to regional tastes, increasing their likelihood of success.

Secondly, this study highlights the strategic value of forming alliances with local partners when entering foreign markets. While some MNEs may opt for wholly owned subsidiaries (WOS) to retain full control, strategic alliances can provide a faster, lower-risk approach, particularly in regulated industries (Dunning, 1988). KT&G's market entry strategies illustrate two different approaches to alliances. In the Middle East, where foreign companies face significant regulatory barriers, KT&G partnered with Alokozay International to access established distribution networks and market knowledge. This enabled KT&G to navigate complex regulations while lever-

aging Alokozay's brand recognition. In contrast, Indonesia presented fewer regulatory hurdles but required deeper market integration. As a result, KT&G acquired Tri Sakti, a local Kretek manufacturer, to internalize production and distribution capabilities. Strategic alliances should be seen as an entry point rather than a permanent structure. Over time, as companies gain local expertise and regulatory familiarity, they may opt to shift from partnerships to direct investments for greater autonomy and long-term sustainability (Johanson & Vahlne, 2009).

Thirdly, achieving economies of scale while catering to local market demands is a fundamental challenge for multinational firms. KT&G's approach exemplifies a transnational strategy, where the company standardized core processes while adapting products to local needs. The Esse brand was retained globally to maintain brand recognition and operational efficiency, but modifications such as tar content adjustments for the Middle East and flavored Kretek variations for Indonesia ensured local market fit. This hybrid approach enabled KT&G to maintain cost advantages while enhancing consumer acceptance. To implement a balanced strategy, managers should standardize non-customer-facing functions and localize consumer-facing functions to align with regional preferences. At the same time, managers should utilize flexible product design strategies to enable quick adaptations based on local demand shifts. Companies that integrate standardization with localized adap-

tations are more likely to sustain competitive advantages in foreign markets while avoiding excessive operational costs (Yip, 1992).

Finally, this study highlights the strategic role of regional production hubs in balancing cost efficiency with local responsiveness. KT&G's Surabaya plant in Indonesia serves as a Southeast Asian manufacturing hub, allowing the company to achieve economies of scale while ensuring regional product customization. Establishing regional hubs provides MNEs with several advantages, including lower production costs through economies of scale and regulatory flexibility, enabling companies to supply nearby markets without focusing on a single location, and increased supply chain efficiency, reducing transportation costs and import restrictions. Companies should identify markets with favorable regulatory and economic conditions when deciding on production locations. Managers should also ensure that while production processes remain standardized, product customization is enabled to meet regional market expectations (Porter, 1986).

VI. Conclusion

This study explored the international expansion strategies of KT&G, focusing on the Middle East and Indonesia. By examining the company's approach to balancing global coordination with local configuration, the research highlights the importance of understanding

and adapting to regional market conditions, cultural preferences, and regulatory environments. KT&G's ability to tailor its strategies to the unique challenges of each region has been a key factor in its international success, demonstrating the critical role of localization in global business operations.

The analysis also revealed that while KT&G pursued efficiencies through global coordination, it did not neglect the need for regional customization. The company's strategic alliances, localized product development, and targeted marketing efforts in both the Middle East and Indonesia underscore the importance of a nuanced approach to international expansion. This balance between global integration and local responsiveness has allowed KT&G to effectively penetrate and grow in these diverse markets, offering a model that other MNEs can emulate.

This study contributes to the broader understanding of how multinational companies can navigate the complexities of globalization. By focusing on KT&G's strategic decisions and adaptations, the research provides practical implications for managers aiming to expand their businesses internationally. The findings suggest that a successful global strategy requires a delicate balance of standardization and adaptation, tailored to the specific needs and conditions of each market.

While this study makes valuable contributions to understanding KT&G's international expansion strategies, it is important to acknowledge a few limitations. The study focuses only

on the Middle East and Indonesia, potentially overlooking strategies and challenges in other significant markets. The analysis is based on available data, which may not include all relevant factors influencing KT&G's international expansion. The study focuses on the tobacco industry, which may limit the generalizability of the findings to other sectors. It is therefore necessary to expand the scope of research and requires further analysis in the subsequent studies including investigation on how similar companies adapt their strategies in response to evolving regulatory landscapes in different countries. Future studies also should conduct comparative studies of international expansion strategies across different industries to identify common success factors and industry-specific challenges. By addressing these limitations and pursuing further research, companies like KT&G aiming to expand to the global markets can better navigate the complexities and sustain their growth globally.

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지역별 구성과 글로벌 조정의 전략적 균형: KT&G의 중동과 인도네시아 현지화 전략 비교분석*

현재훈**

요 약

한국의 담배 회사인 KT&G는, 1998년 이후로 큰 성장을 이루며 2023년까지 143개국에 진출했다. 본 논문은 KT&G가 글로벌 조정과 지역별 구성 전략을 어떻게 균형 있게 활용했는지 중동과 인도네시아 시장을 비교하여 분석하고 있다. 연구결과에 따르면, KT&G는 중동에서 반 서구 정서를 활용해 전략적 제휴를 맺고, 규제 장벽을 극복하며 현지의 문화적 특성에 맞추어 시장에 접근했다. 인도네시아에서는 상대적으로 규제가 덜한 담배 시장의 특성을 이용해 현지 전문가들과 협력하여 다양한 시장 상황에 대응한 것으로 나타났다. 두 지역 모두에서 각 시장에 맞춘 차별화된 적응 전략과 병행하여 효율성을 달성하려는 일관된 노력이 있었음을 확인할 수 있었다. 본 논문은 KT&G가 글로벌 조정과 지역 구성 전략의 균형을 성공적으로 달성한 사례로, IR 모델이 실제 경영에 있어 어떠한 전략적 함의를 가지는지 보여주고 있다. 이러한 접근은 KT&G가 각 지역의 소비자 선호도와 문화적 차이를 효과적으로 충족시키는 데 기여한 것으로 나타났으며, 글로벌 비즈니스 전략에서 지역별 전략의 구성과 글로벌 조정에 대한 균형의 중요성을 보여주고 있다. 본 사례는 다국적기업의 글로벌 전략의 복잡성을 깊이있게 이해하는 데 도움을 주며, 국제적으로 확장을 고려하는 다른 기업들에게 유용한 프레임워크를 제공하고 있다.

주제어: 글로벌통합, 지역별적응, 통합-적응모형, 현지화, 담배산업, 중동, 인도네시아

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