

# CHAPTER I INTRODUCTION

## A. Background

Multinational Corporation (MNC) is a company that cooperates among two countries or more. It means the cooperation that should be done by two countries or more. Multinational Corporation cannot be separated from foreign direct investment (FDI). Then, MNC has a head office in one country as home country and some branches in other countries as host country. Mostly home country comes from developed countries. Meanwhile, for the host country mostly is a developing country, but there is also a developed country. MNCs are very beneficial for the host country and home country. Every multinational corporation has advantages and disadvantages. The advantages derived such as an economic growth in host country. A large multinational corporation can operate in 100 countries, with hundreds of thousands of employees. One of the biggest MNCs in the world is Coca-Cola company(Cohen, 2007).

**Figure 1. 1Global Top 10 Soft Drinks Companies**

US\$	
Value Rank	Company
1	The Coca-Cola Company
2	PepsiCo Inc
3	Nestlé SA
4	Suntory Holdings Ltd
5	Groupe Danone
6	Dr Pepper Snapple Group Inc
7	Red Bull GmbH
8	Tingyi Holdings Corp
9	Asahi Breweries Ltd
10	Kirin Holdings Co Ltd

Source: (Lydia Gordon, 2012)

Coca-Cola company is one of the largest beverage companies in the world. Based on the table above, the Coca-Cola company becomes the top ten beverages company. Almost everyone knew and tried some of the Coca-Cola company products. Coca-Cola company came from a developed country which is Atlanta, Georgia, USA, and Coca-Cola was first introduced on May 8, 1886, by John Stith Pemberton, a pharmacist from Atlanta United State. In 1941, the company followed the popular tastes of the market. That same year, the Coke trade name gained the same advertising recognition as Coca-Cola, and in 1945, Coke officially became a registered trademark at the time (Odon, 2018). Until now, the Coca-Cola company still become the best beverage company. Therefore, many of Coca-Cola company branches are spread in more than 200 countries both in developed and developing countries. Then, one of the Coca-Cola company branches in developing countries is in India specifically in Haryana. India automatically becomes the host country of the Coca-Cola company. In India, the Coca-Cola company separated in several types of its subsidiaries. In addition, there are many reasons of Coca-Cola company to choose India as one of their branches because India one of developing countries in the world.

Coca-Cola company entered India in 1956 then leave the country because some problem with India goverment. Years by years, Coca-Cola company re-entered and collaborated with India on October 24, 1993 (Moye, 2013). There are several reasons why Coca-Colacompany chose India as one of their branches. Coca-Cola company chooses India because India has cheap labor and abundant resources. If Coca-Cola company opened its branch in India, it could reduce the transportation and communication costs (Joey Gold, 2016) since Coca-Cola company does not have to produce the products in its home country (USA) and send it to India, but they could produce it in India instead. Then, after the Coca-Colacompany returned in 1993, two years after

India start to become “open economy”. The first Coca-Cola company located in Mumbai, but then moved to New Delhi in 1996. After that moved to Gurgaon, which until now has become the head office in India. Gurgaon is an industrial city center in Haryana (Pant, 2017). Haryana is located in one of the northernmost regions in India and close to the capital city of New Delhi. It is surrounded by Uttar Pradesh in the east, Punjab in the west, Himachal Pradesh in the north, and Rajasthan in the south. Currently, Haryana is a well-developed industrial area in India. Haryana government has committed to creating a progressive business environment. Haryana government offers a variety of fiscal incentives and policies for businesses under industrial and investment policies (India Brand Equality Foundation, 2018).

## **B. Research Question**

Based on the background above I want to propose one research question regarding my topic MNCs role in developing country with the research question “*How did the Coca-Cola company improve the economic growth in Haryana 2012-2014?*”

## **C. Theoretical Framework**

### **1. The concept of Economic Growth**

According Michael P. Todaro *“economic growth as a steady process in which the production capacity of an economy increases over time to produce increasingly large levels of national income”* (Todaro, 1995).

Economic growth is the process of changing the economic condition of a country towards better conditions over period of time. Therefore, the existence of economic growth in a country can increase the standard living of its citizens. Then, the quality of a country can also be seen from its economic growth. Economic growth can also be interpreted as growth which experiences more quantitative success, namely the increase in income standards and the

level of production output produced. The existence of automatic economic growth is also related to the success of economic development. The economic growth of a country can be measured with the indicator of Gross Domestic Product (GDP). Economic growth is the single most crucial factor in the economy success of a country in the long run. If the GDP in a country is high, then its economic growth is also fast. Otherwise, if a country's income is below the average, its economic growth is also low (Amadeo, 2018).

The economic growth has an impact on the lives of the inhabitants of a country. All of these affect the welfare of the people of each country. The existence of economic growth can gain many benefits for business i.e. the rising stock price, and open new business. It gives capital companies to invest in order to open more employees and create new jobs (Barro & Martin, 2004). When there are a lot of jobs, people can work based on their specialization so their income can increase. Therefore, people can have more money to buy additional needs and services so, higher economic growth will improve.

In this concept, income per capita and prices of essential commodities in India must be increased to help their economic growth. Thus, measuring the growth of Haryana does not use Gross Domestic Product (GDP) but using the Gross State Domestic Product (GSDP). Gross State Domestic Product is one of the most important indicators of economic growth to know the economic conditions in a certain amount of time. Gross State Domestic Product (GSDP) is defined as the total value of final goods and services produced by all units of economic activity of an area in a certain amount of time. Based on the fact, Coca-Cola company in India is one of the company that can improve economic growth income in Haryana. Gross State Domestic Product also improve because of jobs so that human resources can produce output in Coca-Cola company. With the presence of the Coca-Cola company can help economic

growth in Haryana to help the government to achieve the welfare of residents in Haryana. Furthermore, it can improve the living standards of resident in Haryana.

## 2. The concept of Multinational Corporations (MNCs)

According to Stephen D. Cohen, Multinational Corporations (MNC) is a business entity that has fulfilled specific legal requirements and has approval documents by national government officials or local government authorities in the country where the new company was established. Then, multinational companies also move funds from one country to another for the same reason as individual investors. Multinational corporation has purpose to get a higher rate of return or yield that can be obtained in the origin country. MNCs cannot be separated from foreign investment or always related to investment, namely Foreign Direct Investment (FDI). FDI within MNC is a 'brain' or 'tool' from a process for the multinational company (Cohen, 2007).

One of the meanings of FDI as proposed by Stephen Cohen is financial activity which is generally in the form of international capital from the origin country (home country) for the recipient of capital (host country). Its aim of obtaining part or all of the ownership rights of a real business entity such as a factory or land, raw material production facilities, natural or human resources, and the entire distribution system. Beside that, the presence of FDI will undoubtedly encourage the opening of new job vacancies. Then, it can also increase people's income and improve their welfare and expertise. On the other hand, the public can also utilize modern technology brought by foreign companies (Cohen, 2007). In addition, this can also help improve the balance of payments of a country because by establishing a new business branch in a country it will increase capital in that country. Moreover, the presence of multinational companies has a positive impact on capital receiving countries. Thus,

capital receiving countries seek to attract foreign companies to invest in their countries (Khawar, 2006).

By referring to the concept of MNC, the Coca-Cola company is a multinational company that always associated with foreign direct investment. As a multinational company, the Coca-Cola company has one head office located in Atlanta USA. In addition, the Coca-Cola company has branches and subsidiaries spread in various countries, one of them in Haryana. The Coca-Cola company as an international company has international standards and has a wide sales network in various countries. Then with Coca-Cola's investment in Haryana India, it can increase production capacity and improve the people's economic welfare through the creation of new job vacancies. In addition, this Coca-Cola company investment is one way to increase economic growth. The role of investment in the form of FDI can help economic growth in Haryana so that it can increase production capacity, improve product quality, and create job vacancies and provide income that can minimize the poverty. Through this Coca-Cola company investment, economic activities can growth well, and the welfare of the people in Haryana India can be better.

### 3. The concept of Corporate Social Responsibility (CSR)

According to Johnson and John “*Corporate Social Responsibility (CSR) is about how companies manage the business processes to produce an overall positive impact on society*” (Hadi, 2011). In general, CSR is a tool that can ensure the company maximizes the positive impact of its operations in the community. In this case, it can be explained if a company makes a factory or branch in another country, they must have a responsibility as a form of company concern for the surrounding environment, especially towards its citizens. With this, every corporate corporation has a CSR program (Jamali & Mirshak, 2007).

From this CSR concept, it can be implemented that a company like Coca-Cola must have a positive impact. In this impact not only on the economical side but also on the social and environmental side as a driving factor that can help improve the quality of life for Haryana India citizens. This CSR is a driver of the Coca-Cola company from external factors because the program provided by the Coca-Cola company is not directly related to the productivity of Coca-Cola company. Therefore, there are many programs that Coca-Cola company gives to India in various forms.

#### **D. Hypothesis**

Based on the theory and research question that the author uses, the author tries to hypothesize that Coca-Cola company to increase Haryana's economic growth through these two following ways, such as:

1. Foreign Direct Investment (FDI)

With the presence of the Coca-Cola company in Haryana India, it can improve their Gross State Domestic Product (GSDP), Income, also minimize the poverty through the investment or FDI of Coca-Cola company as the result of the partnership between the Coca-Cola company and their government.

2. Corporate Social Responsibility (CSR)

The CSR programs of the Coca-Cola company in Haryana India helps increase the economic growth of India through economy, social, and environmental programs.

#### **E. Purpose**

By the title and formulation of the problem in this thesis, this research has the purposes, which are:

1. To find out how significant the role of multinational companies in developing countries including in Haryana.

2. To find out how to increase the economic growth in Haryana with help from Coca-Cola company and minimize the poverty.

3. To know how the CSR is going in Haryana related the Coca-Cola company to achieve the welfare of Haryana society.

#### **F. Scope of Analysis**

To focus research, the author feels the need to limit the research that will be analyzed by the author so that research can be more directed and easier to understand following the objectives of the discussion. The author gives a time limit for writing this thesis within three years starting from 2012 to 2014.

#### **G. Research Method**

Following the problems in this thesis, this research will use the qualitative method. This methods is used to produce descriptive data. The sources will be divided into two which are primary sources and secondary sources. In this research, the author collects the data by using literature reviews, books, articles, journal, report, and internet browsing from official websites, library research in the form of electronic or printed sources and from several sources relevant to the research title.

#### **H. System of Writing**

In this thesis is shown in five chapters, which are:

##### **Chapter I**

In this chapter contains an understanding review that will explain various explanations about subject research, which will be divided into sub regarding Background, Research Question, Theoretical Framework, Hypothesis, Purpose, Scope of Analysis, Research Methods, and System of Writing.



## Chapter II

In this chapter, the author will explain in more detail about the history of Coca-Cola company in general and the history when Coca-Cola company first time exists in Haryana India.

## Chapter III

In this chapter, the author will discuss more the economic condition in India before reforms and when reforms in 1991.

## Chapter IV

The fourth chapter the author will analyze and explain more about the role of Coca-Cola company in increasing the economic growth in Haryana through FDI and CSR.

## Chapter V

The fifth chapter is the last chapter of the research. In this chapter, the author will provide conclusions from the results of this research.