

CHAPTER I

INTRODUCTION

A. Background

PT Bhimasena Power Indonesia is a joint venture company that is built by three big companies. Those three companies are J – Power Company, PT. Adaro Power, and Itochu Corporation. This company is a form of significant scale cooperation between Indonesia and Japan, which works on the energy of the conservation industry. PT Bhimasena Power Indonesia builds the Steam Power Ed Electric Generator (PLTU), which is touted as the Largest Steam Power Ed Electric Generator in Southeast Asia where the capacity itself is 2x1000 Mega Watt, with a planned construction cost of US \$ 4.2 billion. (Bhimasena Power, 2016)

PT Bhimasena Power Indonesia was started to build on June 2015 and located in Ujung Negoro Village, Tulis Subdistrict, Batang Regency, Central Java, Indonesia. Batang is a district in Central Java, established since June 14th, 1965. As one of the youngest districts in Central Java, Batang needs development in many sectors. Under the leadership of a regent named Wihaji, Batang development will focus on raising the number of investments, tourism, and increasing Human Development Index. (Umar, 2016) Not only come from the government program but the role of the private sector, such as the company, is also needed in developing Batang Regency.

In line with that, as a company that bases in Batang Regency, PT Bhimasena Power Indonesia has its principle to support community development in Indonesia, especially

in Batang regency. (Bhimasena Power, 2016) It was mentioned in their company vision and mission. Besides, as a company that is working on the energy of the conservation industry that was automatically dealing directly with the empowerment of natural resources, they are required to carry out social and environmental responsibilities. It is based on Indonesian government regulation number 47 the year 2012 about social and environmental responsibilities for a Limited Liability Company (Perseroan Terbatas).

Meanwhile, in the article 3 paragraph 1, it was confirmed that social and environmental responsibility is an obligation for every Limited Liability Company which runs their business activities dealing directly with natural resources. The programs of social and environmental responsibility itself must be implemented through the program of Corporate Social Responsibility while the implementation of Corporate Social Responsibility program itself regulated in the regulation of the Minister of State Enterprises Number PER-05/MBU/April 27th, 2007, about BUMN partnership program with a micro business and environmental development program.

Viewing the regulations and standards that have been created by the government, some corporations experienced a failure in implementing their CSR program. The example of the failure happened to PT Semen Tonasa, Makassar, Indonesia. The community did protest because the CSR program was not in line with the regulation of Law 40 of 2007, article 74 paragraph 1 that concerning the companies that carry out their business activities or relate to natural resources, are required to carry out their social and environmental responsibilities. In this case, PT Semen Tonasa is not transparent to the community regarding the budget prepared for the CSR program. (Puji, 2011)

The low quality of the CSR program also could create a failure in CSR program implementation. Recent

research conducted by the Research Center for Governance, Institutions, and Organizations of the National University of Singapore (NUS) Business School states that companies in Indonesia have a low quality of corporate social responsibility (CSR). The research explained the company's low understanding of CSR practices led to the low quality of the operation of the agenda. The research conducted a study of 100 companies in four countries, which are Indonesia, Malaysia, Singapore, and Thailand. The quality research has several assessment criteria that are based on a number of indicators from the Global Reporting Initiative (GRI) framework. A number of factors include corporate governance, economic, environmental, and social. The research results show that Thailand became the country with the highest quality of CSR implementation with a value of 56.8 out of a total of 100, while Singapore received 48.8. While Indonesia scored 48.4 and Malaysia 47.7. (Suastha, 2016)

Besides, based on the analysis from CSR & Social Entrepreneurship Practitioners & Academics, Dr. Maria R Nindita said that many companies would carry out CSR programs without cooperation with elements of the community, causing failure in the program. (Sutriyanto, 2012) Therefore, the community must be involved in implementing CSR programs so that they do not fail. A concrete example of the successful implementation of a CSR program involving the community has been carried out by PT Pertamina's CSR in Sungai Bengkel Bengkalis, Riau. PT Pertamina, through its CSR program, carried out peatland restoration by involving the community. This is very helpful in analyzing the interests needed by the community and the implementation of the program. (Nurmayanti, 2018)

The problem of the Corporate Social Responsibility program not only comes from the corporation, but it could come from the community and environment. As a very

young company that was officially established in 2015, in implementing its corporate social responsibility program, PT Bhimasena Power Indonesia faces many problems that come from the community and environment. The biggest challenge that they face is rejection from local people that do not agree about the establishment of this company. Besides, the local people supported by Greenpeace since the end of 2011 until 2016, reject the establishment of PT Bhimasena Power Indonesia. (Pratama, 2015) As we know, Greenpeace is a Non-Governmental Organization that was focusing on an environmental issue. In this case, they thought that it is better to use renewable energy, which is eco-friendlier than building The Steam Power Ed Electric Generator. They believe that the establishment of The Steam Power Ed Electric Generator will supply more pollution and cause environmental damage in Indonesia. (Greenpeace, 2015)

Viewing a standard and regulation that the government have about CSR program, the failure and the success of many big corporations in implementing in their CSR program, and the challenge that PT Bhimasena Power Indonesia have to implement their CSR programs, make the researcher interested in doing an observation to get more in-depth understanding about “How did PT Bhimasena Power Indonesia implement their Corporate Social Responsibilities programs through the activities to support economic development in Batang Regency, Central Java (2013-2018)?”

B. Research Question

Based on the background that has already been explained above, the researcher formulates a research question, which is:

How did PT Bhimasena Power Indonesia implement its Corporate Social Responsibilities programs

through the activities to support economic development in Batang Regency, Central Java (2013-2018)?

C. Theoretical Framework

In order to guide the researcher to answer the research question above, this undergraduate thesis used the concept of Multi National Corporation and Corporate Social Responsibility. The concept of Multi National Corporations was used to determining the basic concept of Multi National Corporations. From this basic concept, we can understand how the CSR stand in a corporation so we can easily elaborate about how PT Bhimasena Power Indonesia's CSR. While the concept of Corporate Social Responsibility was used to determining how the basic concept of CSR is and how it works. Thus, with those two theoretical frameworks, the author can explain and elaborate the main thing which exists in Implementation of Corporate Social Responsibility (CSR) Program of PT Bhimasena Power Indonesia to Support Economic Development in Batang District, Central Java.

1. The Concept of Multi National Corporation

The concept of Multi National Corporations is the concept who shown the companies management, ownership and control which are spread in more than one country. It operates and does business in two or more countries. It is usually a large industrial organization. They are established in one country as parent country and in other countries as subsidiaries or as host countries. They produce and distribute goods and services in all these countries where they operate. The main aim of these companies is to operate business in most of the part of the world. (Gupta & Govindarajan, 2000)

In every country, the government role the Multi National Corporations. In Indonesia, Multi National

Corporations has been role in some regulations. One of the basis regulation is the regulation of Law 40 of 2007, article 74 paragraph 1 that concerns about the companies that carry out their business activities or related to natural resources, are required to carry out their social and environmental responsibilities. From the regulation, we can conclude that every Multi National Corporations, has to do a social and environmental responsibilities program through Corporate Social Responsibility program. That is why, a Corporate Social Responsibility is an important part in the body of Multi National Corporation.

In the other side, Mohtar Mas'ood defines that Multinational Corporations (MNCs) are economic organizations that involve themselves in productive activities in two or more countries. In general MNCs have headquarters as a center in their home country which is then extended to other countries by building or buying various business assets or opening branches in that country (Mas'ood, 1995)

In the international political economy, MNC has a very important role especially in international transactions. Currently MNC is growing rapidly, not only in developed countries, MNC from developing countries is currently growing rapidly and can be calculated in the international economy. The presence of MNCs can exert a very strong influence in global politics, because of their enormous economic influence and also sufficient financial resources as relations for society and political lobbying. Because currently there are many multinational companies in various countries that have very large funds and even exceed a country's income.

2. The Concept of Corporate Social Responsibility

The concept of CSR is a concept that is difficult to interpret. This is what makes the definition of CSR very broad and varied. The definition of CSR according to Lord Holme and Richard Watts "CSR is the ongoing commitment of companies that run ethically and have a contribution to development to improve the quality of life of workers and their families, as well as local communities and the wider community." (Das, 2009)

The definition of CSR, according to Johnson, is "CSR is about how companies manage the overall positive impact to society." This definition comes from the philosophy of how to manage the company in part or whole has a positive impact on him and his environment. For this reason, companies must be able to manage their business operations by producing products that are positively oriented towards society and the environment. (Tucsanyi & Sisaye, 2013)

Besides, Ghana defines CSR as follows "CSR is about capacity building for sustainable livelihood. It respects cultural differences and finds business opportunities in building the skills of employees, the community and the government." This definition provides a more in-depth explanation that CSR builds capacity that is likely to be sustainable. CSR respects cultural differences and finds business opportunities in building skills, community, and government. (Weyzig, 2009)

Whereas Understanding of CSR, according to Steiner, is "CSR is the responsibility of a corporation to produce wealth in ways that do not endanger, protect or increase social assets (societal assets). While the understanding of CSR, according to Anne and James, is "Corporate social responsibility is the idea that businesses interact with the organization's stakeholders

for social good while they pursue economic goals.” (Weyzig, 2009)

A broader definition by the World Business Council for Sustainable Development (WBCSD), a global association of around 200 companies that is specifically engaged in sustainable development states that “CSR is a continuing commitment by the business world to act ethically and provide contributions to the economic development of the local community or the wider community, together with the improvement in the standard of living of the workers and their entire families.” (Sharma, 2014)

In today's business environment, CSR is still normative, because no law officially enforces CSR as an obligation of all companies. Also, various concepts make several interpretations of different definitions of CSR. Corporate Social Responsibility, also known as corporate responsibility, corporate citizenship, responsible business, sustainable, responsible business, or corporate social performance, is a form of corporate regulation integrated into a business model. Ideally, CSR policies will have built-in functions, automatic mechanisms, control of the business, and ensure compliance with applicable laws, ethical standards, and international norms. CSR includes accountability as an impact on their activities on the environment, customers, workers, communities, stakeholders, and other users.

CSR will proactively increase public interest by encouraging community growth and development. CSR is an action taken by a company to increase public interest by paying attention to three primary lines: People, Planet, and Profit. So far, no single theory has been accepted to explain social and environmental

accounting, so there are still many variations in terms of theoretical perspectives that can be adopted.

Based on Scott Krohn, he explained that Corporate Social Responsibility program have four types. Those are environmental sustainability initiative, direct philanthropic giving, ethical business practices, and focus on economic responsibility. (Krohn, bizfluent, 2018) Those program are four type of basis programs that have different focuses and goals.

D. Hypothesis

PT Bhimasena Power Indonesia implemented their Corporate Social Responsibilities programs through the activities to build the economic development in Batang Regency, Central Java (2013-2018) by creating Micro Enterprise Group, Micro Finance Institution and get the support from Batang Regency Government

E. Research Methods

The research methodology used for conducting this research was qualitative methodology research. Qualitative research is a process of understanding a social phenomenon within their natural setting. It focuses on the "why" rather than the "what" of social phenomena and relies on the direct experiences of human beings as meaning-making agents in their everyday lives. Qualitative researchers use multiple systems of inquiry for the study of human phenomena including biography, case study, historical analysis, discourse analysis, ethnography, grounded theory and phenomenology. (Basrowi, 2008) Qualitative method can provide subjective data rather than objective data. To ensure the credibility of the data, the researcher have to be neutral during the research process. (Delmont & Mason, 1997)

In this research, the researcher used primary data and secondary data. The techniques that the writer did to get secondary data was by doing library research, where the data of analysis will be gained from books, journals, articles, and news. Then, the techniques used by the researcher to get primary data was by doing interview to CSR officer of PT Bhimasena Power Indonesia and the stakeholders.

F. Research Purposes

This research had four purposes, those are:

1. To describe Multinational Corporations and Corporate Social Responsibility
2. To describe PT Bhimasena Power Indonesia as a Multinational Corporation
3. To describe Corporate Social Responsibility of PT Bhimasena Power Indonesia
4. To describe the implementation of Corporate Social Responsibility of PT Bhimasena Power Indonesia

G. Scope of Research

The scope in this undergraduate thesis is limited to the CSR programs of PT Bhimasena Power Indonesia that are related to the economic development programs. This research focused on two CSR programs in the economic development field of PT Bhimasena Power Indonesia. Those are Micro Enterprise Group and Microfinance Institution. This research used secondary and primary data from July, 2013 until December, 2018.

H. Outline

This research has five chapters that are arranged as follow:

Chapter I: This chapter contains Background, Research Question, Theoretical Framework, Hypothesis, Research

Methodology, Research Purposes and Scope of Research that guides the writer to the next chapter.

Chapter II: This chapter describes Multi National Corporations and Corporate Social Responsibility.

Chapter III: This chapter describes the profile of PT. Bhimasena Power Indonesia.

Chapter IV: This chapter describes PT. Bhimasena Power Indonesia's Corporate Social Responsibility Programs and Their Strategy to implementing their Corporate Social Responsibility Programs through Micro Enterprise Group and Microfinance Institution.

Chapter V: This chapter concludes all the materials that are discussed in the research.