CHAPTER II
MULTINATIONAL CORPORATION AS AN INTERNATIONAL ACTOR AND CORPORATE SOCIAL RESPONSIBILITY

A. MULTI NATIONAL CORPORATION AS AN INTERNATIONAL ACTOR

In the international economic system, every country will be interdependent both in trade cooperation and credit markets. In the era of globalization, international economic cooperation is very complex. Not only the state, but the Multinational Corporation also emerges as a new actor who has an important role in international relations, especially in the field of economic cooperation. Nowadays, Multinational corporations refer to as one of the main actors in international economic cooperation because its existence has a major influence on international economic cooperation. Besides, Multinational Corporations are also referred to as Non-State Actors whose existence has a large impact on a country. (Mas'oed, 1995)

Multinational Corporation is considered as a business entity that owns, controls, and manages production facilities and activities that are spread across several countries. From this understanding, we can know that Multinational Corporations are large-scale companies that have high gross profits. Furthermore, Multinational Corporation has the main goal of getting high profits by establishing and developing production activities in other countries. Which if a company expands its activities and markets, the potential profit gained will be higher. (Gupta & Govindarajan, 2000)

Based on the data from (OECD), it is shown that Multinational Corporation controls more than 20 % of world output in which the value of trade transactions reaches more than 25% of the total transactions of manufacturing companies in the world. (Andrea Andrenellii, 2018) This shows that the existence of Multinational Corporations in the international economic system is very important.

Basically, Multinational Corporation is a company established and developed in two or more countries, and usually a large-scale company. Multinational Corporation has a center in one country, and the country called "Home Country," while its branches are in another country, and the country called "Host Country." (Nicolai Juul Foos, 2004) As a company that has factories in several countries and running their production activity there, a Multinational Corporation has various positive and negative impacts for the home country and host country.

Multinational Corporations have three main motives in their establishment and development. The first is a raw material seeker, the second is a market seeker, and the third is cost minimizer. (Gupta & Govindarajan, 2000) The first motive is Raw Material Seeker. Raw Material Seeker motive shows how Multinational Corporation expands its businesses to find raw materials and sell their product abroad. The second motive is Market Seeker. After the domestic market is filled, a Multinational Corporation tries to find new markets to sell their product. This effort will expand the scope of the marketing of the item. The third motive is Cost Minimizer. A Multinational Corporation expands its business because they want to take the advantages from other country and get some reliefs. Those reliefs are tax exemptions, transfer prices, obtain cheap labor costs, minimize investment costs, low land prices, avoid quota restrictions, and fast after-sales service.

Based on the book entitled "Globalisasi Perusahaan dan Daya Saing Bangsa-Bangsa" by Prof. John Dunning, a British economist that recognized as the father of the international business, he divided Multinational Corporations into four forms. The first form is Multinational Producing Enterprise (MPE). MPE is a company that owns and controls various production facilities and activities in more than one country. The second form is Multinational Trade Enterprise (MTE). MTE is a company engaged in trade by selling goods produced domestically. The third one is the Multinational Internationally Owned Enterprise (MOE). MOE is business ownership in one company and disseminates production or trade branches or company activities in other countries. The fourth is Multinational (Financial) Controlled Enterprise (MCE). MCE is a company that has diverse production fields and places production and marketing lines globally, in almost all countries in the world.

There are several positive and negative impacts of a Multinational Corporation for the home country. Some positive impacts for the home country are the income increased and the risk from owners of factors production reduced as well as the existence of materials at lower prices. While the negative impact on the home country is shift labor, the capital and technological advantages reduced, tax avoidance, and undermine the economic policies of the parent country. Besides having a positive and negative impact on the home country, a multinational corporation will make a positive and negative impact on the host country. The positive impacts for the house country are reduced unemployment, transfer of knowledge and skills, adequate empowerment facilities, capital formation, and contribute to the income of local government budget (APBD) and state budget (APBN) through taxes. Meanwhile, the negative impact is various environmental damages, controversies and social problems of the community, exploitation of the host country, and the absence of social responsibility towards developing countries where an MNC operates. (Anthony Goerzen, 2007)

The home country of a Multinational Corporation is usually a developed country, while the host country is usually a developing country. The example of developed countries that became the home country for some Multinational Corporations are the USA, Japan, South Korea, and China. While the example of developing countries that became host countries are such as India, Indonesia, Malaysia, and Thailand. The main reason why the host country that chosen by a Multinational Corporation is developing country because the developing country will provide low price worker, low price materials, low taxes, and in the same time they also provide a huge market for the product. As one of the largest developing countries in the world with a huge area, a huge number of natural resources and human resources, Indonesia is the best option to choose as a host country for a Multinational Corporation and to invest their capital. (Anthony Goerzen, 2007)

In 2018, the investment in Indonesia was dominated by Foreign Investment, where the number of investments was 56 percent and the Domestic Investment was 46 percent. Based on data from the Investment Coordinating Board of Indonesia (BKPM), FDI that enter Indonesia has increased in the last five years. In December 2018, the total number of Foreign Investment in Indonesia reached 392.7 trillion rupiah, and it raised 28 percent compared to 2014, which was 307 trillion rupiah. Most foreign investment in 2018 was in the electricity, gas and water sector, where the number of investment was US $ 4.4 billion. The second position was the housing sector, industrial estate, and offices with a total investment of US $ 4.3 billion. Besides, the mining sector had a total investment of US $ 3 billion, and the transportation, warehouse, and telecommunications sector had a total investment of US $ 3 billion, the last one was base metals and non-machine metal goods with a total investment of US $ 2.2 billion. (BKPM, 2019)

The more multinational corporation established in a host country can bring a huge impact on the host country's economic development. A multinational corporation not only provides financial resources and new factories to developing countries that act as hosts, but a multinational corporation will provide the resources needed for the overall development process, including experience and managerial skills, entrepreneurial skills, which will eventually be manifested and taught to domestic entrepreneurs. In addition, every multinational company will bring highly advanced knowledge and technology and introduce modern machinery and equipment to the host country. Besides, multinational corporations can bring modernization in the field of industrial technology and business management. Multinational corporations become the liaison of the world economy and the development of industrial and trade economies in the country of origin to the recipient countries. Finally, the existence of Multinational Corporation will support the development of the host country in many sectors such as technology, economy, and manufacture. (Gupta & Govindarajan, 2000)

B. CORPORATE SOCIAL RESPONSIBILITY

Some scholars and organizations define the meaning of Corporate Social Responsibility. 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." Meanwhile, 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." (Lord Holme, 2010)

The obligation of the implementation of CSR program was written on Indonesian government regulation number 47 the year 2012 about social and environmental responsibilities for a Limited Liability Company, where every 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. Furthermore, it was confirmed in article 3, paragraph 1 that social and environmental responsibility is an obligation for every Limited Liability Company who runs their business activities dealing directly with natural resources.

The programs of social and environmental responsibility 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. The regulation explains the determination and use of partnership program funds, environmental development programs, fund distribution mechanisms, operational expenses, preparation and ratification of work plans and budgets, preparation and approval of reports, the quality of partnership program loan funds, partnership program performance, and related program accounting guidelines partnerships and community development program. This Ministerial Regulation officially came into effect in 2007 and it was established on April 27th, 2007.

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. (Florence, 2009) CSR includes accountability as an impact on their activities on the environment, customers, workers, communities, stakeholders, and other users. (Lord Holme, 2010)

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. (Lord Holme, 2010) 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 explains that the Corporate Social Responsibility program has four types. Those are environmental sustainability initiative, direct philanthropic giving, ethical business practices, and focus on economic responsibility. (Krohn, 2018) These programs are four types of basic programs that have different focus and goals.

The first type of CSR program is environmental sustainability initiatives. Environmental sustainability initiatives are generally focused on two main areas: limiting pollution and reducing greenhouse gases. As the awareness of environmental issues grows, a corporation will take steps to reduce air, land, and water pollution. The example is a campaign of "Every U Give Goodness" held by Unilever. Through the program, Unilever wants to encourage people to protect the environment and minimize the negative action that can create negative impacts on the environment.

The second type of CSR program is direct philanthropic giving. Direct philanthropic initiatives include the donation of time, money, or resources to charities and organizations at local, national, or international levels. These donations can be directed to some sectors, including human rights, national disaster relief, clean water, and education programs in underdeveloped countries. The example of this program is Microsoft Corporation that donated billions of dollars to the Bill and Melinda Gates Foundation, which supports numerous causes, including education, the eradication of malaria, and agricultural development.

The third type of CSR program is ethical business practices. This program focuses on ethics to provide fair labor practices for business employees as well as the employees of their suppliers. Fair business practices for employees include equal pay for equal work and living wage compensation initiatives. The example is Campina Ice Cream uses fair trade-certified ingredients like sugar, cocoa, vanilla, coffee, and bananas to protect the environment.

The fourth type of CSR program is to focus on economic responsibility. Economic responsibility focuses on practices that facilitate the long-term growth of the business. This program used to support economic development in the community. The example is the implementation of Micro Enterprise Group and Micro Finance Institution by PT Bhimasena Power Indonesia, to support economic development in Batang district, Central Java.

Micro-Enterprise Group is an institution that focuses on developing micro-businesses such as home industry, production services, saving/loan, services, animal farming, and fishery. MEG's are developed to provide a job field and giving soft skills to the community while balancing and increasing the rate of community income. Meanwhile, Micro Finance Institution is an institution that used to support community business development surrounding the corporation. MFIs are developed to provide microloan and other financial services for affected community businesses, as well as nurturing community-saving culture.

In the international level, the standard and guidance of the implementation of Corporate Social Responsibility Programs written on ISO 26000. Indonesia as one of ISO member suggest every corporation and organization to allow the guidance of environmental and social responsibility from ISO 26000.

1. **ISO 26000 for Environtmental and social Responsibility.**

   In the 1946, 25 countries gathered in the Institute of Civil Engineers, London. They were did a meeting and decided to build an international organization that has main aim tp ‘to facilitate the international coordination and unification of industrial standards’. Finally, International Organization for Standardization or commony called as ISO officially began their operations on February,23, 1947. The Central Secretariat of ISO located in Geneva, Switzerland. (ISO, 2014)

   International Organization for Standardization is an international organization which give world-class specifications for products, services and systems, to ensure quality, safety and efficiency. Until 2019, ISO have published over 22877 International Standards covering almost all aspects of technology and manufacturing also International Standards that related to documents, industry, food safety, agriculture and healthcare. Nowadays, the member of International Organization for standarization is 164 countries. Besides, ISO also have 780 technical committees and subcommittees to take care the standards development. There are more than 160 peoples work full time for ISO's Central Secretariat in Geneva, Switzerland. (ISO, 2014)

In 2014, the International Organization for Standardization with their member countries released ISO 26000. ISO 26000 is a standard technical guide for companies / organizations to implement social and environmental responsibility programs. In this case, ISO defines social and environmental responsibility as an organization's responsibility for the impact of its decisions and activities on society and the environment which is realized through transparent and ethical behavior that contributes to sustainable development, including public health and welfare, taking into account stakeholder expectations in line with compliance with applicable laws and regulations and consistent with international behavior and norms that are integrated into all joints of the organization and implemented in connection with all of that. (ISO, 2014)

ISO 26000 provides several technical guidance standards relating to the scope of social responsibility, terms and definitions of responsibility, understanding of social responsibility, principles of social responsibility, basic social responsibility practices, subjects of social responsibility, and integration of social responsibility into corporate organizations. The basic principles of social responsibility that form the basis of decision making and social responsibility activities according to ISO 26000 namely compliance with law, respect for international instruments / bodies, respect for stakeholders and their interests, accountability, transparency, ethical behavior, take preventative actions and respecting the fundamentals of human rights. (ISO, 2014) In addition to creating ethics in carrying out social responsibility programs, ISO 26000 contributes to achieving the UN Sustainable Development Goals. (ISO, 2015)