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The Influence of Foreign Ownership on Corporate Social Responsibility (CSR) Companies Based on Law Number 25 of 2007 on Investment

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Abstract: *This research was conducted with the aim of exploring the influence of foreign ownership on Corporate Social Responsibility (CSR) practices, to what extent the impact is positive or negative. This research uses descriptive analysis methods with a quantitative approach. The research results show that foreign ownership plays an important role in encouraging companies to adopt stricter CSR practices that align with international standards. This research reveals that foreign ownership plays a crucial role in encouraging companies to adopt stricter CSR practices that align with international standards. Companies with foreign ownership are more likely to allocate greater resources to CSR initiatives and collaborate with external stakeholders. The laws of the Republic of Indonesia, particularly the Investment Law, provide an important legal basis to encourage Corporate Social Responsibility (CSR), but its effectiveness depends on various factors, including law enforcement, oversight, and the awareness of all parties. It is important for companies with foreign ownership.*

Keywords: *Foreign Ownership, Corporate Social Responsibility, Influence, Investment*

Introduction

Globalization is often described as a process or state where the boundaries between countries are considered to become less distinct. This is because the interactions between countries have become easier, whether it is the ease of exchanging information, trade, technology, lifestyles, and other forms of interaction. In addition, with the occurrence of globalization, everyday life experiences, ideas, and information worldwide have become standardized. Such a situation is influenced by increasingly sophisticated communication technology and communication, as well as economic activities that are expanding and reaching the global market. (Haqqi, H. & Wijayati, H : 2019)

The movement towards a global free market is caused by the alliance between telecommunications and the economy. Telecommunications are moving towards a single global information network, and so are economic activities that are becoming a single global market. The policy of market liberalization in many countries then facilitated the increase in global financial flows. (Avivi, Y & Siagian, M : 2020) Geographical distance has become less significant due to the increasing breadth and speed of information, making global financial activities more efficient, including capital market activities in Indonesia.

With the advent of globalization, multinational corporations (MNCs) can more freely expand into other countries. (Sesariza, D. A : 2020) The reasons for acquiring new resources, reducing political risks, expanding market share, and so on – are the factors that underlie multinational corporations to expand their operations. The presence of these multinational companies is, of course, related to the aspect of HR (human resources) that is managed as the driving force of their business. IHRM or International Human Resource Management) is a set of specific activities, functions, and processes that regulate the process of attracting, developing, and maintaining human resources in multinational companies. (Setyawasih et all : 2023) Thus, IHRM is an aggregate of several human resource management systems used to manage human resources in the environment of multinational companies, both in the local and international sections. Human resource management in multinational companies involves more complex regulations, such as applicable labor laws, wage conversion and transfer pricing, expatriates, and cultural issues, which ultimately affect the company's culture.

The Indonesian capital market is one of the investment destinations for investors in developed markets known as emerging markets. (Nadjima A.R et al., 2024) Considering that the capital markets in emerging market countries offer a higher risk premium than those in developed market countries, they can also provide a higher expected return.The development of Indonesia's economic conditions is considered favorable for investors to invest their capital. This indicator is shown by the average economic growth rate reaching 6% per year. (Pambudy, A. P. & Syairozi, M. I, 2019) Since the continuous improvement of Indonesia's capital market, the role of foreign investors has been increasing, both in terms of the funds entering and the players involved. There are many factors that influence investment interest in a country, including security, social stability, and political stability.

Foreign ownership in companies has become a topic of interest in research related to corporate social responsibility (CSR). With the increasing globalization, many companies are experiencing changes in ownership structure, including the entry of foreign investors. Foreign ownership can have a significant impact on the company's CSR practices, considering that foreign investors often have different expectations compared to domestic owners. (Ghofar A, 2023). They may demand higher CSR standards, in line with the regulations and international norms applicable in their home country. Therefore, it is important to understand how foreign ownership affects the company's CSR strategy.

In this context, agency theory, legitimacy, stakeholder, and institutional theories provide a relevant theoretical framework for analyzing the impact of foreign ownership on CSR. The agency theory highlights the relationship between owners and managers, where foreign ownership can influence this dynamic by bringing new expectations related to CSR. (Wibowo, R. A., & Linggarsari, D. Y, 2024) Meanwhile, legitimacy theory emphasizes the importance for companies to obtain social legitimacy by adhering to prevailing norms and values. (Adrai, R., & Perkasa, D. H, 2024). Foreign ownership can encourage companies to adopt globally recognized CSR practices to maintain legitimacy in the international market. The stakeholder and institutional theories also highlight the importance of considering the expectations of various stakeholders and institutional pressures in developing CSR strategies. (Muanifah S, 2023).

Methodology

This research uses descriptive analysis methods to explore the influence of foreign ownership on corporate social responsibility (CSR) practices using a quantitative approach. (Yuliandhari, W. S., & Sekariesta, N, 2023) Through the analysis of secondary data from publications related to CSR, this research focuses on the comparison between companies with foreign and domestic ownership. This study seeks to identify a significant relationship between foreign ownership and the level of corporate engagement in CSR initiatives. In addition, this research also considers control factors such as company size, industry, and geographical location to ensure a comprehensive analysis. The results of this study are expected to provide deeper insights into the role of foreign ownership in promoting the adoption of more sustainable and responsible CSR practices.

Result and Discussion

A. Foreign Ownership and Corporate Social Responsibility (CSR) Practices in Companies Based on Law Number 25 of 2007 concerning Investment

Foreign ownership is an investment in a company made by parties who are foreign nationals or from abroad. According to Law Number 25 of 2007 concerning Investment, Article 1, Paragraph 6 on Investment, foreign investors are defined as individuals who are foreign citizens, foreign business entities, and foreign governments that invest in the territory of the Republic of Indonesia. (Sari I, 2020). Foreign ownership is measured as the total percentage of shares owned by foreign investors or non-Indonesian investors. The measurement of this variable uses the foreign ownership ratio.

The management of corporate ownership structure governance is an alternative that can be implemented to minimize agency conflicts. (Pratiwi R. & Yulianto A, 2016) Ownership structure describes the parties who have the authority to determine policies as guidelines for management when running the company. These policies include, among others, the management of intellectual capital. Different intellectual capital management policies will certainly result in different intellectual capital performance.

Descriptive analysis of foreign ownership and CSR practices shows that companies with foreign ownership tend to have higher levels of engagement in CSR initiatives compared to domestic companies. Data shows that the average percentage of foreign ownership in the company sample is around 30%, with significant variation among industries. Additionally, companies with foreign ownership more frequently report CSR practices that encompass environmental, social, and governance issues, demonstrating their commitment to international standards.

Furthermore, companies with foreign ownership are more likely to adopt globally recognized CSR practices. This can be attributed to pressure from foreign shareholders who have high expectations regarding corporate social responsibility. Additionally, these companies often have access to additional resources, such as knowledge and technology, which enable them to implement more effective and innovative CSR initiatives. This shows that foreign ownership can be an important driver in improving CSR practices.

In this descriptive analysis, it was found that companies with foreign ownership are more likely to publish comprehensive sustainability reports. This report often includes various aspects of CSR, including environmental impact, social contributions, and good governance practices. This shows that companies with foreign ownership strive to meet international reporting standards and enhance their transparency in the eyes of global stakeholders. Thus, foreign ownership seems to encourage companies to be more socially responsible.

Additionally, the analysis shows that companies with foreign ownership are more often involved in CSR programs that focus on environmental sustainability. This may be due to pressure from the home countries of foreign owners, which have stricter environmental regulations. These companies are also more likely to participate in global initiatives such as the Global Reporting Initiative (GRI) and the United Nations Global Compact, which demonstrate their commitment to sustainable and responsible business practices. (Chrisbiantoro C, 2023)

Overall, this descriptive analysis shows that foreign ownership has a positive impact on the company's CSR practices. Companies with foreign ownership tend to be more proactive in adopting international CSR standards and more transparent in their reporting. (Siregar F. A, 2024) This can enhance the company's reputation in the global market and provide a competitive advantage. However, it is important to consider that other factors, such as industry and geographical location, can also influence this relationship.

In addition, the fifth principle of Pancasila emphasizes the importance of equitable welfare and justice for all Indonesian people. In the context of business, this means that companies, including those with foreign ownership, have a responsibility to contribute to the social and economic welfare of the community, as well as to maintain environmental sustainability. CSR becomes an important instrument to realize this.Here are some important points that connect foreign ownership, CSR, and the fifth principle of Pancasila (Putra G. M, 2023):

1) Contribution to Sustainable Development
   Foreign companies are expected not only to be profit-oriented but also to contribute to sustainable development in Indonesia. Through targeted CSR programs, companies can help improve the quality of life for communities, reduce poverty, and address other social issues. This is in line with the spirit of social justice mandated by the fifth principle.
2) Economic Equality
   Foreign investment should be able to create jobs, increase the income of local communities, and drive economic growth in the regions. CSR programs can complement these efforts by providing skills training, supporting small and medium enterprises (SMEs), and improving community access to education and healthcare services.
3) Compliance with Local Laws and Values
   Foreign companies are required to comply with the applicable laws and regulations in Indonesia, including those related to CSR. In addition, it is also important for companies to understand and respect local social and cultural values in conducting their business and CSR programs. This reflects an appreciation for justice and diversity in Indonesia.
4) Transparency and Accountability
   Companies with foreign ownership are expected to be transparent and accountable in implementing CSR programs. Sustainability reports published periodically can provide the public with information about the social and environmental impact of the company's activities, as well as the CSR contributions that have been made.

Furthermore, there are several challenges in the implementation of CSR by companies with foreign ownership in Indonesia, including (Yaumidin U. K, 2016):

1) Different Understandings of CSR
   The concept of CSR can vary from country to country. Foreign companies need to adapt to the Indonesian context and understand that CSR is not just a philanthropic activity, but also an integral part of a sustainable business strategy.
2) Supervision and Law Enforcement
   Effective supervision and law enforcement are necessary to ensure that companies, including foreign companies, fulfill their CSR obligations correctly.
3) Community Involvement
   CSR programs must involve active participation from the local community to be targeted and provide sustainable benefits.

However, there are also significant opportunities in the implementation of CSR by foreign companies in Indonesia, such as technology and expertise transfer, where foreign companies can bring new technology and expertise that can be utilized to develop innovative and effective CSR programs. Additionally, foreign companies can leverage their global networks to expand the impact of CSR programs and share best practices with other companies around the world.

B. The Influence of Foreign Ownership on Corporate Social Responsibility (CSR) Based on Law Number 25 of 2007 on Investment

Law Number 25 of 2007 concerning Investment (Investment Law) explicitly regulates the CSR obligations for all investors, both domestic and foreign. Article 15 letter b of the Investment Law states that "Every investor is obliged: (b) to carry out corporate social responsibility." The explanation of this article further clarifies that what is meant by corporate social responsibility is the obligation inherent in every investment company to maintain harmonious, balanced, and appropriate relationships with the environment, values, norms, and culture of the local community.

The Investment Law provides a strong legal basis for CSR obligations for all investors, including foreign ones. This should encourage companies with foreign ownership to pay more attention to their CSR practices. (Sefriani S. & Wartini S, 2017) However, there are several cases related to public dissatisfaction with corporate activities in Indonesia, such as those carried out by PT. Lapindo Brantas in Sidoarjo, East Java, Newmont Minahasa Raya in Buyat, Sulawesi, and PT. Freeport in West Papua. This is what has led to the emergence of the concept of corporate social responsibility (CSR). Along with its development, sustainability development is a continuous development aimed at limiting the exploitation of nature or society carried out by companies. (Sari A. P, 2018)

Foreign share ownership is the number of shares owned by foreign parties (overseas), whether individuals or institutions, in Indonesian companies. (Darma, B. D et al., 2019)

Foreign ownership in a company is considered a party that is concerned with the disclosure of the company's social responsibility. From the perspective of the company's stakeholders, CSR disclosure is one of the chosen media to demonstrate the company's concern for the surrounding community. In other words, if a company has contracts with foreign stakeholders in both ownership and trade, the company will be more supported in disclosing its corporate social responsibility (CSR). Foreign ownership is the portion of outstanding shares owned by foreign investors, which includes companies owned by individuals, legal entities, governments, and their foreign branches in relation to the total number of outstanding shares.

Foreign ownership has a role almost similar to institutional investors because foreign ownership can be used as an appropriate means to oversee management. The presence of foreign investors in a company can enhance good corporate governance because foreign investors are considered to be concerned about such matters. Based on that assumption, the presence of foreign ownership is expected to improve the company's performance. Foreign ownership is also expected to serve as a program to enhance the performance of the company's intellectual capital. the higher the share ownership by institutions, the greater the voting power and the institutional oversight of management. This results in a higher motivation to optimize the company's performance.

The concept of CSR makes companies no longer face responsibilities based solely on the single bottom line, which is the corporate value reflected only in their financial condition. But corporate responsibility must be based on the triple bottom lines, which take into account social and environmental issues. (Rokhlinasari S. 2016).Because financial conditions alone are not enough to ensure the company's value grows sustainably. CSR is a form of corporate responsibility in addressing social inequality and environmental damage caused by the company's operational activities. To support the disclosure of CSR, the government issued Law Number 40 of 2007 concerning Limited Liability Companies, which regulates CSR practices and reporting as emphasized in Government Regulation Number 47 of 2012. The implementation of CSR activities cannot be separated from the application of corporate governance. (Yunistiyani V. & Tahar A, 2017) Disclosure of social responsibility in the company's annual report is a form of transparency of the company's performance to the public in accordance with the principles of corporate governance. The General Guidelines of the Forum for Corporate Governance in Indonesia state that the purpose of implementing corporate governance is to encourage the emergence of awareness and responsibility of companies towards society and their surrounding environment. One of the corporate governance factors that influences the implementation of CSR is the ownership structure.

Foreign ownership has a significant impact on the company's CSR index. Companies with foreign ownership tend to have higher CSR index scores compared to domestic companies. (Purnomo D. Y & Prasetyo A, 2021)This indicates that foreign investors may encourage companies to adopt stricter CSR practices that align with international standards. This influence can be attributed to the higher expectations of foreign shareholders regarding social and environmental responsibility, as well as the pressure to comply with stricter CSR regulations in their home countries.

There are significant differences in CSR practices between companies with foreign ownership and domestic ownership. Companies with foreign ownership tend to be more proactive in adopting international CSR standards and reporting their initiatives more comprehensively. This can be attributed to pressure from foreign investors who have high expectations regarding social and environmental responsibility. On the other hand, domestic companies tend to focus more on local issues and may not have the same access to global resources to support their CSR initiatives.

Companies with foreign ownership are more often involved in CSR programs that focus on environmental sustainability and social responsibility. (Latifah F. N. & Widiatmoko J, 2022) They are more likely to participate in global initiatives such as the Global Reporting Initiative (GRI) and the United Nations Global Compact. This shows that foreign ownership can encourage companies to be more socially responsible and enhance their reputation in the international market. On the other hand, domestic companies may be more influenced by local norms and regulations, which can limit the scope of their CSR practices.

Data analysis shows that companies with foreign ownership have higher CSR index scores compared to domestic companies. This indicates that foreign investors may encourage companies to adopt stricter CSR practices that align with international standards. Additionally, access to global knowledge and technology enables companies with foreign ownership to implement more effective and innovative CSR initiatives. Meanwhile, domestic companies may face limitations in terms of resources and support to enhance their CSR practices.

Companies with foreign ownership are more likely to publish sustainability reports that cover various aspects of CSR, including environmental impact, social contribution, and good governance practices. These reports often meet international reporting standards and enhance the company's transparency in the eyes of global stakeholders. On the other hand, domestic companies may be less transparent in their reporting and more focused on compliance with local regulations. This indicates that foreign ownership can enhance the accountability and transparency of companies in CSR practices.

Overall, the comparison of CSR practices between companies with foreign and domestic ownership shows that foreign ownership has a positive impact on the adoption of international CSR standards and reporting transparency. Companies with foreign ownership tend to be more proactive in implementing sustainable and responsible CSR initiatives. However, it is important to consider that other factors, such as industry and geographical location, can also influence these differences. Further analysis is needed to understand the more complex dynamics in the relationship between foreign ownership and CSR practices. The percentage of foreign ownership is positively correlated with the increase in the CSR index. This indicates that each increase in the percentage of foreign ownership significantly contributes to the improvement of the CSR index score. These findings are consistent with agency and legitimacy theory, where foreign ownership can influence companies to pay more attention to CSR practices in order to gain legitimacy in the international market. Additionally, access to global resources also enables companies to enhance their CSR practices.

Furthermore, companies with foreign ownership are more likely to adopt CSR practices that focus on environmental and social issues. The CSR index used in this study encompasses various aspects, such as environmental management, social responsibility, and corporate governance. The analysis results show that companies with foreign ownership have higher scores in all these aspects, indicating their commitment to sustainable and responsible business practices. This can enhance the company's reputation in the eyes of global stakeholders.

Additionally, the research results indicate that companies with foreign ownership are more likely to publish comprehensive sustainability reports. This report often includes various internationally recognized CSR indicators, such as the Global Reporting Initiative (GRI). By publishing transparent and accurate reports, companies can enhance stakeholder trust and meet the expectations of foreign shareholders. The existence of this report also reflects the company's efforts to meet international reporting standards and enhance their transparency.

Overall, this study shows that foreign ownership has a positive impact on the company's CSR index. Companies with foreign ownership tend to be more proactive in adopting international CSR standards and more transparent in their reporting. These findings support the argument that foreign ownership can be an important driver in the improvement of CSR practices. However, it is important to consider that other factors, such as industry and geographical location, can also influence this relationship, so further analysis is needed to understand the more complex dynamics.

Conclusion

This research shows that foreign ownership has a positive impact on corporate social responsibility (CSR) practices. Companies with foreign ownership tend to be more proactive in adopting international CSR standards and more transparent in their reporting. This can enhance the company's reputation in the global market and provide a competitive advantage. These findings support the argument that foreign ownership can be an important driver in enhancing CSR practices. However, it is important to consider that other factors, such as industry and geographical location, can also influence this relationship.

This research reveals that foreign ownership plays a crucial role in encouraging companies to adopt stricter CSR practices that align with international standards. Companies with foreign ownership are more likely to allocate greater resources to CSR initiatives and collaborate with external stakeholders. This suggests that foreign ownership can expand the reach and effectiveness of the company's CSR strategies. However, further analysis is needed to understand the more complex dynamics in the relationship between foreign ownership and CSR practices, including the influence of other factors such as industry and geographical location. Foreign ownership can have a complex influence on CSR practices in Indonesia. The Investment Law provides an important legal foundation to encourage CSR, but its effectiveness depends on various factors, including law enforcement, oversight, and the awareness of all parties. It is important for companies with foreign ownership to understand the local context and implement sustainable CSR practices that provide real benefits to Indonesian society and the environment.

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