

# Foreign Investment and Social and Corporate Responsibility

Maria João Mimoso<sup>a\*</sup>, Maria do Rosário Anjos<sup>b</sup>, <sup>a</sup>Portucalense University, Porto, Portugal, <sup>b</sup>Polythecic Institute of Maia, Maia, Portugal, Email: <sup>a\*</sup>[mjmarbitragem@gmail.com](mailto:mjmarbitragem@gmail.com), <sup>b</sup>[rosario.anjos@socadvog.com](mailto:rosario.anjos@socadvog.com)

This study aims to highlight the problems posed by foreign investment on corporate and social responsibility. Host states sometimes find it difficult to deal with some of the effects of these investments with regard to economic, social and human rights. The phenomenon of globalization, as is well known, is a contemporary reality propelled by investment and the internationalization of companies. In emerging economies it appears that investment has produced loss in terms of some expressiveness components. This study investigates the potential violation of the most elementary human rights and the assumptions of bad environmental practices in this context. Several organizations have played a crucial and influential role in the adoption of ethical behaviour by the multinational companies that are the investment protagonists.

**Key words:** *Host state; foreign investment; social and corporate responsibility; sustainability.*

## Introduction

This research verified, within the context of contemporary phenomenon of globalization that foreign investment constitutes an economic development factor for states, especially in emerging economies. The competitiveness between companies based in developed economies is extremely concentrated and high. To create obstacles for their internal competitors, companies set out to conquer new markets with the perspective to expand (Dias, 2007). Consequently the internationalization of these new markets became a less insignificant reality. If, on one hand, the barriers between companies based in different continents or states are non-existent, then on the other hand the receiving countries see foreign capital as the principal lever for their own economic development.

In this sense, this research intends to define the concept of foreign investment, stating its main positive factors and highlighting the need for investors to assume good business practices. In short, the adoption of the revealing behaviours of Social and Corporate Responsibility (SCR) (Palhares, 2010; Pahayahay, Asejo, Pangan, Dasig Jr, & Panganiban Jr, 2017) will be investigated. A deductive method will be used to assist in the analysis of information on the role of social and corporate responsibility in foreign investment in order to demonstrate the need to adopt good business practices which contribute to environmental sustainability and respect for human rights.

A literature review was conducted to allow our views and arguments to be sustained and, above all, to emphasize the role of international organizations in this field.

### **Delimiting the notion of foreign investment**

The simple word investment means the application of capital with the purpose of making short, medium and long-term profits. The deciding agent, intending to invest, abdicates certain immediate benefits with the aim to achieve something different in the future. Several factors will be equated, the gains on investment, the probabilities of return and the period in which this will be equated by. When we talk about foreign investment, the application of capital in a country that is different from the one where that capital originated from (Barroco, 2014; Hassan, 2018; Neminno, Gempes, 2018) must also be considered.

Globalization provided the true expansion of foreign investment, albeit with some constraints. The result of the recent economic crisis of 2007-2008, precipitated by the bankruptcy of the Lehman Brothers investment bank, boosted capital flows, decreased customs restrictions and taxes, therefore contributing to the increase in the circulation of people and goods. These circumstances need further investigation to determine the political, social and economic circumstances that presented resulting in political instability and high corruption in some emerging economies.

The host country should be aware of the consequences and the impact of foreign investment given a number of conditions including economic factors, the level of literacy and living conditions of the population, natural resources, the need for infrastructure and the sustainability of the environment, among others. Foreign investment, in addition to propelling the creation of more jobs, consequently contributes to the increase of general income in the receiving country. Further, it also allows the gains obtained to return to the investor's country of origin, normally occurring through agreed benefits such as facilitating the extradition of capital, a lower tax burden and low interest rates (Halim, Adnan, & Khusaini, 2017; Hang, 2015; Santos, 2007).

In an attempt to delimit the notion of foreign direct investment (FDI) in this study, it is when the investor/company aims to acquire a long-term interest in one or more businesses that operate outside the economy of the investor's country of origin. The FDI relationship comprises the existence of a parent company and a foreign subsidiary which together form a multinational company, the latter being controlled by the former. The United Nations notes that control exists where the parent company holds at least 10% of the common shares or voting rights of a publicly traded company, or equivalent, in the case of a privately held company.

It should be noted that many projects implemented through foreign investment have had negative impacts on the environment and on health and working conditions, and are highly detrimental to the lives and dignity of local populations.

### **Attractive factors of foreign direct investment**

Large companies producing goods and services, which have branches in various countries, are generally known as multinational companies because of their size and expansion across borders. Thus, based on the concept of control advocated by the United Nations and considering its international contextualization, a multinational company is constituted by a parent company based in one country, incorporated and governed by the law of that country, but it has agencies, branches or subsidiaries in other countries. It is these multifaceted companies that operate in various sectors of the economy (financial, production, international trade, services, among others), maintaining a business strategy aimed at sourcing cheap labour, preferring countries with labour laws sufficiently flexible to fulfil their purposes (Eze, 2017; Lopacinska, 2016; Santos, 2007). In short, they present themselves as oligopolies or monopolies, carriers of high technology and great financial capacity, holding concurrently, as a result of the economic position they occupy, great political and social influence in the world.

There are factors to be considered in the context of the decision-making process in foreign investment, beyond the strictly economic. We refer to the political stability of the host state, the efficiency of local institutions, the absence of general internal or external conflicts, the latter due to their geostrategic location in the world, low levels of corruption and the absence of bureaucracy. As Galbraith rightly points out, "*in countries where there is no internal energy, discipline and organization, aid programs destined to alleviate mass poverty have had little effect.*" According to this author, these aid programs, as well as the input of foreign investors in underdeveloped countries do not have the desired effect because the process of economic development has not been viewed as a process endowed with its own control parameters. "*This mistake seems to have been made by both the poor and the rich countries. The first thing that is essential to the economic and social development of a country is an educated and, consequently, competent, economically and socially motivated population*" (Galbraith, 1995).

This research study concludes that, for a fair and just partnership, states that need foreign investors should favour existential social requirements (contribution to the education of the country, professional vocational training of its workers, infrastructures and the environment, among others) in exchange for the transfer of their resources.

### **The good practices of an investor: Social and Corporate Responsibility**

We speak of Social and Corporate Responsibility whenever companies voluntarily assume, within the scope of their activities and good practice that they are capable of contributing to a just and fair society and a sustainable environment. This concept must be viewed from two perspectives: internal, in terms of labour relations and relations with all those who have the capacity to influence the results and external, in following the impact of their actions on the environment, their business partners and the context in which they operate. Thus, companies must act according to good practice, that is, through the adoption of ethical behaviours, both in relation to the society to which they are a member as well as the world in general. They should not be moved solely by profit but by the duty to contribute socially to the environment in which they operate.

As Skidelsky points out, wealth and goodness can go hand in hand but what really leads to the development of a people and their growth and economic development for future generations is investment in their education and training. It is in this context, above all, that the investor should play a key role (Dewi, Mataram, & Siwantara, 2017; Skidelsky, 2018). It is up to the host state to demand fair consideration in this regard. This research found that SCR is based on a set of business actions developed in the interest of society and that of the corporation itself, taking into account certain aspects, economic, educational, environmental, health, infrastructure, among others. Several factors have contributed so that individuals and institutions coordinate efforts to react and prevent environmental damage resulting from corporate economic activities. It is noteworthy that atrocities do not only concern the environment in which they move, but also the populations of those places, which are the direct victims of these behaviours.

We assert that both government and non-government entities have shared a great concern for, and as a result of this, have made great efforts to implement agile measures and codes of conduct to raise awareness and pressure companies to adopt good business practices that respect the environment and the most elementary human rights (Anjos, Mimoso, 2019; Alshannag, Basah, & Khairi, 2017; Dianita, 2015). Some international organizations have developed initiatives calling attention to such behaviours, notably the United Nations Global Compact (corporate citizenship) and the Global Reporting Initiative (GRI) (actions that bring social, environmental and economic benefits). The European Commission published its new Corporate Social Responsibility policy on the 26th of October 2011. It has adopted the notion



of SCR, which aligns with internationally recognized principles, in accordance with the OECD Guidelines for Multinational Enterprises, ISO 26000 and the United Nations Guiding Principles on Business and Human Rights.

From that time, other mediations have been implemented at the EU level through its institutions including of note: The European Parliament Resolution of the 6th of February on Corporate Social Responsibility: Responsible and Transparent Business Behaviour and Sustainable Growth [2012/2098 (INI)]; the European Parliament resolution of the 6th of February on Corporate Social Responsibility: promoting societal interests and a path towards sustainable and inclusive recovery [2012/2097 (INI)]; Compendium: Corporate Social Responsibility - National public policies in the European Union; Report of the European Economic and Social Committee entitled Corporate Social and Societal Responsibility as a catalyst for EU Partnership Agreements (trade, investment and cooperation and development). In general, states have sought to encourage good business practices through the creation of legal regulations and regulatory bodies to end all actions that compromise the desired sustainability. However, companies in the context of foreign investment, have manifested over time poor performance and have become the target of criticism and pressure.

In this paper, we highlight the performance of certain non-government organizations. In addition to the two above, we must also mention the Business Pact for Integrity and Against Corruption, also known as the Pact against Corruption. Launched on the 22th of June 2006 at the International Conference at the Ethos Institute, it develops standards for assessing socially responsible business actions and patterns and is a protagonist of FDI. Its creation is due to the initiatives of the Ethos Institute of Business and Social Responsibility, Patri Government Relations & Public Policy, the United Nations Development Program (UNDP), the United Nations Office on Drugs and Crime (UNODC), the Brazilian Global Compact Committee and the World Economic Forum (WEF) as well as the support, from initiation, of Transparency International. Further, worth highlighting in the fight against global corruption, is the World Economic Forum's Anti-Corruption Partnership Initiative (PACI-WEF) formally launched in 2004 by CEOs (Chief Executive Officer) in the engineering and construction, energy and metal and mining industries. This initiative is multi-sectoral and open to all companies.

Finally, it is necessary to highlight here the EITI - Extractive Industries Transparency Initiative, a voluntary coalition of governments, companies, investors and civil society organizations and the role of the World Bank, for the manual for Small Business (benefits of "collective action", a sustainable process, a collaboration between stakeholders and their use). The investing companies are legal entities recognized by their respective legal systems and, as such, are subject to rights and obligations. In this sense, society expects them to contribute to the good of the wider community by implementing good practice and contributing to social welfare. It should be noted that corporate behaviours that denote the assumption of social and corporate



responsibility have been the target of widespread research, some defending their contribution to the minimization of restrictive and punitive legal regimes, which comes with costs for these companies, while others argue that SCR boosts higher business profit and social peace. Thus, SCR plays a key role in counteracting the trend towards the globalization of a cheap labour economy (Chossudovsky, 2003; Jingnan, Yunus, Kamal, 2018), which poses obvious dangers to existing democracies and, above all, to the maintenance of the rule of law (Ketsiri, & Pajongwong, 2016; Stiglitz, 2014).

## **Conclusion**

Competitiveness between companies in developed economies has led to the conquest of new markets and consequently, their internationalization. This mainly involves the application of capital in a different country from that where the investor is originally from. Globalization has provided the true expansion of foreign investment, which besides being a development factor for the recipient country and enhancing the quality of life of local populations, allows the investor a return on their investment and the desired profits from the natural risk of expanding into other markets. However, despite the resulting benefits for both parties, there have been negative effects on the recipient state, primarily on the environment, health and working conditions of the population. SCR entails companies with a set of actions to be developed in the interest of society and the corporation itself, contributing to corporate well-being, as well as to the good of the community in general. Some international organizations, as well as the European Union itself have developed initiatives calling attention to the need for companies to engage in ethical behaviour in the interest of society. Some argue that such behaviours influence the market and may have an impact on investors' desired profits.



## REFERENCES

- Alshannag, F., Basah, M. Y. A., & Khairi, K. F. (2017). The relationship between corporate social responsibility and corporate financial performance A survey of literature. *International Journal of Business and Administrative Studies*, 3(1), 9-15.
- Anjos, M. R. e Mimoso, M. J. (2019). The Progress Clause in Foreign Investment Contracts. Economic and Social Development. Varazdin Development and Entrepreneurship Agency (VADEA). Retrieved from <https://bit.ly/2mxWlyK>
- Barroco, C. (2014). Fatores de atratividade para investimento direto estrangeiro no setor do turismo português. Tese de Doutoramento. Departamento de Economia, Gestão e Engenharia Industrial. Universidade de Aveiro 2014. P. 32 e ss. Retrieved from <https://bit.ly/2nrMwD1>
- Chossudovsky, M. (1999). *A globalização da pobreza: impactos das reformas do FMI e do Banco Mundial*. Moderna.
- Dewi, N. I. K., Mataram, I. G. A. B., & Siwantara, I. W. (2017). Validating a framework of the integration of corporate social responsibility and culture: The case of hotel industry. *International Journal of Business and Economic Affairs*, 2(1), 31-44.
- Dianita, M. (2015). Role of the internal auditor influence and good corporate governance in banking financial performance against state owned corporation. *International Journal of Business and Administrative Studies*, 1(4), 176- 179.
- Dias, M. C. A (2007). A internacionalização e os factores de competitividade: o caso ADIRA. Dissertação de Mestrado em Ciências Empresariais – Especialização em Marketing. Faculdade de Economia Universidade do Porto. Available: <https://bit.ly/2nrMwD1>
- Dos Santos, M. S. (2007). Investimento Estrangeiro e Desenvolvimento Econômico: Breve Análise dos Efeitos Benéficos e Nocivos Do Capital Estrangeiro. *Revista do Mestrado em Direito da Universidade Católica de Brasília: Escola de Direito*, 1(2).
- Eze, I. O. (2017). Corporate governance mechanisms and earnings management in Nigerian food product companies. *Journal of Administrative and Business Studies*, 3(1), 1-9.
- Galbraith, J. K., Duarte, M. F., & Guedes, J. (1995). *Viagem através da economia do nosso século*.
- Halim, N. H. A., Adnan, A. N., & Khusaini, N. S. (2017). Kaizen event assessment through performance and economic investment analysis. *International Journal of Business and Administrative Studies*, 3(1), 1-8.



- Hang, H. T. T. (2015). The effect of capital structure on corporate performance: Evidence in Vietnam. *International Journal of Business and Administrative Studies*, 1(2), 68-77.
- Hassan, R. (2018). Exploring the association of corporate social responsibility and employees' organisational citizenship behaviour: A study in Pakistan. *Journal of Administrative and Business Studies*. 4(1): 27-40
- Jingnan, Wu., Yunus, Nek. Kamal. Yeop. 2018. The Relationship Between Corporate Entrepreneurship and Innovation in Manufacturing Companies in Perak. *International Journal of Business and Economic Affairs*, 3(1), 33-39
- Ketsiri, K., & Pajongwong, P. (2016). Knowledge and understanding of accountants toward rules for calculating net income for corporate income tax by section 65 ter in Thailand. *International Journal of Business and Economic Affairs*, 1(1), 67-73.
- Lopacinska, K. (2016). The merger of Geely automobile and Volvo car corporation as an example of the expansion of Chinese capital in the automotive sector. *International Journal of Business and Administrative Studies*, 2(6), 162-172.
- Mohamed, W. S., & Arafa, I. M. (2016). Investigating corporate social responsibility disclosure by banks from institutional theory perspective. *Journal of Administrative and Business Studies*, 2(6), 280-293.
- Neminno, R. C., Gempes, G. P. (2018). The moderating effect of intellectual capital on the relationship between corporate reputation and knowledge sharing of commercial banks. *Journal of Administrative and Business Studies*, 4(3): 145-155
- Pahayahay, A. B., Asejo, N. R., Pangan, S. M., Dasig Jr., D. D., & Panganiban Jr., A. S. (2017). A concurrent exploratory study on sectoral engagement model of an altruistic corporate social responsibility in bureau of jail management and penology. *International Journal of Business and Economic Affairs*, 2(2), 98-105.
- Palhares, J.M., Nagata, N. (2010). Responsabilidade social e ambiental das empresas - um estudo das ações praticadas pela Itaipu Binacional.
- Phyoe, E. E. (2015). The Relationship between foreign direct investment and economic growth of selected ASEAN Countries. *International Journal of Business and Administrative Studies*, 1(4), 132-146.
- Purnamasari, K., & Fitdiarini, N. (2016). Corporate diversification and cash holding. *Journal of Administrative and Business Studies*, 1(1), 21-27.



- Sawatsuk, Bungon., Darmawijaya, I. Gede., Ratchusanti, Sirikiet., and Phaokrueng, Ariya. 2018. Factors Determining the Sustainable Success of Community-Based Tourism: Evidence of Good Corporate Governance of Mae Kam Pong Homestay, Thailand. *International Journal of Business and Economic Affairs*, 3(1), 13-20
- Skidelsky, R. Keyne (2018). *O Regresso do Mestre*, ed. Especial Biblioteca Expresso, Lisboa.
- Stiglitz, J. E., (2014). *O Preço da Desigualdade*, editora Bertrand, Lisboa.
- Wasike, C. N. (2017). Financial regulation as moderating, influence of corporate governance, institutional quality, human capital and firm size on financial institutions performance in Kenya. *Journal of Administrative and Business Studies*, 3(6), 292-304.
- Yoo, J., Lee, M. K., & Lee, W. S. (2016). Asymmetrical corporate responses to economic information: Applying the firm size effect. *Journal of Administrative and Business Studies*, 2(1), 29-34.