

# CHAPTER I

## INTRODUCTION

Introduction usually made in the beginning of a thesis or report, and usually has a simple structure, using summaries, definitions, and examples to help readers accompany the contents of the thesis or report. The introduction also aims to attract the reader's attention and be a place to explain the purpose of the thesis or report. Introduction is a very important part in making a thesis or report, because it will help the reader to understand the contents of the thesis or report, as well as help the reader to accompany the content that will be discussed in the thesis or report. That is why, before we get into the main topic, the author will explain briefly about the backgrounds of the topic.

### A. Backgrounds

#### 1. Reasons for Choosing a Title

A business that operates in at least one country other than its native country is known as a Multinational Corporation (MNC). Usually, a corporation operates fully or partially owned subsidiaries in other countries while maintaining its headquarters in one country, then its headquarters receives reports from its subsidiaries. MNCs typically have offices, factories, or other facilities spread out throughout several countries as well as a centralized headquarters that organizes global administration. A corporation cannot simply be referred to as an MNC just because it exports its goods to multiple countries. Foreign direct investment must be made by the MNCs there as well as ongoing operational company activity (CFI Team, 2023).

In a company, there are many aspects that require attention so that it can develop the company to become better. One of these aspects being digital innovation. Digital innovation is intentional use and utilization of digital technology to advance company processes, develop new goods or services, improve customer interactions, and satisfy changing consumer needs. Digital innovation offers instant benefits and educational opportunities by serving as a smaller-scale testing ground for novel concepts. To increase client engagement, a business might innovate by creating a new mobile app, or it might use big data analytics to uncover industry trends.

Digital innovation needs human resources in order to find and try the new ideas. The idea for it is how the innovation will make some of the work in the company easier without facing any human error. Therefore, they need to make it work well so that the new app/platform can be used in the long term. Other than human resources, digital innovation also needs adequate and up-to-date technology so that digital innovation can cope up with current technological conditions, because if the ideas are great but the technologies aren't, it will not work well.

#### 2. Background of the Problem

The influence of digital innovation on companies is very significant in this digital era. First, digital innovation can increase a company's operational efficiency. With the right adoption of technology, companies can automate business processes, reduce human errors, and increase productivity. Second, digital innovation also opens up new opportunities in product marketing and distribution. Through online platforms, companies can reach a wider, even global, market at relatively lower costs. Third, digital innovation allows companies to collect and analyse data better, so they can make smarter business decisions. Finally, digital innovation can also create new business models that disrupt existing industries, such as subscription-based businesses, "pay-as-you-go" services, and others.

In the context of digital innovation, companies need to pay attention to various aspects, including technological infrastructure, information security, and human resources. Reliable technological infrastructure is needed so that digital innovation can run smoothly. This includes a fast and reliable communications network, adequate computer systems, and supporting software. Information security is also a major concern, considering the increasing number of security threats emerging in the digital environment. Companies need to protect their important data and information from unauthorized access and cyber-attacks. Apart from that, competent human resources in information technology are also needed. Companies need to train and develop their employees to be able to face the constant changes in the digital world.

The impact of digital innovation on multinational companies in the supply chain sector is an important issue in the era of the rapidly developing digital economy. Digital innovation, especially in the economic field, has created new jobs and employment in the context of Industry 4.0, which includes supply chain management, internal, and external communications of companies. In facing the impact of digital innovation, multinational companies in the supply chain sector need to consider the factors that influence IT adoption, such as technological, organizational, and environmental factors.

However, the impact of digital innovation and the digital economy on macroeconomics cannot yet be easily measured. A number of literature studies show that the digital economy has the potential to increase the number of jobs, increase productivity through various efficiencies created, have a direct or indirect impact on economic growth, reduce income and wealth disparities, and increase cross-border trade and investment (Harahap, Paundralingga, & Kusuma, 2018).

Although the adoption of digital innovation offers various benefits, its impact on multinational companies also poses a number of challenges. One of them is the difference in tax rates between countries, which makes multinational companies tend to carry out transfer pricing to avoid paying high taxes. Apart from that, the adoption of digital innovation also raises issues related to data protection and cyber security, which are becoming increasingly important as cyber security threats increase in this digital era.

Thus, while digital innovation provides great opportunities for multinational companies to improve supply chain performance and compete in global markets, it also raises a number of challenges that need to be overcome. Therefore, it is important for multinational companies to be able to manage the impact of digital innovation wisely, while still paying attention to legal, ethical and security aspects in implementing digital technology in their business.

## **B. Formulation of the Problem**

Based on the background of the problem described above, the problem formulation can be made as follows:

1. What is the impact of digital innovation on Third-Party Logistics Multinational Company's Development?

## **C. Theoretical Framework**

To answer the problem above, several concepts and theories are used as follows:

1. Modernization Theory

Modernization theory is a theory that explains social changes in society from traditional life towards modern life. The modernization process involves various aspects of life, such as economics, politics, industry, education, and others. This theory developed in three phases, namely the first phase (1950-1960), the second phase (1970-1980), and the third phase (1990s). Modernization affects every element in society and makes people's lives more advanced.

Some of the positive impacts of modernization include changes in values and attitudes, the development of science and technology, as well as progress in various areas of life, such as communication, work, religion, and politics. However, modernization also has negative impacts, such as consumerist lifestyles, individualistic attitudes, and cultural gaps. In this context, modernization theory can help us understand social change and develop appropriate strategies to lead to thriving progress (Mergel, Edelmann, & Haug, 2019).

Digital innovation has become an increasingly important topic in the context of multinational companies. Modernization theory can provide a useful perspective in understanding how multinational companies can utilize digital innovation to improve their performance.

First, modernization theory emphasizes the importance of innovation in improving company performance. In the context of digital innovation, multinational companies can utilize digital technology to increase their efficiency and productivity. For example, companies can use cloud computing technology to optimize the use of their resources and improve their operational performance.

Second, modernization theory also emphasizes the importance of adaptation to environmental changes. In the context of digital innovation, multinational companies must be able to adapt quickly to changes in technology and market trends. Companies must be able to develop the ability to forecast trends and take appropriate actions to anticipate market changes.

Third, modernization theory emphasizes the importance of collaboration and partnership. In the context of digital innovation, multinational companies must be able to work together with partners and

suppliers to develop innovative digital solutions. Companies must be able to build mutually beneficial partnerships with their partners and suppliers to ensure that they can utilize digital technology effectively.

In conclusion, modernization theory can provide a useful perspective in understanding how multinational companies can utilize digital innovation to improve their performance. Companies must be able to adapt quickly to environmental changes and develop capabilities to utilize digital technology effectively. Companies must also be able to develop the human resources, infrastructure, markets and partnerships needed to utilize digital technology effectively.

## 2. Disruptive Technology Theory

Disruptive technology is a term that refers to innovation or new technology that changes the way consumers, industries, or businesses operate by offering attributes that are superior to existing systems. This technology is able to replace old habits or systems because its features are much better and innovative. Examples include e-commerce, ride-sharing apps, and GPS systems. Disruptive technologies are often introduced by new companies that target neglected customer segments and gradually move upstream to capture a larger market share. Established companies may struggle to adapt quickly to this disruption, allowing disruptor companies to gain a presence in the industry over time.

In a business context, disruptive technology can also refer to innovation or technology that disrupts the market by replacing existing products or services with simpler, more efficient and affordable solutions. These technologies often trigger major changes in certain industries and can create new opportunities for companies that are able to anticipate and take advantage of them. Disruptive technology often forces companies to innovate and adapt to remain relevant in an ever-changing business environment. Therefore, a good understanding of disruptive technology is very important for companies to be able to respond to market changes quickly and effectively.

Disruptive technology in the field of supply chain refers to technological innovation that fundamentally changes the operational processes of a company's supply chain. Examples of the application of this technology include the use of the Internet of Things (IoT) to monitor and optimize logistics processes, mining vehicles that operate automatically, and 3D printers that simplify the production process with the ability to print various products from various materials. These technologies bring significant efficiencies, reduce operational costs, increase visibility and speed response to market changes.

The application of disruptive technology in the supply chain can also create new opportunities for collaboration between companies, suppliers and other business partners. With the adoption of innovative technology, supply chains can become more integrated, transparent and responsive to customer demands. An example is the use of blockchain to improve the security and reliability of information in global supply chains. Companies can create integrated systems to track goods, accurately predict demand, and simplify inventory management. This technology enables companies to act proactively by gaining end-to-end visibility into supply chain operations, simplifying inventory management with a central dashboard that connects to multiple systems and data sources, and leveraging data analytics for better decision making.

## D. Hypothesis

Based on the description above, the hypothesis can be formulated as:

The impact that occurs due to digital innovation is that employees feel that their work is simpler, more efficient, easier to access data, and provides more accurate information. Some of these impacts are caused by two (2) innovative applications, namely, Dashboards and Trend Market Research.

## E. Purposes

1. Theoretical purpose:
  - a. Applying the knowledge learned in International Relations, to be specific MNCs
  - b. Learning ways of working of the Business Improvement and Data Analyst
  - c. Analyzing the challenges that may occur in the innovation
  - d. Analyzing the impact of digital innovation on Third Party Logistics Multinational Company's Development
2. Practical purposes
  - a. Working in the field of Business Improvement and Data Analyst

- b. Contributing to the development of technology innovation at Third Party Logistics Multinational Company
- c. Researching the impact of digital or technological innovation on Third Party Logistics Multinational Company

**F. Benefits of Activities**

1. For Students
  - a. Students gain work skills, supported by the students' ability to be more creative and innovative in terms of the knowledge they have gained from the Faculty of Social and Political Science, Universitas Muhammadiyah Yogyakarta.
  - b. Students can figure out the working mechanism of a company. To be able to serve as a reference for other students, so that students are not only educated but also become skilled personnel.
  - c. Students can train to analyse a problem directly while getting empirical data that occurs.
2. For Third Party Logistics Multinational Company
  - a. Helping this company in terms of Human Resources
  - b. Obtaining contributions in terms of workforce, creativity, and ideas regarding digital/technological innovation.
3. For the International Relations Study Program
  - a. Expanding cooperation/collaboration networks with related companies.
  - b. Increasing the relevance of the curriculum of various educational programs in the International Relations Study Program to the field of work.
  - c. Obtain materials to improve or expand collaboration between students, lecturers, universities and related companies.