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Case Study

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Sustainable Development and Multinational Enterprise Operations in Developing Countries: Role of Institutional Framework

Rabi N. Kar^{1*}, Amrita Kaur²

¹Shyam Lal College (SLC), University of Delhi, Delhi, India.

²Shaheed Bhagat Singh Evening College (SBSEC), University of Delhi, Delhi, India.

*Correspondence: rabikar.du@gmail.com

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Abstract

The role of multinational enterprises (MNEs) for sustainable development, particularly in developing countries, has become a topic of debate among environmental, business, and economic researchers. In that context, we try to explore the compatibility and congruence of the business operations of MNEs vis-à-vis sustainable development in the developing part of the world. By using a multitheoretical framework followed with a multicase analysis concerning emerging and developing countries, we investigate how MNEs are addressing regional requirements of sustainable development where environment, local culture, and institutional mechanism are the key concerns. The adherence to evolving institutional mechanism over the years along with willful ethical steps taken by MNEs are found to be important in improving the state of affairs in the developing nations.

Keywords: Sustainable development; MNEs; Developing countries; Institutional framework.

1. INTRODUCTION

The global developmental goals, strategies, and practices, often actively supported by international and national development anchors, with their focus on rapid industrialization, urbanization, and growth, failed to weed out paths and policies that harmed the environment. This guided path also failed to address the problems relating to sustain local communities and indigenous people. Environmental abuse in the form of oil spillage, gas flaring, water contamination, and so on has taken an ugly toll on the lives of people in the form of disasters or accidents around the world. There is increasing concern that by not acting sustainably, economic progress is being achieved at the expense of such significant damage to natural resources, environment, and social justice that future generation will be worse off than the present one. The failures of traditional economic development served as the impetus for the call for sustainable development movement worldwide. At the global level, the growing concern about the undesirable effects of the traditional economic development policies started in the early 1970s and was reflected in the deliberations and outcomes of a series of international conferences.¹ The outcomes from these conferences, in particular the Brundtland Commission Report, the Earth Charter, and Agenda 21 of the Rio Conference, defined and framed the essentials of sustainable development and laid down various principles and processes that must be followed while operationalizing its objectives and principles, including changes to be brought about in existing attitudes and values. Sustainable Development Goals, adopted by 193 countries, which came into effect in January 2016, define 17 goals for “the world we want” by 2030. Achieving these goals is not possible unless the MNEs operating in each country pledge to take positive steps toward these objectives. MNEs have increasingly started promising to work toward achievement of these goals. However, the role of MNEs in rapid industrialization is always under scrutiny because of their operations in different countries.

Over the years, it is expected that the economic role of MNEs is to route financial and physical resources to countries with capital scarcity. Consequently, wealth is created, which yields fresh employment directly and through “crowding-in” effects. Further, there has been increase in tax revenues from MNE-generated income, enabling developing countries to improve their physical and social infrastructures. If the flow of capital is efficient, it is expected that MNEs may contribute to bring down the poverty levels around the world and provide a positive impression that is compatible with the principles of sustainable development. However, sustainable development started to be a concern for developing countries only after 1980s. Today, actions involving sustainable development by MNEs play a very important role not only in success but also in earning goodwill of an enterprise in a developing country. Several issues have been raised by different researchers, questioning the role of MNEs in developing countries. Are MNEs with their business models able to adopt strategies and practices toward sustainable development in this part of the world? Are these strategies and practices in line with the requirements of sustainable development where environment, local culture, and institutional mechanism are the key concerns? Are they able to cope with the challenges of sustainable development in this part of the world, putting aside their profit motives? Thus, it has become imperative to revisit institutional mechanism and explore its role in MNEs’ operations in bringing in the culture of sustainable development particularly for developing countries.

The remainder of this paper is organized as follows. The second section develops the theoretical arguments necessary for building the main objectives of this paper. The third section depicts the research dimensions and methodological approach adopted for this paper. The fourth section focuses on the multicase studies analyzed in this paper. The fifth section discusses some positive improvements toward sustainable development. The sixth section deliberates on the possible outcomes from the findings of a multicase analysis. The last section presents the conclusion.

2. THEORETICAL CONSTRUCT

Any organization or individual would work under an institutional framework that is built mainly on three important dimensions: regulatory, normative, and cognitive (Scott, 2004: 52). Regulatory dimension consists of rules and regulations relating to environmental compliance, pollution limitations, labor issues, and safety aspects, to name a few, which an organization is bound to follow if it is planning to operate in a particular location. Regulations generate from government, legislative authorities, courts, and other regulatory bodies that have the capacity to pressurize if whatever they impose is not followed (Boxenbaum and Jonsson, 2013). Normative dimensions are the standards, conditions, and methods of a professional work. Deontological codes defining the proper conduct of a professional group, such as doctors or lawyers, are normative systems that contribute to “more or less taken for granted repetitive social behaviour” (Greenwood et al., 2013: 4). It explains how an institution or individual is ought to behave in the moral sense. The third dimension, that is, cognitive, is the cultural dimension of the institutional framework. It refers to the values, beliefs, and assumptions of a particular society. As Scott (2004) explains, the cultural-cognitive dimension is “the infrastructure on which not only beliefs, but norms and rules rest.” This means that cultural-cognitive dimension is the base for understanding any other dimension of the institutional framework. This institutional framework gives us the institutional logics that are constructed on social and historical patterns of beliefs, attitudes, assumptions, and values through which their social reality is defined. Institutional logics help organizations to decide the aspects that demand attention, among the various calls in the business environment (Ocasio, 1995). When MNEs plan to invest in a particular location, it should first understand the institutional framework of that area and decide if it can adapt and accommodate to the requirements of that particular environment and its people. Going to a developing economy, MNEs are perceived to exploit more in terms of resources and its people, as compared to when they locate in a developed economy. This is because the developing countries are in need of the investments that are coming in through the MNEs in terms of employment opportunities, development, technology advancement, and so forth. But looking at scenario in the developed world, MNEs do not get to work that easily because of the regulatory regime involving stringent rules and regulations toward environmental issues. However, increased awareness over the years, particularly in environmental concerns has made sustainable development an important issue for MNEs operating in India and other parts of the developing world. Sustainable development in a particular

sector refers to the all-round development without ignoring environmental protection. At the 2002 World Summit on Sustainable Development held in Johannesburg, South Africa, sustainable development was explained as the development at the social, economic, and cultural level while protecting the environment at local, regional, and global levels. The concept of sustainable development takes the economies and MNEs to a positive line where they should become conscious of the attitudes, values, and ethical considerations of a particular public in an area. MNEs should be responsible enough to shape their projects in a way where the geographical benefits do not hamper the societal aspects of any location.

MNEs have been growing at a rapid pace not only in numbers but also in monetary terms. MNEs have started growing since 1970 when only 7000 MNEs existed (Kolodner, 1994). By 2006, the number of MNEs reached 77,000 with around 7,70,000 affiliates (UNCTAD, 2006). Goods and services exported by the multinational corporations is about two-thirds of the world trade (Dunning, 2003: 77), which shows their importance in countries around the world. These enterprises have increasingly become active in influencing the decision-making authorities of the location they choose to invest and set up their subsidiary. MNEs have started understanding that they need to operate in an environment where these activities impact the local functioning of an area. Therefore, MNEs are progressively becoming influential and active in developing these areas, which may have an impact on the employees and localities of the host country (Boyer et al., 1998; Streeck and Thelen, 2005). This brings us to a very crucial point of discussion: Is state or government of a developing nation withdrawing in decision making and giving MNEs space to play a proactive role? If that is true, why are MNEs interested in influencing the decision making of a particular state? Does this indicate about the weak regulatory mechanism of the host country? All these doubts arise from the instances where the MNEs have been successful in influencing the regulatory system of the host country for their own vested interest. Further, other aspects of institutional mechanism are also being in question for lack of compliance.

In the absence of a strongly monitored institutional mechanism by the state, MNEs get a more lenient environment, leading to easily ignoring the interest of the people and society as a whole. From the point of view of the MNEs, it is not their job to develop the state or people; rather they feel their responsibility to help the communities to develop in some way or the other if they can. Ultimately, if the MNEs are not working toward bringing development, it is the role of the state to ensure that these corporations do not work only for their narrow economic interests, leaving aside the welfare of the society. Failure of the state to secure the environment from abuses done by MNEs will raise a doubt on the validity of the state.

On the other hand, these MNEs have become conscious of the fact that the public who is a stakeholder lawfully has interest in all aspects of organizational execution and that if these stakeholders assume that the organization would perform at variance with their own values, organizations can face legal challenges (Eccles and Krzus, 2010). The MNEs need to take care of the normative and cognitive dimensions of the location they want to operate along with the regulatory concerns. Protecting the cultural and social identity of the people is being recognized as equally significant as pillar for achieving sustainable development. Initiatives taken in community cultural context will prove to be effective with chances of greater degree of sustainable development outcomes.

Eccles and Krzus (2010: xi) also explain, "Companies need to do good-act with integrity not just to secure a healthy business environment, but for their own sustainability." These words confirm that the organization's impact on the economic, social, and environmental aspects and the effect in turn on the organization are related significantly. To make good profits, the MNEs should act responsibly toward the environment safety as the failure to do so will question their real present value, their space as a responsible corporate will be hampered, and customers would shift to companies that are assumed to be more environmentally responsible, decreasing their competitive advantage (Elkington, 1994: 97)

Many incidents around the world have taken place since 1980s, which have led all the experts, researchers, and public to question about the responsibility of an MNE in their role of sustainable development of the location it is operating. Moreover, particularly, incidents from developing and emerging nations, Bhopal Gas tragedy, BP oil spill, MV Apollo oil spill, POSCO, Royal Dutch Shell in Niger Delta, and many more, attracted a lot of attention. These big enterprises that have their main interest in sectors such as mining, auto, oil, and other chemical industries try to influence the phraseology of rules and regulations that are set at the national and international level for environmental concerns, which happened in the Kyoto Global Climate Change Conference outcome (Shah, 2002).

3. METHODOLOGICAL FRAMEWORK

When MNEs started expanding their business operations, they go with the argument of asset seeking and internalization motives. Asset seeking foreign direct investment (FDI) is common for MNEs that plan to have an alliance with some other country to take advantage of the assets and resources of the host country. Internalization refers to the vertical integration of a firm to overcome the market imperfections (Buckley and Casson, 1976). This might help the MNEs to minimize their cost and building strategic advantages with their competitors. However, MNEs in some particular sectors, such as mining, gas, and oil, have been accused of indulging in greater damage to the region or location of their operations. This has led to a greater crisis of how to manage this imbalance in the specific regions. Moreover, the developed/rich countries, with increased economic globalization, easily find opportunities to use the developing/poor countries for investing in projects involving environmental abuse (Korten, 1995). It is common for subsidiaries to shift from countries with strong environmental or other rules and regulations to countries where the authorities are comparatively lenient with legislation. Also, the concern of developing nations that the job opportunities brought by MNEs would shift to some other nation will influence the extent to which regulations are imposed on environmental issues for MNEs. Higher cost and stringent rules for environmental issues coupled with the immediate need of employment opportunities make the developing low-income world a haven for “dirty industries.” In this backdrop, we try to explore compatibility and congruence of the business operations of MNEs vis-à-vis strategies and practices of sustainable development in this part of the world. We try to investigate how the MNEs are addressing regional requirements of sustainable development where institutional mechanism involving environment and local culture are the key concerns in developing countries.

We have adopted a hybrid methodology to explore the above-discussed objectives. To develop this, we have taken a multitheoretical framework on the first hand from the extant literature to focus on our objectives. As per Lincoln and Guba (1985), research designs cannot be prespecified, but they develop and unfold only during the process of doing research and it would be incongruent to specify these designs in advance. Hence, here we have applied this hybrid methodology. Keeping the nature of our research inquiries in focus, we have settled for engaging case studies for furthering our arguments. Researchers (Yin, 1994; Stake, 1994) tested and advocated the case study method to provide useful insight into the relevant issues pertaining to a research topic involving *what*, *how*, and *why* queries. John Liggett (1968) supports the case study method for understanding a “group of people,” small communities in an industrial setting, or any other social unit. To establish a rational basis that helps in modifying situations containing problems and issues, the case study method is often considered quite practical. Further, the types of research methods used are usually selected by naturalistic inquirers involving those most closely associated with a human component: interviewing, participant observation, document, and content analysis. One reason is that research studies usually include a number of different research questions, so a research method appropriate for one question may be inappropriate for another as our study. Accordingly, the authors have employed the above-listed methods of desk research, content analysis, and observations from published sources to develop and discuss these specific pieces of cases of different time periods and involving India, Nigeria, and South Africa for meaningful analysis and outcomes.

4. LEARNINGS FROM A MULTICASE ANALYSIS

4.1. Case Study 1: Bhopal Gas Tragedy, India

The tragedy at Union Carbide India Limited (UCIL), the US subsidiary’s pesticide plant in Bhopal, is still one of the world’s most devastating incidents. The disaster took place on the night of 2–3 December, 1984, when poisonous gas came out of the plant and started dispersing throughout the city, affecting around 5,00,000 people. Unofficial estimates report more than 8000–10,000 deaths, but the government confirmed around 3000-plus deaths after the incident (Bogart, 1989). New York Times, reported that a death toll of 14,410 due to the severe after effects of the incident. However, in 2006, the union government stated that totally 5,58,125 cases are recorded for injuries caused due to the gas disaster.ⁱⁱ The side effects continue even

today (Greenpeace International, 2002). Those who survived are still suffering with the after effects of the disaster. Lung damage, blurred vision, chest pains, women with gynecological problems, and giving birth to babies with birth defects are some of the common issues that the residents are still dealing with. Union Carbide Corporation (UCC) also delayed in providing information about the chemicals due to which the doctors were not able to treat the victims properly leading to various forms of disabilities. Justice Krishna Iyer named the Bhopal Gas Tragedy as “Hiroshima of world greatest industrial disaster” till date.ⁱⁱⁱ

When MNEs (like UCIL) plan to operate in sensitive industries (like gas) in a particular country, there are a number of issues involved with respect to the environmental laws such as environmental pollution, accident, legalities in international prosecution, and nonuniform rules and regulations across countries that can be misused by the companies. Methyl isocyanate (MIC) gas produced in the UCC plant was highly flammable and explosive and had to be stored under a cover of nitrogen in double tanks. It is questionable why the factory and storage were selected to be placed in a highly populated area (Morehouse and Subramaniam, 1986). Why did the then government of India allow such high-risk operations in the area where thousands of people resided? Lloyd-Jones, Shah, and Chawla (1996) have identified some of the major factors that contribute to the disaster in addition to the breakdown of institutional mechanism in operation.

- Gradual erosion of good and regular maintenance operations
- Depletion of adequately trained professionals, especially in supervisory posts
- Declining inventories of vital spare parts
- Staff exodus and demoralization
- Under-manning of important workstations in the plant

The damage to the environment by MNEs’ activities could have been minimized had the stakeholders and local people who mattered most been consulted properly. On the other hand, the authorities look at an MNE investment coming in as a cost-benefit trade off that has potential for quick growth and development. At the time when UCIL invested, India was bracketed with poor nations. A factory set up in Bhopal was an opportunity for local population to get jobs. Moreover, gradually colonies and settlements were allowed to set up near the factory and that is why casualties were high.

Bhopal has faced tragedies in twofold: one that happened that fateful night and the other that is following even till date. The effect of the catastrophic event still continues with side effects in the form of polluted water and toxicity travelling to second and third generations. It was India’s first major disaster; therefore, the government had no experience to handle the devastation, and the US Company did little to help handle the human tragedy.

Local stakeholders still struggle for the “right to know” where the people can determine the areas that are polluted and not fit for their living. It is then the responsibility of the institutional mechanism, which is still evolving in India, to warn people about the problems of a particular region. Most of the residents are not aware of the pollution, adulteration, and side effects of the area they are living. Bhopal is now threatened with a second disaster after 35 years of the tragedy. It has been reported that the process waste, by-products, solvents, and waste from machinery are still lying at the site in Bhopal polluting the soil and water continuously. These chemicals will keep on spreading unless the site is sterilized properly. But the issue of sterilizing has been struck in legal issues such as how it should be done, who will pay for it, and what should be done with the waste, again raising several questions for regulatory mechanism.

The major failure in the case of the Bhopal tragedy was the regulatory pillar of institutional mechanism as the state authorities along with the MNE overlooked the safety concerns of its people while giving permits for operating in a densely populated slum area. The local government allowed the plant to operate despite knowing the fact that the company has under invested in safety, making it a dangerous working environment for the locals.

4.2. Case Study 2: Destruction of Natural Habitat, Niger Delta, Nigeria

The case of Royal Dutch Shell in Niger Delta, Nigeria gives a body of evidences that the company has ignored the environmental standards at many stages of its oil exploration process, deteriorating the climate and well-being of the people in Nigeria. Environmental pollution caused by oil generation has given alarms

about the livelihood of communities nearby. The high-risk practices used by Shell included deforestation, oil spill, and oil flaring. The release of high level of CO₂ and methane gases in the atmosphere has adversely impacted the climate patterns. This validates the Nigeria's oil fields accountability for maximum global warming effects as compared to all the oil fields combined together in the rest of the world (Ake, 1996: 34). Nigeria is one of the largest oil producers in the world with more than 95% of its exports as oil. The development of the oil industry in Nigeria has been at the expense of other important sectors such as agriculture and manufacturing. This has led to regional inequality and uneven wealth distribution in the economy.

Nigerian communities are paying a high price of producing oil in the form of people facing a number of health issues, polluted drinking water, threat of pipeline explosions, loss of mangrove trees, and so on. In October 1998, a pipeline leak that flooded a large region near the village of Jesse exploded, causing the death of over 700 people, mostly women and children (Essential Action, 2000). The oil-producing companies have always declared that their operations abide by the highest environmental standards.⁴ However, malnourishment and various adverse health issues have become common concerns in the country.

4.2.1. Threats to the Lives of the People of Nigeria

1. Gas flaring resulting in acid rain is one of the major immediate negative effects of the oil production in the area. Pipeline leakage is another major problem.
2. The environmental pollution has led to serious health issues with the residents of the area. Malnourishment, different forms of cancers, respiratory problems, and skin rashes are some of the many commonly reported health problems of the communities living in that area.
3. Mangrove forest in Nigeria is the largest in Africa. These forests are very essential for the survival as they provide many resources to the local communities and wildlife. The oil spill operations are deteriorating and wiping off these forests, also endangering some of the species such as Delta elephant, river hippopotamus, crocodiles, and white-crowned monkeys (Essential Action, 2000).

Nigeria is an over populated country, but it is the richest in respect of natural resources in all of Africa. The abundance of oil reserves has not been a very fruitful factor for the people of Nigeria as is the case for many oil-extracting countries. Natural habitat and resources are being destroyed by the operation of MNEs that not only adversely impacts climate but also leads to tensions and unrest among the local people. People do not receive enough compensation for the land that is acquired by the oil companies for the land that has become useless due to acid rain and other negative effects of oil production. The lack of assertiveness of institutional mechanism along with sensitivity of the MNEs continues to ignore the local stakeholders thereby posing a serious threat to the environment.

4.3. Case Study 3: MV Apollo Oil Spill, Cape Town, South Africa

Concerns about the environmental degradation around the world have raised much discussion on the reasons and risks of oil spills. The pollution due to oil spills has huge negative effects on the land, air, and water environments. Oil spill is a form of pollution due to release of petroleum into the environment. It is usually associated with the marine environment as it happens during transportation of oil through the water routes. The spillage spreads widely disturbing the coastal birds and marine mammals as oil penetrates into their fur thus making it difficult for them to float in the water and maintain their body temperatures.

One such oil spill happened in June 1994, when the MV Apollo Sea, Chinese owned bulk carrier sank near Cape Town. The leakage of oil from the vessel caused a catastrophic environmental disaster. Endangered species such as the African penguins and many other sea birds were killed. The oil spilled onshore on Dassen Island, West Bay, and House Bay and further on Robben Island. As per estimates, only 4718 penguins could survive out of the 10,000 collected and cleaned by Southern African National Foundation for the Conservation of Coastal Birds (SANCCOB) and returned to the wild (Crawford et al., 1997; Underhill and Crawford, 1999). The remaining 5000 birds either died during the transportation to SANCCOB's rescue stations or after few days of arriving at the station (Williams, 1995). The sinking of the ship apparently occurred so quickly that none of the crewmembers could give a distress signal. As a result, the appearance of the penguins covered with oil came to the notice of the authorities as an alarming situation. The vessel was said to have been loaded with 2400 tonnes (2700 cubic meters) of heavy fuel oil before it sank.

The reduction in the number of African penguins throughout the twentieth century has led to its classification as “vulnerable” (Crawford, 1998; Barnes, 2000). Similar oil spills happened in Cape Town in 1998 and then 2000, again affecting the African penguins, but most of them were successfully relocated in both the mishappenings.

4.3.1. Effects of an Oil Spill

- Whenever oil gets spilled, due to its weight it keeps on floating over the water forming the top layer. Thus, exposing oil to catch fire and cause air pollution leading to various respiratory disorders.
- Oil spills also reduce the insulating capabilities of coastal birds and marine mammals as the oil penetrates the feather and fur of these creatures making them vulnerable to temperature changes.
- Some marine animals rely on scent to find their babies; such spills mask the natural scent of these animals resulting in a rejection of the babies by their mothers ultimately leading to starvation.
- Lastly, ingestion of oil from the feathers causes a fatal damage to the livers and kidneys of the coastal birds and mammals.

MV Apollo oil spill failed on the pillars of institutional mechanism, as such spillage time and again spread widely, disturbing the coastal birds and marine mammals, ignoring the natural environment of animals as well as humans. Local governments while giving permits for such activities should not overlook the environmental sustainability, concentrating only on the economic benefits.

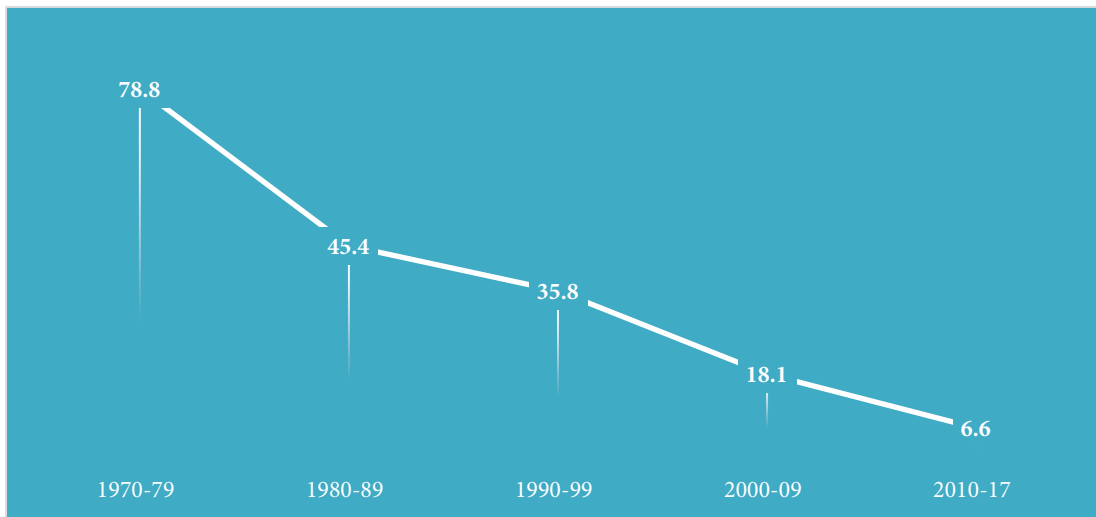
MNEs in their endeavor to maximize profits have for long been accused of neglecting and playing with nature particularly in developing world. The concept of maximization of earnings and profit has taken over the fact that human existence is only possible if nature or environment is supportive to human life. Today, all the countries have been continuously showing their concern and worry toward global warming by signing various agreements and getting into many treaties such as the Paris Agreement or Kyoto Protocol. The Kyoto Protocol, 1997 is an International treaty that commits its parties to reduce greenhouse gas emissions. Again, the Paris Agreement, 2015 is an agreement within the UN framework convention on climate change (UNFCCC) dealing with greenhouse gas emissions mitigations, adaption, and finance. But the bigger issue is given as follows: Are MNEs actually taking the issues of sustainable development seriously? The sustainability of the region stands on three pillars: economic, environmental, and social. Striving for sustainable development involves balancing the inevitable conflicts in these three areas. Encompassing all these is the issue of adherence to the institutional framework that is required to provide and maintain appropriate measures to further support the sustainability of the region.

5. MNEs MOVING TOWARD SUSTAINABLE DEVELOPMENT AND INTEGRATIVE FRAMEWORK

With the world coming together through treaties like Kyoto Protocol on greenhouse emissions, Rio Earth summit, 2012 on sustainable development, Paris Agreement on climate change, 2015, and the Sustainable development goals, 2030, the scenario is changing. There is a growing focus of countries and its MNEs toward sustainable development based on the balance of the three environment, social, and economic pillars. MNEs are spiritedly working on this area for a better future and hence over the years since last case no major casualty or case is reported. On the other hand, role of MNEs is lauded as far as sustainable development issues are debated.

According to the data provided by the International Tanker Owners Pollution Federation (ITOPF), the number of oil spills around the world has reduced drastically (Exhibit 1). The likely reason for such a decline is the improvement in the institutional mechanism of the MNEs around the world.

Indian MNEs: Tata Group is a leading example of companies that are extensively putting efforts by including sustainability pillars such as environmental excellence, community care, health and safety, innovation, and sustainable mining. A fundamental principle held by all TATA group companies is respecting and safeguarding the environment. TATA code of conduct, climate change policy, and UN Global compact principles are the policies that guide their actions to attain environmental sustainability.

Exhibit 1. Average Number of Oil Spills by Decade.

Source: International Tanker Owners Pollution Federation (ITOPF).

The group has adopted a strategic approach toward mine safety and management of resources, be it natural or shared. While the emphasis has also been on production and productivity, TATA group's business objective has been aligned with social and environmental sustainability through inclusive growth and bio diversity management. Even one of the group leaders, TATA steel has been ranked number one by the DOW JONES Sustainability Index, 2018, which is a global index that ranks sustainability-driven companies based on environmental, social, financial, and governance factors.

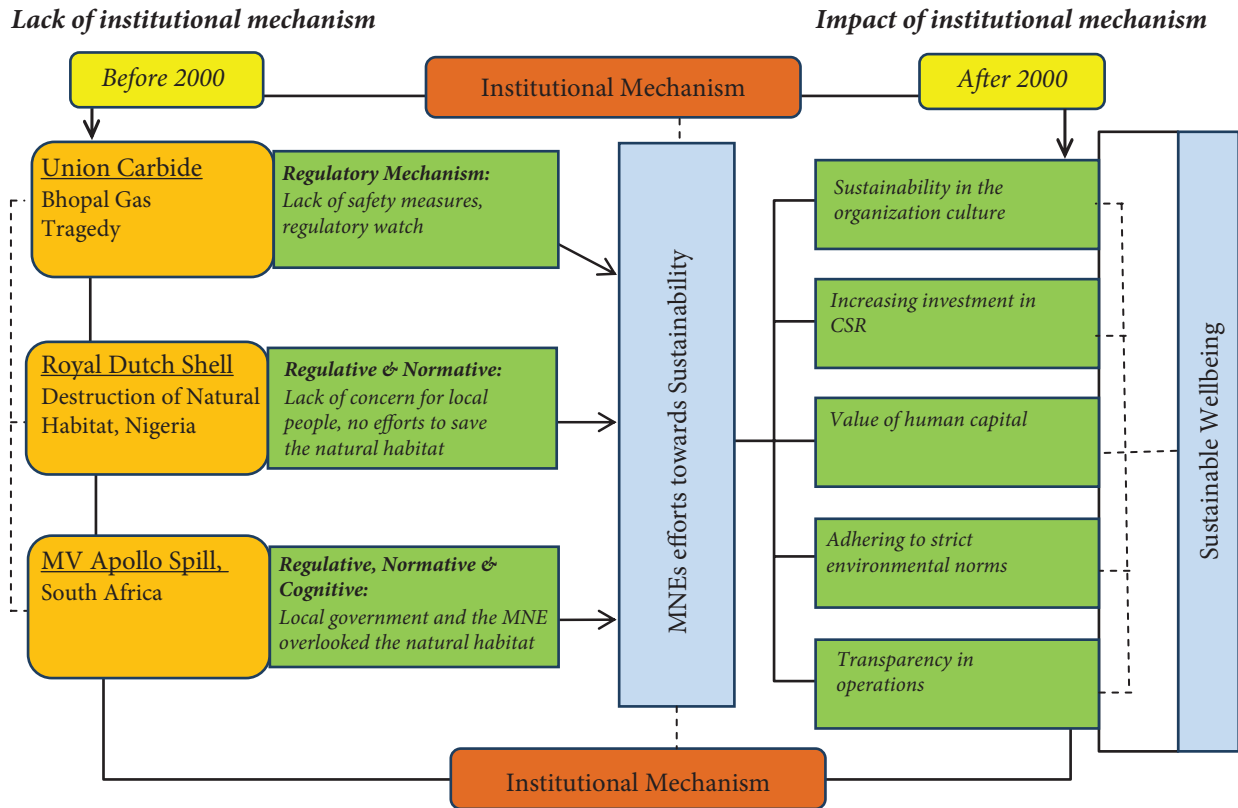
The ITC group is another leading example of corporations doing extraordinary work toward sustainability. A number of social investment programs carried out by the ITC includes the e-Choupal ecosystem, afforestation program, watershed development for soil and moisture conservation, animal husbandry, women's empowerment, primary education, skill development and vocational training, health and sanitation, and social waste recycling known as well-being out of waste (WOW).

Moreover, the ITC group has been consistently working toward environment, health, and safety by giving them due importance. Some of the programs carried out by the group are energy conservation and renewable energy, water conservation, greenhouse gases and carbon sequestration, and waste recycling. The group has put into play a multidimensional strategy to enable a new direction toward sustainable and inclusive growth by identifying three important stakeholder groups, which are rural communities in company's operation areas, communities residing in close proximity to production units, and central and state governments. Thus, it will be right to say that ITC looks to create a "better tomorrow for all."

The role of MNEs in sustainable development means integration of environmental, social, and economic objectives. The economic goal is essential for an MNE's growth but it should be achieved keeping in mind the premises of sustainable development. What, however, needs to be done is to limit the negative impact on the environment and local population and undo the damage to the maximum extent possible through appropriate technological and management practices and procedures. This is what the concept, principles, and practices of "sustainable development" are designed to achieve. However, it has been alleged that MNEs operating in mining and their relationship with local communities have never been smooth. Some enterprises have even been accused of human rights' violations, and there is a legacy of abuse and mistrust. These practices and social and environmental legacies combined with inadequate transparency and accountability (on the part of mining companies) have undermined the trust among these companies and the civil society. Although mining activities have expanded in recent years, there is yet no evidence that the industry has earned the "social license to operate" in many regions of the country.

Although it is expected that all organizations need to adhere to some sort of voluntary agreements or codes toward a better and sustainable future. However, it has been reported by Monbiot (2002) that

Exhibit 2. Integrative Model of MNE Operation, Sustainable Development, and Institutional Mechanism in Developing Countries.



“voluntary agreements...simply do not work.” Therefore, the institutional mechanism should effectively regulate and engage to improve the environment of the MNEs’ focused areas. It is important for the regulating agencies to adopt measures that increase the benefits and reduce the costs associated with the MNE operations. Stringent regulatory role on the part of the government along with willful ethical steps taken by MNEs is important in improving the state of affairs in the developing nations. A number of empirical studies have shown that sound, credible, and efficient institutional framework is a crucial precondition for economic activity and growth (Acemoglu, 2003; Rodrik, Subramanian, and Trebbi, 2004; Bouis, Duval, and Murtin, 2011). Aspects such as the role of government, degree of corruption, and economic stability are given much importance for estimating growth prospects when an MNE plans to come to a country. According to the Ownership–location–internalization framework suggested by Dunning (1993), the economic system and the environmental circumstances of certain locations may favor for profiteering some types of ownership advantages. In the same line of argument, the institutional mechanism of a country, whether regulative, normative, or cognitive, may be favorable for a particular type of investment as compared to another. Hence, the institutional mechanism of a developing nation should be strong enough so that the extraneous interests may not overpower the genuine aspirations of local stakeholders for a better future.

Exhibit 2 presents an integrative framework of MNE operations, sustainable development within the umbrella of institutional mechanism. In the past, the lack of institutional mechanism in developing countries or lesser implementation of it has indirectly helped MNEs’ expansion at the cost of environment and sustainable development premises, which is also mostly visible before 2000. However, as the institutional mechanism in developing countries gets stronger and stakeholders become more aware mostly in the post 2000, things started to improve that we have tried to capture in Exhibit 2. This has led to MNEs consciously trying to adopt sustainable strategies and practices in their operations and invest more in corporate social

responsibility (CSR) and consciously respecting the human capital. This combined effort certainly will lead toward sustainable well-being.

6. CONCLUSION

With the growth in globalization over the years, the MNEs have an ease of expanding toward a developing country with economic opportunities. On the other hand, the developing economies benefit enormously with the technology and advancement that the MNEs bring with it. According to Acemoglu (2008), the importance of economic, political, legal, and social institutions has been increasing with respect to the economic profit or loss of nations. He further asserts that the institutions of a country create incentives for investment and technology adoption, for its businesses to invest, and the opportunity to accumulate human capital for its workers, thus propelling economic growth. However, in case of Bhopal gas tragedy of 1984, the institutional mechanism lacked on its part first, as it overlooked the safety of its people for the economic concerns when the UCIL was initiating its operations in the area and second when it failed in handling the victims of the disaster. Nigeria has been hugely benefiting positively from the technologies that MNEs have brought in. But the environmental degradation that the local area people face is not justifiable with any advanced benefits that the MNEs provide. Disasters in Cape Town like those reported in 1994, 1998, 2000, and so forth gives clear insight to the fact that some MNEs are not operating with sensitivity and are not clearly putting in enough effort to provide a strong foundation to such pacts and treaties for achieving the targets of sustainable development. However, of late the urge by various stakeholders including public has to an extent has helped in changing the attitudes of MNEs toward doing business in developing countries. They have become more conscious toward the various institutional requirements including social needs of the people (McWilliams and Siegel, 2001), and it is expected from them to continue in that spirit for a better earth to live.

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Endnotes

- i The first conference was the United Nations Conference on the Human Settlement held in Stockholm in 1972. This was followed by the World Commission on Environment and Development (the Brundtland Commission) in 1982–1987, the United Nations Conference on Environment and Development (the Earth Summit) in Rio de Janeiro, Brazil, in 1992 and the World Summit on Sustainable Development in Johannesburg, South Africa in 2002.
- ii Dubey AK (June 21, 2010). "Bhopal Gas Tragedy: 92% injuries termed 'minor'"
- iii The Present and Continuous disaster of Bhopal: Environment dimensions by Dr. Madabhushi Sridhar available at: <http://www.legalservicesindia.com/articles.bhopal.htm> (last visited March 29, 2011).
- iv Human Rights Watch. *The Price of Oil. Corporate Responsibility and Human Rights Violations in Nigeria's Oil-producing Communities*. HRW, New York, 1999, p. 6.