Journal of Advance Management Research, ISSN: 2393-9664
Vol.05 Issue-05, (December 2017), Impact Factor: 4.598

Perspectives on Multinational Enterprises in Emerging Economies and Sustainable Development: Innovative Strategies for Competitiveness in India

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Abstract

Multinational enterprises (MNEs) play a pivotal role in the development of many emerging economies. The aim of this contribution is to learn more about changes in the innovation strategies of large multinational enterprises, whereby one focus is on internationalization aspects. Foreign direct investment grew rapidly and now easily eclipses official development assistance. The governance and regulatory domains have sifted in many developing agencies and nongovernmental organizations and have established a greater role for business in sustainable development. The relevance of sustainability aspects in overall strategy is generally acknowledged today. The future of Indian economy is brighter because of its huge human resources, rapidly upcoming service sector, availability of large number of competition professionals, vast market for every product, increasing impact of consumerism, absence of controls and licenses, interest of foreign entrepreneurs in India and existence of four hundred million middle class people. Today, India provides highest returns on FDI than any other country in the world. However, few enterprises seek to gain the competitive edge afforded by the ability to implement a far sighted corporate policy efficiently, effectively by sustainable development strategies, and at the same time pragmatically at different times and at different places.

Keywords: Strategy; Multinational enterprises; Sustainable development; Innovation; Internationalization; FDI, Globalization.

Introduction

Multinational enterprises are the enterprises or organizations that manage production or offer services in more than one country. India has been the home to a number of multinational enterprises. Indeed, since the financial liberalization in the country in 1991, the number of multinational enterprises in India has increased noticeably. Although majority of the multinational enterprises in India are from the U.S., however one can also find enterprises from other countries as well. Multinational enterprises in India are taking their toll on family businesses. They are not only destroying the household economies for small business people but also leading to the cultural uniformity of the global brands in the market place in India. There are many reasons why the multinational enterprises are coming down to India.
India has got a huge market. It has also got one of the fastest growing economies in the world. Besides, the policy of the government towards FDI has also played the most important role in attracting the multinational enterprises in India. For quite a long time, India had a restrictive policy in terms of foreign direct investment. As a result, there was lesser number of enterprises that showed interest in investing in Indian market. However, the scenario changed during the economic liberalization of the country, especially after 1991. Government, nowadays, makes constant efforts to attract foreign investments by relaxing several of its policies. As a result, a number of multinational enterprises have shown interest in the Indian market. A solid understanding of the role of MNEs in emerging economics is vital for both policy makers and for MNEs themselves. Policy makers are influencing the regulatory regime under which MNEs as well as local business

partners operate. They are interested in understanding how foreign direct investment (FDI) influences economic development and national welfare. The expectation that FDI benefits the local economy has motivated many governments to offer attractive incentive packages to entice investors. The rationale is that the social benefits of inward FDI would exceed the private benefits of FDI, and investors would take into account only the latter when deciding over investment locations.

(f) a desire to take advantage of technological expertise by manufacturing goods directly rather than allowing others to do it under a license agreement

4. Multinational enterprises are different from enterprises that confine their activities to the domestic market. MNEs make decisions based primarily on what is best for the enterprises, even if this means transferring funds or jobs to other countries.

Why are Multinational Enterprises in India?

There are a number of reasons why the multinational enterprises are coming down to India. India has got a huge market. It has also got one of the fastest growing economies in the world. Besides, the policy of the government towards FDI has also played a major role in attracting the multinational enterprises in India. For quite a long time, India had a restrictive policy in terms of foreign direct investment. As a result, there was lesser number of enterprises that showed interest in investing in Indian market. However, the scenario changed during the financial liberalization of the country, especially after 1991. Government, nowadays, makes continuous efforts to attract foreign investments by relaxing many of its policies. As a result, a number of multinational enterprises have shown interest in Indian market.

Multi-National Enterprises is the need to gain a competitive advantage. They are Different strategies which is adopted by different enterprises. It is depend on their opportunities for growth. International property law that reduce the risks of FDI, and improvements in transport and communications which had reduced the costs of managing at a distance. The adoption of foreign technology and know-how, which can happen via licensing agreements, imitation, employee training, and the introduction of new processes, and products by foreign firms; and the creation of linkages between foreign and domestic firms competitive advantages. The competitive strategy could believe how it operates relative to other enterprises which it competes. An important quantity of resources should be put into planning and strategies. The strategy behind the MNEs should merge basic action strategies .In the case of very large firms, range of techniques which classify the driving force of the organization.

Review of Literature

Talukdar and Meisner's study (2003) is one of the very few that relates FDI to environmental outcomes. They analysed data on carbon dioxide emissions for 44 developing countries in the 1987-1995 period, and found that emissions are reduced with increased shares of foreign direct investment vis-à-vis domestic investment, implying that foreign firms are less polluting than domestic firms. With respect to the economic impact of MNEs, current research is addressing in particular the role of moderating factors that affect if and when MNEs may contribute to productivity growth. Evidence points in the direction of the role of host country contexts. For example, the higher the technological sophistication of a country or sector, the easier it is for local firms to benefit from foreign firms (Borensztein et al., 1998). Also, a host country's 14openness to trade a proxy for the extent to which local firms are acquainted, and are able to deal, with foreign competition importantly determines the extent to which local firms are able to learn from foreign firms (Balasubramanyam et.al., 1996) and so increase productivity. And while research is still scant, the characteristics of FDI are also likely to be important moderators (Lall, 1995; Jones, 2005). For example, Mencinger (2003) suggested that the negative relationship between FDI and growth in transition economies can be explained by the form of FDI, which has had been predominantly through acquisitions (of which the proceeds were spent on consumption) rather than green field investments. And Kearns and Ruane (2001) found that in Ireland, the scale of R&D activity of foreign affiliates is positively related to job creation rates. The moderating role of host country characteristics and FDI characteristics in explaining the FDI-development relationship may also be interesting for future research regarding the environmental and social impact of MNEs. With respect to the labour impact of FDI, studies indicate that MNE subsidiaries generally create employment (Görg, 2000), and to pay on average higher wages than local firms in developing countries (Lipsey and Sjöholm, 2004) either to prevent labour migration or as a reflection of productivity differences (Caves, 1996). Yet little is known if such effects differ in different host country contexts or by FDI characteristics (for example CSR policy).

Dunning& Dunning2008 focuses on the institutional underpinnings of the resources and capabilities of MNEs, and the role of MNE activity in transmitting and facilitating institutional change First of all, despite recent attention for the social and environmental dimensions of development, and the fact that a considerable amount of research on especially the social (wage, employment) effects of MNEs has been conducted, the majority of the literature on the effect of FDI deals with the economic consequences of investments, such as productivity increases or trade balance effects. More research is therefore necessary into the effect of MNEs on these equally important components of development. A similar argument can be made regarding the relative wage (the ratio of skilled versus non-skilled wages that generally serves as a proxy for overall income inequality). Since foreign firms tend to hire relatively high skilled labour, they may increase the relative wage (Lipsey and Sjoholm, 2004; Aitken et al 1996), but empirical evidence on this effect is mixed, and differs by host country (Te Velde and Morrissay, 2001; 2002), and industry (Feenstra and Hanson, 1997). The relationship between FDI and host country development relates to the various mechanisms through which MNE can have an effect on development. Ling Lam (2010) aims to explore possible internal and external challenges of foreign multinational enterprises (MNEs) from developed countries to develop sustainable environmental development programs. The report of CIIITC Centre of Excellence for Sustainable Development focuses on enterprises in India with innovative solutions as drivers for sustainability and profit.

Therefore the fact rapid economic growth is the only realistic means to lift the poor out of extreme poverty and the fact that most economic activities depend on products and services provided by the ecosystems, necessitates the ushering of a new business paradigm which enables rapid economic growth without compromising the capacity of the ecosystem to sustain, nurture and fuel economic development and human well-being. Here the article will be elaborated a comprehensive framework for giving a solution for MNE in relation to sustainability.

Objectives

1. Huge market potential of MNEs in country.
2. The role of FDI in attractiveness of MNEs.
3. SWOT analysis of MNEs in India.
4. To forecast the GDP growth rate by using time series model.
5. To suggest the innovative strategies for competitiveness.

6. Innovative strategies for sustainable development in India.

Research Methodology

The objective of this paper is to explore the causal nexus between FDI (Foreign Direct Investment) economic growths in India using the annual data for the period, 1990-91 to 2010-11 which includes the 21 annual observations. The two main variables of this study are economic growth and FDI. The real Gross Domestic Product (GDP) is used as the proxy for economic growth in India and we represent the economic growth rate by using the constant value of Gross Domestic Product (GDP) measured in Indian rupee. All necessary data for the sample period are obtained from the Handbook of Statistics on Indian Economy, 2010-11 published by Reserve Bank of India. All the variables are taken in their natural logarithms to reduce the problems of heteroscedasticity to maximum possible extent. Using the time period, 1990-91 to 2010-11 for India, this study aims to examine the long-term and causal dynamic relationships between the level of FDI flowing into India and economic growth. The aim of this contribution is to learn more about changes in the innovation strategies of internationally active corporations; a focus is hereby on the internationalization of research and technology.

The estimation methodology based on statistical tools, forecasting time series model and MATLAB - 7.8 version software are being utilized for the analysis.

Box 1: SWOT Analysis of Multinational Enterprises in India

Strength	Weakness
• Having the scale economies in buying raw materials around the world at better prices then the competitor one, its knowledge of the source of supplies in the key areas. • The MNEs can move the supply of its human resources to wherever they are needed from its experts, technicians, and employees who are knowledgeable in the foreign culture, languages and management traditions • The large scale economies in advertising, marketing, finance, banking, means efficiency in business management, administration and direction.	• It's large size can be a problem because of the cost, the ways of doing business, the scope of enterprise can be out of control • It tends to problems of change, adaptability as it is not able to adapt to changes in the product, markets, technologies in time • The entrenchment to the old ideas, ways, styles, cultures tend to produce inefficiency, outmoded style, technologies resulting in failure of the MNEs in many areas and countries.
Opportunities	**Threats**
• MNEs are globally recognized businesses so you have great potential for growing further. • MNEs remove established legacy businesses and promote local employment opportunities. • MNEs account for a large portion of global trade and investment, and are also major employers.	• MNEs Strategy will influence various government policies making which may not always be good for the economy. • MNEs induce competition, and their profit minded operations may impact local market/produce. • Career path in MNEs will take time to establish.

Time Series Model

The time series model of the linear equation of a straight line is $Y_c = a + bX$, where, Y_c is the trend value of GDP growth rate, a is the Y-intercept, b is the increment in growth rate and X is the time factor. By using the least square method of a straight line the required equation of a trend line is $Y_c = 30.47 + 2.35X$, so the forecasting GDP growth rate in India will be $Y_{2012} = 37.52$, $Y_{2013} = 39.87$ and $Y_{2014} = 42.22$.

Table1. The GDP Growth Rate from 2008-2010.

Year	March	June	September	December	Total GDP(Y)	Trend GDP(Y_c)
2008	8.50	7.80	7.50	6.10	29.9	28.12
2009	5.80	6.00	8.60	6.50	26.9	30.47
2010	8.60	8.90	8.90	8.20	34.6	32.82

Table2. Sector wise GDP Growth Rate in India for 2010-2011.

Sector	Manufacturing	Farming	Construction	Mining	Service
GDP Growth Rate %	9.8	4.4	8.8	8	9.8

The Role of FDI in Attracting the MNEs

Since the financial linearization in the country in 1991, the number of multinational enterprises in India has increased noticeably. American enterprises are the majority of the multinational enterprises in India. The multinational enterprises go to India for many reasons. First, India has got a huge market. Second, India is one of the fastest growing economies in the world. The most important thing is the policy of the government towards FDI has also played a major role in attracting the multinational enterprises in India. Also, India government makes continuous efforts to attract foreign investments by relaxing many of its policies. There are other reasons including labor competitiveness and macro-economic stability.

The impact of the international investment and multinational enterprises (MNEs) on host countries are now becoming a relatively new area which is being taken into consideration. It is evident that the symbiotic role between economic integration and FDI has yet to be fully analyzed and more so the issue of policy towards MNEs. We are already a long way forward of the time when the debate on inward foreign investment was highly polarized between the proponents of foreign investment as an engine of development. Hence, today all developing economies are more interested for welcoming foreign capital and competition among them is going to be rife. FDI is coming by way MNC's and it is penetrating the developing countries markets with spill over effects. Therefore, the challenging area of business research is the relationship and operation of MNEs on host economy especially in the developing countries.FDI inflows are expected to be less volatile and non-debt creating than FII. Investment by MNE's in R & D activity in host countries can contribute to the growth of local capabilities of creating the spillovers of knowledge within the host economies. Therefore, the qualities of the FDI for the developing countries depend upon the types and patterns of the FDI inflow, up-to what extent the value added to the developing countries depends upon the types of FDI received.

Multi-national Enterprises and Sustainable Development

Multi-national enterprises and sustainable development are presently incompatible. Unless the United Nations Commission on Sustainable Development and the other international, national and local groups working on sustainable development recognize this fact, the only thing that will be sustained is the discussion, not the development. Sustainable development is more than development that is environmentally sensitive. It must be, as the UNCED process reaffirmed, a systemic concern for poverty and the environment.

Multinational enterprises are, by and large, more environmentally sensitive today than they were a decade ago. But there is much more they can and must do to protect and restore the environment which is the basis for all life and for all production. And to do so is not only socially responsible; it is also good for the bottom line. As a recent study demonstrated, improved environmental performance can increase shareholder value by as much as 5 percent.

The enterprises are the major force political, social, environmental, cultural and economic in the world today is undeniable. Given the limits imposed upon them by the way we define the economy and by human avarice, they are also the major obstacle to achieving some common vision of and action toward a sustainable society.

Box 1.2: Benefits of Innovative Strategies for Sustainable Development

Environmental Benefits	Business benefits
• Greenhouse gas emissions reduced • Energy use reduced or efficiency increased • Hazardous pollutants released in air, water or land reduced • Solid waste reductions, materials use reduced or efficiency increased • Supplier behaviour influenced, resulting in environmental benefits • Natural resources protected or restored	• Cost savings • Increased revenues or earnings • Reduced liability or risk • Return on investment/payback period • New market creation • Investment attractiveness • Benefits for customers • Brand/reputation enhancement
Social benefits	**Innovations**
• Stakeholder consultation • Livelihood creation • Community relation enhancement/ benefit • Specific impact on social issues of direct relevance	• Is the innovation original or is it a significant improvement over an existing solution? • Is it still in scarce use? • Does it offer economic, social and/ or environmental benefits? • Is it applicable to other sectors/ areas? • Is it commercially viable?

Technologies to Promote Sustainable Development

This is a move toward a knowledge based, sustainable economy, the technological approaches used by firms to enhance their environmental and business performance will shift from using traditional remediation or pollution control and treatment technologies to incorporating pollution-prevention technologies into the redesign of industrial processes, practices and products. The shift will be gradual as new facilities are constructed and existing ones are upgraded or replaced. For enterprises seeking to improve their environmental performance but unable to invest in large-scale process changes, pollution control will remain an important option.

Pollution Control and Treatment

This is to control and clean up pollution and waste, particularly with respect to water. One firm, for example, is experiencing strong demand for its membrane-based products for cleaning wastewater. This technology is also proving to be a cost-effective way to desalinate sea water.

Pollution Prevention Technologies

Leading enterprises consider pollutants as an indicator of inefficiency and are taking steps to eliminate their pollution by optimizing their production processes. As well, the pace of innovation in the area of clean-production processes, particularly in manufacturing, is accelerating. All of the initiatives resulted in environmental improvements and some have financially paid for themselves. In other areas, such as film processing, carpets and plastics, enterprises have developed technologies which prevent pollution through off-site recycling.

Eco industrial parks can contribute significantly to pollution prevention. Based on the principles of natural ecosystems, these parks have evolved in such a way that a number of enterprises are reusing and recycling the by-products of each other's production processes. This, along with sharing common transportation and utility systems, allows firms in these parks to reduce or avoid creating waste by-products and to become more eco-efficient.

"Enabling" Technologies

Industrial sectors can apply and adapt technologies to enable new activities that lead to economic and environmental benefits. For example, biotechnology can enhance the productivity and sustainability of commercial tree species, contributing to more sustainable forestry practices. As well, fuel production from biomass such as corn-based ethanol, can create new market opportunities and help reduce reliance on non-renewable energy sources. Information and telecommunications technologies can enable business and consumers to develop ways to increase the efficiency and reduce the environmental impact of their activities.

Information and Communications Technologies

Information and communications technologies have strong potential for creating, disseminating and utilizing environmental intelligence. Their interactive nature (e.g. the Internet) makes them ideal for facilitating the flow of information among consumers, producers and other economic players. The Information Highway plays a critical enabling role in the transition toward a knowledge-based, sustainable economy. The Information Highway will be critical in advancing our understanding of the complex linkages among economic, ecological and social systems through the sharing of ideas and expertise among different disciplines. It will also enable activities such as telework, telehealth and distance education - which can promote sustainable development.

Sustainability-Driven Innovation

Innovation is critical for the future success of any business. Enterprises who do not innovate will sooner or later become unsustainable and irrelevant. However, for innovations to have sustainability impact and to add to business value, sustainability should be integrated with the core business. With a strong corporate commitment to sustainable development, many of the standard tools of management can help to deliver sustainable innovation in both senses of the word. Enterprises that have a pure sustainability approach provide interesting and inspiring examples, but many of them have their own set of problems. Often they try to create a niche and define themselves not as leaders but as enterprises catering to an exclusive minority. Thereby they contribute to a broader development where sustainability is seen as “alternative” instead of mainstream.

There are also an increasing number of enterprises engaged in achieving sustainability at a strategic level that can be used as a constant driver in the innovation process. There are several ways in which strategies can be built around a product or service that delivers sustainability benefits.

The five steps are represented in the shape of circular strategy in order to illustrate that an ongoing process is necessary with the enterprises constantly trying to improve its sustainability performance: (*see Figure 3.)*

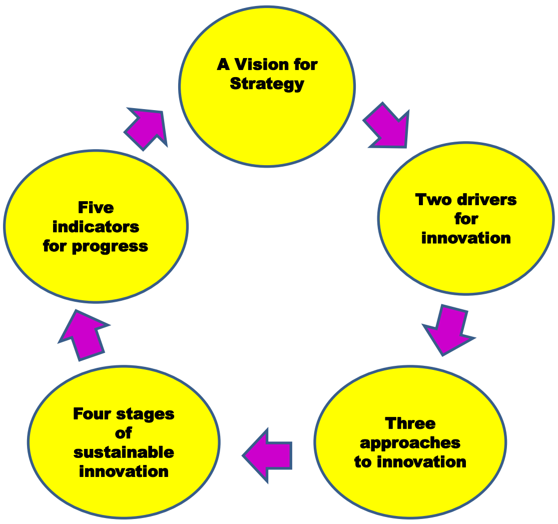

Fig. 3: Five Steps of Strategies to Improve Sustainable Development.

1. A Vision for Strategy

- In order for enterprises to be sustainably innovative and derive profits there from, they need to prepare for basic conditions. There are five necessary conditions to integrate a sustainability vision into the business strategy.
- Enterprises have to recognize sustainability as a driver rather than a barrier for innovation. This will enable them to see opportunities and growth areas where others apprehend risks and increased costs.
- Enterprises need to acknowledge that sustainability is multi-dimensional and includes economic, social and environmental footprints.
- Enterprises must be able to engage with relevant stakeholder constituencies within their innovation process. This engagement should be followed by action for their future operations.
- Measurable targets must be set to ensure that sustainability efforts of the enterprises add value in economic, social and environmental terms.
- Enterprise’s efforts towards sustainable innovation need to be driven by leadership and supported by the rest of the organization force. There are also an increasing number of enterprises engaged in achieving sustainability at a strategic level that can be used as a constant driver in the innovation

process. There are several ways in which strategies can be built around a product or service that delivers sustainability benefits.

2. Two Drivers for Innovation

Two major drivers poverty and natural resource depletion – will continue to put pressure on all institutions in society such as, government, enterprises and NGOs. All enterprises aiming for sustainable innovation should in a transparent way present how they help reduce poverty and increase resource efficiency, and provide products and solutions that meet sustainability challenges.

3. Three Approaches to Innovation

The Clean State Approach

This approach is often technology-driven and it is important to include mechanisms within the enterprises that explore if there are other technologies that can provide the same service in a better way. If enterprises only focus on improvements in one technology, it can contribute to a technology lock-in even if the original intention was meant to deliver a sustainable solution. The car dependence and coal dependence are two examples of solutions that have created a technology lock in overtime and where many enterprises involved do not look beyond the technology they provide. Similar mistakes should be avoided in new areas that are today seen as sustainable.

The Springboard approach

This approach can be used by enterprises that realize that at least a part of its business is not currently sustainable. This realization often happens due to external pressure. Instead of only defending their business, they can look for new business areas that build on their current strengths using the outside pressure to find new business paths, and thereby use the outside pressure as a springboard for a new and more sustainable business strategy. Electrolux and other providers of white goods is another sector that has applied a springboard approach.

The Quantum Leap Approach

The quantum leap approach is for enterprises that don't have any outside pressure to deliver sustainable solutions but have products and services that are part of a sustainable development. These enterprises have either new or existing solutions that can help society become more sustainable. The IT sector is a good example that is often not seen as significant in
the climate perspective as they are not a big emitter. On the other hand a number of reports show that low carbon IT-solutions could provide one of the most important contributions to a low carbon society. To ensure delivery on the potential positive contribution requires a quantum leap strategy.

4. Four Stages of Sustainable Innovation

It is important to establish the ambition for innovation within the enterprises many cases different kinds of innovation are needed on different stages at the same time.

Reactive

This is probably still the most common stage and usually treated as innovation in relation to sustainability today. Due to new legislation, changing customer preferences, buyer demands, competitor moves, media attention and others, enterprises find that they are under preassure to change. There is a tendency to resist change or adapt to secure existing business deals. Increasingly however enterprises try to comply with legislation and improve their performance.

Incremental

The incremental innovation is an important part of strategies of most enterprises to ensure that resource efficiency and environmental improvements are constantly improving. Leaving an ad-hoc approach to sustainable innovation behind, many enterprises now try to build in systems for constant improvement using ISO systems and other management systems. The incremental gains are generally inadequate to change the course fundamentally.

Radical

An enterprise's growth trajectory is what will propel it to create sustainable value and provide it with the ability to make a significant positive difference in the world. Driven by an accelerating rate of technological change, radical innovation is a vital stage in transition to sustainable business and low carbon economy. In doing so, the corporate sector becomes a primary driving force for sustainable development. This is the advantage that social enterprises
Presumably begin with.

Transformative

When an enterprise begins to look towards the future, the shift in focus is transformational. Many enterprises, for example, are reinventing themselves. The first-half of the 21st Century will witness many enterprises embracing this approach and will involve a focus on the combination of bio-mimicry, natural material use and its recycling and others, in a most environment friendly and conservation oriented manner.

5. Five Indicators for Progress

A long-term approach requires business leaders to make judgments that incorporate long-term measures into definition of success. Vision with sustainability many enterprises cannot survive without a great vision. Good organizations have a vision. Great organizations redraw the vision for the entire society. Traditionally it has been said, without a vision, the enterprises will fail. Now, without a sustainability vision, the enterprise is bound to fail.

Leadership with Strong Conviction

The world needs enterprises that produce tough leadership material and explore new ways to deliver sustainable results. These leadership initiatives must be clearly linked to the key challenges, or open up a discussion for potential new challenges and opportunities that have not been acknowledged so far in society.

The Pay-off Strategy

Is the sustainability driven innovation and profit making strategy paying off? The payoff is tapping into the revenue, innovation and productivity side of the sustainability business case rather than just the risk mitigation and cost savings side.

Collaboration with Stakeholders

It is important for serious enterprises to use independent verification of the results and ensure that collaboration is encouraged with those groups that can help keep the focus on actual results and not mere communication. To actively be a part of creating new networks that focus on concrete reductions, it is also important that the enterprises help to develop tools to calculate the savings from the networks that they participate in.

Value-added Measurement

Enterprises need to design such long-term measures and metrics, explaining to the external world why these are valid as indicators of sustainable value creation. For innovation to work, as argued earlier, employees must be fully engaged more often, everyday, in every project they are contributing to more creative in their work, more passionate, more meaningful, less stressful, collaborative etc.

Conclusion

The main challenge for a multinational enterprise operating abroad is to responsibly exercise its rights but also to fulfill its duties as a good citizen in a particular environment. In other words, to achieve and maintain a competitive and profitable business performance, while contributing effectively towards the social, economic and ecological advancement of the society where it operates. Good practices in environmental protection could include minimizing the operational impact of industrial facilities, providing ecological compensation by establishing protected areas, managing emissions, promoting safe waste disposal and recycling, and achieving a higher efficiency in the use of water. Corporate approaches rely on technological fixes to the challenges posed by sustainable development. While there have been some efforts aimed at incorporating environmental and social equity concepts into engineering codes of ethics, social concerns have been secondary to environmental issues. The incongruity between the ideal of sustainable development and the way in which it is typically characterized by the engineering and business communities has significant implications for engineering and public policy, engineering ethics, and the potential roles of engineers and multinational corporations as facilitators of a transition to a sustainable society.

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