“Butterfly Effect” of Institutionalism: Corporate Sustainability under Environmental Upheaval in Mid-Range Emerging Economy

ABSTRACT

UN Sustainable Development Goal (SDG16) talks about promoting "strong institutions, reduce corruption and global governance” which are bases for MNEs corporate governance issues. SDG 16 encourages business sustainability through rule of law, transparent institutions, and non-discriminatory laws and regulations. We acknowledge there is limited understanding of temporal dynamics of institutional change, either as it occurs in a more evolutionary way during normal periods or abruptly in the midst of financial, political, or institutional shocks affecting corporate sustainability. Understanding the exogenous event of institutional shocks that sets off a second-order "butterfly effect" disrupting the industrial ecosystem is crucial in this regard.

The concept of "Butterfly Effect," popularised by Edward Lorenz, illustrates how seemingly insignificant events can have far-reaching consequences (non-linear impacts) in complex systems. BP has seen improved innovation and technology for the removal of contaminations in the future with better corporate sustainability because of the Deepwater Horizon oil spill in the Gulf of Mexico, which in turn prompted the most aggressive and comprehensive reforms to offshore oil and gas regulation and oversight in U.S. history. This article focuses conceptually on the under-researched middle-range emerging economies, highlighting the second-order non-linear institutional implications where corporate governance issues remain very country-specific. In a

global environment, country-specific constraints and institutional characteristics do not necessarily apply immediately. The ability to recognise pressing problems and exploit political, governmental, social, and economic possibilities for legal and regulatory reform must be fostered at the country or firm specific level.

Keywords: Butterfly Effects, Institutional shocks, Sustainable Development Goal (SDGs), Mid-Range Emerging Economies, Corporate Sustainability

Predictability; Does the Flap of a Butterfly's wings in Brazil Set Off a Tornado in Texas?

— Edward N. Lorenz, Sc.D. Professor of Meteorology

(10:00 a.m., December 29, 1972)

CONCEPTUAL MODEL

We define second order institutional shocks as “Butterfly Effect”; not only having direct performance impact but for a non-linear nature having other consequential effects also. Deepwater Horizon oil spill, largest offshore oil spill in U.S. history, killed thousands of marine mammals and sea turtles, and contaminated their habitats. The resulting oil spill in the Gulf of Mexico, led the most aggressive and comprehensive reforms to offshore oil and gas regulation and oversight in U.S. history and as a consequential effect firm British Petroleum (BP) witnessed better innovation and technology for the removal of such contaminations in future.

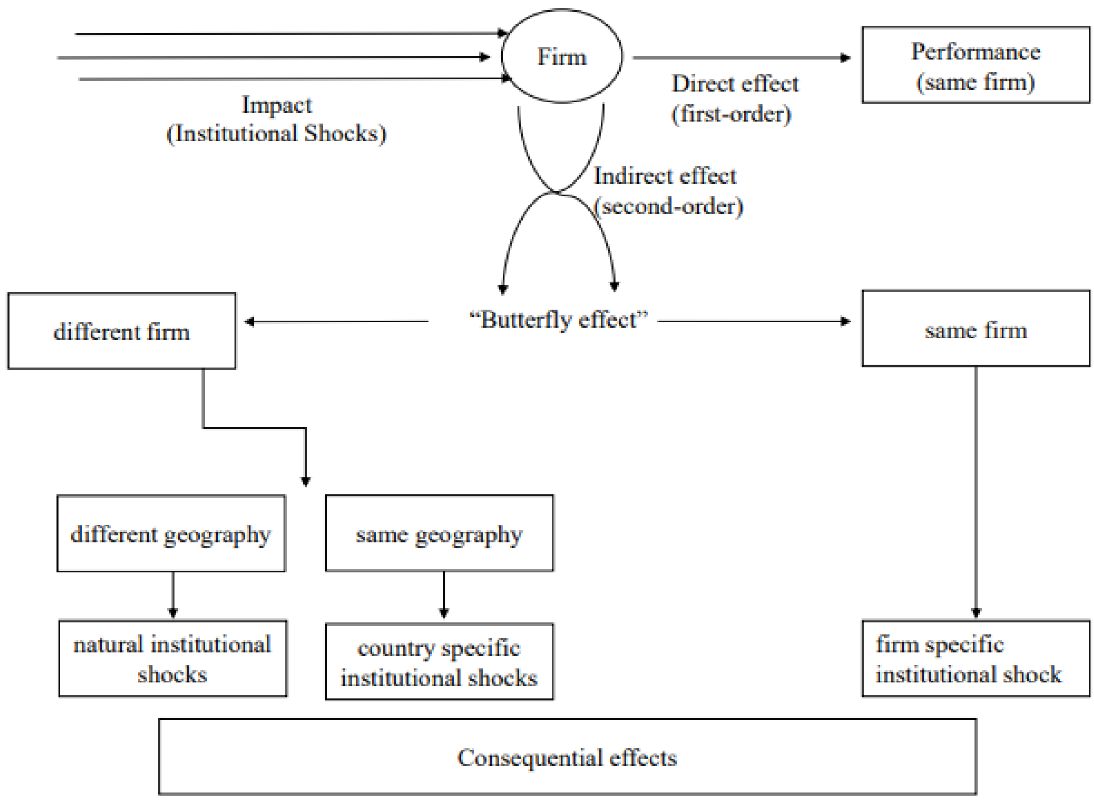

Fig 1: Conceptual Model "Butterfly Effect"

CEOs taking a stand on pressing issues by, say, resigning from Trump's presidential advisory council observe a decrease in firm value and negative reactions from shareholders in Europe (Gaganis et al., 2021), in the United States the opposite is true (Bedendo and Siming, 2021). It can be witnessed across geographies where professional and non-professional networks of directors influence corporate political donations and moderated by change in government. Change of foreign government can have implications on home country corporate donations and directors inappropriate deployment of corporate funds tweaking corporate governance of firms.

Across geographies reservation policy for caste, race, religion or gender impacts the employee recruitment policy and internal corporate governance mechanism. The same non-linear impact can be witnessed in mid-range emerging economy like India when legislative laws are repealed by judicial activism in 2G cancellation, which led to corporate governance issues across telecom industry.

We can understand that institutional shocks can have both positive and negative impacts on corporate governance and firm profitability. Regulations and political upheaval can be abrupt which apart from direct consequences can have the second-degree consequential effects. Second order disruptions can be sustained through robust internal corporate governance, better alignment with policy frameworks and political connections. The paper helps to understand why and how dynamic organisations better able to cope uncertainty brought about by second-order "butterfly effect" disruptions and what is the way forward and policy implications.

1. INTRODUCTION

Since the East Asian crisis, numerous Corporate Governance (CG) regulations have been promulgated throughout the region's eastern half. However, the 1997–1998 crisis is generally attributed to lax compliance with CG guidelines (Haniffa & Hudaib, 2006). Poor CG practises have been linked to the downfall of large corporations like Enron and WorldCom on the other side of the world (Ntim & Danbolt, 2012). Globalization, business failures, and an increase in investors' sensitivity are all factors that Mallin (2007) and Iturriaga (2009) claim have contributed to the spread and popularity of CG methods around the world. Therefore, reforms and CG laws have become an important topic for governments and market regulators around the world. Additionally, Aguilera and Cuervo-Cazurra (2009) noted that academics and policymakers have paid close attention to corporate governance due to CG reforms implications, especially in socioeconomic setting of Asian developing countries, in which business climate is influenced by informal social relations which are highly valued (Hussainey & Al-Nodel, 2008; Arslan & Roudaki, 2017; Arslan, 2019). Although there is a substantial body of literature on corporate governance (CG), the vast majority of it focuses on large corporations in developed nations. However, CG is just beginning to emerge in developing nations, where institutions are still maturing or are completely nonexistent, and corporate sustainability is of paramount importance.

As any rule or government regulation made at the national or local level, bilateral or multilateral trade agreement all have a domino effect not only on a firm but across industry, impacting its suppliers, distributors, or employees. We have used the "Butterfly effect" concept to understand the second-order impact of institutional shocks on corporate sustainability of a firm. The term "butterfly effect" was first used in the context of Management studies in the SMJ article: "The butterfly effect in strategic human capital: Mitigating the endogeneity concern about the relationship between turnover and performance" (Gao, H., Stern, I., Deng, X., Chen, G. (2021). The paper talked about Edward Lorenz quoted observation at the beginning of this paper and further elaborated that a nuclear reactor meltdown in Japan would have a "butterfly effect," leading to an increase in strategic human capital (SHC) departure rates in the United States. It was not anticipated, however, that the tragedy would have any noticeable impact on the bottom lines of these companies, which are based outside of Japan and have no ties to the Fukushima Daiichi nuclear power facility. The butterfly effect is the idea that small things can have non-linear impacts on a complex system, and the concept is often visualised with a butterfly flapping its wings and causing a typhoon. Edward Lorenz visualized the impact can be any impact as he proposed, "If the flap of a butterfly's wings can be instrumental in generating a tornado, it can equally well be instrumental in preventing a tornado."

Recently, sociological and strategic management studies have highlighted that institutional contexts are multidimensional, complex, and dynamic, bringing with them institutional complexity and posing significant issues for MNEs' corporate governance (Batjargal et al., 2013; Ostrom, 2010). Norms and common beliefs on issues of corporate sustainable development will be established through dialogue and debate between actors with differing opinions (Hoffman, 1999; Wade-Benzoni et al., 2002), making institutional theory relevant to this field. Individual value and belief systems judge a firm's commitment to sustainable development, affecting perceptions of the firm's acceptability and legitimacy (Frank, Hironaka, and Schofer, 2000). According to Jennings and Zandbergen (1995), the rate at which sustainable development practises spread among businesses is affected by the nature of institutional pressure, which can be either coercive, mimetic, or normative.

This article focuses on the corporate governance at the national and firm level in extreme institutional environments where its second-order nonlinear impact is observed. We can understand that institutional shocks can have both positive and negative impacts on corporate governance and firm profitability. Regulations and political upheaval can be abrupt which apart from direct consequences can have the second degree consequences. Further, when comparing countries, there is a propensity in cross-country scholarship to treat variations along linear dimensions, even when those dimensions pertain to severe institutional settings. However, very odd corporate governance practises with consequences that do not match traditional cross-country studies can be seen in practise in extreme institutional situations (Cumming, Girardone, & Sliwa, 2021). In severe regions, for instance, stewardship rules have been shown to increase economic growth and sustainability (Klettner, 2021). (Shaw et al., 2021). Regulatory reforms in the banking sector that aim to increase stability and decrease costs have been implemented in various ways across countries (Ayadi et al., 2021). It has been shown that the growth of right-wing populism even in industrialised countries like the United States has a wide range of governance ramifications for environmental policies (Gaganis et al., 2021). (Bedendo & Siming, 2021). Numerous questions remain unresolved as a result of this type of investigation. Who or what are the driving forces underlying the creation and evolution of these severe environments? What interplays of forces motivate them? Is it possible that corporate governance standards and regulatory reforms are merely knee-jerk reactions to a problem that prevent more nuanced approaches?

For our conceptual work and country selection, we have adopted the framework of mid-range emerging economies proposed by Hoskisson et al. (2013), which places them between more established forms of emerging economy and less developed forms. They maintained that a more nuanced understanding of mid-range emerging economies is required, specifically with regard to

(1) institutional development and (2) infrastructure and factor market development. It is common for mid-range emerging economy to have more developed institutional environments or infrastructure and factor markets than their more developed, traditional counterparts. We concur with Hoskisson et al. (2013) that Multinational enterprises from mid-range emerging economies adopt unique institutional strategies quite often, necessitating an extension of prior theoretical thinking to comprehend the institutional settings of these emerging markets and their consequences on inbound international strategies or MNEs headquartered in these countries.

What we've done for the last contribution is pick an exogenous occurrence. While there has been growing interest in the effects of natural catastrophes on businesses and their employees (Wenzel, Stanske, & Lieberman, 2020), the vast majority of studies have focused on the first-order consequences of policy shocks (e.g., Muller & Kräussl, 2011; Pek, Oh, & Rivera, 2018). Tilcsik and Marquis (2013), for instance, looked at how various natural disasters affected the charitable contributions of Fortune 1000 companies with headquarters in the affected areas. We add to this increasing body of work by zeroing in on "butterfly effects" of institutional shocks at the second order. By demonstrating that events beyond a company's control, like the Fukushima nuclear accident, can cause a "butterfly effect" that greatly increases the departure of human capital from a firm situated thousands of miles away, we emphasize the importance of paying more attention to such events and contemplating whether and how risks they pose can be prospectively evaluated and managed. Similar fashion is seen with “Deepwater Horizon” oil spill, largest offshore oil spill in U.S. history which killed thousands of marine mammals and sea turtles, and contaminated their habitats. The resulting oil spill in the Gulf of Mexico, led the most aggressive and comprehensive reforms to offshore oil and gas regulation and oversight in U.S. history and firm British Petroleum (BP) witnessed better innovation and technology for the removal of such contaminations in future.

2. LITERATURE REVIEW

According to studies (Douglass, 1990; Gustafsson, Knudsen, & Mäki, 2003), a country's institutional setup is influenced by its unique national system. In addition to market forces, Gilson (1996) suggested that a country's institutional framework has a significant impact on a company's ability to succeed economically. There were problems with minority shareholder legal protection identified by researchers in emerging nations (Hasan, Kobeissi, & Song, 2014; Klapper & Love, 2004), prompting the question of the function of legal institutions in these economies. Also, in many cases of poor institutional frameworks, corruption is linked to societal elites. However, studies have questioned the role of the institutional framework in developing a strong CG system (Adegbite et al., 2013; Johanson & Ostergren, 2010; Przeworski, 2004). While some studies have shown the importance of institutions, others have shown that this is not the case at all (Adu-Amoah, Tsamenyi, & Mensah Onumah, 2008). (Przeworski, 2004). Politico-social considerations are essential to the development of a successful CG system (Adu-Amoah et al., 2008).

Literature also suggests that both institutional support and institutional hazards exist and can affect firm internationalisation in the presence of improved corporate governance. Different parts of home country institutions can either help or hurt the CG of mid-range emerging economy businesses. Additionally, a firm's proximity to institutional resources can be improved by state ownership, allowing for greater access to institutional support.

Institutional leverage and institutional escapism are two opposing theoretical frameworks for investigating how domestic market institutions affect internationalisation of home-based businesses. Emerging economy enterprises may get a competitive edge from domestic institutions, according to the institutional leverage framework (Cuervo-Cazurra & Genc, 2008; Landau, Karna, Richter & Uhlenbruck, 2016; Yan, Zhu, Fan, and Kalfadellis, 2018). This theory proposes that domestically based companies get a competitive edge by cleverly exploiting the favourable policies and regulations of their native nation. As an illustration, businesses may use their closeness to political actors at home to gain access to resources useful for their overseas expansion. According to the institutional escapism concept, countries go global as a way to "escape" from the dangers of their own institutions at home (Cui & Xu, 2019; Gaur et al., 2018; Wang & Ma, 2018). We propose that greater CG is achieved with institutional support, while under hazard enterprises resort to avoidance strategies that can lead to corruption if not addressed. Again, when the institutions are supportive, second-order "Butterfly effect" got minimized than when it is hazardous.

The relevance of ownership on CG is further emphasised by institutional based-view. Whether the influence of institutional support and institutional hazards on the internationalisation of emerging market enterprises is mitigated or amplified depends in large part on whether or not the firm is owned by the state. Literature suggests that state ownership has two opposing effects: the institutional leverage argument suggests that it increases the effect of institutional support on internationalisation by putting resources in close proximity to regulatory institutions; the institutional escapism logic suggests that it makes businesses more reliant on state resources, reducing their ability to avoid risks associated with institutionalisation.

In short, it has been shown that institutions are crucial in shaping CG systems, however the degree to which this is the case varies with the level of institutional sophistication. However, the conditionality's that are inherent to a given system may have an impact on the intuitive sophistication. The extent to which these factors play a role depends on a country's level of economic development and because of the diverse nature of these factors in mid-range emerging economies; they have an impact on the CG model that is often used in these regions.

3. THEORETICAL FOUNDATION

3.1 Institutional Upheaval and Corporate Governance

The concept "institutional upheaval" is used to describe a rapid and widespread change in the underlying beliefs and assumptions that give rise to a society's political structure, regulatory and legal frameworks, economic structure, and financial infrastructure (Newman, 2000: 603). Extreme uncertainty and ambiguity characterise institutional upheaval, which is defined as the dramatic transformation of crucial features of an institution's environment and governing structures. Upheaval, in the words of Greenwood and Hining, is "a drastic and revolutionary transformation" (1996: 1024). It is widely acknowledged that the breakdown of communism has caused institutional instability in the transition economies of Central and Eastern European and Newly Independent States. According to Newman, "the basic assumptions about the purpose of economic activity were destroyed or drastically transformed within a short time," including political systems, laws, regulations, and financial markets. (2000: 602).

The accountability of the board of directors, the openness of the company's finances, the robustness of its internal controls, the fairness of executive compensation, the robustness of its defences against takeovers, and the diversity of its ownership are all examples of good corporate governance practises. A growing trend toward a harmonisation of corporate governance principles has emerged alongside the internationalisation of financial markets. This is most noticeable in the areas of board independence, minority shareholder protection, and executive and director salary disclosure (Dahya et al. 2002; Perotti and von Thadden 2003; Shleifer and Vishny 1997). Although there has been a trend toward convergence, this has often been a case of imitation rather than the careful examination of the institutional framework necessary to guarantee the substance of these governance improvements is actually put into place. Questions concerning the appropriateness of the United States' laissez faire approach to regulation in a global banking environment have been raised in the wake of the recent global financial crisis. Given the differences in legal and regulatory infrastructures, trade volumes, and ownership distribution among nations, a "one size fits all" approach to regulation and corporate governance may not work (Mintz 2005; Pedersen and Thomsen 1997; Davies 2008; Denis and McConnell 2003; Wharton 2008).

3.2 Organizational Responses to Institutional Upheaval in Mid-Range Emerging Economies

During the institutional turmoil in mid-range emerging economies, corporate governance systems undergo a sea change. According to the report, the peculiarities of the institutional and organisational environments in which a corporation operates will determine the extent to which it is able to adapt to the new governance structure. There is a lack of knowledge about how organisations react during times of rapid institutional change (Newman, 2000). Greenwood and Hinings, writing about radical transformation, point out that neo-institutional theory remains "silent on why some organisations choose radical change while others do not, while facing similar institutional forces" (1996: 1023). Additionally, they note that institutional theory offers insights that, if developed, could shed light on why organisations interpret and react the way they do to radical change.

We also take cues from studies of corporate governance in general and CG in economies in mid-range emerging economies in particular (e.g., Peng, 2003; Puffer & McCarthy, 2003; McCarthy & Puffer, 2002a, 2002b). The external institutional/governance framework (e.g., courts, rules) and the corporate governance governing enterprises' operations undergo dramatic changes during the transition to a market economy, and corporate governance plays a pivotal role in both. As suggested by Puffer and McCarthy (2003: 12),

> *"Initial efforts in the move toward responsible corporate governance included legislative, judicial, and corporate initiatives to provide investors with more disclosure, transparent information, and voice, as well as redress within the legal system."*

By giving conceptual-based explanations of crucial topics and phenomena known in the governance literature, the institutional framework that we employ can improve our comprehension of the transformation in corporate governance and impact in mid-range emerging economies. This investigation focuses solely on the activities of organisations that are undertaken in response to disruptions that are not caused by the organisations themselves.

4. MEANING OF INSTITUTIONS

When it comes to articulating what an institution is, there are two primary camps of thinking. Institutions are defined differently by economists and sociologists. Economists focus on their function (North, 1990), while sociologists examine their origins (Scott, 2001). "Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction," writes North (1990, p. 3). Those who break such norms are usually subject to some kind of formal or informal punishment from the many actors in society. However, sociologists view institutions as organic systems that evolve over time and both empower and restrict people's actions (Scott, 2001: 18).

Bringing together economic, political, and sociological foundations, Scott (2001) argues that institutions also have regulative, normative and cognitive elements. While this description is more in line with an economic explanation of how institutions function rather than a sociological account of how institutions evolve, it still lacks the breadth of a solely economic or sociological explanation. Institutions and their effects on multinational corporations (MNCs) can't be properly understood without bringing together economic and sociological factors. Although the meaning of institutions is still up for debate (Williamson 2000, Aguilera and Jackson 2010), we choose North's (1990) definition since it provides theoretical lenses applicable to both sociology and economics. Accordingly, institutions can be understood as the norms (i.e., cultural values/practices, social standards) and sets of rules (i.e., socio-political structures, legal systems) that govern the ways in which people and groups in a society interact toward one another (North 1990).

4.1 Formal and Informal Institutions

We can claim that the methods of enforcement distinguish between informal and formal institutions. Laws, rules, and regulations, as well as the codes of conduct of professional groups and the conventions of religious institutions, are all examples of formal institutions. These are enforced in a more official fashion, with the help of authorities like the police or the threat of punishment from an organisation like a trade group or a church. Norms, conventions, and widely practised behaviours are all examples of informal institutions. As a result of violating such institutions, one's credibility and standing will plummet (Mukherjee, Makarius, & Stevens, 2018). Even if there is no hard and fast law on how businesses should treat their employees, the consequences of not doing so can still be felt in the marketplace. The subsequent consequence is a diminished supply of capable personnel for the organisation, and the firm may not be able to recruit great employees in the foreseeable which is once more a corporate governance issue harming the firm survival.

5. INSTITUTION BASED VIEW

5.1 Revisiting Strategy Tripod

The growth of the institution-based view has been identified as a third major perspective in strategic management by Mike W. Peng, Sunny Li Sun, Brian Pinkham, and Hao Chen (2009). The first two being the industry-based and resource-based views. They argue that the institution-based view is the missing piece of the strategy tripod, that it provides important new insights as part of the broader intellectual movement centred on new institutionalism, and that it answers the lack of attention to contexts from the industry-based and resource-based views' which are long-standing criticisms.

5.2 Third Leg of Strategy: Institutional Perspective

Indeed, "environment" (Lawrence & Lorsch, 1969) discussed in the literature of academia for quite some time. In contrast, the "task environment" perspective, which places primary emphasis on economic factors like market demand and technological progress, has been the research-promoted norm in the field of strategy (Dess & Beard, 1984). Prior to the mid-1990s, studies rarely went outside the immediate context of a job to investigate broader institutional, organisational, and strategic factors (Narayanan & Fahey, 2005) and criticized by them. Instead, a institutional framework with market-based orientation has been presumed as "background," together with formal institutions like regulations and laws and informal institutions like norms and cultures. Some argued that focusing solely on institutions as a means to better understand strategic behaviour in developed economies is insufficient (Clougherty, 2005; Oliver & Holzinger, 2008; Scott, 2008b), but this gap is especially evident when research radar of strategy begins to discuss and go deeper into the corporate landscape of emerging markets (Lau & Bruton, 2008). Strategy research on developing countries will not progress very far if institutions are viewed as mere "background" (or, at most, "control factors"). Scholars have to take into account institutional framework disparities between developing and developed countries additionally to industry and resource differences (Zacharakis, McMullen, & Shepherd, 2007; Khanna & Yafeh, 2007; Li & Peng, 2008).

5.3 Institutional Based View and Emergence of Institutionalism

The institutional perspective has emerged as a prominent school of thought in strategic management due to two interrelated sets of factors: external and internal. Three-decade-long new institutionalism trend in the economics and sociology fields is the first one (Williamson, 1975, 1985; North, 1990). (Meyer & Rowan, 1977; DiMaggio & Powell, 1983; Scott, 1987, 1995, 2008b). Sometimes, the "rules of the game" can be a metaphor for the institutions that govern a given situation. Sociologist W. Richard Scott (1995, p. 33) defines institutions "regulative, normative, and cognitive structures and activities that provide stability and meaning to social behaviour," while economist Douglass North (1990, p. 3) refers to them "the humanly devised constraints that structure human interaction." Although North's (1990) method of classifying formal and informal institutions categories is at first glance at odds with Scott's (1995) concept of three pillars of support—regulatory, normative, and cognitive, these seemingly dissimilar terminology and labels really compliment one another. Unsurprisingly, scholars from all different fields can agree on one key idea: Institutions matter. Scholars then need to "take on the tougher and more intriguing concerns of how they matter, under what conditions, to what amount, and in what ways" (Powell, 1996, p. 297). Seeking a deeper appreciation for the significance of institutions, scholars in the social sciences, and especially strategic management, have conducted an abundance of studies on this theoretical framework.

Not only has the institution-based view expanded in reaction to external forces, but it has also developed in light of persistent complaints of the industry-based and resource-based views internal forces lack of attention to circumstances. Industry-based perspective has been criticised for failing to take into account histories and institutions because it is based on competition patterns that emerged in the 1970s and earlier in the United States (Narayanan & Fahey, 2005). One such model is Porter's Five Forces, which considers factors including competitive pressures between businesses and suggests adopting a cost leadership stance. Problems arose for Wal-Mart when it adopted a "everyday low price" policy, an example of how a cost leadership strategy could be labelled unethical in some institutional settings. However, there are situations in which such a tactic would be forbidden; for example, in Japan's bookselling business, where fixing of prices is permitted but competitive price is outlawed (Stevenson, 2009). "Little effort to establish appropriate contexts" is also a common criticism levelled at the resource-based perspective (Priem & Butler, 2001, p. 32). Resources and capabilities that are valuable, rare, and difficult to imitate in a setting may be common, numerous, and easy to replicate in another (Brouthers, Brouthers, & Werner, 2008; Oliver, 1997).

In summary, new institutionalism's ascent in the social sciences has revitalised academic concentration in strategy on the significance of institutions. Because of this, the institution-based perspective has developed (Peng, 2002, 2006; Peng et al., 2008)

6. CORPORATE SUSTAINABILITY

Corporate sustainability focuses on ethical, social, environmental, cultural, and economic aspects of company to provide long-term stakeholder value. The strategies promote corporate longevity, transparency, and employee growth.

Corporate Sustainability Standards (CSS) are statements made by companies to demonstrate their dedication to sustainability. These standards typically include policies and actions designed to go above and beyond what is required by law. The term stems from "sustainable development" and "the triple bottom line" proposed by Elkington (1997). The Brundtland Commission's Report, *Our Common Future,* described sustainable development as, "development that meets the needs of the present without compromising the ability of future generations to meet their own needs." Slowly but surely, the ambition to expand without compromising the possibilities of future generations became key to the tenets of successful companies' guiding beliefs. The concept of the "triple bottom line" suggests that the economic, social, and environmental well-being of a company are all intertwined. A lack of consideration for the social and environmental implications of a business activity is seen as making it unsustainable, even if it results in short-term economic rewards. Composite indicators that include environmental, social, corporate governance, and economic metrics make measuring company sustainability practicable. Sustainability in business is sometimes misunderstood to mean the same thing as corporate social responsibility (CSR). Notion of "Time", according to Bansal and DesJardine (2014), is what sets sustainability apart from CSR and related ideas. Sustainability merely requires corporations to make intertemporal trade-offs to protect intergenerational equity, whereas ethics, morality, and norms permeate CSR.

Corporate governance literature suggests that institutional limitations mediate the connection between macroeconomic conditions and firm conduct (Campbell, 2007). The recent recall of several China-made toys serves as a reminder that companies risk losing their credibility (and customers) if they disregard their most fundamental CG obligations in terms of product safety (Peng & Chen, 2009).

7. CORPORATE GOVERNANCE

Different institutional settings often place corporate governance (CG) on different sides of a debate between rule and principle based approaches to regulation. Instead of relying on the more prevalent agency theory, this article examines the fundamental institutional mechanisms of successful CG practises through alternative conceptual lens of institutional theory. Political, legal audits, board, voting, culture, shareholders' knowledge and values are all examples of institutional determinants that contribute to a company's corporate governance. External barriers, firm-level constraints, and social barriers are recognised as restraints on excellent CG practises, whereas four key drivers, regulatory drivers, internal drivers, motivating drivers, and collaborative drivers can support them. Due to the "over-liberalized" freedom of modern capitalism, the worldwide economic crisis has highlighted the need for efficient corporate governance (CG) and overregulation (Claessens & Yurtoglu, 2013). However, the demand for strict CG processes was sparked by well-known corporate fraud incidents, WorldCom, Enron, Arthur Andersen (Ntim & Danbolt, 2012).

Institutional considerations, especially in a global context, have been the subject of dispute among CG researchers (Williamson, 1989; Peng, Sun, Pinkham, & Chen, 2009; Creed, DeJordy, & Lok, 2010). By expanding its focus across Board of Directors (BoDs) to legal framework, financial markets, and the larger cultural understanding of the corporation's position in contemporary society, the institutionalism based CG research has advanced the field of corporate governance (Davis, 2005). Different institutional settings in different nations were cited as the reason for the observed differences in worldwide CG practises (Judge, Douglas, & Kutan, 2008). While the effects of institutions on CG have been increasingly recognised in developed nations (Aguilera & Jackson, 2003; Aguilera, 2005; Lubatkin, Sauerwald, & Peng, 2013; Adegbite, Amaeshi, &

Nakajima, 2013), a comparative gap remains in corporate governance literature for developing nations, which are often characterised by institutional weakness (Adegbite & Nakajima, 2011). In particular, the corporate setting is critically exaggerated in the highly valued informal social ties of the Asian developing country socioeconomic environment (Hussainey & Al-Nodel, 2008). The corporate setting actual reality (Khanna, Kogan, & Palepu, 2006), the articles of association of a firm, and regulatory and legal framework all have a role in determining the governance structure in any given country.

The study discusses important issues such as how the institutional setting impacts CG practises at second-order and how local and multinational enterprises can encourage better CG in weaker institutional settings and have the sustainability initiatives in times of upheaval on their own. This research seeks to answer these concerns and gain an understanding of how CG might be governed and reformed to enhance industry-wide, forward- and backward-integrated CG practises. Finally, we investigate the link between a company's CG compliance (as measured by the Compliance Gap Index) and financial performance which may be neutral or positive/negative indifferent contexts.

Both Yakasai (2001) and Ahunwan (2002) suggested that self-regulatory activities are impracticable and corporation law enforcements are foolish due to the inadequate institutional background. Accordingly, CG observed in developing countries faces a number of impediments, such as institutional weakness (Aguilera, 2005; Adegbite & Nakajima, 2012; Adegbite et al., 2013; Arslan & Abidin, 2019a), ineffective Anglo-American models adoption (West, 2006' Kraakman & Hansmann, 2017), and in firm-level governance various deviations (Young, Peng, Ahlstrom, Bruton, & Jiang, 2008; Su, Xu, & Phan, 2008; Chen & Young, 2010).

It has been argued by Rwegasira (2000) that developing countries' institutional context must be taken into account prior to and during the implementation of CG systems. This point was bolstered by the research of Okpara (2011), who found that underpinning institutional environment quality in developing economies was a significant factor in the difficulties faced by CG during its development. Furthermore, it has been argued by scholars that a company's board of directors is only as effective as the institutions in which it operates (Mangena, Tauringana, & Chamisa 2012; Gillan, 2006); so, theories of governance may require revisions or development to reach a strong corporate governance system. In World Bank 2013 report, it was stated that companies from developing markets were making "incremental but decisive contributions" to modernising the global manufacturing sector. Due to the potential worldwide consequences of a weak CG structure in these countries, it is essential to establish efficient CG practices in these developing economies.

Scholars' interest in the role of institutional theory in the assessment of CG issues is growing. Institutional theory already has acknowledged the power of institutions to govern the actions of market participants (Douglass, 1990; Scott, 2013; Aguilera, 2005; Roe, 2003). Additionally, recent studies have shown that institutional factors have a significant impact on CG (Nakpodia, Shrives, & Sorour, 2018; Adegbite et al., 2013) in the corporate world (Judge et al., 2008; Adegbite & Nakajima, 2011). For this reason, many different classifications have been advocated when theory of CG and institutional setting is discussed, including political, legal and international structures (Okike et al., 2015; Adegbite & Nakajima, 2011) and historical, socioeconomic and political institutionalism (; Adegbite & Nakajima, 2011, 2012; Leicht & Jenkins, 2009).

8. CORPORATE GOVERNANCE PRACTICES UNDER INSTITUTIONAL SETTING

Limitations on corporate governance methods are imposed by the institutional setting through both formal structures like regulations and laws, and norms and conventions (informal processes). According to Scott (1987, 2001), the institutional environment consists of socially organised activities and shared beliefs that are connected with different society sectors (e.g. politics, laws, religion, work, and regulations). "Rules of the game in a society," as North put it, "are the limits that shape human interaction and are imposed by humans" (1990, p. 3).

To investigate the institutional setting from the perspective of institutional theory, DiMaggio and Powell (1991) created a three-tiered model. The levels (factors) are categorised as either "coercive," "imitative," or "normative," according to their terminology. The government plays a predominantly coercive role in corporate governance by establishing the political, legal and regulatory framework that limits and authorises CG practises. Corporate governance standards from other countries could be adopted as an example of imitative behaviour. The significance of various occupations within a country is a normative consideration. Others have discussed mimetic and normative forces by highlighting the adoption of CG standards and its best practises; nevertheless, it is argued which normative and mimetic forces, although significant, necessitate coercive forces. However, if corporations are allowed to pick and select which parts of established standards and best practises to employ, the entire process becomes subjective and arbitrary. Coercive factors are essential to the operation of multinational corporate governance because they provide institutional support and adherence to "the rules of the game" (North, 1990).

8.1 Institutions Role in Shaping Corporate Governance at National level

Research in Corporate governance (CG) has been emphasising the significance of institutions for the past two decades. The phrase "institutional environment" usually refers to national-level elements that affect CG, as the legal framework for property rights and contractual reinforcing (e.g., Lopez-de-Silanes, Shleifer, LaPorta, & Vishny, 1997, 1998). In a broader sense, the CG literature demonstrates that corporate governance processes vary greatly from one country to the next due to distinct informal and formal institutions at the national level. Institutional scholarship has improved thanks to comparative studies that examine the causes and effects of corporate governance across countries and are often based on theoretical frameworks from the field of institutional theory (Zattoni & Judge, 2012; Kumar and Zattoni, 2013a). Idea of complementarity and substitutability between (or among) national governance determinants has got important attention recently (Aguilera, Filatotchev, Gospel & Jackson, 2008; Schiehll, Ahmadjian & Filatotchev, 2014; Kumar & Zattoni, 2015, 2015).

However, other components of institutional framework at the national-level that effect CG by affecting management and board behaviour are also gaining more and more attention. For instance, both personal experience and a growing body of interdisciplinary scholarship make it abundantly evident of a country's judicial system credibility in implementing laws against white-collar crime and/or misconduct is crucial for incentives against misconduct by managers and boards. Opportunistic behaviour by entrenched managers, dominating owners, and co-opted boards can be discouraged by strict, unbiased application of these regulations (Kumar & Ramchand, 2008). That is why these elements of national legal frameworks may have such a big impact on how contentious agency issues get and how well internal governance systems perform. As a standard element of their management procedures, most businesses frequently assess their exposure to financial, legal, and operational risks. However, risk analysis becomes institutionalized as a tool of corporate governance at the national level if the board creates a formal risk committee (similar to the commonly existing audit and pay committees of directors).

9. CORPORATE GOVERNANCE IN EXTREME INSTITUTIONAL ENVIRONMENTS: STRIDES AND CHALLENGES FOR MID-RANGE EMERGING ECONOMIES

Corporate governance (CG) systems and organisations are heavily influenced by their institutional and legal contexts. Cross-national comparisons and historical analyses have long been staples of scholarly investigations into the links between institutional settings and CG. But in recent years, institutional systems have undergone drastic changes, making it more difficult for scholars to examine unfamiliar contexts and ask novel questions about governance. Changes in risk-taking excessiveness, unhealthy company cultures, and firms malfeasance are only few examples like how severe institutional contexts present problems for conventional CG models.

The growth of right-wing populism across the western world and developments like Brexit in the United Kingdom are fast altering the political landscape (Wood and Budhwar, 2016). Therefore, in order to guarantee long-term growth, governance structures must anticipate shifting geopolitical balances, growing extreme socioeconomic threats, and other novel long-term trends. Weak regulatory and institutional frameworks, as well as inefficient CG and control mechanisms, were exposed during the 2008 global financial crisis (GFC). As a result, there was a greater call for change and a better chance to improve governance framework in the direction of ethical and sustainable value creation, elevating the bar for all stakeholders from boards to nonexecutive directors to shareholders.

International cooperation and concentrated research into the worldwide behaviour and decision-making of corporations and other organisations in light of these new political circumstances are essential for designing robust and reliable governance structures under second-order institutional shocks. It is also vital to look into the obstacles that large institutional upheavals and political events present to the creation of CG systems that are efficient, long-lasting, and socially responsible.

10. HOW TO ESCAPE THE DIRECT AND INDIRECT CONSEQUENCES OF BUTTERFLY EFFECT?

Conforming, decoupling, and institutional entrepreneurship help MNEs adapt to local institutions. Many MNEs first comply with host country political pressure (De Villa et al., 2019). The second political technique is partial decoupling from specific institutional requirements. Experienced and well-resourced MNEs with their host country's political context are better at decoupling (Oh and Oetzel, 2017; Gamso and Nelson, 2019). Finally, Multinational enterprises with much more resources and expertise may choose institutional entrepreneurship, the third political strategy.

Multinational enterprises (MNEs) make the institutional frameworks in which they operate more favorable by applying the knowledge and resources at their disposal (Lubinski and Wadhwani, 2020; Zhu and Sardana, 2020; Parente et al., 2019). Companies in left-leaning nations may use this strategy more (Patnaik, 2019). In uncertain institutional frameworks, MNEs can develop two broader strategies: connections of political nature and techniques used to cope with political hazards and wars

10.1 Political Connections

Multinational enterprises (MNEs) cultivate and maintain political connections to lessen their exposure to political risk (Schnyder & Sallai, 2020), increase their leverage in negotiations with governments, and broaden their understanding of international politics (Fernandez-Mendez et al., 2018). Most multi-national enterprises (MNEs) that operate in emerging economies or developing nations require political connections with local governments to mitigate political risk and adverse government actions (Dang et al., 2020; Wu and Ang, 2020)

10.2 Coping with Political Hazards and Wars

MNEs in very unstable political environments have been studied for their international strategy. Political conflicts between their home and host nations severely constrain investment by MNEs' in those countries (Li et al., 2020), and effect will last for decades (Arikan et al., 2020). MNEs may leave a country if the political risk is too high (Sartor and Beamish, 2020) as they can suffer from host country political risks.

11. DISCUSSION

Researchers and practitioners face problems and opportunities from institutional change or more specifically second-order institutional shocks which are non-linear in nature, especially pro-market reversals. To better characterize temporal modes of inquiry and identify historical episodes of institutional change, the study illustrates how the IB idea and business history methodologies might help. Historical background can explain how such shifts occur and how they affect mid-range developing economy MNE tactics. This method is particularly important because the processual and temporal nature of the relationship between enterprises and institutions is often overlooked in previous studies. The path raises problems regarding regional responses to pro-market reversals. Research conducted on Chile and West Africa demonstrates how decolonization and socialist economic policy following WWII led to a shift away from the market. In Chile, MNEs legitimised themselves through political elites. Industry structure, institutional context, and past legitimization attempts affected MNE strategic approaches and outcomes. In West Africa, MNEs mostly Africanized subsidiary management.

In Indian context, we can use path dependency and business history to institutional change (Kostova et al., 2008) and MNE strategy responses (Schreyogg and Sydow, 2011). Over the course of several decades, the colonial market economy gave way to a nationalist-controlled economy, a process known as "Indianization", disturbed by independence and new government's foreign firm policies post-independence. This reformed the institutional framework governing foreign enterprises, limiting firm ownership, FDI, imports, profits, and people. Strategic responses and tactical ones to pro-market disruptions drove institutional transformation. James Finlay & Co. pursued slow Indianization of management, Imperial Tobacco Company (ITC) and Lever Brothers

(Hindustan Lever) committed to full Indianization. The paper talks about the escape mechanism or minimize risk of second-order institutional shocks "Butterfly effect" which are non-linear in nature by having better political strategy and connections; and coping under political hazards.

12. CONCLUSION

The push for globalisation has dramatically altered the economic, political, and social order. Policies of globalisation adopted in different parts of the world have had far-reaching effects on the business climate, both positively and negatively. As a result of globalization's expansion of both the labour and commodities markets, businesses now have the chance to attract and retain customers from a wider range of cultural backgrounds. Increased rivalry and the absence of a unified policy across areas are further negative consequences of globalisation. It is crucial for success in the international business environment to recognise institutional shocks and political shifts and make the necessary adjustments. The paper has made an effort to highlight both the direct and indirect impact of institutionalism in the face of environmental upheaval, which we call as second-order institutional shocks, "Butterfly effect" which are non-linear in nature. We highlight the fact that previous international CG scholarship has taken into account comparative and time-series shifts in institutional contexts to understand better how institutions affect CG structures and results.

Recent events in real world, such as global crises and extreme nationalism, have highlighted the need for a deeper comprehension of the origins and effects of exceptional institutional conditions on industries as diverse as international trade, banking, and entrepreneurship/innovation. The papers provide policymakers with a number of recommendations for how to enhance the legal and regulatory frameworks that promote good governance practise. There are also lessons for practitioners about how to develop governance solutions to address both informal and formal institutional gaps under extreme institutional situations.

Furthermore, we claimed that institutional regulation and the emergence of corporate governance norms are the driving forces behind these phenomena. The expression and structure of governance in contemporary organisations in various countries are mirror images of the prevailing institutional frameworks in those countries. Institutions fall into two broad categories: formal and informal, both of which depend on, influence, and are influenced by one another. As a result, when considering CG in mid-range emerging economies, it is important to bear in mind that the entire nature of their institutional frameworks is not coherent with excellent CG concepts, both at the company and national levels. Corporate governance in mid-range emerging economies needs to be reformed, and the role that institutions play in this process is crucial. Concepts of governance (CG) cannot be developed in isolation; rather, they reveal the underlying institutions that systematise the business structures, roles, and rights of directors and managers from country to country.

The findings of this study confirm that there are significant distinctions between the formal institutions of industrialised countries and those of emerging economies. Prior to deciding on the most efficient entry approach, enterprises must take into account the types of disparities that emerge in institutional frameworks. Since institutional frameworks in emerging economies tend to be weak, market entry techniques like strategic partnerships and contractual arrangements are more likely to succeed there. Greenfield ventures and acquisitions are two market entry options that can be supported by the robust institutional systems seen in developed nations.

Cultures, ethics, and social conventions are all examples of "informal institutions" that have a significant bearing on the prosperity of international trade. Understanding local norms and traditions is crucial for thriving in international commerce, yet the impact of informal institutions is notoriously hard to pin down. It is interesting to compare the similarities between developed and growing nations, as well as the similarities between the two groups. Even though there are similarities between established and developing nations, there are also often major disparities. As an example, when comparing the 2014 Gender Inequality Index from the United Nations Development Programme (UNDP), we find that the indices for industrialised and emerging nations are very similar. For comparison, India's index is 0.563, Bolivia's is 0.444, Cambodia's is 0.447, and Brazil's is 0.457. In comparison, Germany's index is 0.041, Australia's is 0.110, Canada's is 0.129, and the USA's is 0.28. Because of this, it is not surprising to see parallels between the informal institutional environments of developed and emerging nations.

There are challenges and limitations at the national and firm levels for corporate governance due to changing and evolving political landscape, geographic and cultural distances and institutional shocks. The structure of corporate governments is evolving rapidly. Traditional and new forms of entrepreneurial firm development have adapted to the altered conditions brought about by the economy's structural changes since the advent of alternative funding mechanisms, governance issues have become increasingly intricate. Due to the increasing globalisation of organisations, businesses, and commerce, as well as the shifts in cultural norms around the world, new governance challenges have emerged.

13. PRACTITIONER AND POLICY IMPLICATIONS

The corporate governance issue of MNEs is addressed in UN Sustainable Development Goal (SDG16), which aims to promote "strong institutions, decrease corruption, and global governance." Goal 16 of the Sustainable Development Agenda focuses on combating money laundering via four channels: international intergovernmental collaboration; domestic government action; domestic and multinational business action; and domestic and international civil society mobilisation. There are two distinct functions that MNEs can play in corrupt practises. As an actor, they may find themselves in the position of having to pay bribes to government officials. The second is to be someone who actively seeks for opportunities to bribe public servants. Bribery occurs in the business world as well, specifically amongst companies. Multinational corporations (MNCs) can further employ one of five possible strategies regarding corrupt practices in their country of practice: (1) avoidance (either by not entering or leaving a country); (2) passive participation in corrupt practises; (3) active participation in corrupt practises; (4) active combat of corrupt practises; and (5) active promotion of constitutional and democratic institutions. Multinational enterprises have a crucial role in fighting corruption. However, the endeavour is made complex and country unique by a constellation of different variables when we can understand that second-order institutional shocks are non-linear in nature and can have both positive and negative impact on performance and corporate governance.

The conceptual research paper advocates for a shift away from a "one-size-fits-all" policy toward one that considers organisational and environmental context when addressing corporate governance concerns. The paper aids regulators in drafting new regulations or laws designed to reduce private benefits of control or improve the disclosure environment by trying to demonstrate that the intensity of principal-principal agency conflicts causes significant differences in the presence and effectiveness of corporate governance. Changes in the institutional context, such as the suppression of corruption, the fortification of the rule of law, or the improvement of government efficiency, may be used by policymakers to affect corporate governance practises and mitigate the institutional shocks effect. Adopting a code of best practise for corporate governance is not enough; the enabling institutional framework must also be modified to facilitate such changes.

In addition, the article argues that institutional settings are inherently dynamic. Over the past few decades, a globalisation mind-set has prevailed; however, de-globalization (Cuervo-Cazurrra et al., 2017) has put a new spin on interaction between international strategy and institutions. The double standard that applies to foreign operations in both the home and host nations, as well as the (perceived) uneven benefits of globalization across geographic areas, are only a few of the elements that have led to the recent de-globalization trend. It is crucial for multinational enterprises (MNEs) to have a thorough grasp of the current complex, shifting, and uncertain institutional contexts if they are to successfully implement their international strategy (Batjargal et al., 2013; Ahlstrom et al., 2020).

14. FUTURE DIRECTIONS

Researching corporate governance from a socioeconomic perspective is crucial because it can add to what is already known (Steger and Hartz) (2005). The papers take a conceptual and theoretical perspective of second-order institutional shocks ("Butterfly effect") which are non-linear in nature, and discusses environmental upheaval in a variety of organisational, historical, geographical, and political contexts. This paper shows that even in settings with more robust regulatory institutions, like the European banking system, catastrophic events like the Global Financial Crisis (GFC) can occur, demonstrating the importance of public institutions in these scenarios and firm dynamism to cope under uncertainty. Banks are more stable and have lower costs because to regulatory changes enacted after the 2008 financial crisis (Ayadi et al., 2021). Even in countries with robust regulatory systems, the governance repercussions can vary in the presence of political upheavals. For instance, CEOs taking a stand on public issues like resigning from presidential advisory council of Trump observe a decrease in firm value and negative reactions from shareholders in Europe (Gaganis et al., 2021), in the United States the opposite is true (Bedendo and Siming, 2021).

More research could be done in the future to investigate the link between corporate governance at the firm level and at the national level to understand their “entanglement” under non-linear nature of second-order institutional shocks. the question that seems pertinent like “to what extent do boards, for instance, play a role in minimising risk-taking and misconduct in varying judicial, religious, and cultural contexts?” Future research might clearly compare the legal and institutional mechanisms that favor private ownership with the participation of the state in corporate ownership, which could shed light on the usefulness of alternate shareholding structures in various institutional environments around the world. There is research once again that indicates gender diversity helps promote ethical results (Briano-Turrent, 2022). Implement programmes to increase accessibility, diversity, and inclusion in the workplace, such as those that set specific goals and incentives for hiring people of all genders and with different types of disabilities. Recent research has focused more on the intricacies of corporate culture at individual companies and national cultures more generally. Where does gender diversity work best, in the workplace or the national culture?

Additional study is needed to learn how national institutions influence and work against or with diversity-related governance and corporate culture solutions. Compliance with government norms is less well documented. More research is needed to determine the level of conformity with corporate governance and ethical practises in various organisational contexts (Fotaki et al., 2021).

Women's representation on boards has been shown to increase both ethical behaviour and transparency (Briano-Turrent, 2022). However, there is a lack of information about their functions in various institutional settings. When institutions are weak, diverse boards can help shield minority investors (Herdhayinta et al., 2021). Evidence also demonstrates that when entrepreneurs in an environment with inadequate institutions rely on outside funding, the number of women entrepreneurs can decrease (Johan & Valenzuela, 2021). More study is needed to understand whether or not women's representation on boards is a supplement to or a replacement for inadequate institutional conditions worldwide. An international study could also shed light on how differences in national culture, ownership structures, and governance systems impact managers' expectations and, by extension, the long-term viability of businesses (Walls & Berrone, 2017).

To paraphrase 'Edward Lorenz' when the world is so uncertain and interconnect:

> *"since we do not know exactly how many butterflies there are, nor where they are all located, let alone which ones are flapping their wings at any instant, we cannot, if the answer to our question is affirmative, accurately predict the occurrence of tornados at a sufficiently distant future time".*

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