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Editorial

Supply chain management in emerging markets

1. Introduction

As multinational enterprises (MNEs) increasingly source from suppliers in emerging markets, a particular challenge is how to manage their relationships with suppliers within potentially deleterious institutional environments. A large body of research has investigated supply chain management from multiple theoretical viewpoints, mostly from transaction cost economics and relational exchange perspective (Carey et al., 2011). From these perspectives, companies can use both formal governance mechanisms such as contracts, control, and monitoring as well as informal governance mechanisms such as trust, socialization, and relational norms to manage the relationships with their suppliers (Cao and Lumineau, 2015; Li et al., 2010; Villena et al., 2011).

However, most extant studies on supply chain management have overlooked the role of institutional environments in which companies cooperate with their suppliers (Zhou et al., 2014).

As emerging markets have experienced massive changes in their economic, social, and political institutions, institutional characteristics greatly shape the efficacy of supply chain management strategies. For example, signing a detailed contract may not be helpful in emerging markets where legal institutions are yet to be developed. Transaction cost economics was originated from institutional contexts with a long tradition of contract laws and strong legal regimes. Yet such strong legal institutions do not automatically appear in emerging markets (Handley and Angst, 2015). Indeed, the lack of strong legal institutions represents one of the most severe challenges for businesses operating in emerging markets (Peng, 2003). Related, the instability of political regime also challenges supply chain management practices in emerging markets.

When strong political and legal institutions are absent, informal institutions based on personal connections and social network play a pivotal role, because social networks provide access to scarce resources and offer legitimacy status (Yang et al., 2012). However, the inherent restraint of social networks is the limited number of personal ties that an individual can possess. Because personal relationships are difficult to build and costly to maintain, they may not be able to catch up with rapid growing exchange scale in emerging markets (Peng, 2003).

So how could companies manage their relationships with suppliers in emerging markets, which are characterized by political, legal, and social challenges? To address this fascinating issue, this special issue serves as an exemplar for integrating the unique characteristics of emerging economies in conceptual development and empirical assessment.

2. Overview of the special issue

What makes emerging economies a unique context to study supply chain management? Emerging markets are "low-income, rapid growth countries using economic liberalization as their primary engine of growth" (Hoskisson et al., 2000), where institutions are undergoing fundamental and continuous changes. The most unique features that seriously challenge effective supply chain management are *institutional voids*, including shallow capital markets, deficient legal systems, lack of independent accounting intermediaries, and etc. (Khanna and Palepu, 1997). In large emerging markets, institutional voids also influence regional economic development, leading to subnational variations within the same country (Zhou and Poppo, 2010). Accordingly, companies must develop alternative operations management strategies and adjust their strategic decisions to overcome institutional voids.

The call for papers generated 50 submissions, among which six manuscripts were finally accepted after three or four rounds of review. These six papers include survey research, case studies, and archival data research, and use samples of Chinese firms, Indian companies, and American firms that outsource in emerging markets. They also address explicitly the methodological issues (e.g., endogeneity and common method bias) indicated by the recent JOM Editorial (Guide and Ketokivi, 2015).

The papers cover a variety of topics including:

- How to deal with role hazard between buyers and suppliers caused by sub-national institutional distance?
- How do social management capabilities help multinational buyers and their emerging market suppliers respond to stakeholder pressures, address regulatory gaps, and improve social performance?
- How does institutional deficiency affect contractual inefficiency and consequently ties utilization of emerging market firms?
- How do outsourcing, in-house offshoring, and sales to emerging markets affect product recalls and inventory performance?
- How do buyer-supplier compatibility and institutional environment affect product co-development between buyers and suppliers?

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- How to reduce local supplier opportunism in China when facing regulatory uncertainty?

Collectively, these papers provide fresh insights into how institutional environments in emerging markets affect operation management strategies and how companies develop supply chain management strategies to deal with institutional voids. In Dong, Ju, and Fang's article, the authors introduce an important notion, role hazard, which represents a critical yet understudied relational coordination problem. Their study shows that subnational institutional distance leads to role ambiguity and conflict, two important facets of role hazards between buyers and suppliers, which in turn jeopardize supply chain performance. To mitigate such problem, supply chain partners could share information and adapt to the changing environments continuously. These findings provide a novel perspective on how supply chain partners foster relational coordination by reducing role hazards caused by subnational institutional distance in emerging markets.

Huq, Chowdhury, and Klassen use multiple case studies from before and after the Rana Plaza building collapse in Bangladesh to develop an understanding of the skills, practices, relationships and processes (collectively referred as social management capabilities) that help firms in emerging markets to improve their performance on human safety & welfare, and social & community development. Specifically, they attempt to address two research questions: What are the social management capabilities needed by multinational buyers and their emerging market suppliers to improve social performance and respond to stakeholder pressures? How do external factors and shocks affect the development and evolution of these capabilities in emerging markets? Their findings provide novel insights on how multinational buyers and local suppliers achieve social performance in emerging markets.

Shou, Zheng, and Zhu address another critical issue in emerging markets: contractual ineffectiveness, the difficulty of using contracts to safeguard and coordinate transactions between supply chain partners. The authors show that legal enforceability and information transparency lead to contractual inefficiency, which in turn promotes a firm's efforts to seek political and business ties. They also find that efficiency pressure and equity pressures differentially moderate the relationships between contractual inefficiency and pursuit of social ties. These results provide important implications on the alternative and dynamic use of contracts and social ties in supply chain management in emerging markets.

Steven and Britto study three different forms of emerging market penetration (i.e., outsourcing, in-house offshoring, and sales to emerging markets) and their associations with product recalls. They find that outsourcing penetration increases recalls whereas sales penetration reduces recalls. Although they cannot find a direct relationship between in-house offshoring and recalls, they show that in-house offshoring is able to mitigate the positive relationship between outsourcing and recalls. They further investigate how emerging markets' characteristics (e.g., institutional immaturity) moderate these relationships. Their results provide a finer understanding of the complex relationships among different forms of emerging market penetration and product recalls.

Wang, Li, and Chang focus on how buyer-supplier compatibility influences product co-development between buyers and suppliers in China. They find that while knowledge commonality has an inverted U-shaped relationship with product co-development, goal compatibility has a positive effect on product co-development. Moreover, mutual learning partially mediates the effects of buyer-supplier compatibility on product co-development. They further consider how formal and informal institutional environments (i.e., government intervention and guanxi importance) moderate the relationship between mutual learning and product co-development differently. Their research provides important theoretical and managerial implications for buyer-supplier collaboration in emerging markets.

Wang, Zhang, Wang, and Sheng examine contracts and trust as two alternative governance modes in curtailing opportunism in China. They argue that the effects of these two governance strategies in reducing opportunism depend on two institution-related factors: regulatory uncertainty and relationship structure in the Chinese markets. The authors show that contracts are more effective in deterring supplier opportunism when regulatory uncertainty is high. In addition, contracts help curtail opportunism more in domestic, compared with international, buyer—supplier relationships, whereas trust is more effective in restricting supplier opportunism in international relationships than in domestic ones.

Taken together, these articles indicate that institutional environments play a critical role in supply chain management in emerging markets. Equally important, firms in emerging market can develop their own operations management strategies and capabilities to overcome institutional voids and enhance supply chain performance. These articles illustrate the fundamental challenges brought by institutional voids and provide fresh perspectives on effective supply chain management in emerging markets.

3. Looking ahead: contextualizing institutional factors

Whereas these articles advance this line of research significantly, they only represent an initial effort to address a highly complicated issue. Looking forward, we would like to encourage more research to take the unique characteristics of emerging markets into consideration. Among the six papers in this special issue, two consider the overall institutional environments such as subnational institutional distance and institutional immaturity, the other three examine legal institutions such as regulatory gaps, legal enforceability, and regulatory uncertainty, whereas only one touches upon social institutions (i.e., guanxi importance).

However, institutional environments include a variety of formal and informal factors. Formal factors consist of property rights protection, government interference, policy changes, etc., and informal factors include ideology, cultural values and norms. For example, the lack of intellectual property protection causes serious problems for supply chain management in emerging markets. How could multinational buyers outsource the manufacturing to local suppliers and at the same time protect themselves from illegal copying? Also, emerging market governments tend to interfere with market operations heavily. How would such government intervention affect operations management? How could emerging markets firms take advantage of such government intervention to foster their supply chain performance? How would policy changes affect supply chain management?

Inadequate institutional arrangements such as weak legal systems and regulations in emerging markets render firms a disadvantageous position in which they lack the institutional assurance for their decisions and operations. However, informal institutions such as cultural values and norms may complement and/or substitute the formal institutions in providing a regulated business environment in emerging markets. For example, social ties are shown to enhance performance because of their cultural legitimacy and resource implications in China. How could emerging market firms maneuver the cultural values to form cohesive social ties for long-term cooperation? How could firms take advantage of social ties to form cooperative business circles to enhance governance effectiveness? Given the cultural differences across nations, how could multinational firms form governance that spans cultural relationships across borders?

Moreover, emerging markets often lack key resources such as financial capital, reliable market information, mature factor market, etc. The shortage of financial capital makes firms unlikely to invest substantially in R&D; accordingly, if buyers need special expertise from suppliers to co-develop their products, how could they solve such problem? How does such challenge affect product and process innovation in supply chain management? On the other hand, without reliable market information, it is difficult for firms to accurately forecast the future demand of their products and adjust their production accordingly. How do firms cooperate with their supply chain partners to overcome this difficulty? Or how can supply chain partners take advantage of this difficulty to reap more benefits in emerging markets?

Overall, this special issue offers new directions for future research to explore more deeply the interplay of institutional environments and operations management strategies in emerging markets. Future research should contextualize the unique institutional features of emerging markets to generate novel and deep insights that extend extant operation management literature. Such insights are of great importance for academia, practitioners, and policy makers in emerging markets.

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