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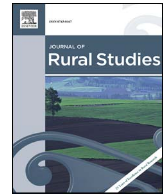
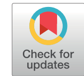


# Institutional Legitimacy, Cross-Border Trade and Institutional Voids: Insights from the Cocoa Industry in Ghana



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ABSTRACT

In spite of a growing body of literature on market opportunism in emerging markets, it remains unclear how supply chain partners abuse the institutional voids emanating from weak markets and legal enforcement mechanisms. This study attempts to integrate the concept of 'institutional voids' with that of 'opportunism in inter-firm relationship' literature to examine how they create space and conditions for illegitimate activities to occur in a supply chain. Using insights from cocoa production and distribution in Ghana, we uncovered activities such as tampering, adjustment of weighing scales and smuggling as examples of illegitimate activities and abuses in the supply chain. The study revealed that these activities are manifestations of institutional voids arising from weak markets and legal enforcement mechanisms. An analysis of the supply chain partners' activities illuminates our understanding of the underlying processes inherent in market opportunism. Taken together, the study demonstrates how smuggling and theft-to-smuggle have taken on new prominence as an escape response to the institutional voids in the country. The implications for future research are examined.

## 1. Introduction

In the final third of the twentieth century, it became apparent that one of the most distinctive features of emerging economies is the existence of 'institutional voids' (Khanna and Palepu, 1999; Luo and Chung, 2013; North, 1990), referred to as the lack of or weak institutional facilities and regulations which support the well-functioning of an economy (Luo and Tung, 2007; see also Martin et al., 2015). In the subsequent years, a plethora of scholarly works has emerged on supply chain partnerships in emerging economies which articulates the ramifications of such voids and their ability to instigate partners' opportunism (Liu et al., 2009). In spite of a growing body of literature on opportunism in inter-firm relationships (Zhou and Xu, 2012) and supply chain risks in emerging economies (Liu et al., 2009), it remains unclear how supply chain partners abuse the institutional voids emanating from weak markets and legal enforcement mechanisms (see Luo and Chung, 2013; Zhou and Xu, 2012). Although some scholars have examined how partners curtail local supplier opportunism (Zhou and Xu, 2012), our understanding of how institutional voids create space for illegitimate activities to occur in the supply chain remains limited. Surprisingly enough, however, development studies and supply chain management scholars have remained silent on this important issue.

Against this backdrop, our purpose in this paper is to examine the processes and mechanisms through which institutional voids create space and conditions for illegitimate activities to occur in the supply chain. This issue is particularly important given that the governments' ability to capture the full benefits of industrial activities is partly predicated on the ability to curtail illegitimate activities. We illustrate the theoretical arguments by focusing on the activities of the supply chain partners in the cocoa production and distribution networks in Ghana. We examine this issue in a specific context—namely, producer/farmer–buying firms/agents channel partnership. Our focus on this specific relationship enables us to offer a more detailed analysis of the intricacies and dynamics through which illegitimate activities emerge to impact on partners. We make two key contributions to regional and development studies, operations strategy, economic geography and supply chain literature. First, we combine the 'institutional voids' concept (Khanna and Palepu, 1999) with that of 'opportunism in inter-firm relationships' (Wathne and Heide, 2000; Zhou and Xu, 2012) to develop a novel perspective and framework of how such voids create conditions for illegal activities to occur in inter-firm relationships. Second, we provide unique insights into how the roles of agents manifest itself into opportunistic behaviour in inter-firm relationships. This goes a long way to fill the gaps in the current literature on supply chain

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opportunism (Tangpong et al., 2010).

The rest of this article is organised as follows. First, we review the literature on institutional voids and opportunism with the aim of developing a unified perspective on supply chain opportunism. We then set out the approaches to the data collection and analysis. This is followed by a presentation of the background of cocoa production and distribution system in the context of an emerging economy. This is followed by a discussion of our key findings. Finally, we set out the implications of our findings for theory and practice.

## 2. Institutional voids and inter-firm relationships: a integrative review

As indicated by Peng (2003); Zhou and Poppo (2010) emerging markets are generally characterised by a lack of adequate disclosure, weak contract enforcement and weak governance regime. Many institutions such as courts and government departments are often characterised by a high degree of bureaucracy and inefficiency. In addition, market intermediaries such as financial analysts, investment bankers and venture capitalists who provide support for the function of the market are often non-existent or underdeveloped (Chung and Luo, 2008; Luo and Tung, 2007). The absence of such market intermediaries makes it costly for firms to acquire necessary financial resources (Khanna and Palepu, 1999, 2006). A growing body of research suggests that unlike mature market economies, emerging economies are also characterised by regulatory interference from governments and limited access to credible information (Amankwah-Amoah and Debrah, 2017; Julian and Ofori-Dankwa, 2013; Luo, 2003; Luo and Chung, 2013; Ofori-Dankwa and Julian, 2013).

A critical review of the literature reveals that there are two conflicting views of the effects of institutional voids. The first school of thought argues that a lack of institutional facilities creates conditions for frugal innovation to occur while the harsh institutional environment creates conditions for low-cost and efficient producers to emerge to cater for the underserved markets (George et al., 2012; Radjou et al., 2012). An important aspect of this view is that firms that are able to operate in such a harsh environment outperform rivals in an environment characterised by institutional voids (Lall, 1983). On the other hand, an emerging school of thought contends that institutional voids may create conditions for illegal activities to occur (see Wuyts and Geyskens, 2005). Opportunism provides another angle from which to view how voids can create the space for the dark side of inter-firm relationships to occur (Wathne and Heide, 2000). The notion of partner opportunism is rooted in the transaction cost economics literature (Williamson, 1975, 1985).

Opportunism in the supply chain can be defined as a situation where a partner along the chain engages in ‘self-interest seeking with guile’ at the expense of others (Williamson, 1975: 6). Guile can be an attempt to cheat, manipulate, ‘mislead, distort, disguise, obfuscate, or otherwise confuse’ (Williamson, 1985: 47). In contractual terms, opportunism can be seen as a process which leads to ‘undersupply relative to an implicit or explicit contract’ which often means one party to a contract or transaction may take advantage of the voids in the marketplace ‘to supply lower levels of quality or output than was contracted for’ (Wathne and Heide, 2000: 48). The existence of institutional voids can create a space for parties along the supply chain to seek unilateral gains at the expense of other partners by manipulating, withholding and distorting information, shirking obligations and withdrawing from prior commitments (Handley and Benton, 2012; Luo, 2007). Indeed, such dysfunctional competitive behaviours are common in service industries such as insurance, transport and financial services. This often stems from one party along the supply chain holding better information or control function that enables the party to secure private gains. It has been suggested that opportunism has the potential to lead to inter-party conflicts which then undermine the basis for current and future supply chain collaborations (Luo, 2006).

Opportunism can seriously undermine trust within existing supply chain relations and for future collaboration (Wuyts and Geyskens, 2005; Kaufman et al., 2000). Given the potentially devastating effects of opportunism, partners may deploy additional resources towards monitoring and controlling exchange partners' behaviours (Wathne and Heide, 2000). In cases where, the ‘rule of law’ may lag behind societal approval of what is right or wrong, the law can be updated to reflect the modern realities but in many cases particularly in developing countries this is simply ignored. Some studies have suggested that the lack of market-supporting mechanisms often leads to reliance on informal institutions such as cultural values, attitudes and norms, historical traditions and ethnic ties as mechanisms to mitigate such risks (Acquaah, 2007; Luo and Chung, 2013).

At another level, researchers have hinted that illegality may stem from the harsh institutional and regulatory environment such as bureaucracy, red tape and administrative delays (see Webb et al., 2009; Cuervo-Cazurra, 2008). This stream of work suggests that for partners, lack of legal safeguards in the environment, for instance intellectual property rights, may create conditions for illegitimate activities to occur. In some cases, illegal activities may emerge to dominate and take on new dimensions in business transactions and interactions. Despite the growing body of research on institutional voids and inter-firm relationships, the issue of the mechanisms through which institutional voids create space and conditions for illegitimate activities in the supply chain remains underexplored. Thus, we seek to fill the lacuna in our understanding by focusing on cocoa supply chain partners in Ghana.

## 3. Research context

### 3.1. The cocoa industry in Ghana

Historically, Ghana has been regarded as one of the pioneers of African democracy with a resurgent economy (Amankwah-Amoah, 2016; Amankwah-Amoah and Debrah, 2010). In spite of numerous attempts to diversify the economy and the discovery of oil in recent years, the cocoa industry remains a central pillar in the country's economic development. Cocoa is the country's leading export and foreign exchange earner. Cocoa has been the dominant industry in Ghana since colonial days. The development of cocoa in the Gold Coast (Ghana) dates back to 1857 when seeds were introduced to Ghana from Surinam by Basel Missionaries who operated under the auspices of the Dutch government (Grossman-Greene and Bayer, 2009). But cocoa cultivation was largely unsuccessful until 1879 when Tetteh Quarshie re-introduced seeds from Fernando Po and established a cocoa nursery in Manpong-Akwapim and the cultivation of cocoa thereafter flourished in Ghana.

In 1891 Ghana exported its first consignment of cocoa. Between 1911 and 1976 Ghana was the world's leading producer, contributing between 30 and 40% of the world's total output (Grossman-Greene and Bayer, 2009). By the early 1960s, cocoa production began to decline due a sharp fall in world cocoa market prices and the government reduced the producer prices. Consequently many farmers stopped producing cocoa and by the late 1970s Cote d'Ivoire had overtaken Ghana as the world's leading producer and exporter of cocoa. By the early 1980s, the cocoa production had fallen from 591,000 tonnes in 1964 to 159,000 in 1983 (Kolavalli et al., 2012: 1). The decline in the industry threatened the sustainability as well as the quality of the Ghana produce. Ghana's cocoa sells at a premium in the international market because of its high quality hence Ghana's competitiveness on the international market is highly dependent upon maintaining and safeguarding the quality of its cocoa beans. To reverse the decline, the Ghana government with the support of the International Monetary Fund and World Bank initiated a cocoa sector stabilization programme under the Economic Recovery Programme in 1986. The stabilization programme included a substantial increase in producer prices and the supply of subsidised inputs to the cocoa farmers. The programme was

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