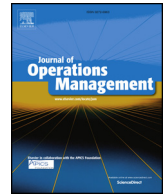


Contents lists available at [ScienceDirect](https://www.sciencedirect.com)

Journal of Operations Management

journal homepage: www.elsevier.com/locate/jom

Toward a theory of supply chain fields – understanding the institutional process of supply chain localization

Zhaohui Wu^{a,*}, Fu Jia^b^a College of Business, Oregon State University, Corvallis, OR 97331-2603, United States^b University of Bristol, School of Economics, Finance and Management, Bristol BS8 1TU, UK

ARTICLE INFO

Handling Editors: Robert D. Klassen and Brian W. Jacobs

Keywords:

Supply chain field
 Localization
 Supply chain
 MNE
 Emerging markets
 Institutional theory
 Case study
 Sustainability

ABSTRACT

When western multinational enterprises (MNEs) build end-to-end supply chains (SCs) to produce and distribute a product or deliver a service in emerging economies, the process is called supply chain localization. These companies encounter institutional environments with regulative, normative and cognitive characteristics very different from those in their home countries. SC localization uncovers and creates institutional voids; we argue that SC localization is a process of institutional change, requiring the MNE to build new institutional infrastructure. To the best of our knowledge, little is known about the institutional process of SC localization and its effects. We carry out a longitudinal case study to investigate SC localization of four MNEs in China. These MNEs are leaders of sustainable business practices in their industries, a distinction that highlights institutional voids in their SC settings. Based on the idea of fields in institutional theory, we build a mid-range theory by introducing the notion of the *supply chain field*. Our study identifies and contextualizes the key elements of an SC field. It recognizes MNEs, government and semi-government entities, and other participants as institutional actors who serve as architects and builders of the new SCs. We find that SC localization is an institutional process, taking place at both actor and field levels, where continuous ideation of new operations practices leads to structuring of the both the SC and SC field.

1. Introduction

When western multi-national enterprises (MNEs henceforth) create end-to-end supply chains (SCs) to produce and distribute a product or deliver a service in emerging economies, the process is considered SC localization (Luo, 2007). Localizing an end-to-end SC includes establishing supply bases, production facilities, distribution networks, service centers, and the like, through which products physically flow (Carter et al., 2015). As the developing economies undergo economic transformation, industry sectors shift their labor-intensive, export-oriented manufacturing operations to focus on rising markets and middle-classes. MNEs have begun to develop, design and build sophisticated SCs from raw material extraction to production and retailing within host countries' borders. Luo (2007) pointed out that as MNEs evolve from foreign investors to strategic insiders, their activities move from production relocation and outsourcing to value chain creation. To meet the demands in these countries, veteran MNEs have begun leveraging strengths across business units to take advantage of the clustering effect to enter and develop markets and SCs in regions with similar institutional characteristics (Arregle et al., 2009; Cantwell, 2009; Miller and

Eden, 2006; Rugman and Verbeke, 2004).

When we delve into SC creation in an emerging economy, we often see that SC localization occurs concomitantly with the industrialization and economic reform of an industry sector in the host country, wherein the government opens up traditionally state-owned and protected sectors (e.g., agriculture, real estate, banking) or under-developed regions to attract foreign companies. Their objective is to reap the technology and expertise of the MNEs as a stimulant to development. Against this backdrop, one interesting phenomenon is that as the MNEs introduce new products, production technologies, and management systems, they often find existing SCs and management systems incompatible. For instance, the industry sector may have been dominated by state-owned enterprises with dilapidated production systems and minimal clean production awareness, or the existing SC may be incomplete—lacking integral functions, infrastructure or processes found in their home countries. Lastly, the germane industry sector in the host country often has less-developed market mechanisms as well as different institutional contents along the cognitive, normative and regulative dimensions (Scott, 2014).

Therefore, establishing a physical SC in a host country is different from the same task in an MNE's home country, involving institutional

* Corresponding author.

E-mail addresses: wuz@bus.oregonstate.edu (Z. Wu), fu.jia@bristol.ac.uk (F. Jia).<https://doi.org/10.1016/j.jom.2018.03.002>Received 26 December 2016; Received in revised form 6 March 2018; Accepted 30 March 2018
0272-6963/ © 2018 Elsevier B.V. All rights reserved.

work beyond typical operations. MNEs encounter the so-called “institutional void.” Broadly speaking, it refers to weak or absent infrastructure, property rights protections, governance systems, and rules and norms of social conduct. An institutional void implies a deficient institutional infrastructure. It inhibits the creation and functioning of markets, industries and SCs (North, 1990).

Institutional voids challenge the creation of localized SCs in emerging economies. The essence of the challenge is what Zaheer (1995) calls the “liability of foreignness.” Pfeffer and Salancik (1978) point out that MNEs must establish “created environments” to access materials and relational resources in a new country. While they say little about what defines a “created environment,” we posit that it has to do with creating new institutional contents (understandings, associations, laws, etc.), to accommodate the MNE's technologies and practices. Localization actually creates and reveals institutional voids—the industry in question either did not exist or operated “just well enough” prior to the MNE's arrival. Radically different technologies, practices and management systems demand drastic changes in existing social-technical systems. While there are country-level analyses of institutional voids in entrepreneurship and strategy research (Mair et al., 2012; Webb et al., 2010), we know little about how institutional voids manifest at industry and SC levels or how firms and institutional actors address them.

A logical first step in considering institutional voids is to identify voids according to the normative, cultural-cognitive and regulative institutional “pillars.” The three pillars (also called institutional elements or carriers), together with associated activities and resources, provide the framework for societal stability and meaning (Scott, 2014). Filling institutional voids, then, amounts to creating contents along these dimensions. In essence, it is to bring about institutional change. This leads us to such concepts as strategic action and institutional fields to understand the actors that fill institutional voids and direct change. Specifically, strategic action is collective action with the purpose of instigating institutional change (Fligstein and McAdam, 2011). An institutional field is a meso-level social order in which the actors (individual or collective) coexist according to a set of shared understandings about their purposes, power relationships and prevailing rules (Scott, 2014). Strategic actions change or introduce new elements into the existing institutional field.

To the best of our knowledge, studies on localization have largely dealt with market entry decisions; they consider firms and country-level institutional characteristics (Berry et al., 2010; Cantwell, 2009; Rugman and Verbeke, 2004). There is little consideration of the institutional processes by which an MNE creates an SC in an emerging economy. This lack of understanding of the institutional process associated with SC localization motivates our study. We argue that when an MNE confronts deficiencies induced by institutional voids, it must act in concert with others for a successful SC localization. We believe that a starting point is to conceive SCs in the context of an institutional field. This concept views localization as a challenge of populating institutional voids. It provides a basic framework to identify institutional actors and their strategies and interactions in the change process.

As an incremental step, we build on the basic understanding of institutional fields to develop a mid-range theory through theory elaboration (Fisher and Aguinis, 2017; Ketokivi, 2006; Merton, 1968). To do so, we carry out a longitudinal case study analyzing the strategies of four western MNEs in their efforts to create SCs in China. We set out to answer two related questions:

1. How do the MNEs engage with other institutional actors to overcome the challenge imposed by institutional voids?
2. How does collaboration among institutional actors influence SC localization?

In what follows, we review relevant literature, summarize our methodology, conduct within- and cross-case analyses, discuss our findings, and offer propositions.

2. Theoretical background

2.1. Localization in emerging economies

Cross-cultural comparisons in quality management, outsourcing and re-shoring, and closer focus on the bottom of the pyramid suggest growing attention to operations management in emerging economies (Parmigiani and Rivera-Santos, 2014; Ruamsook, et al., 2007; Rungtusanatham et al., 2005). While many global SCs end in the western buyer's home country (the buyer coordinates overseas production and sourcing of goods and services coming ashore), scholars are showing increasing interest in operations management within emerging economies, which represent growth opportunities. At the same time, these emerging economies pose challenges for MNEs. Giunipero et al. (2008, 83) lamented that global SCs represent one of the least-published and -understood topics in SCM literature over the past decade. A decade later, we see special issues in OM journals on emerging economies, suggesting continued research and discovery (Flynn et al., 2015; Zhou et al., 2016).

Given growing development and demand in such economies, MNEs' have shifted from building export-oriented manufacturing to developing mature products for their hosts. Luo (2007) pointed out that MNEs have changed from foreign investors into strategic insiders and shifted from production relocation to value chain creation. Veteran MNEs have implemented strategies across business units and regions by building globally-integrated SC operations. Value chain creation is a process of building an SC in the emerging economy. We call this process (that is, setting up end-to-end SCs in emerging economies) SC localization.

In international business studies, localization often refers to market-entry decisions. Scholars examine how country-level institutional environments influence MNEs' market entry strategies (Berry et al., 2010; Xu and Shenkar, 2002; Zaheer et al., 2012). International business studies of global expansion adopt this institutional perspective, focusing on overall strategies of country selection and coordination across subsidiaries. For instance, Arregle et al. (2009) looked at the cluster effect of setting up foreign subsidiaries. The number of subsequent subsidiaries in a country is in part determined by a firm's prior activity at the regional level. Cantwell (2009) points out the reason is to exploit institutional compatibility and corporate coherence among selected locations. However, little is said as to how an MNE, once it decides to localize an end-to-end SC, tackles the institutional challenges and barriers that hinder the process.

Scholars point out that MNEs need to leverage political mechanisms in host countries to alter and create favorable economic conditions. Pfeffer and Salancik (1978, Chap. 8) coined the term “created environment,” arguing that MNEs take political actions to reduce the uncertainty arising from larger, unfamiliar social systems. Political actions involve MNEs proactively influencing government policy by building long-term relationships with government authorities across various issues (Hillman and Hitt, 1999). They gain legitimacy through isomorphic adaptation or strategic manipulation of social expectations (Scherer et al., 2013). Analysis of political actions focuses on antecedents; little is said of how MNEs influence policies in a host country (Hillman et al., 2004).

“Created environment,” on the other hand, suggests an MNE modifies the pre-existing business conditions in an emerging economy. That is, an MNE tries to change the business environment of the host country to accommodate its “outsider” way of doing business. The less accommodating the host industry sector is, the more pressure an MNE will have to exert. Starting with Scott's (2014) definition of “institution” as the cognitive, normative and regulative pillars of the host society, and considering that these pillars exist to “produce meaning, stability and order,” it stands to reason that when the host country's business environment is incompatible with the MNE's products, production technologies and management systems, the MNEs will attempt institutional change.

Download English Version:

<https://daneshyari.com/en/article/7436163>

Download Persian Version:

<https://daneshyari.com/article/7436163>

[Daneshyari.com](https://daneshyari.com)