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**Multinational Enterprises and the Governance of Sustainability Practices in Emerging
Market Supply Chains: An Agile Governance Perspective**

Vivek Soundararajan

University of Bath

United Kingdom

v.soundararajan@bath.ac.uk

Sreevas Sahasranamam

University of Strathclyde

United Kingdom

Zaheer Khan

University of Aberdeen

United Kingdom

Tanusree Jain

Trinity College Dublin

Ireland

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Multinational Enterprises and the Governance of Sustainability Practices in Emerging Market Supply Chains: An Agile Governance Perspective

Abstract

Advanced economy multinational enterprises (AMNEs) face idiosyncratic challenges related to the governance of their sustainability practices in their emerging market supply chains. One way for AMNEs to address these challenges would be by adopting agile sustainability governance mechanisms. Drawing on the theories of experimentalist governance and deliberation, we propose a processual framework suited to develop agile sustainability governance mechanisms. We explore the challenges to supplier participation and the factors that enable an authentic dialogue in the process. We contribute to the scholarship on transnational governance and strategic agility, and offer practical implications which are also relevant for disruptions like COVID-19.

Keywords: Global supply chains; Emerging markets; Strategic agility; Governance; Sustainability; MNEs

Introduction

Global supply chains are important modern economic coordination routes that connect advanced economy multinational enterprises (AMNEs) with suppliers spread widely across emerging markets (He, Khan, & Shenkar, 2018; Khan, Rao-Nicholson & Tarba, 2018; Kumaraswamy, Mudambi, Saranga, & Tripathy, 2012). Yet, they can also exacerbate the social and environmental sustainability-related governance¹ challenges faced by AMNEs. Beyond representing a moral mandate, sustainability-related governance challenges are incessant in AMNEs' emerging market supply chains and can have profound economic implications, as they can elicit adverse stakeholder reactions, smear reputations, and cause irreversible damage to the financial performance of AMNEs (Czinkota, Kaufmann, & Basile, 2014; Lund-Thomsen, & Lindgreen, 2014; Narula, 2019).

At present, to coordinate, manage, and monitor the sustainability practices of their supplier networks, AMNEs primarily rely on top-down sustainability governance mechanisms such as contracts, social audits, certifications, or codes of conduct (Arora & De, 2020; Huq et al., 2014; Van Tulder et al., 2009; Yu, 2008). However, cross-disciplinary research (e.g., Fung, 2003; Schouten, Leroy, & Glasbergen, 2012; Soundararajan, Brown, & Wicks, 2019) has highlighted the numerous issues that affect these governance mechanisms. First, AMNEs or developed country Non-Governmental Organizations (NGOs) dominate the process through which such mechanisms are developed and implemented across geographic boundaries—a top-down approach that often undermines the agency and expertise of emerging market suppliers (Rasche, 2012). Second, the rather rigid sustainability benchmarks imposed by AMNEs are often at odds with the inherently complex, unpredictable, and

¹ Within the context of global supply chains, governance refers to “*the organization and control of*” global supply chains by global lead firms (in our case, AMNEs). Here, organization “*refers to the structure and characteristics of inter-firm relationships across value chain nodes*” and control is often derived “*from the power dynamics between firms as well as from institutional and market forces*” (McWilliam, Kim, Mudambi & Nielsen, 2020, 101067). Keeping this in perspective, governance decisions determine the locations of processes, monitoring strategies, and distribution of profits, shaping the relationship between lead firms and suppliers across space and time (Gereffi, 2019; Gibbon, Bair & Ponte, 2008).

resource-constrained nature of emerging market supply chains. Third, the AMNEs' existing governance mechanisms disregard the local institutional factors—including culture and socio-economic conditions—that shape the sustainability practices of emerging market suppliers (Narula, 2019; Wilhelm, Blome, Bhakoo, & Paulraj, 2016; McWilliam et al., 2020). As a result, top-down governance mechanisms carry little legitimacy among emerging market suppliers (Schouten, Leroy, & Glasbergen, 2012), as they limit their ability to bring about positive change in global supply chains (Fung, 2003).

Emerging studies suggest that the shortcomings mentioned above of top-down governance mechanisms can be overcome through the development of flexible, evolving, and adaptive alternatives in collaboration with the implementing actors (e.g., Fung, 2003; Mena & Palazzo, 2012; Schouten, Leroy, & Glasbergen, 2012; Overdevest & Zietlin, 2014; Soundararajan, Brown & Wicks, 2019). These alternatives, to which we refer as 'agile sustainability governance (ASG) mechanisms' account for the fact that there is no single universal solution to the sustainability-related governance challenges presented by emerging market supply chains. Instead, ASG mechanisms incorporate diverse perspectives, provide emerging market suppliers with higher degrees of agency, are developed organically, and consider local institutional and market contexts within the governance process called for by scholars (e.g., Fung, 2003; Schouten, Leroy, & Glasbergen, 2012). These attributes enable ASG mechanisms to be adaptable and nimble in dealing with the sporadic sustainability-related challenges that may surface in emerging market supply chains (Overdevest & Zietlin, 2014). While there are no existing exemplars of ASG mechanisms, the sustainability initiatives enacted by companies such as IKEA (e.g., IWAY initiatives) (see, for example, IKEA (2020)) and Chiquita (e.g., Gender equality initiatives) (see, for example, Chiquita, (2020)) display some of their characteristics.

Although the existing research calls for more research on ASG mechanisms (Moog, Spicer & Böhm, 2014; Rasche, 2012), their development, particularly the process through which AMNEs can develop and enact ASG mechanisms for emerging market supply chains, has received surprisingly little attention. Drawing on insights from experimentalist governance theory (Overdevest & Zietlin, 2014; Sabel & Zeitlin, 2008, 2012) and deliberation theory (Booher & Innes, 2002; Dryzek, 2009; Fung, 2003; Isaacs, 2008), we propose an iterative processual framework comprising four-stages—namely, collective definition, autonomous execution, evaluation, and collective redefinition, that we suggest is well-suited to the development of ASG mechanisms for emerging market supply chains. Notably, this type of processual conceptualization is rarely found within the broader governance and sustainability literature. We further highlight the challenges to supplier participation that can emerge during the process, and we discuss the relational and resource factors that facilitate the establishment of an authentic dialogue between AMNEs and their emerging market suppliers—an essential component of the four-stage process. We contend that ASG mechanisms have the potential to open new pathways for the improvement of sustainability; pathways that are simultaneously defined by top-down as well as bottom-up approaches (e.g., Bos & Brown, 2012; Sabel & Zeitlin, 2012).

This paper makes three critical theoretical contributions. First, although current research on transnational sustainability governance mechanisms broadly highlights some of the characteristics and the significance of what we refer to as ASG mechanisms, it has hitherto paid scant attention to their development (e.g., Hage, Leroy & Petersen, 2010; Mena & Palazzo, 2012; Moog, Spicer & Böhm, 2014; Soundararajan, Brown & Wicks, 2019). Our processual framework brings together different facets and enablers of the development of ASG mechanisms that go beyond mere deliberation, thereby contributing to research on transnational sustainability governance (Kolk, 2016; Shapiro, Hobdari, & Oh, 2018;

Soundararajan & Brown, 2016; Vurro et al., 2009). We contend that deliberation is only one part of the ASG puzzle. Second, the literature on transnational sustainability governance has predominantly focused on the role played by top-down governance mechanisms (Huq et al., 2014; Arora & De, 2020; van Tulder et al., 2009; Yu, 2008). This paper highlights the need to move towards a mixture of top-down and bottom-up governance suited to better deal with rapidly and sporadically changing market conditions—such as those brought about by trade wars, protectionist policies, and large scale disruptions (e.g., COVID-19)—that can have profound impacts on global supply chains (Petricevic & Teece, 2019; Witt, 2019; Verbeke, 2020). As a by-product, this paper also makes an applied contribution by highlighting the process and conditions involved in the enactment of agile governance systems that bring together top-down and bottom-up governance architectures. Third, this paper extends the literature on strategic agility (Doz & Kosonen, 2010; Goldman, Nagel, & Preis, 1995; Weber & Tarba, 2014) within emerging markets (Boojihawon et al., 2020; Fourné, Jansen, & Mom, 2014) by introducing the concept of agile governance in the context of sustainability practices. Beyond improving the sustainability practices of their emerging market suppliers, ASG mechanisms can enable AMNEs to gain strategic agility—the ability to adapt to constantly changing and uncertain environments (Goldman, Nagel, & Preis, 1995; Junni, Sarala, Tarba, & Weber, 2015; Teece et al., 2016), which is of particular relevance in emerging market contexts, where AMNEs are more likely to encounter more significant levels of uncertainty than in advanced economies. In this regard, our concept of agile governance has broader implications for the international business literature.

This paper is structured as follows. First, we present the literature on sustainability governance in emerging market supply chains, strategic agility, and experimentalist governance and deliberation theories. Then, we highlight the importance of the agile governance of sustainability practices in emerging market supply chains. Subsequently,

drawing from experimentalist governance theory and deliberation theory, we develop a processual framework of agile sustainability governance mechanisms and illustrate the core conditions for its implementation. Finally, we articulate the theoretical and practical implications of ASG mechanisms and offer recommendations for future research on the topic.

Sustainability Governance in Emerging Market Supply Chains

In recent years, supply chains have increasingly become globalized and dispersed (Kano et al., 2020; McWilliam et al., 2020). Traditionally, to address the governance challenges imposed by emerging market supply chains, AMNEs have used contractual mechanisms (Bird & Soundararajan, 2020) that govern relationships through formal agreements that determine modes of interactions and remedies, for breaches and unexpected events (Poppo & Zenger, 2002). While such mechanisms can be useful in addressing operational challenges, they are ineffective in addressing the sustainability-related governance issues that arise in emerging market supply chains (Bird & Soundararajan, 2020), as such issues cannot be controlled and coordinated with the same ease with which formal contracts usually deal with quality, quantity, price, time, and other operational problems (Wilhelm et al., 2016). Any shortfalls of the universally acknowledged scientific benchmarks against which AMNEs measure their suppliers' sustainability practices create further impediments in the process. Moreover, AMNEs generally cannot directly monitor the everyday activities of their suppliers due to geographic distances and institutional (e.g., cultural and regulatory) differences (Huq et al., 2014). Besides, due to infrastructural deficiencies and, in some instances, political and economic instability, the governance of emerging market supply chains presents particular challenges to AMNEs (MacCarthy & Atthirawong, 2003; Xu & Shenkar, 2002).

Nevertheless, the heightened scrutiny to which they are subjected, by civil society organizations, academia, media, and, sometimes, the general public, makes it impossible for AMNEs to evade accountability. Those AMNEs that do not engage in any demonstrable effort towards the adoption of sustainable practices are widely condemned (Wettstein, Giuliani, Santangelo & Stahl, 2019). Although several emerging markets have adopted stringent standards and regulations, their enforcement is weak due to the prevalence of corruption and poor regulatory infrastructure (Javorcik & Wei, 2009; Witt et al., 2017), which makes it difficult for AMNEs to rely on their suppliers' local regulatory environments. To resolve this impasse, AMNEs increasingly rely on social audits (Locke, Amengual, & Mangla, 2009), which are assessments performed—either by the AMNEs themselves or by third-party auditors on their behalf—to measure and report on the sustainability practices of their suppliers. Conducted against a set of benchmarks developed by the AMNEs themselves and/or by third parties (such as NGOs), or through multi-stakeholder collaboration, social audits help in communicating legitimate information on the sustainability practices adopted across an AMNE's supply chain to its concerned stakeholders. AMNEs also use these assessments to identify and establish relationships with distant suppliers and monitor and incentivize their behaviors (Mueller, Santos, & Seuring, 2009).

Nevertheless, cross-disciplinary studies have highlighted the fact that top-down governance mechanisms and the ways in which they are developed and implemented, are rigid and lack legitimacy among emerging market suppliers (e.g., Locke, Amengual, & Mangla, 2009; Mena & Palazzo, 2012; Rasche, 2012; Soundararajan, Brown & Wicks, 2019). For instance, Mena and Palazzo (2012) drew on deliberation theory to highlight the lack of input and output legitimacy of social audit mechanisms. Input legitimacy—which is evaluated through inclusion, procedural fairness, consensual orientation, and transparency—refers to “*rule credibility, or the extent to which the regulations are perceived as justified*”,

while output legitimacy—which is evaluated through coverage, efficacy, and enforcement—refers to “*rule effectiveness, or the extent to which the rules effectively solve the issues*” (Mena & Palazzo, 2012: 527). Soundararajan, Brown, and Wicks (2019) drew on stakeholder theory and deliberation theory to emphasize the failures of supply chain governance in terms of “*the postures or orientations of participants involved in multi-stakeholder initiatives (MSIs) towards each other, and the processes used among participants to engage in the creation of MSIs and to sustain them over time*” (p. 387). Specifically, they discussed the limitations of social audit mechanisms in terms of their inclusiveness (of participants and discourses), authenticity (of deliberations), and consequentiality (of social audit mechanisms).

The limited legitimacy of top-down governance mechanisms drives emerging market suppliers to act opportunistically, motivating them to hide any potential issues, and to engage in obfuscation behaviors (Huq et al., 2014). For example, in their study of garment supply chains, Soundararajan et al. (2018) showed how, in response to top-down governance mechanisms, Indian suppliers engage in evasion institutional work. These evasion practices include bribing government authorities for documents, operating unregistered production facilities, prepping workers for audits, and terminating troublesome workers before inspections; all activities that are likely to increase supply chain sustainability risks for AMNEs (Lee et al., 2012), triggering further audits and negatively affecting the degree of mutual trust they enjoy with their suppliers. Such a pattern reinforces a negative feedback loop, ultimately reducing overall sustainability performance (Tachizawa & Wang, 2015).

In response to this state of affairs, some studies emphasize the characteristics that sustainability governance mechanisms need to possess to be effective. First, they need to be emergent and adaptive to accommodate the complexities and changes that affect emerging market supply chains (Huq et al., 2014). Second, they must be able to bring together and

balance the diverging interests of AMNEs and their diverse suppliers, who are connected through complex networks characterized by asymmetries in power, knowledge, and information (Rasche, 2012). Third, they must possess the capacity to initiate a dialogue process suited to harmonize diverging interests and to break down any barriers created by rigid predetermined structural positions (Soundararajan, Brown & Wicks, 2019). Last, they must facilitate sustainable solutions that are creative, innovative, and mutually beneficial for both the AMNEs and their emerging market suppliers (Mena & Palazzo, 2012). In other words, the existing studies indirectly call for agile sustainability governance mechanisms to be implemented in emerging market supply chains.

Agile Governance

Strategic agility is defined as the “*the capacity of an organization to efficiently and effectively redeploy/redirect its resources to value-creating and value protecting (and capturing) higher-yield activities as internal and external circumstances warrant*” (Teece et al., 2016: 17). This concept directs attention to a firm’s ability to nimbly capture strategic opportunities (Kotter, 2014) through the flexible adaptation and reconfiguration of business models (Doz & Kosonen, 2010). Accordingly, strategic agility has been embraced by different functional areas of management—such as information technology, human resource management, supply chain and production (Doz, 2020; Sambamurthy et al., 2003; Shams et al., 2020)—and has been applied in multiple contexts such as business model renewal (Doz & Kosonen, 2010; Teece et al., 2016), digital transformation (Warner & Wager, 2019), the governance of international joint ventures (Debellis et al., 2020), and acquisition processes (Junni et al., 2014).

Doz & Kosonen (2010) highlighted the importance of three meta-capabilities of strategic agility—namely, strategic sensitivity, leadership unity, and resource fluidity.

Strategic sensitivity indicates the ability to understand and respond to environmental changes; leadership unity refers to aspects like managerial responsiveness and a unified commitment to change; and resource fluidity discusses the ability to restructure and reconfigure knowledge, resources, and capabilities to adapt rapidly.

Strategic agility is considered an essential capability in the context of international business and MNEs, given the latter's need to adapt to uncertain market and institutional conditions (Fourné, Jansen, & Mom, 2014; Shams et al., 2020; Verbeke, 2020). In this vein, Fourné, Jansen, & Mom (2014) suggested that MNEs need strategic agility to sense local opportunities, identify global complementarities, and appropriate local value, which, in turn, provides them with competitive advantages in global markets. Shams et al. (2020) developed a conceptual framework for agile multinationals and highlighted the conditions necessary for the achievement of agility, and the role played by agility in international success. Against the backdrop of the COVID-19 pandemic and declining multilateralism, Verbeke (2020) highlighted the need for agile global supply chains to maintain a thriving economy.

Recent literature on strategic agility has begun to highlight its relevance for AMNEs operating in emerging markets or partnering with emerging market firms. For instance, Boojihawon et al. (2020) discussed the importance of agility in the context of distribution strategies enacted in Paraguay. Pereira et al. (2020) demonstrated how strategy agility implemented through investments in intangible assets facilitated overcoming the financial crises in Indian BPOs. Bouguerra et al. (2019) found that operational agility enhanced environmental collaboration in Turkey through the mediating role played by employee creativity and the flexible work arrangements put in place by their managers. Osei et al. (2019) developed a three-stage model of how agility manifests over time and highlighted the importance of relationship building, social responsibility, and adaptation in the agility building process.

Despite rapidly growing interest in understanding the antecedents and consequences of strategic agility, the extant literature provides a relatively limited discussion of the development of agile supply chain governance mechanisms (Ivory & Brooks, 2018). This oversight is surprising, as the effective governance of supply chains, which is directly related to AMNE performance (Eccles, Ioannou, & Serafeim, 2014; Kano, 2018), can provide important means and guidelines suited to facilitate relationships with supply chain partners, mitigate ambiguity and conflicts, achieve common goals, and gain superior performance (Gereffi, 2019; Liu et al., 2009; McWilliam et al., 2020).

ASG mechanisms are particularly crucial for those AMNEs that need to coordinate supply chains located in emerging markets that are not well integrated, are more highly reliant on an informal way of doing business, and are prone to risks imposed by persisting social and environmental issues (Narula, 2019). Specifically, in contrast to the top-down ones used by AMNEs, ASG mechanisms include a unique set of capabilities—such as flexibility, responsiveness, and adaptability to local market conditions and changing stakeholder demands (Fayezi, Zutshi & O'Loughlin, 2017; Gligor & Holcomb, 2014; Ivory & Brooks, 2018). Table 1 highlights the key differences in characteristics between top-down and agile governance.

---Insert Table 1 Here ---

Experimentalist Governance Theory and Deliberation Theory

While the existing literature offers ample insights into the characteristics of ASG mechanisms, it provides little understanding of the features—beyond deliberation—that can help develop such mechanisms. By cross-fertilizing knowledge from political science and management, we contend that experimentalist governance theory (Overdevest & Zietlin, 2014; Sabel & Zeitlin, 2012; Sabel, & Zeitlin, 2008), together with deliberation theory

(Booher & Innes, 2002; Dryzek, 2009; Fung, 2003; Isaacs, 2008), can contribute to bridging this gap in the literature.

According to experimentalist governance theory, governance “*is a recursive process of provisional goal setting and revision based on learning from [a] comparison of alternative approaches to advancing these goals in different contexts*” (Overdevest & Zeitlin, 2014: 25). The core constructs of this theory are autonomy, consultation, and reiteration. Autonomy recognizes the agency of implementing actors, consultation emphasizes their perspectives, and reiteration refers to the emergent nature of governance relevant to contexts and issues. These constructs date back to the writings of pragmatists such as Dewey (1927), who argued that governance mechanisms must be flexible and evolving—as opposed to conventional and fixed—instruments. Such mechanisms should be developed in collaboration with the implementing actors to address a social issue at the local level, and their processes and outcomes should be periodically monitored. Moreover, the feedback obtained from such periodical monitoring should be used to enable the further adjustment and development of the governance mechanisms, making them flexible, responsive, and adaptable to the local contexts in which their actual implementation takes place (Overdevest & Zeitlin, 2014).

Overdevest and Zeitlin (2014) decoded these basic features of experimentalist governance theory into four processes iteratively linked together. The first involves the setting up of benchmarks based on multi-stakeholder deliberation, which is defined as “*debate and discussion aimed at producing reasonable, well-informed opinions in which participants are willing to revise preferences in light of the discussion, new information and claims*” (Chambers, 2003: 309) and differs from other forms of talks—such as bargaining—as it enables individuals to discuss, analyze, and decide whether a particular act of bargaining is fair and appropriate (Remer, 2000). The second process involves allowing those who are governed to meet these set benchmarks in their own ways, albeit within the boundaries of

ethical guidelines. The third involves performance reports, peer-to-peer learning, and the adoption of corrective measures. The fourth process involves the revision of the benchmarks and procedures based on multi-stakeholder deliberations. When these four processes are iterated cyclically, the outcome will be an agile governance mechanism endowed with ample flexibility and legitimacy and suited to effectively govern any complex issues as they emerge (Overdevest & Zeitlin, 2014).

Research on deliberation theory becomes particularly relevant to understand the conditions that enable processes, which consist of multi-stakeholder deliberation, especially the first and fourth processes in the experimentalist governance. Deliberation theory deals with the discourse that can be employed for “*analyzing the nature and form of the dialogue and provide insights into the essence of the misunderstandings and disputes that so often arise*” (Jonker & Foster, 2002: 193). While it was initially centered around Habermas’s ideal concept of communicative rationality (Habermas, 1981), it has since moved on to explore the practical aspects of the dialogue between actors with diverse interests, resources, and power about complex governance issues (e.g., Fung, 2003; Ryfe, 2005). For example, Hage, Leroy, and Petersen (2010: 254), who studied Stakeholder Participation Guidance for the Netherlands Environmental Assessment Agency, demonstrated how deliberation approaches “*enhance legitimacy and quality of decision-making processes, especially under conditions of uncertainty.*”

While there are many variants of deliberation theory, three constructs—namely, inclusiveness, authenticity, and consequentiality—are argued to be key to an impactful deliberative system (Dryzek, 2009). Inclusiveness highlights the importance of embracing any relevant actors and discourses, authenticity directs attention to legitimate non-coercive participation, and consequentiality refers to the impact of a deliberative system. However, the differences in power, culture, resources, and institutions inherent to global supply chains can

challenge the realization of a deliberative system, leading to a breakdown in its governance. In this vein, collective stakeholder orientation becomes important (Soundararajan, Brown, & Wicks, 2019). This construct reflects the importance of the involvement of supply chain participants, serving their interests, and building relationships with them aimed at generating overlapping value and shared responsibility. It also emphasizes the need for structures suited to enable the re-alignment of supply chain participants and provide supportive processes, should any challenges emerge (Soundararajan et al., 2019).

Taken together, the core constructs of experimentalist governance and deliberation theories suggest that, when actors with differing interests engage in the development of ASG mechanisms, they begin to view governance issues through a shared lens (Overdevest & Zeitlin, 2014). Also, they collectively learn to use various methods and mechanisms that facilitate bringing actors together when governance problems arise (Herriot & Pemberton, 1995). Through such collective learning², actors acquire emancipatory knowledge³ (Habermas, 1981; 1985) that enables them to recognize the value they can create by visualizing governance issues in new and different ways. Over time, collective learning, in itself, can also become a reason for these actors to engage in the process (Sabel & Zeitlin, 2010). Powerful actors, such as AMNEs, would become less likely to use power differentials to seek additional rents or to establish relationships that some might consider exploitative (Soundararajan et al., 2019), and would also become more likely to seek the views of others, while ensuring that the terms and solutions of any issues are understood and accepted by the other actors, rather than imposed upon them. This, in turn, may convince powerful actors to change their perspectives and recognize the importance of the ‘local knowledge’ (Geertz,

² Collective learning refers to “a social process of cumulative knowledge, based on a set of shared rules and procedures which allow individuals to coordinate their actions in search for problem solution” (Capello, 1999, p. 354).

³ Emancipatory knowledge is knowledge that surpasses the psychological, situational and institutional barriers created by societies (Habermas, 1981), and is critical to disrupt the status quo and to keep up with the changes in a rapidly transforming and increasingly complex and unpredictable world (Habermas, 1981).

2008) that actors such as emerging market suppliers can bring to the table (De Búrca, Keohane, & Sabel, 2014). These are the reasons that have enabled a governance approach based on experimentalist theory to emerge *“as a widespread response to turbulent, polyarchic environments, where strategic uncertainty means that effective solutions to problems can only be determined in the course of pursuing them, while a multi-polar distribution of power means that no single actor can impose her own preferred solution without taking into account the views of others”* (Overdevest & Zietlin, 2014: 26).

To date, experimentalist governance theory has been primarily applied within public policy domains across the European Union and the United States and to areas of transnational or global public and private governance issues. For example, by conducting a case study of its Torch Program, Heilmann, Shih, and Hofem (2013) discussed the experimentalist nature of China’s national innovation system. Overdevest and Zietlin (2014) explored the transnational applicability of experimentalist governance theory to the case of the European Union’s Forest Law Enforcement Governance and Trade initiative, and its interaction with private sustainability governance mechanisms and public regulations. They offer pathways and mechanisms that can enable the application of experimentalist governance theory to transnational governance. We build on these valuable cross-disciplinary insights into experimentalist governance theory and cross-fertilize them with deliberation theory to develop our framework for the development of ASG mechanisms for emerging market supply chains.

The Development of Agile Sustainability Governance Mechanisms

In this section, drawing on insights from experimentalist governance theory and deliberation theory, we present the four-stage cyclical process through which ASG mechanisms can be developed. The cycle begins with the collective definition of broad benchmarks, followed by

their autonomous application by emerging market suppliers, evaluation and collective learning, and the collective redefinition of broad benchmarks, after which the cycle repeats (Figure 1). Furthermore, we discuss the various factors that could create challenges for supplier participation during such a process. We present our model in detail below.

---Insert Figure 1 Here---

Stage 1: Collective Definition

This stage involves the collective definition of the broad sustainability benchmarks with which emerging market suppliers need to comply. As with several sustainability governance mechanisms, these benchmarks are often defined through a process of deliberation conducted by AMNEs among themselves—as in business-driven governance mechanisms—or by NGOs and civil society actors along with AMNEs—as in the case of NGO-driven governance mechanisms. At present, emerging market suppliers are often excluded from the deliberation process—which is one of the main reasons for their perception of existing governance mechanisms as unfair and biased—and resort to evasion strategies (Soundararajan et al., 2019).

Alternatively, in order to set up benchmarks that can be viewed as legitimate by a wide range of stakeholders, especially emerging market suppliers, the deliberation process could include provisions for AMNEs and their emerging market suppliers to engage in an ‘authentic dialogue’ (Booher & Innes, 2002; Isaacs, 2008)—as opposed to an artificial or shallow one. The ‘authentic dialogue’ concept builds upon communicative rationality (Habermas, 1981), consensus building (Susskind et al., 1999), mediation (Bush & Folger, 1994), alternative dispute resolution (Goldberg et al., 1985), and the practice of dispute negotiation and resolution employed by groups such as the International Mediation Institute and the Society of Professionals in Dispute Resolution.

Although, conceptually, the authentic dialogue builds on Habermas's ideas on communicative rationality, it diverges from them by addressing numerous criticisms directed at 'the ideal speech situation'. First, Habermas's ideal conditions are not inclusive; they reproduce the dominant and uniform enlightenment metanarrative (Lyotard, 1987) by excluding any subjects who lack the competency to speak or act (Habermas, 1990), fail to consider the diversity of competencies and voices that is fundamental to democracy, exclude the local stories and 'lay knowledge' (Geertz, 2008), and often silence the voice of marginalized actors and minority communities.

In contrast, the authentic dialogue reinforces the idea that every actor has the right to participate and has an equal say in it. Second, unlike communicative rationality, the authentic dialogue is not an ideal type or epistemological view. It is a concept informed by more than two decades of research and practice in policy arenas about "*what it takes to make robust choices about the future in a real-world situation, taking into account diverse views and multiple knowledge and understandings*" (Innes, 2004: 9).

A dialogue is authentic when grounded in five conditions—i.e., sincerity, accuracy, comprehensibility, legitimacy, and listening (Innes & Booher, 2010). First, AMNEs and their suppliers must make sincere statements; i.e., they must candidly express their honest thoughts and options. Second, the statements made or knowledge shared by AMNEs and their suppliers must be accurate, as the claims made by one actor can only be tested by others and experts if they are accurate. Any inaccurate, prejudiced, inappropriate, and self-centered information sabotages the entire dialogue process, causing a stalemate and preventing the search for suitable solutions. Third, while bearing in mind that comprehensibility is "*often a moving target as ideas and understandings change, and it has to be constantly checked within the group*" (Innes & Booher, 2010: 98), AMNEs and their suppliers must make statements that are clear and mutually comprehensible, as any incomprehensible information

is unusable. Fourth, in those cases in which not all actors can be present at the deliberation process, legitimately appointed representatives need to be allowed to speak on their behalf. This enables all actors to truly interact with each other and offer sincere assurances. Finally, authentic dialogue requires AMNEs and their suppliers to listen to each other, as listening creates a space for the inclusion of the discourses of marginalized and neglected actors in a dialogue process dominated by an ‘enlightened metanarrative’ (Innes, 2004), and is fundamental to understanding the situations and problems of others. The positive aspect of listening is that actors can retain their viewpoints in the background while listening to the circumstances of others in the foreground (Innes & Booher, 2010), which creates awareness of dissensions and reveals their underlying reasons. This, however, does not imply the accumulation of all voices in a search for the lowest common denominator (Karl et al., 2007); rather, it involves authentic listening aimed at recognizing how one can benefit from interacting with others.

It should be noted that this stage only involves the development of broad sustainability benchmarks, which emerging market suppliers are then allowed to comply with in their own ways (Stage 2). This process results in benchmarks being collectively defined and understood, rather than imposed—as is the case in top-down governance. Suppliers perceive that their voices are being heard and included and, in turn, accept the benchmarks and ‘buy into’ the process. To summarize, sustainability benchmarks collectively developed on the basis of an authentic dialogue acquire all the features that are needed to gain procedural legitimacy among emerging market suppliers and other involved actors. For example, improving the condition of women in emerging market supply chains is a challenge faced by several AMNEs. Chiquita, a leading producer and distributor of bananas in the United States, developed benchmarks to promote a safe work environment for women workers by engaging in an authentic dialogue with banana producers and other stakeholders

in Central and South America. The inclusivity and authenticity of these benchmarks, which were defined collectively, led to them being recognized by the World Banana Forum (WBF), and local and international unions.

Stage 2: Autonomous Execution

Emerging market suppliers come in different sizes and have differing interests, resources, and capabilities. Research suggests that most are small and medium-sized firms (Humphrey & Schmitz, 2000; Soundararajan, Spence, & Rees 2018) of an entrepreneurial nature unaccustomed to formalized and structured processes. The primary issue that negatively affects the current sustainability governance mechanisms is that the governing actors, such as AMNEs, require their suppliers to follow a universal process to meet the set benchmarks, even when the latter are collectively deliberated. The uniqueness and differentiating features of suppliers are suppressed in the interest of consistency and control. As a result, suppliers perceive that AMNEs do not trust them or their capabilities.

In order to implement sustainability benchmarks, suppliers must perceive that the onus of control lies with them and not with the AMNEs or other parties. This notion of realizing the agency of emerging market suppliers has been the subject of studies in other disciplines (e.g., Schouten & Bitzer, 2015), which have argued against the idea of emerging market suppliers being mere rule takers. While the previous stage ensures that the voices of suppliers are included in the development of sustainability benchmarks, the present one guarantees that they are allowed to exercise their agency in fulfilling those benchmarks. Appreciating the agency of those who are being governed is one of the core foundations of experimentalist governance theory (Heilmann, Shih, & Hofem, 2013). In this stage, which is where actual experiments occur in the governance space, suppliers attempt to find implementation pathways and processes that suit their interests, resources, contexts, and

capabilities. Their perceptions of freedom motivate them to take risks and develop innovative solutions tailored to their local settings. This is captured well in the case of Chiquita, in which, to meet the set benchmarks—i.e., to ensure a working environment that is safe and free from discrimination for women workers— small scale producers, in collaboration with stakeholders such as unions and WBF, developed localized solutions such as women’s committees and training modules.

The outcome of such a process is that suppliers assume the ownership of and responsibility for the set benchmarks and make genuine efforts to fulfill them. Over time, these benchmarks become routines that are integral to the suppliers’ everyday business strategies and activities. Routines are “*repetitive, recognizable patterns of interdependent actions*” (Feldman & Pentland, 2003: 95). The routinization of benchmarks leads to actors developing “*sequential patterns of interaction which permit the integration of their specialized knowledge*” (Grant, 1996: 379). The set benchmarks may not be met in their entirety, but any struggling suppliers are neither penalized nor disincentivized, as they would be in a top-down governance approach. The next two stages warrant that they continuously engage in experimentation without reluctance or fear of losing out.

Stage 3: Evaluation and Collective Learning

Evaluation is a significant aspect of governance aimed at ensuring that progress is being made. The evaluation of current sustainability governance mechanisms is based on a regulatory architecture “*aimed at restricting the range of possible courses of action available to those being regulated by attaching sanctions to some courses of action*” (Koenig-Archibugi & MacDonald, 2013: 503). It also includes procedures for monitoring, resolving conflict, and sanctioning any defaulters during implementation. A third-party auditor usually inspects emerging market suppliers against a pre-established benchmark developed without

supplier involvement. Based on such evaluations, suppliers are warned, penalized, or removed from trade relationships. Existing governance mechanisms view tick-box compliance as an end. Moreover, although suppliers invest resources into complying with the requirements, the value they receive in return is much lower than that accrued by AMNEs. As a result, suppliers harbor perceptions of distributional unfairness in their transactions with AMNEs.

In contrast, building on experimentalist governance theory, we suggest that suppliers' efforts would be better evaluated against the collectively defined sustainability benchmarks set in stage one. Furthermore, instead of penalties levied for failing to meet the benchmarks, corrective measures should be established based on an authentic dialogue and without curbing the core spirit of experimentation. Moreover, any avenues for peer-to-peer learning incorporated into the governance architecture enable the expansion of "*the range of possible courses of action by providing resources (broadly defined) that can be employed for a range of purposes*" (Koenig-Archibugi & MacDonald, 2013: 503). Peer-to-peer learning enables suppliers to develop an understanding of how their peers approach the set benchmarks, and thus gain knowledge that they can then internalize in their experimentation.

It is essential to highlight that the core feature of experimentation is uncertainty. Experimentation can lead to any number of intended and unintended outcomes, and the latter may cause emerging market suppliers to deviate from the set benchmarks and main objectives, making it difficult to evaluate their progress. The evaluation process, therefore, ensures that the experimentation efforts of emerging market suppliers are in line with the benchmarks. In this manner, the process determines the suppliers' progress in relation to their compliance with the benchmarks. Besides, it confirms that resources and capabilities are utilized for activities that are both appropriate and necessary. Chiquita, for example, evaluates its producers' performance against the benchmarks set for women workers' safety

with the help of local unions and of the workers themselves and enables peer-to-peer learning between producers through international conferences and localized forums.

Stage 4: Collective Redefinition

Top-down sustainability governance mechanisms do not involve an integral process suited to accommodate the inevitable changes in environmental conditions, perspectives, and needs. Conversely, ASG mechanisms ensure that not only the actors but also the benchmarks themselves evolve to meet environmental changes. In this process, AMNEs, their suppliers, and other relevant actors periodically engage in an authentic dialogue to discuss the issues and opportunities revealed by the evaluation process. Accordingly, the benchmarks are collectively defined and redefined to meet the conditions of applicability, legitimacy, and impact.

First, the collective redefinition of the benchmarks ensures that, in itself, the governance mechanism applies to the resolution of any relevant issues occurring in specific contexts, especially in those characterized by turbulent environmental conditions. The idea of ‘applicability’ is the most crucial attribute of experimentalist governance theory; it differentiates it from mechanistic monolithic systems, which take functional, methodic, and procedural approaches to problem-solving. Applicability is the outcome of numerous interlocked parallel micro-level interactions—enacted between suppliers, AMNEs, and other actors—that ensure that even minor concerns are recorded and acted upon. Another consequence of such interactions is that they establish spontaneous self-organized communities, giving rise to some forms of systematic and consistent patterns grounded in a few simple rules that could not have been anticipated by the distinct actions of supply chain actors. Such self-organization helps in establishing the agility of the entire governance system.

Second, the periodic redefinition of benchmarks enables the mechanisms to gain higher levels of legitimacy among the participating actors, especially among emerging market suppliers. This increases supplier trust both in the sustainability governance mechanisms and in the governing actors (i.e., AMNEs), which leads to better relationships and improved implementation. This increase in trust and the development of patterns of self-organization can result in AMNEs making relation-specific investments aimed at supporting suppliers in complying with the benchmarks (Bird & Soundararajan, 2020). These relation-specific investments strengthen the bonds and increase the dependency between actors, automatically motivating both AMNEs and emerging market suppliers to safeguard their relationships and investments.

Third, the legitimacy of governance mechanisms is a function of their potential to have an actual impact on the resolution of sustainability issues. Also, the applicability of the mechanisms is challenged if no or limited improvement is detected. Therefore, in addition to supplier efforts, the actual impact of the benchmarks is also evaluated during the collective redefinition process. For example, continuous improvement is one of Chiquita's sustainability policies, for which they work closely with their producers and unions. This helps in identifying any challenges during the implementation of the established benchmarks and updating them accordingly. This process ensures that governance mechanisms are relevant and robust, and thus suited to address any incipient sustainability issues in emerging market supply chains.

While the participation of emerging market suppliers in the aforementioned four-stage process would help in the development of ASG mechanisms, some key challenges could arise during this process. In the following section, we discuss such challenges and propose ways to overcome them from an agile governance perspective.

Challenges to Supplier Participation: Institutions, Capabilities, and Costs

Typically, the challenges that hinder the participation of emerging market suppliers in the development of ASG mechanisms can emerge from three sources: institutional conditions, supplier capabilities, and cost structures. In terms of institutional conditions, emerging markets are characterized by institutional voids (Khanna & Palepu, 2000) that obstruct suppliers from participating in the process of governance by thwarting the efficient functioning of markets, increasing transaction costs, and weakening governance structures (Mair & Marti, 2009). To navigate in and around such institutional voids, resource-constrained suppliers regularly engage in bricolage—defined as “*making do by applying combinations of the resources at hand to new problems and opportunities*” (Baker & Nelson (2005: 333)—which, in turn, consumes time and resources. Corruption can be another daunting challenge for supplier participation that is more highly pertinent in emerging countries than in advanced economies (World Bank, 2018). For resource-deprived suppliers, operating in corrupt contexts can prove expensive (Narula, 2019) and lead to a reduction in the resources needed to take part in the iterative agile governance process. Furthermore, only select AMNEs and their emerging-market suppliers are likely participants in the ASG process. This can disturb the standardized practices of sustainability compliance in the suppliers’ context, causing rifts between participants and non-participants in the process.

Notably, an iterative authentic dialogue can uncover and bring to light the challenges faced by suppliers at various points in time; challenges that also reinforce the need for supplier agency and involvement in the development of sustainability benchmarks, and for their autonomy in finding localized solutions and sustainability benchmarks that are relevant across time and space. It also highlights how contextually embedded suppliers are the best candidates for implementing the collectively established benchmarks.

The second challenge to supplier participation in the process can emerge from limitations in capabilities. While the process we propose recognizes the importance of supplier autonomy and voice, research suggests that emerging markets can lack the capabilities required to execute any sustainability benchmarks developed through deliberation (Wilhelm et al., 2016). Some emerging market suppliers cannot absorb knowledge due to various reasons, including a lack of technical expertise (Torres de Oliveira et al., 2020), thereby hindering collective learning. While an authentic dialogue brings these issues to the fore, a collective stakeholder orientation can drive AMNEs to share responsibility and invest in developing supplier capabilities. Over time, such investment leads to the development of secure relational contracts (Gibbons & Henderson, 2012) from which both AMNEs and suppliers can benefit.

Finally, the costs associated with participation in the ASG process can pose a challenge for suppliers. Although inclusion and autonomy can increase the legitimacy of governance mechanisms among suppliers and make participation in the process a valuable exercise, the iterative implementation of collectively defined sustainability benchmarks can introduce structural complexities for suppliers, thereby increasing their operational costs. Given that emerging-market suppliers are already resource-deprived, AMNEs are required to assume a collective stakeholder orientation and share these participation costs in order to foster improvements in supply chain sustainability outcomes. The collective benefits arising from relational contracts can reduce the opportunity costs for both AMNEs and suppliers (Bird & Soundararajan, 2020).

Facilitating Authentic Dialogue

Given the importance assigned to the authentic dialogue in stages one (collective definition), three (evaluation and collective learning), and four (collective redefinition), we explore the

factors that facilitate its establishment between AMNEs and emerging market suppliers. To this end, we draw from deliberation theory (Booher & Innes, 2002; Dryzek, 2009; Isaacs, 2008), which is specifically useful in unraveling the relational and resource facilitators⁴ of authentic dialogue. While relational factors concern the conditions that enable the diversity and inclusion aspects of a process, resource factors are linked to those resources that will allow effective communication between actors. We build on these insights to explicate the various relational and resource factors that can facilitate an authentic dialogue between AMNEs and emerging market suppliers in ASG mechanisms.

Relational Factors

There are substantial differences concerning culture (Hansen et al., 2016), technical expertise (Awate, Larsen, & Mudambi, 2012), and managerial capabilities (Ramamurti, 2012) between the AMNEs' global context and that of their emerging market suppliers. As such, firms are embedded in multiple institutional contexts that shape their behaviors (e.g., Meyer et al., 2011). This mandates the need to create relational factors suited to enhance dialogue and social integration between the actors in the supply chain (Torres de Oliveira et al., 2020). Among many others, we suggest two such factors—namely, diversity in perspectives and heuristics, and interdependence between actors. We explore them below.

Diversity in perspectives and heuristics. Much of the extant research and practice on diversity have focused on fairness and representation (Herriot & Pemberton, 1995). Recently, however, the focus has increasingly shifted to understanding the positive consequences of diversity (Page, 2008). While the term 'diversity' typically refers to identity-based

⁴ According to the Resource Based View, resources include “*all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness*” (Barney, 2002: 155). When we refer to resource factors, we only refer to those connected to the dialogue process.

differences linked to age, gender, ethnicity, and other cultural and demographical aspects, we use it in reference to cognition-based functional ones. Functional diversity can be defined as “*differences in how people represent problems and how they go about solving them*” (Hong & Page, 2004: 16385). Although the identity- and cognition-based forms of diversity differ conceptually, there is ample evidence proving a connection between the two (Page, 2007). The ways in which actors view problems and find solutions are driven by their values, interests, training, life experience, and culture. Consistent with the increase in diversity within workforces and inter- and intra-organizational teams, a considerable amount of empirical literature concurs that functionally diverse groups perform better than homogenous or less diverse ones (Hong & Page, 2004; Page, 2007).

This deduction stems from two important features of functional diversity—namely, perspective and heuristics (Page, 2007). Perspective refers to the “*representation of the set of the possible*” (Page, 2007: 7). Individuals possess different perspectives when their mental representations of ‘the set of the possible’ differ. For example, while one individual may arrange files in a computer folder by name, another may arrange them by date. Such mental representations of the ‘set of the possible’ define the order in which items (of any kind) are arranged. Such order governs how individuals go about finding solutions; therefore, different individuals view the same problem from different perspectives and find different solutions. Pooling these perspectives increases the prospect of finding creative and innovative solutions (Randel & Jaussi, 2003).

While perspectives define how individuals perceive problems, they do not entirely reveal the methods, mechanisms, or techniques they use to solve them (Page, 2007); i.e., their heuristics. Heuristics range from ingenious rules to more complicated mathematical equations or computer programs. Like perspectives, heuristics differ between individuals, with even those holding similar perspectives potentially using different heuristics to solve problems

(Page, 2008). For example, let's say that two individuals are asked to organize a set of files in a folder alphabetically. While one may use the 'arrange by name' option, the other may choose to do so manually. All in all, a group that includes individuals with different perspectives and varied heuristics can identify more prospective and innovative solutions (Randel & Jaussi, 2003).

The inclusion of a diverse set of actors (i.e., AMNEs and their various emerging market suppliers) with different perspectives and heuristics is critical for the development of ASG mechanisms—which thrives in contexts characterized by high levels of conflicts of interest. The actors always set out with different perspectives on a problem. During stages one to four, they continuously challenge the status quo or problematize the traditional assumptions behind ideas and knowledge. In a supply chain, the sharing of such processes forces the actors to develop a more nuanced and multifaceted understanding of a problem, albeit from different perspectives. This process enables them to collaboratively construct a shared understanding of a problem in terms of its technical characteristics and institutional dimensions (Susskind & Cruikshank, 1987). Often, with such an understanding comes the realization of the benefits of collaborative decisions and actions. Of course, AMNEs and their suppliers will not engage in such collaborative activities if they do not foresee any benefits. However, the very idea that an exit is always an option maintains the tension between them and motivates them to identify mutually beneficial solutions.

The argument that diversity leads to more experimentation and better results echoes the ideas expressed by Bernstein (1976), Habermas (1981), and many other critical theorists of the Frankfurt School, who argued that, when a diverse array of interests engage in a dialogue, the understanding that emerges creates knowledge that surpasses that rooted in traditional and institutional assumptions (i.e., emancipatory knowledge). Besides producing robust and creative results, the inclusion of a diverse set of actors with diverse perspectives

and heuristics can also eliminate logjams. The exclusion of some actors from the process may lead to contradictions and dissatisfaction, creating barriers to further dialogue and implementation (Caillaud & Tirole, 2007).

Fortunately, global supply chains do not need to seek diverse stakeholders; *per se*, they represent a complex network of actors with diverse interests who can bring to the table a wide range of perspectives and heuristics (Surana et al., 2005). Although the inclusion of diverse actors and the consideration of their perspectives and heuristics indeed increases interactional and operational complexities, the neglect or exclusion of any actor may lead to dissatisfaction and a lack of collective agreement, impeding implementation (Unerman & Bennett, 2004).

Interdependence between actors. Interdependence—which is defined as a “*mutually negotiated and accepted way of interacting among the parties with the recognition of each other’s perspective, interest, contribution and identity*” (Bouwen & Taillieu, 2004: 147)—is critical to making diverse actors believe in the development process of ASG mechanisms. Interdependence does not mean complete dependence or compromise; rather, it is “*an actionable set of activities that actors can be part of so that their [i.e., the actors’] specificity in terms of contribution and identity can find an acceptable level of fitting together*” (Bouwen & Taillieu, 2004: 147). This means that, when interdependent actors face a disagreement, they do not need to engage in solving it; they can adapt to the inconsistencies, thus creating effective collaborative patterns. Interdependence enables actors to create systems that are flexible, agile, and adaptive, and that produce more robust and innovative solutions (Lansing, 2012).

Interdependence between AMNEs and their emerging market suppliers arises when they all perceive that they are a part of a collective system, the functioning of which depends

on all of them working together (Ellegaard & Medlin, 2018). This is in line with the postulations of social identity theory (e.g., Ashforth & Mael, 1989), which suggest that, when actors align with a cause and a group with which they identify and perceive to be fair, they may feel a deep sense of connection to the group and its members. This is likely to make them feel empowered and to instill in them a sense of ownership within the cooperative scheme (Hogg & Turner, 1985), and thus make them motivated to contribute to it. In contrast, actors tend to avoid groups that are not aligned with their values and aspirations. (Pierce, Rubenfeld, & Morgan, 1991; Vandewalle, Van Dyne, & Kostova, 1995; Yakovleva & Vazquez-Brust, 2018). Moreover, when a group provides feelings of connection, actors may draw a greater sense of satisfaction from their activities (Harrison & Wicks, 2012).

Interdependence enables diverse actors—such as AMNEs and emerging market suppliers—to continue to be a part of the development process; however, it is likely that they will initially be unaware of such interdependency, in that they may not know how their actions influence others and vice versa. This lack of understanding can create low levels of commitment, conflicts of interests, disinterest in affiliation, and opportunistic behaviors (Nadvi, 2008; Roberts, 2003). As a result, disenchanted actors may be more likely to view other opportunities as more compelling (Henson & Jaffee, 2008). This rationale would also explain the observed behavior of shirking or ignoring governance mechanisms.

Typically, however, by engaging in the processes involved in stages one to four, AMNEs and their emerging market suppliers may become mutually aware of their circumstances and needs, and begin to realize their interdependence. They may start to see the value of interacting with other actors; a realization that, as Ostrom (1998) and Axelrod (1997) showed, curbs individual temptations to work alone for short-term interests and makes actors understand that working cooperatively is rationally the best option.

Resource Factors

In addition to relational ones, numerous resource factors are also crucial in enabling an authentic dialogue between diverse actors and to facilitate the functioning of ASG mechanisms. First, communication serves the function of creating channels for an effective and transparent dialogue between the actors in the process. Authentic dialogue can work effectively when the actors have access to accurate information about the processes and other actors involved (Innes & Booher, 2010). While face-to-face communication reduces the distortion of meanings, it is not always feasible when actors are geographically and culturally distant, as in the case of AMNEs and their emerging market suppliers (Lancioni, Smith, & Oliva, 2000). In such instances, investing in infrastructure can enable face-to-face communication (e.g., through digital means). Additionally, speaking a common language leads to effective communication (Carpini et al., 2004). In the extremely challenging multi-lingual network scenarios of global supply chains, the provision of a professional multi-lingual translation service can ensure that the meanings are not distorted.

Second, the use of accountability mechanisms helps to contain manipulation and free-loading (Koenig-Archibugi & MacDonald, 2013). Such mechanisms include rules and procedures aimed at either enforcing or prohibiting a range of actions during the implementation of the resultant collective decisions, thus enabling AMNEs and emerging market suppliers to ensure no manipulation in the process.

Third, a great deal of diverse information needs to be shared among the various actors, especially during stages one, three, and four. While resourceful actors like AMNEs may already possess such information and capabilities (Awate et al., 2012), emerging market suppliers may not (Huq et al., 2014; Narula, 2019). In such cases, AMNEs must ensure that all actors have equal access to the scientific/lay information relevant to understanding and

challenging the claims presented. In addition to the information itself, the speeds at which actors process it may also differ (Corredoira & McDermott, 2014). Therefore, the process provides actors ample time to resolve any issues of comprehensibility and knowledge and to defend expressive claims.

Discussion

Within global supply chains, the effective governance of sustainability has emerged as one of the most critical issues of modern times. Given the institutional, cultural, and ideological differences that characterize such chains, calls to examine the governance issues found in them have become increasingly common (McWilliam et al., 2020; Kano et al., 2020). In this paper, we propose a process through which an AMNE and its emerging market supply chain partners can develop ASG mechanisms. Drawing on insights from experimentalist governance and deliberation theories, this paper puts forward four iterative stages that combine to form the development process of ASG mechanisms—namely, collective definition, autonomous execution, evaluation, and collective redefinition. Next, we identify and discuss three sources from which challenges that can hinder the participation of emerging market suppliers in developing ASG mechanisms can arise—namely, institutional conditions, supplier capabilities, and cost structures. We further argue that an authentic dialogue is crucial to the development of agile governance mechanisms and highlight the importance of relational and resource factors in enabling their effective functioning.

We contend that, when designed appropriately, the development process of ASG mechanisms can generate social and intellectual capital that can benefit all participants within a given supply chain. In the relationships between AMNEs and their emerging market suppliers, the sharing of knowledge and practices is difficult due to differences in culture, technical expertise, and managerial capabilities (Awate et al., 2012; Chatterjee &

Sahasranamam, 2018; Hansen et al., 2016). Grounding the process in an authentic dialogue enables the development of tightly connected formal and informal relationships rooted in trust and social ties between an AMNE and its suppliers. Such social capital facilitates a less hostile negotiation and a more generous sharing of knowledge among partners (Benito, Petersen & Welch, 2019). For instance, this could enable (1) an effective joint search for the knowledge needed to solve any emergent and complex sustainability problems in emerging market supply chains, and (2) the development and sharing of intellectual capital through the collective understanding of interests, values, issues, measures, methods, and potential solutions (Torres de Oliveira et al., 2020).

Further, such social capital helps to achieve an in-depth understanding of the problems faced by others, modifying perceptions of self-interest, and promoting novel ways to accommodate others' interests. Upon internalization, such intellectual capital can act as a powerful mechanism suited to avoid, reduce, and manage any conflicts arising between AMNEs and their suppliers (Benito, Petersen & Welch, 2019). To summarize, the process is highly effective in enhancing legitimacy, coping with deep divisions, increasing social learning, and dealing with complex social issues (Dryzek, 2009).

We also suggest boundary conditions for the development process of ASG mechanisms, which need particular attention. First, in the process, the collective definition of broad benchmarks (i.e., stage one) may not be the result of complete agreement between supply chain actors. As the diversity of interests is an essential component of the process (Randel & Jaussi, 2003), disagreements are likely to be commonplace (Sabel & Zeitlin, 2010). Therefore, even if an agreement is reached, conflicts of interest are expected to appear due to evolving complex and uncertain circumstances—including changes in local labor market conditions, consumer preferences, and local and international institutional

conditions—over and above the diversity of interests. The iterative nature of the process offers actors the opportunity to raise their concerns and problematize the agreed benchmarks.

Second, while the implementation of the agreed broad benchmarks is vital, any deficiency in such implementation is not a negative outcome of the process. Unforeseen situations like natural disasters, political turmoil, or even insufficient time, may lead to unsuccessful implementation. The process, however, is geared to enable the actors to learn about any problem, understand each other's situations and interests, and find feasible short- and long-term solutions. The process thus creates avenues for the pursuit of continuous collaborative efforts and the revision of agreements to deal with any implementation issues.

Third, the single or multiple objectives and projected outcomes of the process—e.g., to implement decent workplace practices or to improve the environmental performance of dying units—may change or evolve over the course of the communicative dialogue process. The common aim of the process is to remove any logjam that may be hampering governance (Zietlin, 2015). A successful process leads to a social order within which any disparities are communicated and understood, and collaborative action becomes feasible.

Fourth, within the context of the development of ASG mechanisms, the process itself and its outcomes are tightly interconnected, which makes them challenging to delineate. For an agreement to obtain legitimacy—regardless of whether it is revolutionary or a panacea—it must be the result of an impartial, inclusive, and responsible process (Innes, 1998). Regulative institutions or socio-cultural traditions may influence the process, but should neither structure nor define it. The very survival of the process thus depends on its legitimacy. The exclusion of specific interests or the omission of vital facts or other facets of a legitimate process diminishes its credibility, and hinders the search for feasible and legitimate solutions. On the contrary, the outcomes of a legitimate process may be supported even by those participants whose interests and expectations are not fully met. This is because

a legitimate process makes actors perceive that their perspectives are considered, and their voices are heard (Mena & Palazzo, 2012).

Finally, defining the boundaries of the ASG development process across space, time, involvement, objectives, and outcomes is rather challenging. The process evolves and adapts with changes in actors, contexts, and issues. The process and the context within which it occurs are tightly coupled and mutually influence each other. Furthermore, nailing down a beginning and an ending of the process is also arduous, as every step produces a bundle of interwoven plans and actions. While some actors may view such bundle—or parts thereof—as a positive outcome, others may consider it a negative one. The bundle, however, enables actors to see the constructive aspects of interacting with others, to learn about themselves and others, and to build relationships based on trust, consequently insuring them against complex and uncertain future conditions.

Theoretical and Practical Implications

This paper makes significant contributions to two distinct strands of literature: transnational sustainability governance and strategic agility. Research has highlighted the need for agile governance mechanisms—as an alternative to top-down sustainability ones (Kolk, 2016; Shapiro, Hobdari, & Oh, 2018; Vurro et al., 2009)—and has also highlighted some features that would make governance mechanisms more agile (Mena & Palazzo, 2012; Soundararajan, Brown & Wicks, 2019). Nevertheless, the development of such governance mechanisms has surprisingly received very little attention. Within this domain, while the deliberation aspect embedded within the development of ASG mechanisms—which has received attention—is important, it represents only one of the components in this process. By cross-fertilizing knowledge from experimentalist governance (Overdevest & Zietlin, 2014; Sabel & Zeitlin, 2012; Sabel, & Zeitlin, 2008) and deliberation theories (Booher & Innes, 2002; Dryzek,

2009; Fung, 2003; Isaacs, 2008), we present a detailed framework that explains different facets of the development process as well as factors that may challenge and enable it.

Scholars have also highlighted the limitations of current top-down sustainability governance mechanisms, such as codes of conduct or social and environmental audits (Huq et al., 2014; van Tulder et al., 2009; Yu, 2008). The importance of bottom-up sustainability governance has been highlighted as an alternative, especially in the context of emerging market suppliers (Soundararajan, Brown & Wicks, 2019). Although there is value in bottom-up governance mechanisms, AMNEs do not uncouple from controlling and coordinating their supply chains. Indeed, ASG mechanisms lie somewhere in between top-down and bottom-up governance wherein they allow AMNEs to be involved in the establishment of sustainability benchmarks and the evaluation of suppliers, while simultaneously bestowing autonomy on suppliers through their involvement in the development and implementation of benchmarks in localized contexts. We argue that such governance mechanisms are especially crucial for AMNEs to effectively and efficiently govern their emerging market supply chains, which are often characterized by turbulent contexts. We explored how an iterative and inclusive approach to sustainability governance that is more adaptive to rapidly changing market conditions can be so developed.

The literature on strategic agility (e.g., Doz & Kosonen, 2010; Weber & Tarba, 2014) has explored it from a dynamic capability perspective within a large firm context (Doz & Kosonen, 2010; Weber & Tarba, 2014; Teece et al., 2016). In the emerging market context, firm strategic agility is observed to be particularly beneficial in adapting to uncertain and rapidly changing environments (Boojihawon et al., 2020; Bouguerra et al., 2019; Weber & Tarba, 2014; Junni et al., 2015). However, the focus of this literature has primarily been on firms developing strategic agility to respond dynamically to changes in the external environment (cf. Pereira et al., 2020). We argue for the need to explore agility, from a

governance perspective, in the relationships between AMNEs and their emerging market suppliers, which are characterized by high levels of information and power asymmetry, especially concerning the governance of sustainability practices. In an era of declining multilateralism and supply chain disruption events like the COVID-19 pandemic, AMNEs will need to rely more on relational factors in governing their supply chains, as their emerging market suppliers might have better access to information about the economic characteristics of the particular locale (Verbeke, 2020). The current literature on international business and strategy provides limited insights on how agile governance functions in supply networks led and coordinated by AMNEs (e.g., McWilliam et al., 2020; Strange & Humphrey, 2019). Our framework extends the strategic agility literature by highlighting the relevance of agility in network relationships, particularly in the governance of such relationships in uncertain and rapidly changing environments such as emerging markets. In engaging with emerging market suppliers, AMNEs need to endure formal institutional voids and incremental pro-market reforms (Cuervo-Cazurra, Gaur, & Singh, 2019; Sahasranamam & Ball, 2018), deal with differences in institutional contexts, supplier capabilities, and cost structures, and handle varying supplier expectations (Hansen et al., 2016; Torres de Oliveira et al., 2020). In the face of such unpredictable environments, we argue that agility in governance practices can help AMNEs to dynamically adapt to changes.

Beyond these theoretical contributions, this paper offers numerous implications for practice. First, it provides AMNEs with a practical framework suited to approach sustainability governance in emerging market supply chains. Second, the use of an agile approach enables AMNEs to consider uncertainty, as an inherent characteristic of emerging markets, within the development process itself. Emerging market suppliers are increasingly subjected to coercive and normative pressure to meet sustainability demands (e.g., the mandatory CSR provision in India's Companies Act 2013) (Sahasranamam, Arya, & Sud,

2019; Jain, Aguilera, & Jamali, 2017). Also, emerging markets are going through multiple phases of institutional reform (Cuervo-Cazurra, Gaur, & Singh, 2019). The use of agile governance mechanisms would help to iteratively introduce incremental responses to environmental changes at a cost lower than that of top-down governance approaches.

Future Research Directions

Our agile sustainability governance mechanism model offers scope for multiple future research opportunities. First, scholars could empirically test our framework across various supply chains operating in different emerging markets. This would be particularly relevant for those countries and contexts that are susceptible to labor and environmental violations despite the presence of top-down governance mechanisms. Further testing the boundary conditions of these agile governance mechanisms would also be useful. Second, while we highlight some critical challenges to supplier participation in the development process of ASG, further research is needed to more deeply understand these and other difficulties that could emerge in dynamic contexts. Third, future studies could draw insights from the dynamic capability perspective and institutional theory to compare agile and top-down governance mechanisms. Such studies could investigate specific buyer-supplier networks and examine how these two kinds of governance mechanisms enable or constrain the sustainability outcomes in supply chains and the conditions under which each mechanism is likely to have a more significant impact on sustainability practices. Fourth, there is also scope for future studies to examine the role played by ASG mechanisms in the economic upgrading of emerging market suppliers. Whether and how such mechanisms can enable suppliers to move up the value chain are essential questions that warrant more considerable attention. Fifth, future studies could pay greater attention to the issues of time and context and explore the conditions under which ASG mechanisms are effective across inter- and intra-

organizational settings. Relatedly, it would be fruitful to examine how these mechanisms evolve and change the relationship between suppliers and their lead firms (AMNEs). Sixth, future research could use the context of supply chain disrupting events like COVID-19 to test our ASG mechanisms against the backdrop of such exogenous shocks in order to identify boundary conditions and other enablers. Lastly, in emerging market supply chains, managerial decision-making is often concentrated in the hands of owners, business groups, or family members; therefore, it would be particularly beneficial to draw on the micro-foundations lens of global strategy (Contractor, Foss, Kundu & Lahiri, 2019) to understand the heuristics and managerial decision logics of suppliers in relation to their involvement in ASG mechanisms.

Conclusion

AMNEs face idiosyncratic challenges related to the governance of their sustainability practices in their emerging market supply chains. Existing governance mechanisms are essentially top-down in nature and are often viewed as mere box-ticking exercises, severely limiting their usefulness in the uncertain and complex context of emerging markets. On the other hand, bottom-up governance mechanisms, although valuable, are not fully recognized by AMNEs. With this in mind, we offer a processual framework that brings together the top-down and bottom-up governance architectures towards the development of agile sustainability governance mechanisms for emerging market supply chains. By unraveling supplier-related challenges, and the resource and relational conditions that assist in collectively developing ASG mechanisms that are responsive to local institutional settings and diverse interests, this paper is among the earliest to highlight the relevance of ASG mechanisms in the coordination of emerging market supply chains. Using our framework, AMNEs can effectively and benevolently govern sustainability in their emerging market

supply chains and respond to the needs of various stakeholders. We maintain that such a governance structure will become increasingly important against the backdrop of a post-COVID-19 global order.

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Figure 1: The Development Process of Agile Sustainability Governance Mechanisms

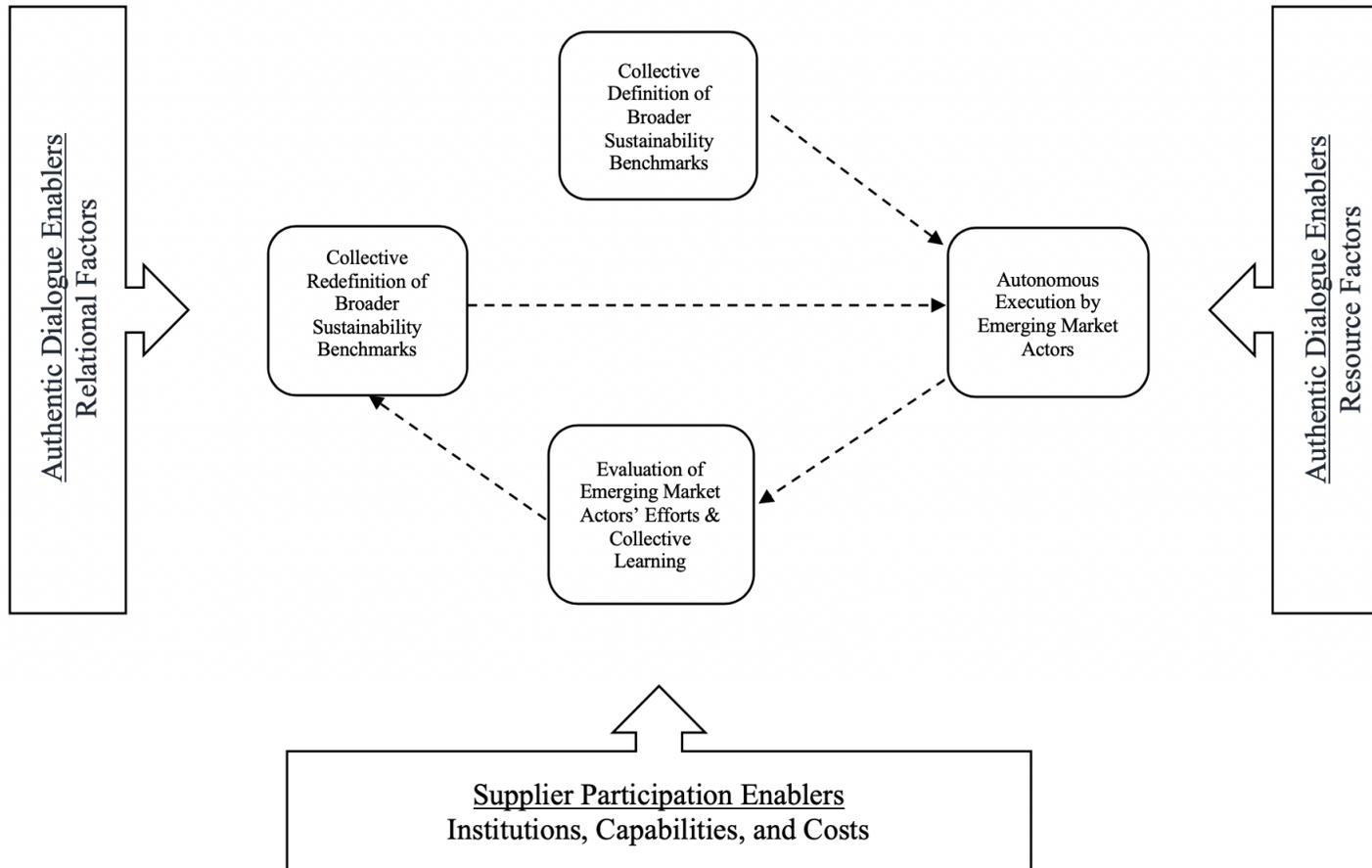


Table 1: Differences between Top-Down and Agile Global Supply Chain Governance

Features	Top-Down Governance	Agile Governance
Benchmark	Fixed	Evolving
Target	Benchmark compliance	Actual improvement
The role of emerging market suppliers	Passive	Active
Collective learning	Low	High
Legitimacy among suppliers	Low	High
Evolution capacity	Low	High
Dialogue	Low	High
Power differential	High	Low