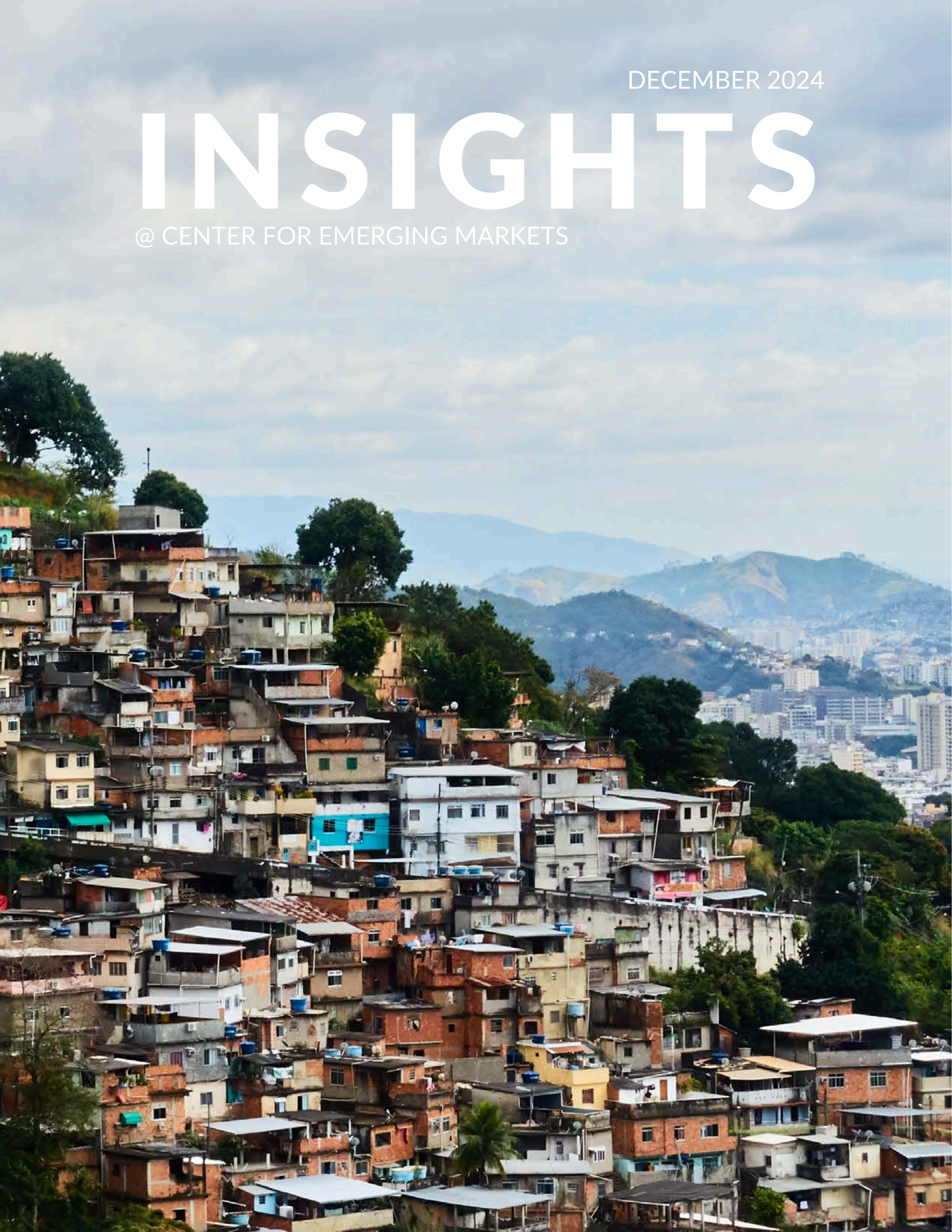
DECEMBER 2024

INSIGHTS

@ CENTER FOR EMERGING MARKETS



Insights @ Center for Emerging Markets

About This Issue

We are excited to share the sixth issue of Insights @ Center for Emerging Markets, our biannual publication that bridges the gap between academic research and actionable strategies for managers and policymakers focused on emerging markets.

This issue brings together researchers from Northeastern University and the broader global academic community to delve into transformative strategies and practices shaping global business in emerging markets. From the rise of emerging-market firms as leaders in global value chains to innovative governance structures that address sustainability and human rights challenges, the topics offer fresh perspectives and actionable insights for navigating complex market dynamics.

Highlights from this issue include how firms can overcome limited access to capital, labor, and legal systems by creating open institutional infrastructure; strategies for leveraging "smart disclosure" to combat human rights violations in supply chains, the evolution of global value chains and the role of emerging-market firms in redefining their dynamics, tailored approaches to social sustainability governance in supply chains and their implications for labor rights and compliance, the interplay of family dynamics and entrepreneurship, and the advantages of global cities as strategic hubs for emerging market-based firms expanding internationally.

Each brief includes actionable insights that help managers and policymakers navigate the challenges of emerging markets, while driving innovation, ethical practices, and sustainability.

The Center for Emerging Markets at Northeastern University

The Center for Emerging Markets (CEM) at the D'Amore-McKim School of Business at Northeastern University conducts and disseminates research on how local and foreign firms can leverage emerging markets for the greater good.

Founded in 2007 by Ravi Ramamurti, University Distinguished Professor of International Business & Strategy, CEM is a leading center of its kind in the U.S., with a reputation for cutting-edge research, particularly on internationalization strategy, technology, and innovation, and corporate governance.

CEM leverages the expertise of over 70 faculty fellows from across Northeastern University, many of whom are thought leaders in their fields and have authored many books, prize-winning articles, and cases on firms in emerging markets. It is guided by a distinguished external advisory board and maintains close ties with practitioners.

CEM strives to integrate emerging markets into the education, research, and work experience of students and regularly disseminates best practices to managers, policymakers, academics, and students.

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Family Diversity, Family '*Meals*' and Entrepreneurship in China

Interested in learning more?
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In Short

China's remarkable economic transformation from one of the world's poorest nations to one of its largest economies is linked to its vibrant entrepreneurial landscape. Understanding the factors that nurtured this entrepreneurial spirit is crucial for both academics and business leaders, Wei Wang, Kimberly Eddleston, Francesco Chirico, Stephen Zhang, Qiaozhuan Liang and Wei Deng from China, Australia, the US and Europe delved into the dynamics of Chinese family businesses, exploring how diversity within families influenced entrepreneurial leanings and the important role that family meals play in fostering entrepreneurs.

Building upon the established importance of family in Chinese culture, particularly the Confucian emphasis on family honor and career success, Wang and their colleagues investigated the impact of various forms of family diversity. Their theoretical model, tested using data from 8,162 individuals in the China Family Panel Studies, examined the effects of age, gender, industry, and education diversity on entrepreneurship.

Central to their analysis was the role of family meals, which hold a celebrated position in Chinese culture, dating back millennia. The study looked at the frequency of family meals. In an era of rapid industrialization that often separated family members during the workday, the significance of family meals in fostering unity and socialization became even more pronounced. The frequency of family meals could either ignite or extinguish the entrepreneurial spark, depending on the nature of family diversity.

The study revealed a nuanced relationship between diversity and entrepreneurship. For instance, age and gender diversity negatively impacted entrepreneurial activity. Multigenerational households, which are prevalent in China, often involved older family members who were likely more risk-averse and discouraged younger generations from pursuing business ventures. Similarly, gender diversity, while gradually improving, could reinforce traditional roles, limiting entrepreneurial aspirations. This finding is likely influenced by Confucian values such as filial piety, which emphasizes respect and obedience to elders, and the expectation of harmony within the family unit.

Family Meals as Conduits for Sharing Knowledge

Conversely, industry diversity emerged as a positive driver of entrepreneurship. Exposure to different industries through family members fostered the exchange of innovative ideas and the identification of new business opportunities. The moderating role of family meals is particularly illuminating. The results demonstrated that frequent family meals amplified the positive effects of industry and education diversity, acting as a conduit for knowledge sharing and the development of entrepreneurial ventures. However, they did not find a similar moderating effect for age and gender diversity, suggesting that deeply ingrained family values and traditional gender roles may have overridden the influence of shared meals in these contexts.

This study contributes to the entrepreneurship literature by offering valuable insights into the unique interplay of family dynamics, cultural values, and entrepreneurial activity in China. By highlighting the crucial role of family meals in shaping entrepreneurial outcomes, the study underscored the importance of understanding the sociocultural context within which entrepreneurship flourishes.

Managerial and Policy Implications

These findings have implications for both policymakers and business practitioners, emphasizing the need to foster environments that support family businesses and leverage the power of shared mealtimes to nurture entrepreneurial talent. For managers, this research suggest that aspiring entrepreneurs from households with high age and gender diversity may need to look beyond their family for support and resources, as these factors can create constraining pressures. However, those from households with industry or educational diversity can leverage their family's knowledge, particularly if they frequently share meals, as these settings foster valuable information exchange and resource-sharing related to entrepreneurship. Supporting these family dynamics can play a key role in promoting growth in entrepreneurship.

Original Work

Wang, W., Eddleston, K. A., Chirico, F., Zhang, S. X., Liang, Q., & Deng, W. 2023. Family diversity and business start-up: Do family meals feed the fire of entrepre-neurship?. *Entrepreneurship Theory and Practice*, 47(4), 1265-1297.

Natura: Building a Business Ecosystem in Brazil

Interested in learning more?
Contact Professor Aline Gatignon
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In Short

Aline Gatignon of the Wharton School and Laurence Capron of INSEAD examined how Natura, a leading Brazilian cosmetics company, achieved success by building a strong and collaborative business ecosystem. Faced with underdeveloped infrastructure, limited access to capital, and other institutional weaknesses common to developing countries, Natura adopted a unique strategy, fostering deep relationships with diverse stakeholders, including local communities, suppliers, NGOs, and government agencies. This strategy, focused on empowering communities and building trust, allowed Natura to overcome obstacles, achieve sustainable growth, and generate positive social impact. In light of these achievements, Natura's approach offers valuable lessons for other businesses seeking to thrive in similar environments.

Natura was founded in 1969 in Sao Paulo and quickly became a leader in the Brazilian cosmetics market. Rather than solely focusing on maximizing profits, Natura adopted a holistic approach, recognizing that its success was intertwined with the well-being of its stakeholders.

One of the key pillars of Natura's strategy was its direct sales model, specifically designed to empower women in a market with limited employment opportunities. Many of these women lacked formal education and financial resources. Natura built a vast network of over 1.2 million sales consultants, who became the backbone of the company's distribution network. It invested in financial literacy programs and offered access to micro-credit programs, enabling women to start their own businesses and improve their livelihoods. This empowerment model not only created a loyal and motivated sales force but also had a profound social impact on local communities.

Similarly, Natura faced challenges in sourcing raw materials, particularly from indigenous communities in the Amazon rainforest. Recognizing the importance of sustainable practices and fair trade, Natura actively engaged with these communities, investing in infrastructure development, education, and sustainable harvesting techniques. The company prioritized building long-term relationships based on trust and mutual benefit, ensuring that the communities were not only suppliers but also partners in its success.

Finally, the company recognized that it could leverage the expertise and local knowledge of NGOs to effectively address social and environmental challenges. By partnering with NGOs, Natura ensured that its investments in community development projects were aligned with local needs and priorities. Furthermore, Natura collaborated with the Brazilian government to develop certification programs for locally sourced ingredients, strengthening the overall framework for sustainable practices in the industry.

Managerial and Policy Implications

Natura exemplifies how businesses can achieve commercial success while addressing societal challenges, particularly in emerging markets. By investing in the well-being of suppliers and distributors, Natura fostered a equitable business environment. This approach, coupled with a commitment to empowering cross-sector partnerships with NGOs, government bodies, and local communities, led to more effective and sustainable solutions for addressing challenges including limited access to education and capital.

By prioritizing trust, fairness, and mutual benefit in its interactions with consultants and suppliers, the company created a strong sense of partnership, resulting in lower default rates, higher retention, and a more resilient supply chain. This emphasis on long-term relationships, driven by a deep-rooted commitment to social and environmental responsibility, contributed significantly to the company's success and brand reputation.

By integrating marginalized communities into its supply chain, the company tapped into previously inaccessible markets, generating economic development while gaining a competitive advantage. Furthermore, Natura's ethical practices and commitment to social responsibility enhanced its brand reputation and solidified its market leadership.

The case demonstrates one way that businesses can unlock new opportunities for growth in emerging markets by embracing collaboration, empowering stakeholders, and fostering a long-term vision for shared value creation.

Original Work

Gatignon, A., & Capron, L. 2023. The firm as an architect of polycentric governance: Building open institutional infrastructure in emerging markets. *Strategic Management Journal*, 44(1), 48-85.

Smart Disclosures and Human Rights in the Apparel Industry

Interested in learning more?
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In Short

The collapse of the Rana Plaza factory in Bangladesh, a tragedy that injured over 3,500 garment workers, served as a stark reminder of the human cost of opaque global supply chains. In its wake, a renewed focus on human rights within the apparel industry has emerged, pushing businesses to adopt innovative solutions to ensure ethical sourcing and production. Smart disclosures, a technologically driven approach to transparency, is increasingly being utilized by multinational corporations (MNCs) to improve visibility and accountability throughout their supply chains, offering a promising path towards safeguarding human rights.

Frameworks like the OECD Guidelines for Multinational Enterprises exist to promote responsible business conduct. However, enforcing these standards across sprawling global networks can be challenging. Protecting human rights is not just an ethical imperative, it is vital for brand reputation and mitigating legal and financial risks. Through the use of smart disclosure, forward-thinking companies are leveraging technology to address these challenges, aiming to prevent human rights abuses like child labor, forced labor, and human trafficking.

Smart disclosure goes beyond merely data collection and data disclosure regarding a company's supply chains. It provides a platform that leverages various digital tools to enhance stakeholders' access, and understanding, and utilization of this information. This approach encompasses four key properties:

- Accessibility (making data easy to access and readily available to all relevant stakeholders)
- Programmability (offering raw data in a format that allows stakeholders to analyze it using their own tools/systems)
- Interactivity (enabling real-time interaction, feedback, and engagement between the company and stakeholders regarding the disclosed information)
- Standardizability (ensuring the information is aligned with common industry standards or frameworks, making it easier to understand and compare across different contexts).

Empricially, this paper tests the effectiveness of smart disclosure in the apparel sector. The apparel industry, with its complex and often geographically dispersed supply chains, is particularly ripe for leveraging smart disclosures. In fact, some global apparel firms are already utilizing digital technologies to track their suppliers and monitor compliance with human rights standards. For instance, companies like Nike that offer comprehensive, downloadable data on their suppliers are leading

the way in fostering transparency. Similarly Adidas, by encouraging public discussion of disclosed data on social media platforms, demonstrates a commitment to open dialogue and accountability. However, others remain significantly behind.

Incentivizing Disclosure

Wang and her colleagues analyzed thousands of MNC-supplier relationships over several years and found a strong impact of the adoption of smart disclosure by multinational buyer companies on a reduction in human rights violations among their suppliers worldwide. The key argument is that smart disclosure enhances visibility, enabling MNCs to more effectively serve as “institutional carriers”. Institutional carriers refer to organizations or individuals that help spread, embed, and maintain institutional regulations, norms and values across different contexts. In this context, MNCs often act as institutional carriers by transmitting and promoting values of human rights protection.

The study also highlights the importance of connectivity within the supply chain. Suppliers with numerous connections to other suppliers and customers are more likely to prioritize compliance, driven by the need to maintain a strong reputation for securing future contracts. Conversely, suppliers with limited connections might be less incentivized to uphold high standards, potentially facing less scrutiny and reputational pressure.

Furthermore, the research underscores the role of the broader societal context in which suppliers operate. Suppliers located in countries with robust civil societies, such as non-governmental organizations (NGOs), tend to exhibit better disclosure practices and higher levels of compliance. The increased visibility in such environments leads to greater social and legal pressures on suppliers to adhere to human rights standards.

Managerial and Policy Implications

Smart disclosure is not a panacea, but it represents a powerful tool for driving positive change within the apparel industry. Wang and colleagues’ research shows that digital technologies can help MNCs create transparency to eradicate human rights violations from their global supply chains. For policymakers, fostering infrastructure for smart technology infrastructure (e.g., big data, blockchain-powered systems, etc.) can lead to positive social development outcomes. Supporting NGOs and building local institutions in supplier countries is also key to enhancing MNCs’ smart disclosure and reducing human rights abuses.

Original Work

Wang, S. L., Lee, Y., & Li, D. 2024. Smart disclosure: an enabler for multinationals to reduce human rights violations in global supply chains. *Journal of International Business Studies*, 55(4): 450–469.

Making Sense of Sustainability in Global Agricultural Supply Chains

Interested in learning more?
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In Short

Multinational companies are increasingly expected to address complex sustainability challenges in their supply chains, including environmental impacts from suppliers, labor conditions (such as child and forced labor), human rights concerns, and resource scarcity. Genuine progress on these issues requires more than top-down directives; it calls for a collaborative approach that involves all stakeholders in clarifying the responsibilities of multinational companies. Recent research by Preuss, Barkemeyer, Arora, and Banerjee highlights that by fostering open communication, building trust, and aligning sustainability goals with the needs of local communities, multinational companies can shift their sustainability initiatives from mere corporate statements to tangible improvements in the lives of suppliers' workers and their families. However, as these initiatives move through different levels of the organization and supply chain, a "funnel effect" shifts priorities—from broad corporate strategy to more immediate, locally relevant concerns at the supplier and workers' levels—highlighting the need to effectively unite these different priorities in a coherent corporate strategy.

Preuss, Barkemeyer, Arora, and Banerjee took an in-depth look at a European agri-chemical multinational company with supply chain ties in India and Ethiopia, exploring the challenges and opportunities it faced in translating corporate sustainability goals into meaningful outcomes for its farmer suppliers. In 2003, NGOs accused the company of using child labor in its Indian supply chain. The multinational responded with a sustainability program that included innovative initiatives, such as hiring puppeteers to deliver child labor awareness training in rural villages. However, as the company sought to further improve the welfare of its farmer suppliers, it encountered unexpected challenges in meeting their varied expectations revealing a gap between corporate intentions and stakeholder expectations, for instance in relation to the provision of healthcare and medical insurance.

Preuss and colleagues further noted that perspectives on the nature of the multinational company's social and environmental responsibility shifted along the organization's hierarchical structure and its supply chain. At the corporate level, sustainability is seen strategically, aimed at aligning objectives and enhancing brand reputation. Country managers, however, focus more on operational aspects, such as labor policies and wages. At the production level, attention shifts to immediate concerns like working conditions and living standards. Finally, at the farm level, farmers prioritize their own and their families' well-being, including income, education, and healthcare. This narrowing of focus, referred to as the "funnel effect," underscores the diverse and sometimes conflicting priorities within global supply chains with which multinational companies need to contend.

Managerial Implications

For multinational companies to effectively address sustainability challenges, they must ensure that their initiatives are understood, embraced, and practically implemented by all stakeholders, especially those at the far ends of their supply chains.

To achieve this, first, communication must be both bi-directional and culturally sensitive.Companies should not only clearly articulate their sustainability goals—particularly on sensitive issues like child labor— but also translate these goals into actionable steps tailored to each level of the supply chain. Creative methods, like the puppet shows in the example above, can be highly effective for engaging local communities and raising awareness of critical issues. Equally important, companies must actively listen to ground-level stakeholders, understanding their unique perspectives and incorporating their feedback into the sustainability strategy.

Second, collaboration and community engagement are crucial for the long-term success of these initiatives. Sustainability efforts, especially those targeting complex issues like child labor, are far more effective when they resonate with the community's existing social dynamics and broader needs. For instance, addressing child labor holistically requires a community-wide approach, as children may simply shift to other work outside the company's direct influence if the initiative lacks local buy-in. Therefore, sustainability programs should not only target individual suppliers but also address the underlying economic and social factors that perpetuate such issues.

Third, building trust and fostering relationships with stakeholders is essential. In the case of the agri-business multinational, farmers were far more likely to support sustainability programs when they perceived these efforts as beneficial to their livelihoods and community well-being. Trust can only be built by demonstrating a genuine commitment to improving farmer livelihoods and treating them as valued partners, rather than mere participants, in the supply chain.

Finally, companies should identify and empower middle managers with a sustainability responsibility that can bridge the gap between various levels of the organization and local stakeholders. These individuals assume a linchpin role within the value chain, acting as interpreters and translating high-level sustainability concepts—such as eliminating child labor—into tangible actions that resonate with local communities. As advocates for both the company and the community, they have the capacity to ensure that communication flows smoothly in both directions, fostering an environment where sustainability efforts are not only understood but also supported and implemented effectively.

Ultimately, multinational companies must recognize the "funnel effect" at work within their supply chains, where priorities shift from broad corporate strategies to immediate local concerns. Addressing this requires a nuanced approach, empowering each level to interpret sustainability goals in a way that aligns with their specific needs and contexts.

Original Work

Preuss, L., Barkemeyer, R., Arora, B., & Banerjee, S. (2024). Sensemaking along global supply chains: implications for the ability of the MNE to manage sustainability challenges. *Journal of International Business Studies*, 55(4), 492–514.

Leveraging Global Cities: Internationalization Strategies of Latin American Multinationals

Interested in learning more?
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In Short

In Latin America, multinational enterprises (Multilatinas) are increasingly using global cities as springboards for international expansion. Companies like Brazil's Embraer, Vale, and Natura, Mexico's CEMEX and Bimbo, and Argentina's Tenaris exemplify this trend, challenging the traditional view of multinationals originating solely from developed economies. Research by Evodio Kaltenecker and Miguel Angel Montoya Bayardo sheds light on the strategic importance of global cities in the internationalization of these firms.

Global cities, with their inter-connectedness, cosmopolitanism, and advanced infrastructure, offer distinct advantages. Their relative policy independence allows them to adapt to global business needs, while diverse talent pools provide access to specialized skills and knowledge. These factors make cities like New York and Paris attractive to Latin American multinational enterprises—also referred to as Multilatinas—establishing a global presence. Since these cities are well-equipped to work with foreign companies, barriers to entry are lower than in other parts of a target country. This reduced entry barrier, combined with readily available professional services, minimizes the costs of operating in a foreign market. Additionally, Multilatinas, coming from comparatively weaker economies than those of multinational companies from advanced markets, have a greater need to leverage the internationalization resources available in global cities.

Kaltenecker and Montoya's study of the 100 largest Multilatinas reveals that these firms initially use global cities to build international recognition and legitimacy. They then tap into local knowledge and talent, gaining insights into international markets and adapting strategies. This new knowledge is then integrated into the global

organization, fueling further expansion.

The research also reveals variations in strategies based on country of origin. Multilatinas from smaller Latin American economies are more likely to invest in global cities than those from larger economies like Brazil and Mexico, likely due to the latter's larger domestic markets and existing internal global cities. Interestingly, Mexican firms show a preference for joint ventures, possibly due to their proximity to the United States.

Managerial Implications

While market access remains the primary driver for Multilatinas investing in global cities, acquiring knowledge, financing, and talent is growing in importance. Many are still in the early stages of internationalization, suggesting significant potential for future investment.

This presents a substantial opportunity for city leaders. By actively courting Multilatinas, cities can attract valuable investment and stimulate growth. Targeted strategies, including language skills (Spanish and Portuguese) among business development officers, can significantly enhance a city's appeal.

At the same time, Multilatinas' managers must consider industry-specific strategies for choosing a global city. Manufacturing firms will have different priorities than service-oriented firms, and location decisions should reflect these industry-specific needs, such as whether access to talent, resources, or specific markets is most crucial. Furthermore, clarifying why a Multilatina seeks a particular market is critical.

Many Multilatinas underutilize knowledge spillovers, specialized talent pools, and access to global financial markets. For Mexican firms, given their preference for joint ventures, careful partner selection, knowledge sharing agreements, and planned exit strategies are vital for success. Finally, Multilatinas must consider how to manage their home country brand, overcoming potential negative perceptions or leveraging positive aspects of their home country's image through strategic PR, branding, and showcasing quality and innovation.

As Multilatinas expand internationally, global cities will continue to be crucial for their success, creating a mutually beneficial relationship driving economic growth and innovation. A nuanced approach to city selection and engagement, informed by industry dynamics and specific market objectives, will be essential for maximizing the potential of Multilatinas in global cities.

Original Work

Kaltenecker, E., & Montoya, M. A. (2023). Global cities and multilatinas: the search for global cities-specific advantages, establishment and ownership entry modes. *Competitiveness Review: An International Business Journal*, 33(3), 627-644.

How Emerging Market Multinationals Reshape Global Value Chains

Interested in learning more?
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In Short

Most studies on global value chains focus on advanced economy multinationals that develop products in-house and retain high-value added activities, while outsourcing low-value tasks, like component manufacturing and assembly, to emerging market suppliers. However, this dynamic is shifting as increasing numbers of emerging market suppliers are becoming multinationals and exerting control over more value chain activities. Initially positioned as suppliers for western brands, these companies have leveraged their roles in global value chains to learn, acquire advanced capabilities, and strategically expand through acquisitions. Over time, they evolve to compete directly with established players, controlling their industry value chains and becoming global leaders. This shift requires a deeper understanding of how emerging market multinationals differ from their advanced economy counterparts in their strategic use of global value chains.

Global value chains are the interconnected activities that encompass the entire lifecycle of a product or service, from initial research and development to production and marketing and sales. They play a critical role in facilitating international trade and investment. New research by Alvaro Cuervo-Cazurra, from Northeastern University, and Pavida Pananond, from Thammasat University uncovered three ways in which emerging market multinationals approach the management of global value chains differently from their advanced economy counterparts. These differences reflect the influence of their home country conditions.

First, emerging market multinationals often have **different objectives** for their internationalization. One leading goal is to upgrade their capabilities and enhance their competitiveness by participating in the value chain of global lead firms from advanced economies. Becoming suppliers enables these emerging market companies to learn and accumulate capabilities they may otherwise have been unable to develop in their domestic operations. In contrast, advanced economy multinationals, often already endowed with advanced capabilities thanks to their home countries' supportive innovation systems, leverage global value chains to optimize efficiency and reduce costs by distributing simpler, more standardized activities to lower-cost locations. These different objectives drive emerging market multinationals to take international expansion through global value chains more as a resource accumulation process, while their established advanced economy counterparts manage the same process as an efficiency optimization one.

Second, emerging market companies **treat global value chain segments differently**. They typically start by focusing on cost-effective production and gradually expand their involvement by moving into more complex and higher value-added activities. They also enter advanced markets and obtain sophisticated technologies and brands that bolster their position in the value chain. Developed country companies, in contrast, tend to fragment their value chains, outsourcing increasingly specialized tasks to suppliers in emerging economies to reduce costs and maintain control over core competencies. In other words, international expansion enables emerging market companies to expand their value chain coverage, whereas their advanced country counterparts reduce their range of value chain activities through overseas expansion.

Finally, the **governance mechanisms** employed by emerging market and advanced economy companies vary. Emerging market multinationals often prefer to internalize activities, in many cases using mergers and acquisitions, to integrate new capabilities and exert greater control over their global value chains. This reflects the challenges they face operating in environments with less supportive institutions and higher uncertainty levels, common in many emerging economies. Advanced economy multinationals, leveraging their established resources and experience in mature markets, tend to rely more on external partners, and employ outsourcing and other forms of externalization to manage their global value chains.

Managerial Implications

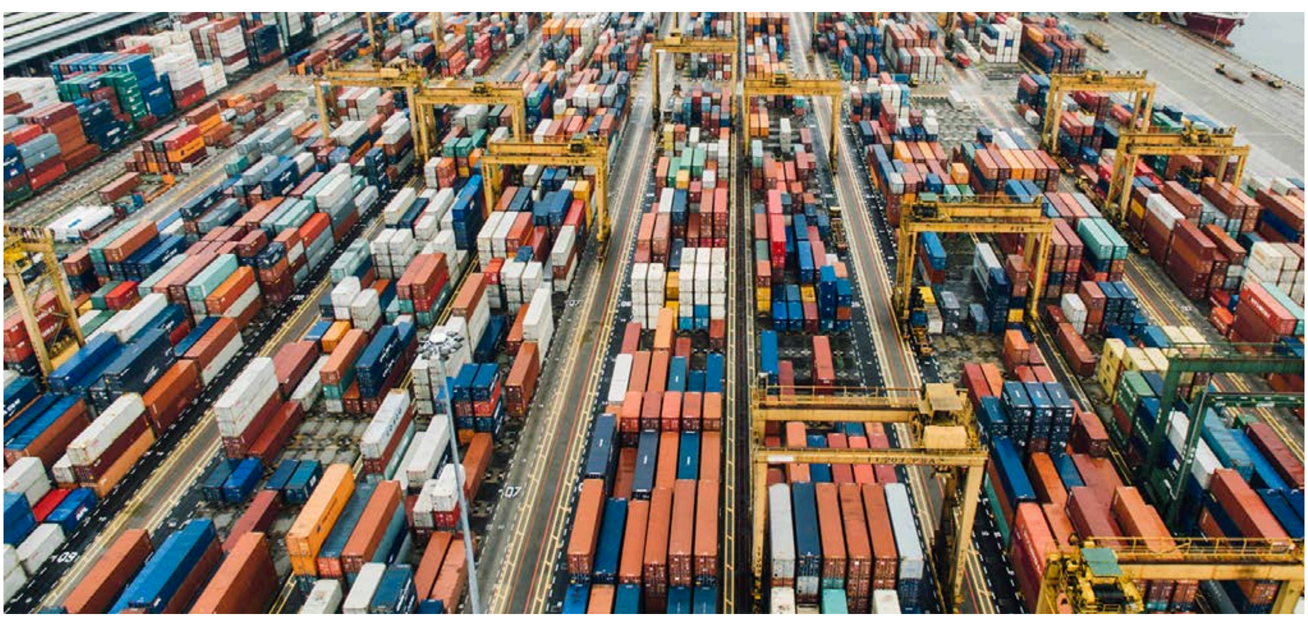
The rise of emerging market multinationals presents both opportunities and challenges for companies worldwide. Business leaders should seek to better understand the distinct characteristics of these emerging market firms and adapt their strategies accordingly.

For emerging market companies, *global value chain participation offers a powerful springboard for growth.* By actively engaging in global value chains, these companies can accelerate learning, acquire advanced technologies, and build world-class capabilities. As they begin to internationalize, strategic acquisitions in advanced economies provide access to valuable capabilities, established brands, and sophisticated markets.

Leaders of advanced economy companies need to *better understand how emerging market suppliers are becoming formidable competitors* with sophisticated capabilities and global ambitions. They should proactively reassess the changing competitive landscape and readjust their strategy to face new threats and opportunities arising from the transformation of global value chains. They can build collaborative partnerships with emerging market companies to leverage their strengths in production and specialized knowledge, potentially unlocking new avenues for innovation and growth.

Original Work

Cuervo-Cazurra, A., & Pananond, P. (2023). The rise of emerging market lead firms in global value chains. *Journal of Business Research*, 154, 113327.



"Glocal" Impact: Aligning Local Norms with Global Labor Standards

Interested in learning more?
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In Short

Global supply chains have recently come under greater scrutiny following several high-profile cases of labor abuses, particularly in the wake of the Rana Plaza factory collapse in Dhaka that claimed over a thousand lives. Although international guidelines such as the UN Universal Declaration of Human Rights and ILO International Labour Standards provide a framework for ethical labor practices, their effectiveness is contingent upon consistent enforcement. This can be a formidable challenge when suppliers operate independently from developed-country buyers, often in regions marked by weaker legal systems.

Amid mounting global scrutiny of labor practices, multinational corporations are increasingly recognizing the importance of tailoring their social sustainability efforts to the distinct local realities of their supplier countries. Recent research by Castaldi and her colleagues reveals that a "Glocal" approach can enhance the effectiveness of governance strategies in driving sustainable labor practices. Rather than uniformly applying globally accepted norms to suppliers worldwide, global brands should deploy supply chain governance strategies in a manner that aligns with local institutional pressures, such as legal and civil society norms, within supplier countries. To arrive at these findings, the researchers examined the influence of different supply chain governance strategies on the social sustainability practices of garment and footwear suppliers across 11 emerging markets. They combined survey data from 356 suppliers with country-level data on legal and civil institutions, to assess the various factors that drive the implementation of social sustainability policies by suppliers.

Their work counters the belief that international buyers wield limited influence over supplier sustainability practices. Instead, it demonstrates that firms can effectively govern social sustainability through audits and collaboration, provided these efforts are adapted to the specific regulatory and societal contexts of supplier countries. Audits significantly bolstered social sustainability, particularly in countries with robust legal frameworks where enforcement mechanisms support compliance with international standards. Conversely, cooperation was most effective in nations possessing strong civil society institutions, where grassroots advocacy and local stakeholder engagement amplify the impact of cooperative efforts.

Managerial Implications

Audits remain the most prevalent tool for global buyers to guarantee compliance with standards. However, sporadic audits may enable temporary concealment of violations. More frequent audits create an environment of continual accountability and offer invaluable opportunities to disseminate knowledge. When paired with constructive feedback, these audits can empower suppliers to integrate ethical practices into their operations, fostering long-term improvements. And while audits can empower suppliers to integrate ethical practices into their operations, their efficacy diminishes without enforcement, making them less effective in countries with weak legal systems.

In parallel, empowering workers directly in emerging markets through education about their legal rights, including safe working conditions and fair compensation, can encourage bottom-up pressure on employers to improve labor practices. Informed workers become advocates for their own well-being, compelling companies to abide by legal standards. However, executing this strategy requires careful consideration of local contexts. In regions where freedom of association is curtailed, such initiatives could face resistance or even endanger market access. Hence, a nuanced understanding of the local political and social landscape is vital before implementing empowerment and education programs.

Finally, in certain situations, strategically selecting suppliers that align with sustainability standards and prioritizing partnerships with ethically committed companies creates a powerful incentive for others in the industry. By choosing only better-ranked firms, global buyers exert pressure on other companies to enhance their reputations in order to access international markets.

Ultimately, global buyers should tailor global standards to local contexts instead of implementing uniform practices across all countries. This means adapting strategies to respect the specific laws, social norms, and values of each region rather than imposing a one-size-fits-all solution.

Original Work

Castaldi, S., Wilhelm, M. M., Beugelsdijk, S., & van der Vaart, T. (2023). Extending social sustainability to suppliers: The role of GVC governance strategies and supplier country institutions. *Journal of Business Ethics*, *183*(1), 123-146.

Recent Highlights at the Center for Emerging Markets

The Center for Emerging Markets at Northeastern University operates in three distinct areas, including a robust research agenda; educational activities for the next generation of leaders; and significant work to influence business practitioners. Here are some recent highlights.

CEM Hosts Global Sustainability Summit

Jean-Pascal Tricoire, Chairman of Schneider Electric, spoke as the keynote speaker for CEM's October 5th Global Sustainability Summit, part of our Vivek and Vandana Sharma Initiative. Over 150 participants attended in person and 1000+ tuned in online The rest of the summit a featured senior policymaker from India, a leading scholar from China, the World Bank's Chief Economist for South Asia, and the founder of Goonj, an innovative social enterprise.

Fireside Chat with Devika Bulchandi

In the D'Amore-McKim School of Business's October 30 Beyond Boundaries event, Devika Bulchandani, Global CEO of Ogilvy, shared her journey leading a global advertising agency. Hosted by Professor Ravi Ramamurti, Founding Director of CEM, the discussion highlighted Ogilvy's innovative strategies, including its pivot toward digital platforms. The fireside chat was followed by a panel on global business featuring CEM Faculty Fellows Michael Enright, Samina Karim, and Ravi Sarathy.

Fall Nardone Family Seminar Series

CEM welcomed four academic and professional speakers during the Fall 2024 Nardone Family Seminar Series, made possible by a gift from David R. Nardone, to share insights on topics from AI and business, to educational initiatives in India, to corporate sustainability, to turning around a family business.

CEM Hosts Student Case Competition

90 Northeastern students from six Northeastern University colleges took on the challenge of CEM's Fall 2024 Case Competition on October 19, tackling the question of how an Indian company should expand into Africa. Organized by a dedicated team of CEM Student Associates, the competition challenged teams to analyze market conditions, cultural nuances, and risks within just two days. Guided by Professors William Lovely and Larissa Marchiori Pacheco, participants gained valuable feedback from 17 executive judges and competed for $3,000 in prizes, generously supported by DMSB Professor Joe Giglio.

New Srinivasan Family Award Recipients

Through a gift from Venkat and Pratima Srinivasan, CEM provided grants to six Northeastern students to perform research in emerging markets and solve pressing social and environmental challenges as a part of the sixth iteration of the Srinivasan Family Awards for Projects in Emerging Markets program. Three different Northeastern colleges were represented in this group.

Faculty Fellows Featured on International Business Today Podcast

On the sixth season of International Business Today, a top-rated podcast started by Northeastern's International Business & Strategy Group, CEM Faculty Fellows Paula Caligiuri, Greg Collier, and Samina Karim shared their cutting-edge research on career growth, entrepreneurship, and innovation.

Recognizing Five New CEM Student Associates

This fall, CEM recognized seven undergraduate students as new Student Associates for the upcoming academic term. These students were recognized for their efforts in leading CEM's student programming, partnering on CEM events, and helping further research on emerging markets across the university.

Pictured: ***(1)*** *Jean-Pascal Tricoire speaks at the Global Sustainability Summit* ***(2 & 3)*** *Devika Bulchandai and Ravi Ramamurti speak at DMSB's Beyond Borders event* ***(4)*** *Shantanu Khanna, Assistant Professor at Northeastern University, gives a Nardone Family Seminar* ***(5)*** *The winning student team at CEM's Fall Case Competition pose with Faculty Fellows Will Lovely and Larissa Marchiori Pacheco;* ***(6 & 7)*** *recent Srinivasan Family Award winners conduct research in Ecuador and Uganda.*

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