



**A Complex Systems Model for Transformative Supply Chains  
in Emerging Markets**

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## A Complex Systems Model for Transformative Supply Chains in Emerging Markets

### Abstract

#### Purpose

Corporations operating global value chains must grapple with a multiplicity of ethical and practical considerations, most notably when value chains extend to emerging markets. Such contexts involve interactions with diverse stakeholders who possess the ability to impact supply chain performance, but who also bring conflicting needs, values and interests. This paper outlines a transformative model of supply chain fairness, arguing that adopting plural fairness principles and practices generates a higher fairness equilibrium which includes all affected stakeholders in the production of fairness outcomes, with consequent positive organisational and system level impacts.

#### Approach

Through a philosophically informed overview of the literature on organisational fairness, the paper applies fairness to the management of supplier relations to identify the institutional features of ethically sustainable supply chains. The proposed conceptual model uses a complex adaptive systems approach (CADs), supplemented by describing the contribution of fairness norms and practices.

#### Findings

This paper argues that a transformative approach to supply chain fairness can suggest new structures for interaction between firms, stakeholders, mediating institutions and governments.

## Originality

Emerging market supply chains are facing significant changes. Adopting a complex adaptive systems perspective upon stakeholder relationships, this paper offers insights from the theoretical literature on fairness, and proposes a normative model of supply chain fairness which accounts for both the normative and empirical aspects of relational complexity.

## Key Words

Emerging markets; fairness; complexity; fairness; governance; institutions; stakeholders; supply chains; values

## Conflict of Interest

The authors have received research grants from Mars Incorporated. The paper does not include any primary data.

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## 1.0 Introduction

Supply chain fairness is a challenge for rapidly growing emerging markets which are becoming key sourcing regions for many industries. For example, while in 2007 26.4% of Inditex's suppliers were located in Asia, by 2012 this share had grown to 44.7% (Orcao and Pérez, 2014). Emerging markets do not only supply developed markets with goods but have also evolved into important consumer markets. An out-of-market strategy to supply these markets has the disadvantages of long lead times and exposure to exchange rates. Hence, many organisations are

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2  
3 attempting to develop local supply chain capabilities to support the growth potential of emerging  
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5 consumer markets (Blanco, 2009). This expansion of supply chains in emerging markets  
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7 combined with a unique set of institutional characteristics, including institutional voids and the  
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9 importance of informal institutions, poses challenges for firms, local suppliers, workers and  
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11 communities (Rottig, 2016; Puffer et al., 2016). These include infrastructure issues (for example,  
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13 underdeveloped supply chains, inadequate utilities, inadequate human resources and poor  
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15 information technology infrastructure) and policy hurdles (e.g., taxation, regulation and real  
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17 estate) (A.T. Kearney, 2006). Beyond these often technical issues, fairness considerations are at  
18  
19 the centre of supply chain development in emerging markets. Many global supply chains transfer  
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21 value from producers in emerging markets to consumers in developed countries through  
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23 exploitative practices (Tallontire and Vorley, 2005). Similarly, disparities between emerging  
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25 market producers and consumers raise fairness concerns.  
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31 Corporations with operating supply chains in emerging markets are frequently confronted with  
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33 negative social and environmental impacts, requiring them to grapple with the governance of  
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35 eco-systems, thereby blurring the practical distinction between public and private goods. New  
36  
37 supply chain models are needed to address these issues, including integrating values of fairness,  
38  
39 efficiency, rights and others into supply chain practices. Yet we know very little about how  
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41 values act upon supply chain performance. Fairness matters to the variety of stakeholders  
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43 affected by their proximity to a supply chain network. Supply chain partners are often in  
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45 different positions of power, which exposes the weaker party to vulnerabilities (Duffy et al.,  
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47 2013; Kumar, 1996; Touboulic, 2014). In particular, distributors, producers and farmers in  
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49 emerging markets frequently operate on a smaller scale than their equivalents in developed  
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51 markets, with lower resilience to practices considered to be unfair. Furthermore, suppliers in  
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3 emerging markets employ vulnerable workers earning very low wages. It is here, in the midst of  
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5 power imbalances, economic inequalities, values diversity and variations in different conceptions  
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7 of living, where fairness becomes particularly relevant. Distributive and procedural justice can  
8  
9 limit the extent of conflict in supply chain relationships and encourage compliance (Brown et al.,  
10  
11 2006). Fairness can also have a significant impact on social elements of supply chain  
12  
13 relationships which are often not contractually specified (Griffith et al., 2006). For instance, if  
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15 one supply chain member treats its partner fairly (in terms of processes and reward allocation) its  
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17 partner reciprocates by adopting attitudes and engaging in behaviours aimed at strengthening the  
18  
19 partnership (Griffith et al., 2006). Similarly, fairness can influence attitudinal and behavioural  
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21 outcomes such as long-term orientation, trust and relational behaviour. Firm benefits can be  
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23 legitimacy-related, psychological (for example, increased stakeholder trust, ownership or  
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25 commitment) or knowledge-based. Joint benefits of organisational ethical behaviour include  
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27 joint learning and the joint transformation of problem domains (Doh and Quigley 2014). Supply  
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29 chain fairness can also encourage partners to engage in behaviours that are over and above that  
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31 which is formally expected within the terms of supply (Duffy et al., 2013; Kashyap and Sivadas,  
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33 2012). Despite the importance of fairness to supply chain performance, there is a gap in the  
34  
35 literature comparing fairness perceptions in supply chains across countries. Most of the current  
36  
37 research on supply chain fairness has examined exchange relationships in developed countries.  
38  
39 Many high-impact studies focus on the US context (see, for example, Brown et al., 2006; Griffith  
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41 et al., 2006; Kashyap and Sivadas, 2012; Narasimhan et al., 2013). Only a small number of  
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43 studies have looked at emerging economies (for example, Liu et al., 2012; Gu and Wang, 2011;  
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45 Nnamdi and Owusu, 2014; Sagheer et al., 2009).  
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3 Furthermore, most previous research on supply chain fairness has focused on supplier fairness  
4 perceptions, and their effects (see, for example, Brown et al., 2006; Griffith et al., 2006; Kashyap  
5 and Sivadas, 2012). However, these individualistic approaches do not do justice to the  
6 complexities of global supply chains. Nor do they account for the fact of value pluralism in firms  
7 which, given the global reach of many organisations, means that they now 'reflect the pluralism  
8 of the surrounding society' (Heath et al, 2009: p. 9).  
9

10  
11 Given the range of stakeholders who may potentially be supply chain members, we propose to go  
12 beyond individualistic approaches to supply chain fairness by adopting a complex adaptive  
13 systems perspective. Increasingly, we are living in a 'shared-power, no-one-wholly-in-charge  
14 world' (Crosby & Bryson, 2010: p. 211) where multiple actors pool responsibility for producing  
15 outcomes of benefit to each. As organisations are confronted with challenges which none can  
16 address alone, collaboration is on the increase. Consequently, we are observing the rise of  
17 complex adaptive systems characterised by uncertainty, instability, interactive density, and  
18 unavoidable interdependencies which demand that organisations develop capabilities for  
19 extensive cooperation and coordination leading to shared knowledge building, joint expertise and  
20 collaborative learning (Edwards, 2011). Positivist research into the relational aspects of supply  
21 chains has focused on quantitatively investigating supply chain networks (see, for example, Wu  
22 et al., 2010). We understand supply chains as socially constructed institutions, or intersubjective  
23 realities (Endres and Weibler, 2016) emerging from communicative interactions between supply  
24 chain stakeholders (Koschmann, 2016). This perspective is useful for studying how fairness  
25 operates in supply chain relationships. It draws attention to how emerging market supply chains  
26 are characterised by specific relationships, including powerful intermediaries in supply chains,  
27 uneven power dynamics between workers, suppliers and buyers, and the importance of NGOs  
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3 and MSIs in representing the interests of commonly overlooked supply chain participants such as  
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5 workers and smallholders (Hughes et al. 2007). Uniting theoretical approaches to fairness to an  
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7 overview of the empirical literature, we illuminate the salient features of fairness relations in  
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9 complex adaptive systems for the emerging market context, and advance a theoretical model of  
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11 supply chain fairness which accounts for both the normative and empirical aspects of relational  
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13 complexity<sup>i</sup>.  
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## 20 **2.0 Theoretical approaches to fairness**

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23 Fairness is concerned with how we treat one another in our social and economic interactions. By  
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25 invoking fairness, we are making some statement, forming some judgement, about how people  
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27 ought to be treated, how they are actually treated, and what this implies for justice. The formal  
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29 principle of distributive justice can be found in Aristotle's statement of equality that equals  
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31 should be treated equally and unequals unequally. More precisely:  
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35 'Individuals who are similar in all respects relevant to the kind of treatment in question  
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37 should be given similar benefits and burdens, even when they are dissimilar in other  
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39 irrelevant respects; and individuals who are dissimilar in a relevant respect ought to be  
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41 treated dissimilarly, in proportion to their dissimilarity' (Velasquez, 1998).  
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45 Fairness picks out the kinds of reasons that should guide our interactions: 'To be partial and  
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47 biased is to be moved by the wrong sorts of reasons' (ibid: p. 398). Arrangements may be judged  
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49 to be fair, when allocations are 'in accordance with what is due' (ibid: p. 399) as well as subject  
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51 to allocative procedures which are guided by the correct reasons of impartiality and efficiency  
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53 according to some publicly recognised feature of the recipient. It is fair to treat participants  
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3 equally, but this does not imply that they must be treated the same. Rather, equal treatment  
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5 means that all participants should have their claims satisfied in proportion to relevant public  
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7 criteria, such as contribution, desert or need. Furthermore, fairness practices which give  
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9 participants a role in determining the rules restricting their liberties operate to reduce the  
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11 anxieties of participants that they will be exploited or be subject to unpredictable, arbitrary  
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13 treatment. Hence, fairness practices encompass procedures as well as outcomes, and associated  
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15 interactions are constituted by impartial, reason-giving exchanges. Finally, acceptance by  
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17 participants of the benefits of cooperation generates obligations to make their contribution,  
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19 including taking part in shaping the rules governing social cooperation.  
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24 People consider a variety of fairness norms to be relevant, but these often conflict in real world  
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26 contexts of value pluralism and competing interests. The obligations arising from accepting the  
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28 benefits of social cooperation, for example, are subject to interpretation and contestation.  
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30 Furthermore, deliberative exchanges which privilege impartial reason-giving often marginalise  
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32 modes of communication based upon story-telling (Mansbridge et al., 2010), or emotional  
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34 articulation of concerns and polarised positions. In many cultures, including emerging markets,  
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36 participants use not only reason, but also emotion and other varieties of expression to form  
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38 fairness perceptions. In micro-level interactions, reflection upon normative principles is  
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40 combined with collective sensemaking, encouraged by social information processing, social  
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42 contagion, social networks and fairness heuristics (Schminke et al., 2015).  
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49 Prior research has found strong correlations between fairness and outcome satisfaction, job  
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51 satisfaction, trust, and affective commitment (Cohen-Charash and Spector 2001; Colquitt et al.  
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53 2001; Nowakowski and Conlon 2005). Cultural variations of fairness are also relevant; for  
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55 example, the literature has shown how the Chinese concept of guanxi can improve trust (Lyles et  
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3 al., 2008). From a relational perspective, fairness moderated by trust impacts extra-role  
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5 behaviour, psychological ownership and self- and collective identities (Niehoff and Moorman  
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7 1993; Johnson et al. 2010) (see Figure 1).  
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11 We integrate normative/objective and empirical/subjective approaches (Cuguro-Escofet and  
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13 Fortin, 2014) into a model of supply chain fairness which foregrounds how a transformative  
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15 fairness equilibrium may be achieved through processes of learning and adaptation. As part of  
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17 the normative content for such an approach we argue that the plurality of fairness principles must  
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19 be considered. In a study of fairness trade-offs Ordonez and Mellers (1993) examine responses  
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21 to: firstly, what people would favour in the 'more fair' society and secondly, what they would  
22  
23 favour in the society in which they would 'prefer to live'. They find that 'people value equity but  
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25 prefer to live in societies that sacrifice some equity in order to provide for higher minimum and  
26  
27 mean earnings' (Konow, 2003: p. 1234). Given this, Konow (2003) proposes a 'multicriterion  
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29 theory of justice' in which 'three justice principles are interpreted, weighed and applied in a  
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31 manner which depends upon the context' (ibid: p. 1235). Determining the role of fairness  
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33 principles in social arrangements is an interactive process and a social practice for 'mutual  
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35 assurance' (James, 2012).  
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41 When aimed at mutual assurance and trust building, fairness principles facilitate the formation of  
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43 fairness perceptions, including collective judgements on how people are treated according to the  
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45 values relevant to the situation (Etzioni, 1988; Schminke et al., 2015). This includes the  
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47 procedural, distributive, interactive dimensions of justice (Whitman et al., 2012). The  
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49 effectiveness of social practices in arriving at 'all things considered' fair outcomes depends upon  
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51 an integrated set of factors, such as setting up the communicative interaction based upon mutual  
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53 respect, openness and availability of information, readiness to listen to different points of view  
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3 and commitment to the outcome. This means that, in order to be seen to be fair, communicative  
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5 interactions must take place in particular kinds of dialogic spaces or 'mini publics'. In the  
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7 conduct of dialogic conversational practice, Francis et al. (2013) privilege the role of line  
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9 managers, making them uniquely responsible for engaging people 'in a type of generative  
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11 conversation that can creatively address the tension between actualities (what is) and  
12  
13 potentialities (what could or ought to be)' (ibid: p. 2718). However, corporate managers are not  
14  
15 the only responsible agents in dialogic spaces. Beirne (2008) characterises participatory practices  
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17 as 'negotiated, contested and precarious' (ibid: 682), which means that establishing 'mini  
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19 publics' within supply chain networks will require also a 'consolidated, independent source of  
20  
21 influence and continuity' (Brogger, 2010: p. 491), or a system of independent institutions which  
22  
23 can provide checks and balances within a pluralised system of democratic accountability. To this  
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25 end, we discuss a model of supply chain fairness which situates supply chains in a multi-level  
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27 system of mediating institutions and governance arrangements.  
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33 Relevant theoretical approaches to fairness are summarised in Table 1.

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36 *Insert Table 1*

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39 *Insert Figure 1*

### 40 41 42 **3.0 Situating Supply Chains within Complex Adaptive Systems**

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44 Supply chains are concerned with the procurement, production and distribution of goods  
45  
46 (Arunachalam et al. 2003). We characterise supply chains as Complex Adaptive Systems  
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48 (CADs) which are 'neural-like networks of interacting, interdependent agents who are bonded in  
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50 a collective dynamic by common need' (Uhl-Bien and Marion, 2009: p. 631). Our starting point  
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52 is the observation that interconnected, networked systems have become a major feature of the  
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54 modern globalised world. Yet, these highly interdependent systems are not fully understood, are  
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3 difficult to control and are vulnerable to failure. Global supply chains can be understood to be a  
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5 form of CAD because their emergent properties arise through complex, and unpredictable,  
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7 interactions involving suppliers, distributors and manufacturers in multiple locations (Pathak et  
8  
9 al., 2007).

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12 According to Varga et al (2009), the supply network has evolved from simple intra-  
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14 organisational exchanges, progressing towards increasing levels of integration via dyadic  
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16 relationships between businesses and suppliers, dyadic chains, supply chains, integrated business  
17  
18 networks and demand chain communities. Key relationships include buyer-supplier agreements  
19  
20 and producer-worker relationships. In emerging markets other important parties include trade  
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22 unions (Ansett, 2007), multi-stakeholder organisations (Hughes, 2001), intermediaries, producer  
23  
24 organisations, certification and standards agencies, distributors, processors, marketing agents  
25  
26 (Narrood et al., 2009) and NGOs (Maloni and Brown, 2006). Stakeholders will bring to their joint  
27  
28 action their diverse values, needs, fairness norms and conceptions of living. Successful supply  
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30 chain partnerships require cooperation regarding common needs and shared values, as well as the  
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32 flows of goods, information and finances (Pathak et al., 2007; Surana et al., 2005). Global supply  
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34 chains tend to be dynamic, temporary and subject to frequent change (Choi et al., 2001), making  
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36 co-evolution among supply chain partners rare (Pathak et al., 2007). Positivist research, however,  
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38 by focussing on supply chains as the physical flow of resources (see, for example, Sarac, 2014)  
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40 can fail to account for supply chains as dynamic systems. In particular, such perspectives do not  
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42 pay sufficient attention to the relational dimension of supply chains, including the necessity to  
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44 coordinate different parties and manage inter-organisational relationships.  
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53 The formal and informal characteristics of emerging market supply chains make them good  
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55 examples of complex systems (Khanna and Palepu, 2013; Williams, 2014). Many developing  
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3 economies have large informal or unorganised sectors that is not registered for tax purposes and  
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5 not regulated by the state (Harriss-White, 2003). Most informal workers have no access to social  
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7 security, minimum wages, or occupational safety and health protection (Papola, 2004). We argue  
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9 that fairness principles and practices can, and ought, to be applied to supply chains considered to  
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11 be CADs. However, the CAD literature exhibits limited understanding of the important of  
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13 relationships, and the values, norms and principles governing interactions. The result is an  
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15 'action void' which 'denies a role to purposive action through the exercise of strategic choice'  
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17 (Child and Rodrigues, 2012: 804). This means that the contribution of 'relational value', which  
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19 arises from 'mutual commitment and sustained cooperation' (Luo, 2008; see also, Gronroos and  
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21 Helle, 2012), to the management of supply chain ecosystems is poorly understood. Specifically,  
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23 organisations operating complex supply chains need to develop capabilities for establishing  
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25 'rules of the game' and developing relational capital, as well as making use of capacities for  
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27 'guided self-organisation' (Helbing, 2013: p. 54) by combining bottom-up and top-down  
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29 mechanisms with 'the right kinds of interactions, adaptive feedback mechanisms, and  
30  
31 institutional settings' (ibid: p. 55). In the following sections, we propose a model for how  
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33 complex supply chain networks based on fairness can be established and maintained.  
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#### 42 **4.0 A Systems Approach to Supply Chain Fairness**

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44 Fairness tends to be constructed in systems when relationships manifest the relevant normative  
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46 characteristics of interdependence, inclusiveness, cooperation, and human values of equality,  
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48 fairness, care, respect, esteem and dignity. In so doing, these relationships contribute to the  
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50 'relational value' needed to sustain a system of social cooperation. When stakeholders  
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52 experience an urgent 'shared need' and are able to express the diversity of their interests through  
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3 properly architected dialogic spaces, prospects for long term systemic sustainability are  
4 improved. Supply chains are often complex and entail balancing competitive and cooperative  
5 behaviour between supply chain partners (Wu et al., 2010). Jambulingam et al. (2009) find that  
6 fairness promotes trust in supply chain relationships. Similarly, Stevenson and Pirog (2008)  
7 suggest that procedural fairness can help to establish trust base between supply chain partners.  
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10 The next section will apply these insights to a model of supply chain fairness which operates at  
11 multiple levels of the stakeholder, mediating institutions and ecosystem governance. These  
12 elements of supply chain fairness are laid out in Figure 2.  
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21 *Insert Figure 2*  
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23 Three dimensions of supply chain fairness are frequently considered in the literature. The first  
24 dimension, *distributive fairness*, concerns the key question of whether benefits and burdens are  
25 fairly shared among supply chain partners (Kumar, 1996). The second dimension, *procedural*  
26 *fairness*, looks at decision-making processes in the supply chain. An important concern is  
27 whether all supply chain partners have a voice in decision-making, especially where powerful  
28 supply chain partners might not always be aware of the conditions under which vulnerable  
29 supply chain partners operate (Duffy et al., 2013; Kumar, 1996). The third dimension,  
30 *interactional fairness*, concerns the communication process. Supply chain fairness implies that  
31 communication between partners is open and that procedures are in place to manage conflicts  
32 (Narasimhan, 2013).  
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46 In our model of supply chain fairness, these three dimensions are applied to the levels of  
47 governance, institutions and stakeholders (Table 2). Drawing upon the theoretical and empirical  
48 literatures, we identify key aspects of the three fairness dimensions which are likely to impact  
49 supply chain performance (Figure 3).  
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3 *Insert Table 2*  
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5 *Insert Figure 3*  
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8 Our conceptual model brings the three dimensions of fairness together with features of supply  
9 chain as complex ecosystems: specifically, *mediating institutions* and *governance*.  
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#### 13 14 15 *4.1 Mediating Institutions* 16

17 Supply chain fairness goes beyond the contractual relationship between supplier and buyer to  
18 include the supplier's context and environment. This illuminates concerns such as living wages,  
19 child labour and working conditions which are pertinent to the emerging market context (Boyd et  
20 al., 2007; Tallontire and Vorley, 2005). Most previous studies have asked suppliers if they feel  
21 they are being treated fairly. But these questions only scratch the surface: what if a supplier does  
22 not treat its own employees fairly? Supply chain fairness is a complex, multifaceted issue, where  
23 assumptions are too easily made that the fairness perceptions of more powerful actors can be  
24 taken as proxies for invisible or marginal supply chain members. An extended notion of supply  
25 chain fairness will consider how suppliers, producers and communities make their contribution  
26 to creating the conditions for supply chain cooperation and effectiveness, including being able to  
27 advance their conceptions and perceptions of fairness. However, this more expansive  
28 understanding of supply chain fairness can only be addressed in collaboration with mediating  
29 institutions constituting the social fabric of the supply chain. In turn, these are also sites of  
30 competing interests, contested values and different conceptions of living.  
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49 Our supply chain fairness model assumes that collective fairness is assessed, negotiated and  
50 implemented at different levels within a network of actors. What constitutes "fairness" is often  
51 negotiated not only between organisations and stakeholders but also through the network  
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3 dynamics of collective mobilisation. In many cases, institutions such as NGOs, trade unions or  
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5 producer organisations mediate the relationships between organisations and stakeholders. NGOs  
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7 take an important role as they frequently initiate and lead multi-stakeholder initiatives in the  
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9 supply chain context (Utting, 2002; Connor, 2004). For example, the Ethical Trading Initiative  
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11 (ETI), has led the dialogue between firms, producers, NGOs and trade unions regarding workers'  
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13 rights in emerging markets (Hughes et al. 2007).  
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#### 19 4.2 Governance 20

21 The type and quality of governance impacts fairness considerations. On the most basic level, this  
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23 means awareness of the regulatory, social and cultural norms shaping supply chain partnership  
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25 relationships. For example, the minimum wage has become an increasingly popular policy  
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27 instrument to reduce inequality in many emerging markets China, Hong Kong, and Cambodia  
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29 (World Bank 2014). However, it is widely accepted that minimum wage regulations often do not  
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31 allow workers and their families to experience a decent living. For this reason, a living wage, set  
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33 at a level higher than the national minimum wage, has been proposed in many countries, even  
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35 though there is no agreement on how a living wage should be calculated in practice (Miller and  
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37 Williams, 2009). A living wage implies that all workers should earn a wage adequate for the  
38  
39 purchase of goods and services necessary to sustain a life of human dignity (Figart, 2011).  
40  
41 Importantly, a living wage incorporates the assumption that full-time work should be enough to  
42  
43 support a family. However, living conditions and family arrangements vary across developed and  
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45 emerging economies which complicates comparison of living wages across countries, but equally  
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47 presents an opportunity for organisations to come to a deeper understanding of the lives of  
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49 suppliers and producers in their supply chains.  
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Regulative ideals is one aspect of governance, which can impact on fairness considerations in diverse, sometimes unpredictable, ways. Specifically, governance has become increasingly networked. Jones et al. (1997) examines 'network governance' which arises from increasing complexity in the polity, the need for government to negotiate with many social actors, a shift from markets and hierarchies to networks, a movement from formal authority to coordinating, steering and influencing, and finally from a state centric to a pluralistic perspective. Bao et al. (2012: p.446) argue that 'one of the chief functions of government is to collect the values of the community and create integrated responses to these values across increasingly fragmented government systems where values are in conflict'. This produces a values-centred approach to governance, where private enterprises may be increasingly called upon to join with others in the creation of public value (Moore, 2017) through systems of 'hybrid governance' (Ponte and Daughjerg, 2015), characterised by 'deep and mutual dependence and interconnection between public and private' (ibid: 104).

#### 4.3 *Distributive ('Outcome') Fairness*

Not every kind of functioning cooperative system can be judged to be fair. When considering distributive justice in international trade, De Bres (2011) argues that the frequently assumed connection between fairness, cooperation and welfare outcomes ('welfare consequentialism') does not hold because fairness is not essential to stable cooperative systems. Many social arrangements endure, even when the distributive outcomes are clearly skewed towards one party. In other words, cooperation is possible over long periods of time, without the explicit enactment of fairness principles. However, we may want to select from more or less desirable systems of social cooperation in order to promote certain moral or efficiency objectives (Keat, 2009). For



1  
2  
3 example, a stable system of social cooperation could be a ‘poverty trap’ (Sindzingre, 2010)  
4  
5 which maintains a low fairness equilibrium through institutionalisation of dependence,  
6  
7 exploitation, silence and minimal benefits to the beneficiary. Conversely, a high fairness  
8  
9 equilibrium implies setting up fairness practices which meet shared human interests in world-  
10  
11 building, a sense of belonging (‘existential security’), and human flourishing.  
12  
13

14  
15 However, we are not likely to be afforded a simple choice between fair or unfair systems.  
16  
17 Arneson (2013) argues that we should, in our concern to mitigate the harms of exploitation,  
18  
19 guard against prioritising fairness so strictly that we forgo the good that might be done.  
20  
21 Exploitation involves ‘interacting with another person in a way that generates for oneself an  
22  
23 unfairly large share of the gains from interaction’ (Arneson, 2013: 405). For Arneson, the  
24  
25 problem with strict fairness is that, because of concerns that the interaction will be exploitative,  
26  
27 we may refuse to become involved with somebody, thereby depriving him or her of vital  
28  
29 resources. Moreover, our concern over exploitation is not just with the degree of gain or loss in  
30  
31 exchanges, but also with what is due to another human being. Exploitation is wrong because it is  
32  
33 fundamentally disrespectful, and damages the possibility of interactions between equals, or  
34  
35 persons of intrinsic human worth (Sample, 2003). Fair treatment mitigates fears of exploitation  
36  
37 and fosters mutual respect. In applying justice theory to strategic alliances, Luo (2008) shows the  
38  
39 necessity for fair treatment at both the individual (self-esteem, social identity, team spirit) and  
40  
41 the organisational levels (commitment, trust and social harmony), if alliances are to produce  
42  
43 cooperative outcomes=  
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50  
51 There is agreement in the literature that supply chain fairness includes distributive fairness. Most  
52  
53 articles take this to mean paying suppliers a fair price and providing fair payment terms.  
54  
55 Examples of measurement include: rewards based on efforts expended (Narasimham et al.,  
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1  
2  
3 2013); gain consistent with effort and investment, commensurate with role and responsibilities,  
4  
5 comparable to others' gain, comparable to counterpart's gain and proportionate to our  
6  
7 performance (Liu et al., 2012); contribution to relationship vs. outcome/ rewards of relationship  
8  
9 (Griffith et al., 2006).

10  
11  
12 From a systems perspective, distributive fairness implies that suppliers have to be paid a fair  
13  
14 price, allowing them to provide decent working conditions to their employees, and fostering the  
15  
16 conditions for productivity gains and improved livelihoods, thereby benefiting organisations and  
17  
18 local economies. For example, Pollin et al. (2004) calculated increasing apparel retail prices by  
19  
20 4-12% might allow for a 100% increase in wages of apparel workers in emerging markets, while  
21  
22 maintaining acceptable profit levels for suppliers and buyers. While this research shows that a  
23  
24 relatively small increase in retail prices might permit a significant increase in wages, it is often  
25  
26 difficult to precisely establish the notion of a fair price. For the emerging market context, it has  
27  
28 been suggested that a fair price in the supply chain 'covers all production costs for the goods,  
29  
30 including environmental and social costs, provides a decent standard of living for the producers  
31  
32 with something left over for investment' (Béji-Bécheur et al., 2008). However, Reinecke and  
33  
34 Ansari (2015) illustrate the difficulty of multi-stakeholder deliberations to establish what a fair  
35  
36 price means in sectors involving smallholder-farming. They suggest that actors deal with the  
37  
38 ethical complexities of negotiating what a fair price means through sensemaking processes  
39  
40 involving iterations of deliberation. However, such processes do not always result in outcomes  
41  
42 which can be judged to be objectively fair. This is because: firstly, communicative practices may  
43  
44 often be based upon deliberative modes which exclude moral intuition and affect from ethical  
45  
46 judgements and secondly, power imbalances and cultural differences mean that '[w]eaker parties  
47  
48 may be unable to articulate injustice and systemic neglect in rational deliberations' (ibid: 4).

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2  
3 Outcome fairness must therefore be tied to a contextually-attentive understanding of process  
4  
5 fairness which is committed to the design of mini publics or dialogic spaces based upon  
6  
7 principles of equality, communicative diversity and respect for difference.  
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#### 10 11 12 4.4 *Procedural ('Process') Fairness* 13

14 In our interactions with one another, we are often concerned with more than distributions of  
15  
16 wealth. Procedural fairness not only secures those instrumental benefits which are due to us (by  
17  
18 virtue of our contribution or need), but provides the basis for our mutual recognition of each  
19  
20 other as beings deserving of respect and dignity, and is a means through which we manifest our  
21  
22 agency. Respect and dignity may be repaired if beneficiaries are acknowledged as human beings  
23  
24 with needs and plans of their own, even if the initial exchanges between parties are strictly  
25  
26 exploitative (Wood, 1995). Respect underpins our 'agency status' (Anand, 2001) by which  
27  
28 'people are able to establish, albeit imperfectly, their mutual relations as agents, not just as  
29  
30 owners of possible payoffs' (ibid: 253). In this regard, our agency status is signalled by  
31  
32 structured opportunities to participate in 'cheap talk' (Ostrom, 2010), and to experience self-  
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34 determination by sharing with others the responsibility to create, maintain and endorse the rules  
35  
36 which frame our collective action.  
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42 Rather than avoiding all instances of exploitation, our concern should be with repeated  
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44 exchanges which maintain a beneficiary in a condition of long term dependence, thereby  
45  
46 preventing their being able to advance their condition through improvements in respect,  
47  
48 capability development and increased livelihoods. Repeated exchanges characterised by  
49  
50 permanent dependence render beneficiaries vulnerable to systemic exploitation. Overcoming  
51  
52 systemic exploitation involves acknowledging long-term mutual obligations, which are met  
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3 through attentiveness to background conditions, including the ecosystem of mediating  
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5 institutions and governance arrangements.  
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8 Procedural fairness has implications for the design of non-exploitative communicative spaces.  
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10 Kumar (1996) highlights the following factors of supply chain fairness: bilateral communication,  
11  
12 impartiality, refutability, explanation, familiarity and courtesy. Other research has mentioned  
13  
14 transparency, honesty, reliability, influence and a say in decisions, consideration, respectfulness  
15  
16 and consistent behaviour (Diller, 1999). Mechanisms to measure procedural fairness and  
17  
18 evaluate deliberative quality include: fair policies, fair treatment, equitable treatment (Griffith et  
19  
20 al., 2006); non-discrimination, consistent procedures, provision of feedback, familiarity (Liu et  
21  
22 al. 2012); fair dealing with suppliers, explanation of decision-making, consistent decision-  
23  
24 making (Narasimhan et al., 2013).  
25  
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28  
29 A vexed issue in the pursuit of deliberative quality is the power imbalances which arise from  
30  
31 severe economic inequalities. MNCs address concerns related to decent work and living wages  
32  
33 by requiring suppliers to comply with codes or standards. However, these codes or standards are  
34  
35 often issued without sufficient consultation or explanation. Boyd et al. (2007) suggest that a  
36  
37 supply chain approach based on monitoring and compliance can damage buyer-suppliers  
38  
39 relations and will not always be useful in addressing pertinent issues. For example, Pedersen and  
40  
41 Andersen (2006) describe that IKEA's implementation of a supply chain code of conduct,  
42  
43 involving several emerging markets, has been made possible only through a system of direct  
44  
45 sanctions enforced through IKEA's dominant supply chain position.  
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49  
50 From a systems perspective, stakeholder capacity development is an important feature of  
51  
52 procedural supply chain fairness. This includes how supply chain interactions impact the social  
53  
54 and relational capital in whole communities, not just within supplier organisations. Ansari et al.  
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(2012) draw on Sen's (1983, 1985) perspective of poverty alleviation which argues that developing the capabilities of the poor may lead to improved economic and social participation. Thus supply chain fairness has to go beyond income increase by focussing on the opportunities that individuals have for human flourishing through acting and being. Building capability development into supply chain systems exceeds standard approaches such as the traditional fair trade model because it includes important groups such as small distributors, traditionally not involved in fair trade schemes, and fosters a critical inquiry into supply chain practices such as: are supply chain partnerships disruptive to communities, do supply chain partnerships offer suppliers and their workers the opportunity to develop capabilities, are those capabilities valuable beyond the immediate supply chain partnership?

#### 4.5 *Interactional ('Relational') Fairness*

The supply chain fairness literature highlights the importance of consistent communication and conflict resolution. Relevant dimensions include: respect, friendliness, socializing between business representatives, fair treatment, exchange of timely information, information sharing transparent communication, provision of information (Liu et al., 2012); agreement on priorities, quick conflict resolution, exchange of timely information, provision of information (Luo, 2008; Narasimham et al., 2013);

A systems approach to fairness adopts a wider approach to the social construction of justice than mere transactional exchange. Supply chain justice does not emerge straightforwardly from contractual negotiations between supplier and buyer but is socially constructed through deliberative exchanges, where fairness perceptions are likely to be stronger when such deliberations permit expressive variety, including the articulation of diverse values and

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3 perspectives, and are supported by mutual obligations. For example, given the absence of an  
4  
5 accepted definition of a living wage, the determination of a living wage would involve not only  
6  
7 multinational companies and their local suppliers, but also NGOs, cooperatives, trade unions,  
8  
9 local governments, MNCS and suppliers. A prominent example for the emerging market context  
10  
11 is the Ethical Trading Initiative (ETI) (Hughes et al. 2007). Such stakeholder forums often do not  
12  
13 exist and investments by corporations to build 'relational value' may be required. For example,  
14  
15 Nestle initiated the AAA multi-stakeholder coffee programme to address sustainability issues in  
16  
17 the coffee supply chain (Alvarez et al. 2010).  
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## 24 **5.0 Discussion and Conclusions**

25  
26 The question arises - how can supply chain networks in emerging markets move towards the  
27  
28 described model of systemic fairness? In emerging markets, the presence of institutional voids  
29  
30 indicates a failure to signal the importance of fairness-related social and environmental issues  
31  
32 (Baughn et al. 2007). However, these institutional voids (Puffer et al. 2016) open up an  
33  
34 opportunity-space for innovation where global supply chains are understood as semi-autonomous  
35  
36 social formations consisting of a basic structure of institutions, public policies and social  
37  
38 practices for the purpose of distributing goods and services and allocating fairly the benefits and  
39  
40 burdens of cooperation to supply chain participants. In so doing, supply chain fairness needs to  
41  
42 be considered from a complex adaptive systems perspective characterised by pluralism, power  
43  
44 and difference, where change involves collaborative knowledge building and the development of  
45  
46 shared expertise between supply chain members, including institutions, businesses and  
47  
48 stakeholders (Edwards, 2012). Edwards (2011) argues that cooperative learning depends upon  
49  
50 'relational agency' or the 'capacity for working with others to strengthen purposeful responses to  
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3 complex problems' (ibid: 34). Learning may be understood to be adaptive, generative or  
4  
5 transformative (Sessa et al., 2011). Adaptive learning tends to be incremental and often occurs  
6  
7 unconsciously. Generative learning tends to be more proactive but builds on prior experiences.  
8  
9  
10 Transformative learning tends to be most radical and requires reorientation. We assume that  
11  
12 moving towards an innovation-promoting 'fairness equilibrium' in supply chain systems will  
13  
14 require transformative learning. We illustrate the dynamic movement from incremental  
15  
16 adaptation to systemic transformation in Figure 3.  
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21  
22 *Insert Figure 3*  
23  
24  
25

26 Deliberative governance structures can provide voice to suppliers and intermediaries, However,  
27  
28 simply setting up structures is not sufficient to ensure substantive discussion about fairness – this  
29  
30 will require that all participants have the ability to influence the rules, norms and practices which  
31  
32 are judged collectively to manifest fairness principles, and extending to meaningful stakeholder  
33  
34 engagement in decision-making. Voice has individual and collective components, requiring  
35  
36 elements of indirect representation and direct participation (Van Buren and Greenwood, 2008).  
37  
38 This makes correctly architected 'dialogic spaces' a necessary design feature for structuring  
39  
40 supply chain fairness, and an essential element of moving a system from adaptive to  
41  
42 transformative fairness. Overcoming systemic exploitation and establishing a high fairness  
43  
44 equilibrium entails commitment to mutual obligations combined with practices attentive to plural  
45  
46 fairness principles, mechanisms for weighing and prioritising fairness principles, interactions  
47  
48 based on mutual respect, correctly structured communicative spaces, procedures including access  
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50 to information and shared decision making, and a supportive institutional fabric.  
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3 Transformative supply chain fairness is promoted where a 'shared need' for fairness can be  
4 identified and articulated. In CADs, Marion and Uhl-Bien (2001) argue that shared need  
5 provides the urgent uniting motive, compelling diverse actors to recognise their unavoidable  
6 inter-dependences, and to work together for the common good. Acknowledging shared need  
7 motivates joint development of the normative, social and operating tools required for securing a  
8 transformative fairness equilibrium, characterised by multi-stakeholder initiatives and  
9 deliberative governance. Mena and Palazzo (2012: 528) define multi-stakeholder initiatives as  
10 'private governance mechanisms involving corporations, civil society organizations, and  
11 sometimes other actors, such as governments, academia or unions, to cope with social and  
12 environmental challenges across industries and on a global scale'. Such initiatives are  
13 mechanisms for self-regulation, providing alternatives to business regulations or codes of  
14 conduct (Utting, 2002), and have commonly been used to address social issues in supply chain  
15 management. However, whilst multi-stakeholder initiatives can be key vehicles for stakeholder  
16 dialogue, their input and output legitimacy should not be taken for granted. Mena and Palazzo  
17 (2012) argue that multi-stakeholder initiatives need to meet minimum standards, including,  
18 stakeholder inclusion, procedural fairness, transparency, efficacy and enforcement. Such  
19 legitimacy standards can support multi-stakeholder initiatives as vehicles for sustainable  
20 development in emerging markets (Backstrand 2006).

21  
22 For multi-level systems in which multi-stakeholder initiatives play a part, the literature on  
23 collaborative governance can provide important insights. Governance is understood as the  
24 'means to steer the process that influences decisions and actions within the private, public, and  
25 civic sectors.' (O'Leary et al., 2006: 7) or 'a set of coordinating and monitoring activities' that  
26 enables the survival of the collaborative partnership or institution (Bryson et al., 2006). Emerson



1  
2  
3 et al. (2011) argue for an integrated ‘collaborative governance regime’ which will encompass a  
4  
5 variety of governance relationships such as: collaborative public management, multi-partner  
6  
7 governance, joined-up or network governance, hybrid arrangements, and participatory  
8  
9 governance including civic engagement. In circumstances requiring collective action, Ostrom  
10  
11 (1990) considers ‘governance as a dimension of jointly determined norms and rules designed to  
12  
13 regulate individual and group behaviour’ (Emerson et al., 2011: 2).  
14  
15

16  
17 Stakeholders included within the jurisdiction of a collaborative governance regime have an  
18  
19 interest in how these governance mechanisms address their preferences for fairness, and provide  
20  
21 opportunities for supply chain members to influence the framing rules governing their joint  
22  
23 actions. With this in mind, Gollagher and Hartz-Karp (2013) describe a hybrid model of  
24  
25 ‘deliberative collaborative governance’ (DCG) which combines deliberative democratic theory  
26  
27 with collaborative governance theory. DCG may operate independently of government, and have  
28  
29 a role to play in resolving wicked problems (Wemouth and Hartz-Karp, 2015). Ansell and Gash  
30  
31 (2007) define a ‘combined approach’ to collaborative governance where public and private  
32  
33 actors work together to provide public goods. In emerging markets, deliberative collaborative  
34  
35 governance can provide alternative ordering systems to fill institutional voids (Boddewyn and  
36  
37 Doh 2011).  
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41  
42 In some governance systems, private organisations are not just consulted by state actors, but  
43  
44 share in decision-making responsibility, and furthermore may adopt the pivotal role of system  
45  
46 orchestrator. Such co-governance involves complex governance processes which Johnson and  
47  
48 Gastil (2015) suggests will blend embedded and autonomous deliberative spaces, and require  
49  
50 participants to confront tensions in fundamental values in order to address legitimacy,  
51  
52 inclusivity, deliberative quality and power relations. An instructive case is the governance  
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3 innovation involving numerous Western retailers, including Primark, Walmart, J.C. Penney,  
4  
5 Benneton and Matalan following the “Rana Plaza” factory collapse, killing over 1,100 workers.  
6  
7 Corporate responses sought to remedy weak state enforcement of building and labour  
8  
9 regulations. This resulted into two types of sector-based governance innovations – an Accord,  
10  
11 consisting of a pluralist structure, grounded in a legally binding agreement and involving  
12  
13 workers in high level decision-making and co-determination, and an Alliance, making use of a  
14  
15 voluntary sector approach, with no formal worker voice in decision-making and involving unions  
16  
17 in an advisory capacity only (Donaghey and Reinecke 2017).  
18  
19

20  
21 Emerson et al. (2011) identify the following key drivers for collaborative governance: leadership,  
22  
23 consequential incentives, interdependence and uncertainty. They identify the associated  
24  
25 dynamics to be: firstly ‘principled engagement’ involving many diverse stakeholders, shared  
26  
27 values, differing needs and identities; secondly, ‘shared motivation’ including trust, mutual  
28  
29 understanding, legitimacy and commitment; and thirdly, ‘capacity for joint action’ which  
30  
31 includes: procedural and institutional arrangements, leadership, knowledge and resources.  
32  
33 Principled engagement involves four basic process elements of communicative practice:  
34  
35 discovery, definition, deliberation and determination. Communicative practices must be  
36  
37 characterised by fair and civil discourse, open and inclusive communication, representation of all  
38  
39 interests, perspective and knowledge of all participants. Ansell and Gash (2007) argue that the  
40  
41 variables influencing successful collaboration include: prior history of conflict and cooperation;  
42  
43 incentives for stakeholder participation; power and resource imbalances; and leadership and  
44  
45 institutional design. Positive fairness perceptions underpin the factors which are crucial within  
46  
47 the collaborative process, including: face to face dialogue; trust building; and commitment and  
48  
49 shared understanding.  
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3 Helbing (2013) identifies the importance of social capital for system adaptation and resilience:  
4  
5 'social network interactions can create social capital such as trust, solidarity, reliability,  
6  
7 happiness, social values, norms and culture' (ibid: p. 57). However, values, norms, culture and  
8  
9 happiness are 'essentially contested' concepts, subject to interpretive variety and value pluralism,  
10  
11 incorporation of which, depending upon the orchestrating abilities of systems leaders, may  
12  
13 render a system more or less productive. Uhl-Bien et al. (2007: p. 311) identify the importance of  
14  
15 'recognizing the creative value of tension and using it to foster productive discussions and  
16  
17 interaction'. To make use of tensions and differences, system leaders will need to be attentive to  
18  
19 supply chains as pluralist cooperative orders which are attentive to the diverse interests, needs  
20  
21 and values of many different stakeholders. Participation through voice is a key system feature  
22  
23 which provides dynamic feedback and information, as well as establishing the ethical basis for  
24  
25 relationships such as fairness, trust, respect and equality, thereby creating 'relational value'  
26  
27 through the network.  
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33 This paper started from the assumption that fairness in organizational practices can foster various  
34  
35 sources of competitive advantage and hence improve organizational performance. This is an  
36  
37 important insight, and adds to the body of evidence supporting the position that responsible and  
38  
39 ethical practices can produce better outcomes for all involved. By returning to the philosophical  
40  
41 and behavioural roots of fairness, this paper provides a foundation for understanding fairness,  
42  
43 which can be used to inform and evaluate organizational practices, particularly regarding supply  
44  
45 chain management in emerging markets. We argued that a transformative approach to supply  
46  
47 chain fairness can put in place new structures for interaction between firms, stakeholders,  
48  
49 mediating institutions and government. This additional layer of supply chain fairness remains  
50  
51 largely unexplored in the literature. Future research would benefit from studying empirically  
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3 how multi-stakeholder governance and deliberation in different cultural contexts can provide  
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5 voice to suppliers and intermediaries, including trade unions, cooperatives and NGOs, including  
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7 establishing the effect of fairness perceptions upon supply chain performance.  
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## 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60

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21 <sup>i</sup> A relational approach to supply chain fairness may extend to a virtue ethics perspective which  
22 considers the moral character of individuals and organisations (see Moore, J., 2017). Further research  
23 would examine the interaction between deals with the interaction between virtuous/non-virtuous  
24 behaviour by individuals, the institutional features of fairness practices and outcomes in supply chain  
25 management. Our thanks to an anonymous reviewer for alerting us to the importance of virtue theory.  
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**Table 1: Theoretical approaches to fairness**

General Theories	Gielissen & Graafland (2009)	Konow (2003)	Capellen et al (2007)
<b>Naturalism</b> Behavioural economics; evolutionary theory; psychology	<b>Egalitarianism</b> Equal incomes for all	<b>Need Principle</b> Equal satisfaction of basic needs (Rawls, Marx)	<b>Strict Egalitarianism</b> All inequalities should be equalised even in cases involving production
<b>Deontology</b> Duties and rights	<b>Positive Rights</b> Rights to a minimum income	<b>Efficiency Principle</b> Maximising surplus	<b>Libertarianism</b> The fair solution is to give each person what he or she produces
<b>Consequentialism</b> Utilitarianism and welfare consequentialism	<b>Principle of moral desert</b> Contribution measured by effort or market price	<b>Equity (accountability) Principle</b> – ‘proportionality and individual responsibility’ (equity and desert theory, Nozick)	<b>Liberal Egalitarianism</b> Only inequalities arising from factors under individual control should be accepted
<b>Social Constructivism</b> Sense-making and discourse theory	<b>Libertarianism</b> Transactions are fair when they are voluntary	<b>Context Family</b> – ‘dependence of the justice evaluation on the context, such as the choice of persons and variables, framing effects and issues of process’ (Kahneman, Knetsch & Thaler, Walzer, Elster, Frey).	
<b>Cultural variations</b> Guanxi Xinyong			

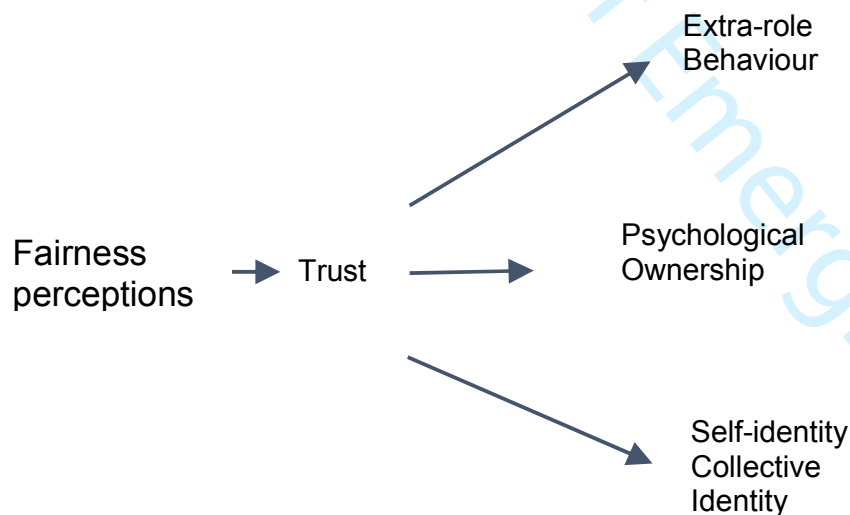
**Figure 1: Relational importance of fairness**

Figure 2: Elements of Supply Chain Fairness

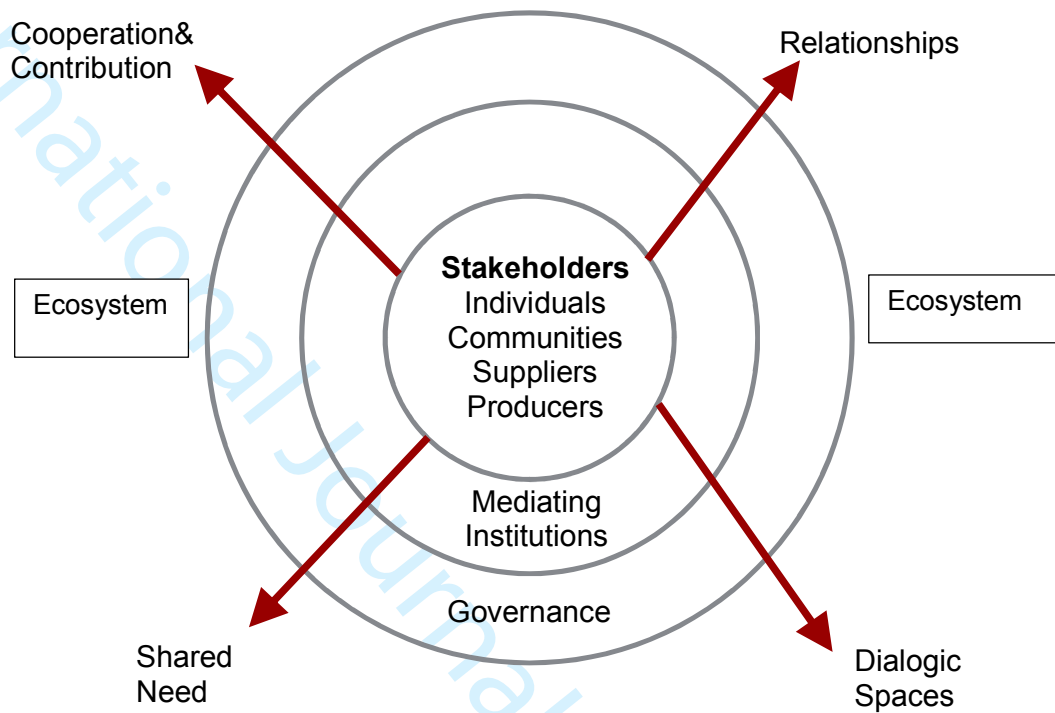


Table 2: Dimensions of fairness at different contextual levels

<b>Governance Arrangements</b>	Compliance with regulation Collaborative, networked and value-based governance		
<b>Mediating institutions</b>	Work with mediating institutions to establish what fair price and payment terms means	Work with mediating institutions on standards and capacity building	Work with mediating institutions for conflict resolution
<b>Stakeholders</b>	Fair price and payment terms	Fair decision-making Explanation of standards Capacity building	Consistent communication Mutual respect Sustainable relationships
	<b>Outcome fairness</b>	<b>Procedural fairness</b>	<b>Interactional fairness</b>

Figure 3: Overview of Supply Chain Fairness

