

**Codes in Context:
How States, Markets, and Civil Society
Shape Adherence to Global Labor Standards**

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October 21, 2013

Corporate codes of conduct are becoming an increasingly important vehicle for promoting and assessing adherence to global labor standards at factories in global supply chains, but little is known about the factors that predict when supplier factories will comply with them. Regulation and governance scholarship suggests that factories' compliance with global labor standards depends on the institutional environments in which they are embedded. However, there are few systematic, comprehensive studies of how different regulatory institutions influence private firms' compliance with global norms. We conduct one of the first large-scale comparative studies using tens of thousands of codes of conduct audits from one of the world's largest social auditors to determine what constellation of international, domestic, civil society, and market institutions promotes compliance with the global labor standards embodied in codes. We find that supplier factories are more likely to comply when they are embedded in states that have highly protective labor regulation and high levels of press freedom; when they serve buyers located in countries where consumers are wealthy and socially conscious; and, among factories in developing countries, those situated in states with more international labor treaty obligations and greater densities of international nongovernment organizations (INGOs). Taken together, these findings suggest the importance of multiple, robust, overlapping, and reinforcing governance regimes to meaningful transnational regulation.

Keywords: Transnational regulation; Labor standards; Consumer politics; Codes of conduct; Compliance

1. Introduction

Corporate codes of conduct are becoming an increasingly important mechanism for promoting and assessing adherence to labor standards at supplier factories in global supply chains. All Fortune 500 companies in the United States, as well as thousands of other transnational corporations (TNCs) around the world, have adopted a code of conduct governing their suppliers' labor practices (McBarnet, 2007), and many of those companies have retained private social auditors to verify compliance with the international standards embodied in their codes. For instance, Gap Inc. retains private social auditors to monitor suppliers' adherence to

its “Code of Vendor Conduct,” which requires compliance with domestic labor laws and forbids child labor, forced labor, and other abusive or discriminatory labor practices. Corporate codes of conduct also have become key governance mechanisms for diffusing labor and human rights norms promoted by international, intergovernmental institutions like the United Nations (Shamir, 2005). Rather than make international law obligations binding on TNCs, programs like the United Nations Global Compact and “Protect, Respect, and Remedy” framework have instead encouraged companies to adopt “soft” regulatory tools like codes of conduct and social monitoring to govern practices in their supply chains (Kamatali, 2012).

Although codes of conduct are becoming increasingly important tools for assessing adherence to global labor standards, little is known about the conditions under which supplier factories are more likely to comply with them. This question goes to the heart of debates about the design and efficacy of transnational regulatory regimes that target the behavior of private actors. Regulation and governance scholarship has long advocated layered regulatory designs that weave together the competencies of multiple, reinforcing regulatory actors (Abbott & Snidal, 2009a; Ayres & Braithwaite, 1992; Braithwaite, 1997; Keck & Sikkink, 1998; Sabel & Simon, 2012). While theoretically appealing, such designs have not been systematically tested to determine the precise constellation of institutional conditions that fosters or predicts adherence to global norms, particularly those imposed by and on private entities (Büthe, 2010; Vogel, 2008).

This paper seeks to fill that gap. It provides one of the first broad-based, systematic, comparative studies of supplier-factory compliance with private codes of conduct, encompassing establishments in 11 industries in 43 countries. The scope of our data enables us to conduct the first evaluation of code adherence across a wide range of contexts characterized by varying institutional pressures from international, domestic, civil society, and market actors. In addition,

we examine how code adherence by supplier factories is affected by institutions not only in their own countries, but in their multinational buyers' countries. In doing so, our study is among the first to examine whether institutional conditions in developed markets affect labor conditions in TNCs' developing-market supply chains.

We find that supplier factories are more likely to comply with the global labor standards embodied in codes of conduct when the factories are embedded in states that have highly protective labor regulation and high levels of press freedom, and when they serve buyers located in countries where consumers are wealthy and socially conscious. These findings demonstrate the important roles played by state, civil society, and market institutions in private transnational regulation and substantially advance understandings of how these different regulatory institutions shape compliance by private firms with global labor standards.

2. Theoretical framework and empirical context

A significant body of regulation and governance scholarship stresses the importance of institutional context to effective transnational regulation (Bartley, 2010; Braithwaite & Drahos, 2000; Campbell, 2007; Djelic & Sahlin-Andersson, 2006; Mattli & Woods, 2009). The consensus in this literature is that institutional contexts characterized by overlapping and reinforcing regulatory institutions provide the most fertile conditions for transnational regulation (Scott, 2012; Eberlein et al., 2013). For instance, in his survey of various private transnational regulatory regimes, Vogel (2009: 188) concludes that the efficacy of such regulation “ultimately depends on the extent to which private and public authority, civil and government regulation, and soft and hard law, reinforce one another.” Abbott and Snidal (2009a) similarly argue that the most promising strategy for transnational regulation is to assemble regulatory regimes that bring together different types of actors with different types of competencies. Unfortunately, little

empirical scholarship has systematically studied the effects of different regulatory institutions or their comparative influence on compliance with the norms promoted by private transnational regulatory regimes.

The bulk of the literature addressing the effect of institutions on compliance with global norms has focused on the extent to which states (as opposed to private actors) comply with such norms. For instance, there is a vigorous and long-standing theoretical debate in the international-relations literature about the conditions under which states comply with the international treaties that they ratify (Chayes & Chayes, 1995; Goldsmith & Posner, 2005; Hathaway, 2005; Jacobson & Brown Weiss, 1998; Koskenniemi, 2011), and a growing empirical literature identifies particular institutions associated with treaty compliance by states (Dai, 2005; Hafner-Burton & Tsutsui, 2005; Kelley, 2007; Sachleben, 2006; Simmons, 2009). The political science literature on policy diffusion has similarly examined the institutional factors that shape how effectively states implement policies promoted by intergovernmental institutions (Greenhill, 2010; Linos, 2011a) and transnational governance bodies like the European Union (Lincoln, 2011b). This literature has also demonstrated how relationships with trading partners affect states' compliance with international labor standards (Greenhill, Mosley, & Prakash, 2009; Mosley, 2011).

Although there is an extensive and growing literature on private transnational regulation, few studies have addressed the factors that predict compliance by private parties with transnational norms. As discussed above, scholars have long theorized a vital role for private actors like corporations, nongovernmental organizations (NGOs), and private standard-setting bodies in global governance (Abbott & Snidal, 2009a; Keck & Sikkink, 1998). Research has documented the role private entities play in developing transnational standards (Büthe & Mattli, 2011) and the reasons private entities adopt these norms (Bartley, 2007a, 2007b; Campbell,

2007; Hoffman, 2001; Marx, 2008; Prakash & Potoski, 2006; Wetterberg, 2011). However, we know very little about the factors that predict whether private entities that purport to have adopted transnational norms actually adhere to them.

Several qualitative studies have attempted to explain the institutional conditions that led to the success or failure of particular private transnational regulatory initiatives (e.g., Bartley, 2010; Kocer & Fransen, 2009; Locke, Rissing, & Pal, 2013; Locke & Romis, 2007; Rodríguez-Garavito, 2005; Seidman, 2007). Bartley (2010), for instance, details how local political and institutional conditions impeded the implementation of private transnational labor and environmental certification regimes in Indonesia. Rodríguez-Garavito (2005) shows how intervention by both supplier- and buyer-country governments shaped the resolution of disputes over code compliance by factories in Mexico and Guatemala. Locke, Rissing, and Pal (2013) have similarly documented distinct pathways of code implementation in Mexico, where private codes largely substituted for ineffective government regulation, and in the Czech Republic, where private codes built upon and complemented national labor legislation. While these studies have identified important institutional dynamics shaping private transnational regulatory outcomes, they are based on intensive case studies of a small number of firms in a single country, industry, or supply chain. We seek to extend this literature, which has been “crying out for more systematic analysis” (Büthe, 2010: 9).

We investigate these questions in the context of an increasingly prevalent private transnational regulatory tool: corporate codes of conduct enforced through private social auditing of production practices in global supply chains. Our data come from thousands of audits conducted in more than 50 countries by one of the world’s largest supply-chain auditing

firms. These audits focused on compliance with labor standards embodied in corporate codes of conduct imposed on supply-chain factories by TNCs.

Technological and economic developments in the late twentieth century, including trade liberalization, the turn to neoliberal government policies, and the globalization of production and finance, have rendered many states less willing or able to regulate corporate conduct in global markets. But these developments have not dampened the demand for more “rules of the game” to mitigate some of the harmful impacts of global capitalism (Jenkins, 2001: 1). Instead, the locus of rule creation, diffusion, and enforcement has shifted from governments to private parties and to TNCs themselves, which are increasingly regulating their global supply chains through private means (George, 2007; Jenkins, 2001).

Although TNCs typically draft their own codes, the substantive features of these codes are very consistent, usually specifying international consensus standards such as the International Labour Organization’s (ILO) core labor standards “as the appropriate benchmarks” (Abbott & Snidal, 2009b: 84). They also typically call for the supplier to comply with domestic labor laws and specifically forbid practices such as child labor and prison labor, even if such practices are legal in the supplier’s country or are prohibited only by unenforced laws (McBarnet & Kurkchian, 2007). Many TNCs have taken the additional step of hiring private social auditors to monitor their suppliers’ adherence to their codes. Because we examine only firms subjected to codes and monitoring, we do not contribute to the ongoing debate about whether codes and monitoring themselves drive improvements in labor practices at supplier factories (Banerjee, 2007; Courville, 2003; Kocer & Fransen, 2009; Locke & Romis, 2007; O’Rourke, 2003; Rodríguez-Garavito, 2005; Schrage, 2004; Scott, 2010; Shamir, 2005). Instead, by examining thousands of audits conducted around the world in a wide array of institutional settings, we are

among the first to use codes of conduct as a unique window into the determinants of supplier factories' levels of adherence to the global labor standards.

3. Institutional determinants of adherence to codes of conduct

Private transnational regulation has been characterized as “a multi-level affair” (Verbruggen, 2013: 3) characterized by cross-cutting layers of regulatory institutions and actors. Influential institutions identified in the literature include: intergovernmental institutions (Abbott & Snidal, 2012; Börzel & Risse, 2010), domestic legal institutions (Dubash & Morgan, 2012; Koutalakis, Buzogany, & Börzel, 2010; Verbruggen, 2013), civil society institutions (Börzel & Risse, 2010; Grabosky, 2012; Hutter & Jones, 2007; Marx, 2008), and market pressures (Börzel & Risse, 2010; Marx, 2008). Below, we theorize and test the influence of each on compliance with corporate codes of conduct.

3.1. Intergovernmental institutions

The International Labour Organization (ILO) is the intergovernmental organization and treaty regime governing global labor standards. Established by the Treaty of Versailles in 1919, the ILO brings together stakeholders from governments, labor unions, and businesses to articulate broad principles and consensus standards for the protection of labor rights, including working hours, worker health and safety, child labor, and workers' freedom of association. These principles are contained in various conventions that state-parties to the treaty establishing the ILO may elect to ratify as legally binding obligations. The ILO monitors ratifying governments' compliance with these conventions and provides compliance assistance to national regulators. However, it has no sanctioning authority to enforce convention obligations on ratifying states.

Treaties and the international organizations implementing them represent an important source of global norm diffusion and pressure to comply with international consensus standards (Lim & Tsutsui, 2012; Meyer, Boli, Thomas, & Ramirez, 1997; Risse & Sikkink, 1999).

Although international legal institutions like the ILO only explicitly address the conduct of states, some have suggested that they can play an important role in diffusing transnational norms more broadly to influence the conduct of private entities (Abbott & Snidal, 2012; Börzel & Risse, 2010). For instance, Abbott and Snidal (2009b: 85) argue that when states reach consensus on international standards, reflected through treaty ratification and membership in intergovernmental organizations, “they signal non-state actors that expectations for business conduct have changed.”

An emerging empirical literature has begun to explore the relationship between treaty ratification by states and the behavior of private entities within their borders but has produced no clear answers. Hafner-Burton and Tsutsui (2005), for instance, suggest that human rights treaties may enhance the efficacy of human rights INGOs (international nongovernment organizations) by supplying a set of norms that these organizations can draw upon to pressure governments to comply. They document separately the inefficacy of human rights treaties and the efficacy of human rights INGOs in reducing human rights violations, but their data do not demonstrate a relationship between treaties and INGOs. In another study, Lim and Tsutsui (2012) hypothesize that companies in countries with significant treaty obligations are more likely to adopt the United Nations Global Compact, which asks companies to publicly declare their commitment to “universally accepted principles” regarding labor, human rights, the environment, and anticorruption, but the authors’ results did not support that hypothesis.

It remains unclear whether participation in the ILO regulatory regime predicts better compliance by supplier factories with global labor standards. On the one hand, the ILO has been viewed as a weak enforcer of international norms, and there is little evidence that it has raised labor standards in member states (Tsogas, 2001). Moreover, it does not engage in the kind of active orchestration of private transnational actors envisioned by Abbott and Snidal (2012) in theorizing the efficacy of international institutions. On the other hand, a significant body of international law literature argues that treaties can be instruments of norm construction and diffusion, potentially signaling or generating a domestic environment that encourages adherence to global norms (Chayes & Chayes, 1995; Goodman & Jinks, 2004; Keck & Sikkink, 1998; Risse & Sikkink, 1999). Moreover, in our empirical context, private codes of conduct implementing global labor standards serve to reinforce the norms promoted by the ILO and also provide a source of enforcement pressure that institution lacks (Hafner-Burton & Tsutsui, 2005; Hathaway, 2005; Tsutsui & Wotipka, 2004). Because of the potential for international actors like the ILO to influence compliance with global labor standards, we test whether supplier factories located in countries that have ratified more ILO conventions will exhibit greater adherence to labor codes of conduct than suppliers elsewhere.

3.2. Domestic legal institutions

Studies of compliance with private regulation in domestic contexts have demonstrated that companies are more likely to adopt self-regulation and implement it effectively when they are embedded in a robust governmental regulatory regime that holds the background threat of sanctions (Rivera, 2004; Rivera, DeLeon, & Koerber, 2006; Short & Toffel, 2008, 2010). It is not clear, however, how these insights translate to the context of private transnational regulation, where there is no overarching sanctions regime and no unitary, authoritative enforcer of norms.

Despite these challenges, it is often argued that private transnational regulation is more effective when it is supported by credible state regulation (Büthe, 2010; Vogel, 2010), and empirical research suggests that domestic regulatory environments do indeed shape the effects of private transnational regulatory efforts (Seidman, 2007). Locke, Qin, and Brause (2007), for instance, found better compliance with private labor codes among establishments in countries with strong rule-of-law norms. By contrast, Kocer and Fransen (2009) found, in a study of Turkish factories, that private codes of conduct did little to promote workers' freedom-of-association rights because domestic law reinforced power imbalances between employers and workers. These studies suggest that factories embedded in more protective domestic legal environments will develop experience complying with high labor standards that will make it easier and cheaper for them to develop the organizational capabilities and normative orientation necessary to implement the global labor standards embodied in private codes of conduct. We therefore propose that suppliers in countries with highly protective labor law will exhibit greater adherence to labor codes of conduct than suppliers elsewhere.

3.3. Supplier-country civil society institutions

The literature on transnational regulation envisions private parties such as INGOs, unions, and the press as “a counterbalance to corporate power” (Campbell, 2007: 958). A substantial literature suggests that INGOs can act as diffusers, monitors, and even enforcers of global norms, with the power to impose penalties on firms that fail to adhere to normative commitments (Ayres & Braithwaite, 1992; Braithwaite, 1997; Fung, O'Rourke, & Sabel, 2001; Sabel & Simon, 2012; Vogel, 2010). Mattli and Woods (2009: 28), for instance, argue that INGOs can play “a prominent oversight role by creating their own global monitoring schemes or feeding into or coopting existing oversight structures.”

Empirical studies have documented the important role played by INGOs in promoting particular transnational regulatory initiatives. Lim and Tsutsui (2012) consider INGOs to be a key source of normative pressure compelling corporations to adopt the United Nations Global Compact and demonstrate that corporations are more likely to do so in countries with large INGO populations. Seidman (2007) documents how the monitoring efforts of INGOs enabled the Rugmark certification system to police child labor in the Indian carpet industry. Many have observed the power of INGOs to “punish” companies that fail to adhere to global standards through “naming and shaming” campaigns (Fransen, 2012; Seidman, 2007; Soule, 2009; Vogel, 2010). Because INGOs can serve critical governance functions such as generating, monitoring, and enforcing norms, we argue that suppliers in countries with more activist pressure from INGOs will exhibit greater adherence to labor codes of conduct than suppliers elsewhere.

The media is another civil society institution that can exert regulatory pressure on supplier factories. By monitoring and reporting on their behaviors, the press subjects companies “to the constant threat of public exposure” (Campbell, 2007: 958). Companies’ desire to avoid such exposure and maintain a positive media image (King, 2008) can exert strong regulatory effects on their behavior (Soule, 2009). Negative publicity can damage a company’s reputation with consumers and diminish brand value (Vogel, 2010). Studies have shown that companies implement corporate social responsibility (CSR) practices more effectively when they face the possibility of negative media coverage for poor implementation (Dyck & Zingales, 2002).

In addition, press freedom can foster political mobilization by raising citizen consciousness around issues covered by the media. Research has shown that exposure to an issue via the media can increase public concern about the issue (McCombs & Shaw, 1972; Page & Shapiro, 1989; Szasz, 1994), and that this shared concern can lead to political mobilization

(Klandermans & Goslinga, 1996; McCarthy, Smith, & Zald, 1996). Activists have used the media to amplify reports of supply-chain labor abuse, increasing the potential for mobilization and heightening consumer concern about the issue (Fransen, 2012). Even where such public concern does not result in political mobilization, it can nonetheless influence a company's employees, senior managers, and owners, who do not want to be associated with an organization stigmatized by such reports. Because the threat of reputation damage and political mobilization is greater in countries with more press freedom, we hypothesize that suppliers in these countries will exhibit greater adherence to labor codes of conduct than suppliers elsewhere.

3.4. Buyer-country market institutions

There is a vigorous debate about whether demand pressure from socially conscious consumers in developed-country markets can motivate TNCs to improve conditions in their global supply chains. Some argue that socially conscious consumers can be the engine that drives a regulatory “race to the top” by conferring a competitive advantage on suppliers with high social standards (Börzel & Risse, 2010; Sabel, O'Rourke, & Fung, 2000). Others question whether consumers provide meaningful demand pressure for ethically produced goods, observing that “there is little evidence that consumer behavior has become more politicized: most consumers continue to make their purchasing decisions primarily, if not exclusively, on the basis of price, quality, and convenience” (Mattli & Woods, 2009; Vogel, 2008: 16). Although some studies have documented strong consumer demand for ethically produced goods (Hainmueller, Hiscox, & Sequeira, 2011), a recent review of the literature on political consumerism concluded that the “ethical consumer” is a “myth” (Devinney, Auger, & Eckhardt, 2010).

Even if questions remain about ethical consumption behavior, we argue that the attitudes and attributes of consumers in a TNC's home market may nonetheless influence how it manages its supply chain. TNCs are highly sensitive to brand reputation and consumer opinion (Klein, 2002; Ruggie, 2003; Soule, 2009; Vogel, 2010). To protect themselves from negative publicity that might damage their image, TNCs often accede to the demands of mobilized consumers and activists to adopt CSR measures such as codes of conduct (Fransen, 2012; King, 2008; Lenox & Eesley, 2009; Peretti & Micheletti, 2004). Sometimes the mere threat of reputational damage, even without actual political mobilization, will cause TNCs to accede to such demands (Reid & Toffel, 2009; Soule, 2009). The latent threat of political mobilization may likewise induce image-sensitive TNCs not only to adopt CSR measures, but also to implement them effectively, in order to minimize the ongoing risk to their reputations (Hutter & Jones, 2007).

The potential for political mobilization will be strongest in countries where citizens have broadly shared frames about the value of socially conscious production (King, 2008; Snow & Benford, 1988; Snow, Rochford, Worden, & Benford, 1986; Zald, 1996), and where they have the material resources to pay premiums for ethically produced goods (Börzel & Risse, 2010). Such environments also convey clear normative signals to TNCs about socially accepted behavior. TNCs risk reputational harm by violating widely accepted norms (Börzel & Risse, 2010; Scott, 2012). Thus, we argue that TNCs located "in high-end markets" where consumers "care about governance in areas of limited statehood, including human rights and environmental standards" (Börzel & Risse, 2010) will be especially cautious in selecting and monitoring their supplier factories. These factories, in turn, will exhibit greater adherence to labor codes of conduct than suppliers elsewhere.

4. Data and measures

We obtained a proprietary dataset from one of the world's largest social auditors, which required anonymity as a condition of sharing its data with us. The dataset includes audit-level data for every code-of-conduct audit the firm conducted from 2004 through 2009. During this time period, the company employed several hundred people from many countries to conduct social audits in more than 50 countries and had more than a decade's experience doing so. Most of the audited factories were consumer product manufacturers, particularly garment factories.

To avoid undue influence of atypical audits, we excluded audits from countries with fewer than 30 audits over the five-year sample. This resulted in a sample of 44,583 audits of 21,861 supplier establishments in 47 supplier countries on behalf of 512 clients in 12 client countries. The audits in our sample were primarily conducted in China and elsewhere in Asia, as well as the Americas, Europe, and Africa (see Table 1). 81% of the audits were conducted for clients in the United States, with nearly all the rest for clients in Europe.

4.1. Dependent variable

To assess the extent to which factories comply with private codes of conduct, we calculated the number of *labor violations* detected per audit from the social auditor database. To ensure comparability across factories, we focused on violations of code-of-conduct domains that apply uniformly to establishments in all industries and in all countries. According to experts familiar with these audits, these domains include child labor, forced or compulsory labor, working hours, occupational health and safety, minimum wage, disciplinary practices, treatment of foreign workers, and subcontractors.¹ We excluded data from code-of-conduct domains

¹ Each of these domains includes a host of subcategories. The occupational health and safety category, for example, includes 7 items on emergency preparedness, 5 items on fire safety, 8 items on toilets, and 8 items on the work floor. The work floor items are improper chemical storage, improper medical waste disposal, inadequate lighting,

where application of standards is known to vary across establishments, industries, and/or countries or cultural contexts, including: the right of association, the right to organize and bargain collectively, legal client regulation, dormitory conditions, and canteen violations. To avoid undue influence of outliers, we winsorized (top-coded) this variable at the 99th percentile value of 25 violations. Figure 1 is a histogram of the number of *labor violations*.

4.2. Independent variables

4.2.1. Intergovernmental institutions.

We measured the influence of intergovernmental institutions in a factory's domestic environment as the number of *labor treaties* the host country had ratified by that year. We obtained this data from the Database of International Labor Standards maintained by the International Labour Organization (available at <http://www.ilo.org>). To reduce skew in our models, we used the log (after adding 1) of this count.

4.2.2. Domestic legal institutions.

We measured the extent to which governments legally protect worker rights using *labor practices*, a composite measure developed by Greenhill, Mosley, and Prakash (2009) that incorporates the extent to which governments protect union organizers and members from persecution, prohibit firms from excluding union members from their workforce, and secure collective bargain rights. Higher values represent greater levels of protection of labor rights. We obtained these data from Mosley (2011) and use the 2002 values, the most recent year available.

inadequate ventilation, lack of personal protective equipment, lack of chemical safety data sheets, unsafe electrical conditions, and unsafe machinery.

4.2.3. Supplier-country civil society institutions.

We measured the extent to which audited factories risk facing activist pressures as the annual number of INGOs per million citizens (*INGO density*). We obtained the number of INGOs per country from the *Yearbook of International Organizations* (Union of International Associations, 2004–2009) and, like Lim and Tsutsui (2012), focus on federations of international organizations, universal membership organizations, intercontinental membership organizations, and regionally defined membership organizations (Categories A-D of Cluster I using the Union of International Associations typology). We obtained annual country population data from the U.S. Census Bureau’s International Data Base (<http://www.census.gov/ipc/www/idb/>). To reduce skew, we used the log of *INGO density* in our models.

We measured the extent of press freedom in the audited establishment’s country via the annual Press Freedom Index produced by Reporters without Borders (available at <http://en.rsf.org>). This annual index incorporates direct and indirect threats to journalists; imprisonment of and physical attacks on journalists; censorship and self-censorship; legal, economic, and administrative pressure imposed on the media; and the number of journalists detained, murdered, and physically attacked or threatened that year. We reverse-coded this index so that higher scores represent more press freedom and rescaled *press freedom* to range from 0 to 1.

4.2.4. Buyer-country civil society institutions.

We measured prosocial attitudes in the buyer country based on data from the World Values Survey, which polls individuals about their values and beliefs. We focused on responses to six questions that inquire about whether respondents were members of environmental organizations and consumer organizations, the extent to which they felt “looking after the

environment” was important, their willingness to give part of their income to protect the environment, their willingness to support a tax increase to prevent pollution, and whether they favored protecting the environment over economic growth and job creation. We recoded each item so that higher values corresponded to a more prosocial attitude, and then standardized each item. Given that the 0.78 Cronbach’s alpha score indicated that the six items form an internally consistent and reliable scale, we created *prosocial attitude at the buyer country* as the average of the standardized items.² We measured the level of economic development in each buyer country based on annual data on gross domestic product (GDP) per capita in 2005 dollars obtained from the U.S. Department of Agriculture’s Economic Research Service (available at <http://www.ers.usda.gov>), and to reduce skew we used *log GDP per capita at the buyer country* in our models.

4.3. Control variables

We controlled for the level of economic development in each factory’s country using the log of *GDP per capita*, obtained for the same data sources listed above. We created *OECD member* as a dummy variable to distinguish countries in the Organisation for Economic Co-operation and Development (OECD) from developing countries because institutions might influence the private sector differently in developed versus developing countries (Greenhill, Mosley, & Prakash, 2009; Lim & Tsutsui, 2012).

To control for economic incentives that might affect the intensity of the audit, we created three dummy variables to denote which entity paid for each audit (*audit paid by buyer; audit paid by vendor, agent, or licensee; and audit paid by factory*), based on the social auditor's

² Our primary approach avoids using sample-specific weights. We found very similar regression results when we instead conducted principle component analysis with varimax rotation and used the first factor that had an eigenvalue of 2.98 that explained 50 percent of the variance, which is a weighted average of the six items.

database. We also created a dummy variable to denote the 4,001 audits (9% of the sample) for which the payer was not identified in the social auditor's database; estimating our model excluding these audits yielded nearly identical results and did not affect our inferences.

We created *re-audit* as a dummy variable to distinguish routine audits from re-audits, which tend to focus more narrowly on domains with prior violations and thus are likely to lead to fewer violations being recorded. We created the dichotomous variable, *third-party audit protocol*, to control for the possibility that audit results might be affected by the use of a third-party audit protocol such as those of the Business Social Compliance Initiative (BSCI), the International Council of Toy Industries (ICTI), or Sedex Members Ethical Trade Audit (SMETA). We controlled for the number of *auditors* assigned to each audit because our interviews with social auditors indicated this is a reasonable proxy for factory size and complexity. We obtained all three of these audit-related variables from the auditor's database.³ We created a dummy variable coded "1" for the 156 audits (0.3% of the sample), where the number of *auditors* was missing in the auditor database and thus recoded to zero, and coded "0" otherwise. This common econometric technique is algebraically equivalent to recoding missing values with the variable's mean (Greene, 2008: 62).⁴

To control for differences in the risk of violations at factories across different industries, we derived information from the social auditor's database about each factory's industry and coded dummy variables for the following industries: accessories; building materials; chemicals and plastics; electronics; food, agriculture, and beverage; footwear; furniture; garments; metal products; paper, printing, and publishing; services; or toys. We also created an *industry*

³ More direct measures such as employment and production volumes were not available in the auditor's database, and our efforts to match the factories in our sample to the Capital IQ and WorldScope datasets yielded very few matches.

⁴ Estimating our model excluding these audits yielded nearly identical results and did not affect our inferences.

undetermined dummy to denote the 18,681 audits (42% of the sample) where we could not identify the audited factory's industry; results were nearly identical (and our inferences were unchanged) when we estimated the model excluding these audits from the sample.

Table 2 reports the industry composition of our sample, and Table 3 reports summary statistics and correlations.

5. Empirical model and results

To facilitate interpretation, we use standardized versions of the following variables in our models: *number of labor treaties*, *labor practices*, *INGO density*, *press freedom*, and *prosocial attitude in the buyer country*. Because the dependent variable is a count variable that exhibits overdispersion, with a 5.5 ratio of the variance (34.76) to the mean (6.35), we estimate the model using negative binomial regression. Because many of our annual variables are measured at the country-level of the audited establishment, we cluster standard errors by that establishment's country. Because two variables are measured at the buyer country-level, as a robustness test we two-way clustered by both the audited establishment's country and the buyer's country, and this yielded nearly identical results to our primary approach.⁵

Regression results of our primary model are reported in Column 1 of Table 4 both as coefficients and as average marginal effects (AME). We begin by presenting the results related to intergovernmental and domestic governmental activities. While our point estimate implies violation rates at factories are negatively correlated with labor treaties, the estimate was not

⁵ Two-way clustered errors are typically calculated by adding the variance matrices yielded by one-way clustering on the first dimension and, separately, on the second dimension, and then subtracting the variance-covariance matrix that reflects the intersection of the first and second dimensions (Cameron, Gelbach, & Miller, 2011). Estimating two-way clustered standard errors in our empirical setting yielded negative diagonal elements of the resulting variance-covariance matrix, which prevents standard errors from being estimated, and so we pursued a more conservative approach by not subtracting the variance-covariance matrix clustered on the intersection of first and second dimension.

statistically significant. Significantly fewer violations were found at establishments in countries with greater government protection of labor rights ($\beta = -0.054$, $p < 0.05$), supporting our hypothesis that domestic legal institutions influence compliance with private transnational regulation. The AME indicates that a one-standard-deviation increase in standardized *labor practices* is associated with 0.054 fewer violations, a small effect given the sample mean of 6.35 violations per audit.

We now turn to the influence on violation rates of civil society institutions at the audited factory's country. Although the point estimate is negative as predicted, we found no evidence that activist pressure, as measured by log of *INGO density*, significantly predicts fewer labor violations. We do find significantly fewer violations at factories in countries with more press freedom ($\beta = -0.270$, $p < 0.01$). The AME indicates that a one-standard-deviation increase in the standardized *press freedom* variable is associated with 1.72 fewer violations, a 27% reduction from the sample mean.

Turning to civil society institutions in the buyer's country, significantly fewer violations were found in audits conducted on behalf of buyers in countries where citizens have stronger prosocial attitudes ($\beta = -0.178$, $p < 0.01$). A one-standard-deviation increase in this standardized variable is associated with a 1.13 fewer violations, an 18% reduction from the sample mean. Audits conducted on behalf of buyers in wealthier countries, as measured by log *GPD per capita at the buyer country*, also resulted in significantly fewer violations ($\beta = -0.284$, $p < 0.01$). A one-standard-deviation increase is associated with 0.20 fewer violations ($SD \times AME = 0.11 \times -1.80$), a small effect relative from the sample mean.

Turning to controls, audits in wealthier factory countries resulted in significantly fewer violations. Re-audits resulted in significantly fewer violations than routine audits, as expected

given the scope of re-audits is typically more circumscribed. Significantly more violations were found at larger and more complex facilities, as proxied by greater *numbers of auditors*. Audits paid for by the buyer or by a third party (the vendor, agent, or licensee) resulted in significantly more violations than audits paid for by the factory (the omitted category).

6. Extension

Finding no evidence that either labor treaties or activist pressure was directly associated with fewer violations, we explored whether these results might be cloaking heterogeneous effects. Because the dynamics affecting labor rights outcomes can be very different in developing and developed countries (Mosley & Uno, 2007), we estimated the model interacting all variables with *OECD* to yield distinct estimates of each variable for OECD countries and for developing countries. The resulting coefficient on *number of labor treaties* was statistically significantly negative for factories in developing countries ($\beta = -0.06$, $SE = 0.03$, $p = 0.04$, $AME = -0.39$) but nonsignificant for factories in OECD countries ($\beta = -0.01$, $SE = 0.06$, $p = 0.76$, $AME = -0.11$). To illustrate these results, Figure 2 plots average predicted values of *labor violations* associated with audits conducted in countries at varying levels of standardized log *labor treaties*. The declining solid line depicts significantly fewer labor violations in developing countries as the number of labor treaties increases. The nearly flat dashed line indicates no evidence that such relationship exists in OECD countries.

Similarly, this fully interacted model yielded coefficients on *INGO density* that was statistically significantly negative for factories in developing countries ($\beta = -0.07$, $SE = 0.04$, $p = 0.06$, $AME = -0.47$) but nonsignificant for factories in OECD countries ($\beta = 0.11$, $SE = 0.10$, $p = 0.27$, $AME = 0.69$). Figure 3 plots average predicted values of *labor violations* associated with audits conducted in countries at varying levels of standardized log *INGO density*. The declining

solid line depicts significantly fewer labor violations in developing countries as the number of labor treaties increases. While the dashed line appears to indicate the opposite relationship in OECD countries, it is important to note that it is not statistically significant. The overlapping confidence intervals at high levels of INGO density suggest that in domains with many activists, the effects of activists on labor violations is similar across OECD and developing countries. These results provide some support for our hypotheses that intergovernmental organizations and civil society institutions like INGOs can promote compliance with global norms by private actors, at least in the developing-country context.

7. Discussion and conclusion

Our findings significantly extend the literature on private transnational regulation by revealing the institutional configurations in which supplier factories are most likely to comply with the global labor standards embodied in codes of conduct. We demonstrate that compliance rates are higher for suppliers in states that have highly protective labor regulation and high levels of press freedom, and for suppliers that serve buyers located in countries where consumers are wealthy and socially conscious. We also demonstrate that, within developing countries, compliance rates are higher for suppliers in states that have ratified more ILO conventions and that have more INGOs per capita. These findings make four important contributions to the literature.

First, we demonstrate in the first systematic, comprehensive study of its kind the importance of multiple, overlapping regulatory regimes long theorized in the literature. More importantly, these findings suggest that corporate codes of conduct should not be viewed as “single-actor schemes” (Abbott & Snidal, 2009b: 47), as many have characterized them, but rather as one among many tools enmeshed in a web of regulatory institutions. Future research

should investigate whether and how these institutions interact with one another to govern transnational business practices (Eberlein et al., 2013).

Second, we demonstrate the importance of state legal institutions to the efficacy of private transnational regulatory instruments. Supplier factories are more likely to meet global labor standards when they operate in states with protective labor regulation. We also show that states play an additional role in promoting adherence to global labor standards by maintaining a free press. Thus, states are important not only for their exercise of coercive governmental lawmaking and law enforcement powers, but also for their role in enabling civil society actors such as the press to exert regulatory effects (Vogel, 2009).

Third, we demonstrate that the efficacy of different regulatory institutions in promoting compliance with global labor standards depends on the institutional context in which they are operating. Specifically, we found that INGOs and international, intergovernmental organizations had no influence on private compliance with labor standards in developed countries, but each predicted compliance in developing countries. This suggests that softer regulatory tools can be particularly useful in contexts where state capacity is relatively weak (Chng, 2012; Börzel & Risse, 2010), but that they do not necessarily predict regulatory outcomes in countries with highly developed state regulatory capacities. More broadly, these findings highlight the need for future research to identify more precisely the conditions under which private or “soft law” regulatory institutions can serve as complements or substitutes for state-backed government regulation (Abbott & Snidal, 2012; Börzel & Risse, 2010; Locke, Rissing, & Pal, 2013; Verbruggen, 2013).

Finally, we offer the first evidence suggesting that market pressures in TNCs’ home countries might have a substantive impact on working conditions in foreign supply chains, an

impact that goes beyond the symbolic rhetoric of code adoption. Although many studies document how stakeholder pressures in a buyer's domestic market can encourage it to adopt codes of conduct and other CSR activities (Fransen, 2012; King, 2008; Lenox & Eesley, 2009; Peretti & Micheletti, 2004), we are not aware of any studies that assess whether these measures were implemented effectively. Similarly, although studies have documented the effects that activist tactics such as shaming and boycotts have on outcomes that TNCs care about, such as stock price and earnings (King & Soule, 2007; Vasi & King, 2012), we are not aware of any that investigate whether there is any connection between domestic institutional pressures on TNCs and working conditions in their supply chains. We show that TNCs located in countries populated by wealthier and more socially conscious citizens are indeed more likely to engage suppliers that better meet global labor standards. This provides some support for private political approaches that seek to mobilize consumers and other stakeholders to directly target corporations. However, future research is necessary to determine whether particular anti-corporate campaigns, rather than merely the conditions that might enable them, have produced better supply-chain conditions.

This research reveals the critical importance of multiple, robust, overlapping, and reinforcing governance institutions as well as the context in which they are adopted. We demonstrate that supplier factories are more likely to adhere to global labor standards when they are located in states that have highly protective labor regulation and high levels of press freedom; when they serve buyers located in countries where consumers are wealthy and socially conscious; and, in developing countries, when factories are situated in states with more international labor treaty obligations and greater INGO densities. Taken together, these findings point the way toward building more effective transnational regulatory regimes.

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Table 1. Audits by factory location (47 countries)

Africa (9 countries)	496	
Americas (12 countries)	5,324	
United States		3,160
Mexico		942
Brazil		277
Other		945
Asia (15 countries)	37,519	
China (including Hong Kong & Macau)		28,383
India		2,052
Bangladesh		1,461
Vietnam		1,303
Indonesia		951
Thailand		646
Philippines		632
South Korea		487
Pakistan		429
Sri Lanka		386
Other		789
Europe (11 countries)	1,244	
Turkey		481
Italy		335
Other		428
Total	44,583	

Table 2. Industry composition

Industry	Establishments		Audits	
Accessories	4,206	9%	1,902	9%
Building materials	865	2%	371	2%
Chemicals and plastics	422	1%	243	1%
Electronics	1,475	3%	578	3%
Food, agriculture, beverage	895	2%	566	3%
Footwear	804	2%	349	2%
Furniture	823	2%	362	2%
Garments	14,192	32%	6,241	29%
Metal products	456	1%	194	1%
Paper, printing, publishing	793	2%	468	2%
Services	174	0%	109	0%
Toys	797	2%	334	2%
Undetermined	18,681	42%	10,144	46%
Total	44,583	100%	21,861	100%

Table 3. Descriptive statistics
Panel A. Summary statistics

Variable	Mean	SD	Min	Max
Number of labor violations	6.35	5.90	0	25
Labor treaties (log+1)	3.30	0.38	0.69	4.88
Labor treaties (log+1) \diamond	0	1	-6.92	4.19
Labor practices	-1.35	0.60	-3.39	1.04
Labor practices \diamond	0	1	-3.43	4.02
INGO density (log)	1.06	1.26	0.22	6.46
INGO density (log) \diamond	0	1	-0.67	4.27
Press freedom	0.37	0.28	0.12	0.98
Press freedom \diamond	0	1	-0.90	2.18
GDP per capita (log)	7.88	1.05	5.69	10.68
OECD member	0.14	0.35	0	1
Prosocial attitude at buyer country	-0.66	0.37	-1.44	1.33
Prosocial attitude at buyer country \diamond	0	1	-2.09	5.36
GDP per capita at buyer country (log)	10.62	0.11	6.61	10.68
Re-audit	0.32	0.47	0	1
Third-party audit protocol	0.12	0.32	0	1
Number of auditors	1.82	0.63	0	7
Audit paid by buyer	0.48	0.50	0	1
Audit paid by vendor, agent, or licensee	0.39	0.49	0	1
Audit paid by unknown	0.09	0.29	0	1

N= 44,583 audits. \diamond indicates standardized variable.

Panel B. Correlations

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1) Number of labor violations	1.00												
(2) Labor treaties (log+1)	-0.06	1.00											
(3) Labor practices	-0.10	-0.17	1.00										
(4) INGO density (log)	-0.24	0.30	0.21	1.00									
(5) Press freedom	-0.27	0.18	0.18	0.81	1.00								
(6) GDP per capita (log)	-0.19	-0.12	0.46	0.47	0.54	1.00							
(7) OECD member	-0.20	0.10	0.40	0.63	0.71	0.85	1.00						
(8) Prosocial attitude at buyer country	-0.20	-0.02	0.13	0.16	0.15	0.13	0.14	1.00					
(9) GDP per capita at buyer country (log)	-0.13	0.00	0.09	0.09	0.08	0.11	0.10	0.58	1.00				
(10) Re-audit	-0.16	-0.02	-0.08	-0.16	-0.17	-0.11	-0.14	-0.21	-0.13	1.00			
(11) Third-party audit protocol	0.10	-0.01	-0.07	-0.16	-0.15	-0.07	-0.13	-0.75	-0.51	0.25	1.00		
(12) Number of auditors	0.12	-0.13	-0.06	-0.31	-0.28	-0.12	-0.19	-0.09	-0.04	0.06	0.09	1.00	
(13) Audit paid by buyer	0.08	-0.02	-0.01	0.03	0.05	0.03	0.03	-0.44	-0.27	0.04	0.33	-0.01	1.00
(14) Audit paid by vendor, agent, or licensee	-0.04	-0.03	-0.02	-0.11	-0.15	-0.12	-0.14	0.35	0.26	-0.02	-0.28	0.01	-0.77

N= 44,583 audits

Table 4. Regression results

Dependent variable: Labor violations

	Coef	AME
Labor treaties (log+1) ◇	-0.039 [0.027]	-0.25
Labor practices ◇	-0.054* [0.024]	-0.35
INGO density (log) ◇	-0.025 [0.034]	-0.16
Press freedom ◇	-0.270** [0.040]	-1.72
Prosocial attitude at buyer country ◇	-0.178** [0.017]	-1.13
GDP per capita at buyer country (log)	-0.284** [0.095]	-1.80
GDP per capita (log)	-0.115** [0.033]	-0.73
OECD member	0.231 [0.162]	1.47
Re-audit	-0.458** [0.033]	-2.90
Third-party audit protocol	-0.068** [0.013]	-0.43
Number of auditors	0.090** [0.027]	0.57
Audit paid by buyer	0.275** [0.033]	1.74
Audit paid by vendor, agent, or licensee	0.221** [0.041]	1.41
Year dummies	Included	
Industry dummies	Included	
Audits (N)	44,583	
Factories	21,861	

Negative binomial coefficients or average marginal effects (AME), with standard errors clustered by the establishment's country in brackets. ** p<0.01, * p<0.05, + p<0.10. ◇ indicates standardized variables. *Audit paid by factory* is the omitted category. All models also include *undetermined who paid for audit* and dummy variables denoting instances in which *number of auditors* was recoded from missing to zero.

Figure 1. Distribution of number of labor violations per audit

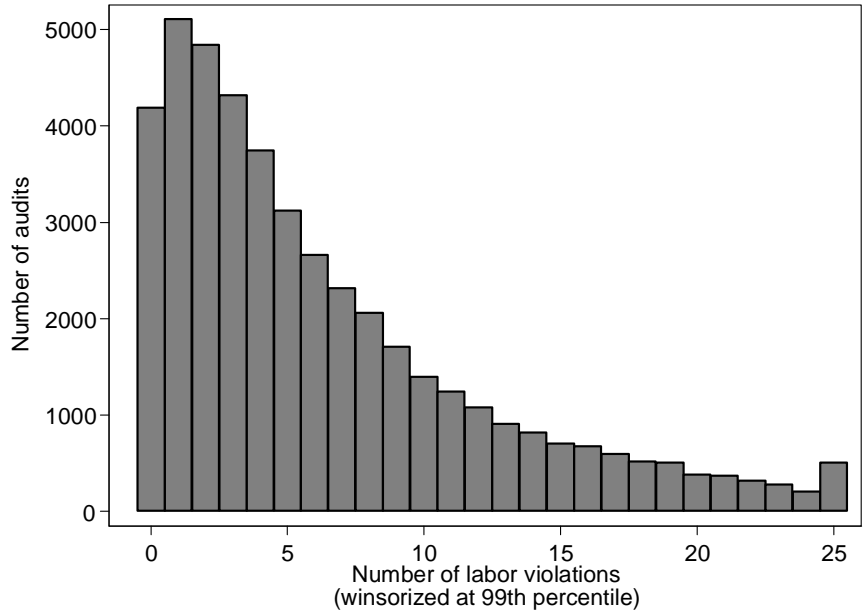


Figure 2. Suppliers in developing countries have fewer labor violations in countries with more international labor treaties

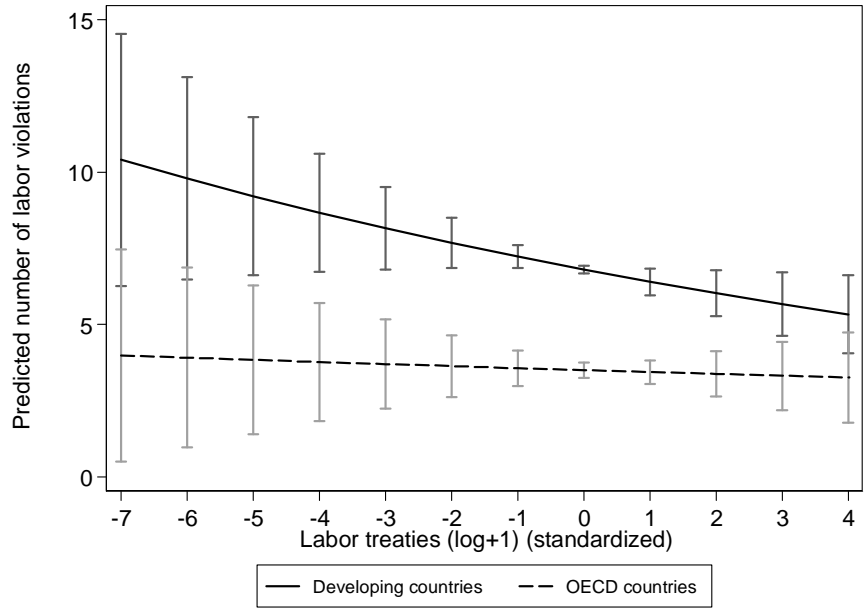


Figure 3. Suppliers in developing countries have fewer labor violations in countries with more international nongovernmental organizations

