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Title: Firm Characteristics, Compliance and the Private Governance of Global Labour Standards

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Abstract

The impact and efficacy of private governance on international labour standards remain variables which are extremely difficult to estimate, let alone measure. The debate surrounding relevant impact factors focusses on two main areas: the study of environmental variables regarding social and economic upgrading on the one hand, and the analysis of firm-specific characteristics on the other hand. Both discourses aim at framing the success or failure of private governance initiatives in a more meaningful way. This paper aims to especially contribute to the latter debate, regarding buyer company characteristics, while also taking environmental variables into account which stem from the former debate. It will do so by observing and comparing relevant structural developments from an original, time sensitive data-set built from over 1000 encoded tracking charts of the Fair Labour Association, substituted with relevant buyer-company information on the one hand and selected economic indicators of production countries on the other hand. While the FLA data-set has its clear limitations, it nonetheless paints an interesting picture of compliance structures and the impact of private governance codes over an aggregate of factories and countries. Focussing on the Apparel, Sports- and Footwear industry, this article structures implicated impacts of the FLA data by company characteristics, while also controlling for economic indicators of the production countries. Central questions I focus on are therefore: Which are the main structural components of compliance regarding corporate characteristics shown by the FLA data, and are they conclusive with previous findings? Is there evidence indicating that certain types of company characteristics, such as value chain structures or brand recognition, are indeed decisive for the improvement of labour standards? Can we make out indications of country-of-origin effects? And finally, are there institutional environments conducive or obstructive to these effects?

Introduction

The problems labour standards face in a world of global production networks (GPNs) are widely discussed inside and outside of academia, especially regarding the production of labour intensive goods such as apparel and footwear. Several large scandals involving important brands, including GAP and

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Nike, have brought this issue to public attention already in the late 1990s, and with this also to the attention of many consumers. Companies reacted with public pledges to combat sweatshops, and non-governmental organizations and unions used the media to create naming and shaming campaigns against large multinationals and their poor supply chain management. Some 25 years, several new scandals and thousands of codes of conduct later, the problem has however not been solved. Although the public has become somewhat more sensitive to the topic, and "conscious consumers" are the white hope of many campaigns, the proclaimed effort of multinational corporations and international organizations to manage and secure labour standards in global value chains (GVC) seems to remain problematic, if not even unsuccessful.

Studying the effects of (private) labour governance has the analytical aim of finding out whether certain forms of regulation are more successful than others in securing labour standards, and due to which mechanisms and under which conditions these succeed. And although efficacy of private labour governance is difficult to measure as a singular effect, notions of social and economic upgrading have opened up new possibilities of looking at labour standards in global production networks (GPNs). Factories' performances are thus not only viewed in terms of the benchmarks given by their western buyers, but are embedded in a deeper, more contextual understanding of their economic and institutional environment. Understanding whether there are environments conducive or obstructive to the development of labour standards, is thus understood to be crucial for the interpretation of the impact of private governance initiatives.

With this in mind, the analysis in this paper examines an original data-set of encoded audits from the Fair Labour Association (FLA), counting 800+ factories in 39 countries over 10 years. In a first step, I carefully scan through the audit methods and the descriptives of the data in order to gain a deeper understanding of their validity. Comparing these descriptives to the findings of former studies will proof useful in terms of validation. In a second step the data is matched with a set of selected economic and institutional indicators of production countries in a time-sensitive manner and finally with indicators concerning the buyer companies and their context. With a thorough analysis of the FLA data and its contextual frames, the article contributes to the literature by addressing and framing lead and supplier firm characteristics especially in the context of multi-stakeholder private governance and highlighting especially the importance of their behaviour within those governance programs. The paper furthermore highlights moderating effects of institutional variables, showing the importance of public regulatory standards and social and economic context of GPNs, thereby adding arguments to the debate about multi-level governance. And finally, the paper adds interesting empirical value to the widely recognized difference between process rights and other rights by showing how they respond differently to private and public indicators of regulation.

Labour Standards in Global Value Chains

With the spread of globally dispersed production chains, the regulation of labour standards moved out of single national governments' reach and into a space of "global governance deficit", where neither firms, nor governments have the sole prerogative and capability of regulation (Gereffi, et al. 2005; Mayer and Gereffi 2010). International Organizations, such as the International Labour Organization (ILO), have tried to fill this void with treaties and declarations. However, notwithstanding the normative importance of those documents, the operative responsibility to regulate labour standards nowadays largely falls onto multinational corporations. Incentivized by public campaigns and expectation, these firms adopt private forms of regulation, such as corporate codes of conduct, in order to manage the adherence of labour standards in their supply chain. Monitoring and auditing are used to track compliance, whereas the threat to end business relations is a popular tool of consequence (although hardly ever put into effect) at continued non-compliance (O'Rourke 2003; Locke 2013).

The documentation of existing strategies and forms of private regulation of labour standards in GVCs is well developed in the literature (see e.g. Jenkins 2001; O'Rourke 2003; Hammer 2005). However, scholars face challenges when looking for insightful ways of understanding underlying mechanisms of practice and compliance in order to better judge their outcomes. Larger scale studies on effects of such codes have therefore been able to find equal evidence on both, positive (Toffel, et al. 2014; Bartley and Egels-Zanden 2015; Distelhorst, et al. 2015) and negative (Barrientos and Smith 2007; Mosley 2011; Locke 2013) developments of labour standards under private governance.

Apart from conceptual difficulties, empirical research of compliance in private governance also faces a series of methodological problems (Egels-Zandén 2009; Anner 2012; Newitt 2013; Bartley and Egels-Zandén 2015). Most issues relate to data availability and -reliability. If available for use, monitoring and audit reports are therefore subject to scrutiny due to the uncontrollability of monitoring practises and the questionable objectivity of auditing personnel (Bartley and Egels-Zandén 2015). But also logical elements of the research design, such as the inclusion of a counterfactual and a random sample design, are often missing in studies, which are dependent on the level and quality of the data they receive (Hiscox, Schwartz and Toffel 2008; Newitt 2013).

One way to circumvent these difficulties is to focus on a small number of cases or singular case-studies as object of investigation. Studies have given interesting insights in this way, such as Yu (2007), who presents a study on Reebok's governance impact in a Chinese-Taiwanese company, Rodriguez-Garavito (2005) who focusses on private governance and anti-sweatshop activism in global apparel factories in Central America and Hess (2013) who seeks to understand the self-regulation of labour in Cambodian garment factories. The shortcoming of these case-study approaches is however, that they are not able to answer questions of structural or comparative quality. In the past years, some larger scale quantitative studies have therefore emerged to fill this void, the majority of which are based on the analysis of monitoring and audit reports. Some of these studies focus on a buyer-specific supply chain, such as

Nike, HP or IBM (Locke, et al. 2007; Locke, Qin and Brause 2007; Locke and Romis 2007; Locke 2013; Distelhorst, et al. 2015), others use data from specific auditing agencies (Toffel, et al. 2014) or specific social organizations and multi-stakeholder initiatives (Barrientos and Smith 2007; Anner 2012; Bartley and Egels-Zanden 2015).

What especially the studies with larger geographical scope are able to show, is that regional differences play an important role for the level of adherence to labour standards (Distelhorst, et al. 2015). Several studies have therefore shown that the regulatory capacity of the state and a factory's social surroundings play a highly important role for the adherence to standards, stressing the importance of state (e.g. Vogel, 2008) and interstate (Abbott and Snidal 2012) regulation, focussing on the standing of the rule-of-law norms within a country (Locke 2013) or suggesting complementary importance of private and public governance (e.g. Amengual 2010; Locke, Rissing, Pal 2013; Bartley and Egels-Zandén 2015). Also the consideration of socially conscious consumers becomes increasingly important (Oka 2010; Toffel, et al. 2014). Finally, general geographic patterns show, that most production and trade patterns of relevant GPNs are situated in developing countries. The call for securing better labour standards has therefore not after long been connected with a growing pressure towards a more integrated form of corporate responsibility, in order to link social and economic upgrading (Gereffi and Lee 2014).

Global Value Chains and Upgrading

From an analytical point of view, the area of labour standards in GVCs is dominated by three main concepts: the understanding of GVC governance, the concept of upgrading, more specific economic and social upgrading, and the notion of multi-layered governance effects.

The most well-known framework for GVC governance originates from Gereffi (2005) and focuses mainly on large buyer-firms, their supply-chain-management and the relationship to their overseas suppliers. Governance is thus defined as "authority and power relationships that determine how financial, material and human resources are allocated and flow within a chain" (Gereffi 1994: 97). In order to extend an older conceptualization of buyer- vs. seller-driven commodity chains (Gereffi 1994), Gereffi, et al. (2005) identify five governance clusters in value chains reflecting on seller-buyer relational patterns: markets, modular chains, relational chains, captive chains and hierarchy. The idea of these repetitive relational patterns is thereby determined through the use of three critical variables: the complexity of the information between actors in the chain, the codification of information for production and the level of supplier competence.

The importance of GVCs in our context lies in understanding that the differences in relational patterns goes beyond the material sphere, and in recognizing that governance also influences the prospects of firm upgrading within the supply chains (Gereffi and Lee 2012, 2014). Barrientos, Gereffi and Rossi (2011) specify between economic and social upgrading in this regard. Economic upgrading is divided into process-, product-, functional- and chain-upgrading and understood as "a move to higher value added activities in production to improve technology, knowledge and skills, and to increase the benefits

or profits deriving from participation in GPNs" (Gereffi 2005: 171). Social upgrading on the other hand describes "the process of improvement in the rights and entitlements of worker as social actors, which enhances the quality of their employment" (Rossi 2011).

These notions of social and economic upgrading very much correspond to different conceptualizations of labour: once labour is understood as productive factor, while on the other hand it is seen as a socially embedded concept (Barrientos, Gereffi and Rossi 2011). Using these different dimensions of labour, Barrientos and Smith (2007) apply their logic to the understanding of global labour standards and distinguish between the social upgrading of measurable, or observable standards (such as better wages, safer work environment, etc.) and the upgrade of those standards which are less observable and more enabling or process rights (such as empowerment, freedom of association, etc.)[2]. More than mere differences in visibility, observable and process rights are distinguishable by largely different characters. Observable rights are thus merely the outcomes of the more complex enabling rights which refer to processes, such as collective bargaining and freedom of association. Process rights are thus seen as more valuable in terms of sustainability of good working conditions (Barrientos, Gereffi and Rossi 2011). In private governance and monitoring however, companies focus more on observable rights, as these are more directly connected with corporate practises and interests (Anner 2012).

The literature views economic and social upgrading often as interdependent developments. Increased innovation and competitiveness among firms can thus stimulate decent work and employment practices within countries of production (Gereffi 2005; Barrientos and Smith 2007; Barrientos, Gereffi and Rossi 2011; Kaplinsky 2010; Barrientos, et al. 2011). The relationship is however neither stringent nor simple. Concerning social upgrading, the perception of workers regarding their labour situation is just as important as their formal definition. In other words: "with regard to social upgrading, certain choices might be considered social 'downgrading' for some actors, but not for others" (Barrientos, Gereffi and Rossi 2011: 16). Additionally, several scenarios have been shown in which social gains and economic gains do not necessarily go together (Barrientos, et al. 2011; Gereffi and Lee 2014). Lastly, even strategies of up- and downgrading can be intertwined, for example in cases where economic upgrading is not the preferred business strategy, such as on a low price market (Barrientos, Gereffi and Rossi 2011). When drawing connections between social and economic upgrading, researchers therefore have to consider the possibility that the relationship is potentially neither linear, nor positive.

Finally, the increased pressure towards buyer firms and their reaction in the form of private governance initiatives, are not the only pressures labour standards are subjected to. Recent studies have therefore shown that global value chains may be characterized by several interacting governance structures which may affect outcomes of economic and social upgrading (Mosley 2011; Gereffi, Lee et al., 2009; Gereffi and Lee 2014, Toffel, et al. 2014). Gereffi and Lee (2014) are thus theorizing a form of "synergistic governance", combining the effects of private governance with the impact of "social governance",

[2] For the use of this paper, I will refer to this dichotomy with the terms "observable rights" and "process rights", thereby making reference to the definition of Barrientos and Smith (2007).

established through civil society and non-governmental pressure, and "public governance", such as government policies (Gereffi and Lee 2014). The consideration of more than one source of impact will also enter the considerations of this paper, as described in the following section.

Analytical Concept and Variables

I will investigate the development of violation-rates in this paper in three steps. The first section will contain a descriptive discussion of the FLA data validity and will be followed by two analytical models testing the same independent variables on different dependents. The dependent variable in the first model includes all violations recorded in the FLA data. The second model will concentrate on process rights, combining the violations recorded in the field of Freedom of Association, Harassment and Abuse and Non-Discrimination. I abstain from a third model specification for observable rights (containing Hours of Work, Compensation and Health and Safety), as the results show little to no difference to the model regarding all violations. As independent variables I will firstly include variables regarding firm-characteristics, both production and lead-firm related, hereby testing the importance of company related indicators for private governance results. The second batch of independent variables will consider economic and institutional indicators, thereby accounting for the importance of economic and institutional surroundings to frame a meaningful understanding of private governance programs (Lund-Thomsen and Nadvi 2009; Kaplinsky 2010; Barrientos, Gereffi and Rossi 2011), and adding to the debate of "synergistic" or overlying patterns of governance (Mosley 2011; Barrientos, et al. 2011; Gereffi and Lee 2014). Former studies have considered influential institutions in mainly three areas: legal and social institutional conditions as well as the economic conditions of supplier-countries, the involvement of intergovernmental institutional structures, and finally the impact of buyer country effects. In this article, I solely focus on a set of variables regarding the sourcing countries.

Company indicators

Several studies argue for the importance of multiple overlapping regulatory regimes, which highlight that not only one, but multiple layers of economic, social and legal conditions are necessary to create a sustainable environment for labour standards (Greenhill, Mosley and Prakash 2009; Mosley 2011; Toffel, et al. 2014). Mosley's (2011) contribution to the literature on adherence to transnational regulation especially argues for the effect of a multi-layered combination of regulatory standards and corporate decision-making. If private and public governance structures thus work as a multilevel scheme, not only differences in public regulation, but also differences in governance structure and firm characteristic have to be considered as potentially influential on the outcome of labour standards. This occurs on two levels. Each lead-firm can choose to participate in a certain governance structure (such as the participation in the FLA, or other multi-stakeholder programs) or set up a governance structure itself (mostly large firms, such as e.g. Nike) through which they commit to certain codes of conduct, audit procedures and incentive or penalty frameworks as part of their value chain management. Whereas

production firms, meaning the suppliers in global production networks, as receiving end of these codes of conduct can chose to evoke real change management procedures in order to adapt to set governance goals or continue with minor adaptions to their production processes.

Due to the data base used for the analysis, this paper uses a fixed set of governance structures as a given, namely those of the FLA as a multi-stakeholder institution. This specific context will be elaborated further in the coming sections. In terms of *buyer variables* there are however still a few considerations which can be included in our model. Since the FLA only provides the general framework of labour standard governance, it does not inherently affect the relationship between lead firm and suppliers but rather add certain terms and conditions to this relationship. Whether the FLA code of conduct is thus used by a larger or a smaller lead firm with lower or higher leverage towards their suppliers, may still be of telling insight (Bartley, 2005; Locke, 2013). Based on this consideration, I will include a measure of lead-firm size derived from the height of their annual sales and their number of listed employees[3]. This measure was taken to compensate for either wealthy companies with low numbers of employees, such as some brand firms which solely design and market, or unusually large numbers of employees for lead firms which are e.g. also retailers. By entering this measure into the models I assume that the number of violations will be significantly higher for smaller lead firms, thereby hypothesizing that the leverage of larger firms within their supply chains get carried into the governance mechanisms of multi-stakeholder institutions, such as the FLA.

As additional variable concerning how the characteristics of lead firms may influence the success of private labour standard governance, I enter a dummy regarding whether the buyer is a stock-listed company or not. Many studies have hypothesized that companies with stronger brand recognition and with higher exposure to the public are more prone to be front-runners in private governance engagements (Vogel 2008; Mayer and Gereffi 2010; Bartley and Egesl-Zanden 2015). I enter this dummy in the model assuming that stock-listed companies have a higher exposure to the public and a strong responsibility towards their stock-holders to maintain a clean image. Regarding the potential of scandalization the topic of global labour standards hols, this could potentially lead to a higher motivation in managing labour standards in stock-firms as opposed to non-stock listed firms. Thus, I expect in all models to see a lower rate of labour standard violations for the audits where a stock-listed firm sources[4].

Whereas the variables lead firm size and stock company may be useful indicators of the top-down leverage and motivation involved in a global production network, it can however in no way give an indication of how a lead firm behaves within this network. Strategies of lead firms regarding the

[3] Numbers taken from 2014 and 2015 respectively, depending on when latest information was available. All information from stock companies was taken from the yearly financial reports, all information from non-stock listed companies was taken from the corporate websites and other corporate material.

[4] This variable only takes into account the primary lead firm name on the audit report, other companies which may also source at the factory are being disregarded, *can* however enter the model through a second report of the same factory.

relationship to their supplier may vary greatly between seeking very strong and stable relationships, holding suppliers "captive", drop and change policies on the base of strict non-tolerance of issues such as quality, and so on. One supplier may also adapt several of these strategies. Locke (2013) shows, that the type of relationships between suppliers and lead firms is strongly dependent on the size of orders, the length of business relationship and the status the lead firm has at the supplier. In order to compensate for some of these considerations, I will thus add two more lead-firm variables: a measure for "other brands" sourcing at the same factory and a measure of discontinuation.

When we look at audit reports as indicators of success or failure of a governance system, it is important to keep in mind that there may be several governance systems at the same time working within one factory. Not only, as indicated before, are there public and social forces to be considered. One factory may also be subject to the requirements and standard specifications of not only one, but several lead firms. To control for this phenomenon is extremely difficult, mostly due to lack of information. It is however possible to extract information on this, at least within the restricted world of FLA governance. I will thus enter a measure for "other brands", which is a dummy variable indicating whether only one or more than one FLA member-companies buy from the factory in question. With this I want to control for any effects through increased pressure of more than just one (FLA-) buyer in a factory. Expecting a certain summation of governance pressures, we should see lower rates of violations for companies with more than just one FLA lead firm sourcing at the factory in question.

Furthermore, I include a measure of discontinuation in all models. As it is impossible to find a variable with an adequate expression of how a lead firm choses to handle the relationships with its suppliers, I will enter only one single incisive point as a representation of how far the relationship between the supplier and buyer has already been stretched. Most codes of conduct contain as an ultimate penalty for non-compliance the end of the business relationship. This is something that is however hardly ever practised (Gereffi, et al. 2005). Decisions that lead to the end of a buyer-supplier-relationship are much more complex. First of all, it is not always the lead firm that cancels or discontinues a contract. If a lead firm *is* however the one to discontinue a contract, it is usually due to cost, quality and delivery issues or due to consolidation of orders. In the Stroehle_FLA dataset, only 15% of cancelled contracts indicated compliance issues as reason for discontinuation. A binary variable of discontinuation can however indicate more than just whether the level of labour standards was bad enough for a cancellation of contract. It can for example indicate, that the cost and quality pressure was high in the negotiations between buyer and supplier. Many studies indicate that high market pressures often lead to a erosion of labour standards, as they are considered as second priority compared to the survival of the firm. This is a well-known dilemma of private governance which fails to successfully compensate the ersosion of labour standards through market pressures *also* by the lead firms (Amengual 2010; Locke 2013; Gereffi and Lee, 2014). Regarding my binary measure of discontinuation, I thus assume that if there was a reason for a cancellation of orders after a audit that there must have been a variety of issues revolving

this process, having a negative impact on the labour standards in that factory. The indication of a discontination would thus lead to a higher level of labour standard violations.

Finally, it is important to recognize, as we have seen in many instances of the variables above, that suppliers are not passive receivers of orders when it comes to the governance of labour standards. The level of formalization within their organization, the timespan which they have worked on labour standards and their geographical location are all variables extremely decisive on how fruitful the ground is on which private labour governance falls. Whereas we already control for the institutional environment, previous studies suggest that especially the size of a supplier can indicate on how far their level of experience and formalization has already gone (Locke 2013; Toffel, et. al 2014). As a final variable regarding the companies in the global production chain, I thus enter the number of workers at the audit-factory as indication of size into all models. Due to the reasons laid out above, I expect a lower number of violations at factories with a larger number of employees.

Institutional variables

Regarding institutional impacts on the governance of labour standards, most studies chose to focus on the regulatory capacity of institutions. Locke, Rissing and Pal (2013) for example show that compliance with private codes is higher in supplier countries with strong regulatory capability, thereby highlighting the persistent importance of state regulation confirming an earlier study of Locke, Qin and Brause (2007) regarding labour standards in the Nike global supply chain. Toffel, et al. (2014) provide the so far most complete study on the importance of institutions by testing all three types of institutional clusters and their potential impact on labour standards. They find evidence of the importance of supplier state-based institutions, including intergovernmental and domestic legal institutions, highlighting for example the importance of the ratification of ILO treaties and protective labour regulations in sourcing countries.
While this strategy of testing diverse institutional effects is useful in distinguishing between impacts, it is also helpful to look at measures which are able to cluster countries in a more comprised matter when regarding their capacity of regulation. Distelhorst, et al. (2015) thus highlight in their study on HP supplier-compliance, that the efficacy of code of conducts depend on regulatory institutions to be effective, suggesting that they act as complementary force which may make or break the success of private regulation. Taking into account such actor-institution relations, Locke (2013) for example uses the World Banks "Rule of Law (ROL) Index", which measures "the extent to which agents have confidence in and abide by the rules of a given country" (Locke 2013: 57). Following this example, I also choose the ROL Index for the analysis in this paper. According to the World Bank The ROL index "captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well

as the likelihood of crime and violence[5]" (World Bank 2015). A higher score on ROL therefore corresponds to higher levels of regulatory quality and overall societal trust in public security and thus controls for national differences in regulatory strength. Using this index in my analysis, I intent to show that the importance of regional differences is strongly based on the quality of regulation and the extend of social freedoms it provides. Thus, I hypothesize for all Models a higher value on the index, so better regulation and higher freedoms, for countries with a lower rate of violations in their factories.

Looking at the importance of *social institutions,* there is a significant string of literature suggesting that public opinion and mobilization have a large effect on the regulatory environment, as well as corporate behaviour in terms of labour standards (Gighliani 2005; Vogel 2008, Marginson and Mearde 2010). Campaigns for labour standards and against their violations, usually target the buyer companies and their consumers rather than the supplier countries and factories (Vogel 2008). They have however also been found to carry leverage overseas, due to spill-overs through higher CSR involvement and private governance involvement as a response to "shaming" campaigns (Locke 2013). The strength of these campaigns can be attributed to domestic or trans-national union movements (Gighliani 2005), press freedom (Dyck, et al. 2008; Toffel, et al. 2014) or the higher density of international non-governmental institutions in both buyer- and supplier country (Lim and Tsutsui 2010; Toffel, et al. 2014).
Recognizing that not only the regulatory environment of unions, but also the capability of information spread can be an important factor in the mobilization of customers, workers and civil society, I additionally include a measure for press freedom in my model. In response to activist and journalistic pressure, literature suggests that increasing numbers of corporate self-regulation, such as corporate codes of conduct, emerge. This is what Vogel (2008: 263) calls "politicization of business decision making, pressuring firms to make expenditures and commitments they would otherwise not have made". Assuming that such campaigns are also putting pressure on supplier firms, not only through transnational channels but through national movements, press freedom – being the ability to spread this information to interested groups and individuals – becomes an important feature. Following the example of Toffel, et al. (2014), I use the 2015 measure of the "World Press Freedom Index" provided by the Reporters Sans Frontières (RSF). This index is based on scores which are collected through a survey send to a network of correspondents, journalists, researchers, jurists and human rights defenders which distribute scores on topics such as the respect of journalistic freedom and government intervention in media. I hypothesize that factories in countries with a lower score on the index, therefore a higher freedom of press and a higher chance of distribution of campaigns, will display lower levels of violations regarding overall labour standards.

Finally, as we have seen before, a vast literature suggests that also the *economic performance* of a supplier country can be of high importance to the adherence to labour standards overall, and specifically

[5] Find the full table of the individual variables from each data sources used to construct the ROL in the Worldwide Governance Indicators of the World Bank here: http://info.worldbank.org/governance/wgi/pdf/rl.pdf.

in factories linked to GVCs. Referring to the concept of economic upgrading, scholars believe that increased innovation and competitiveness among firms can stimulate decent work and employment practices within countries of production (Gereffi 2005; Barrientos and Smith 2007; Barrientos, Gereffi and Rossi 2010; Kaplinsky 2010). Furthermore, the embedded concept of industrial upgrading, split into process upgrading, product upgrading, functional upgrading and chain upgrading, all focus on a logical spill-over of advancement in terms of economic and business capabilities to producing firms (Gereffi 2005; Barrientos, Gereffi and Rossi 2010). With the help of several measures, I hypothesize a spill-over of economic performance to factory compliance and thus expect a lower level of labour standard violations in countries of stronger economic performance. With this spill-over assumption, I chose to follow the notion of linkages between economic and social upgrading (Barrientos, et al. 2011). For the inclusion of relative economic performance, I use the logarithm of the yearly GDP per capita[6].

Control variables

I include yearly dummies in the model, in order to control for uneven data aggregation over years. Country-dummies could not be added due to problems of collinearity. In order to account for differences of country of origin, I however control for the state in which the headquarter of each lead firm is situated. Additionally, I control for industry effects. The necessity of this becomes apparent when forming typologies of factories in order to better understand the behaviour of factory "stereotypes". Categorizing factories from highly compliant to highly non-compliant and testing the impact of industry shows the change of distribution between stereotypes when separated by industry cluster ad thus the necessity to include industry as control variable. Finally, I include the monitoring agency, which has in each instance been tasked to produce the report, as a categorical control to account for subjectivity and methodological biases regarding the conductors of the audits.

Inspecting the Source: The Fair Labour Association

The FLA (Fair Labour Association) is a multi-stakeholder initiative (MSI), an organization of colleges and universities, civil society organizations, and companies, with headquarters in the United States and offices in Europe and Asia. As such it joins the ranks of organizations such as Social Accountability International (SAI), the Fair Wear Foundation (FWF) and the Ethical Trading Initiative (ETI), which have been subject to earlier studies classifying the impact of MSIs as intervention on the development of labour standards (Barrientos and Smith 2007; Egels-Zandén and Lindholm 2014; Hiscox, Schwartz and Toffel 2008). Since the FLA's foundation in 1999, it has been able to commit some 150 corporate partners to pledge to a set of internationally recognized labour standards in the form of a code of conduct, subsequently assessing their global supplier networks within a special monitoring technique called "sustainable compliance methodology" (SCI). Since 2002, FLA affiliates were thus able to conduct

[6] See in the "Methodology" section the reasoning of including a logarithmically transformed variable.

some 2,000 assessments in facilities associated with their corporate partners. The FLA code of conduct specifies nine issue areas of potential violations these assessments are supposed to uncover, including employment relationship, non-discrimination, harassment and abuse, forced labour, child labour, freedom of association and collective bargaining, health, safety and environment, hours of work and compensation. The special FLA-SCI method follows three principles: assessment, reporting and capacity building, claiming that with these three components their audits are "both deeper and broader than a conventional audit" (FLA 2016). Whether this methodology actually produces higher insights and more sustainable results has so far not been independently reconfirmed.

However, what indeed distinguishes the FLA from other non-governmental initiatives is the association's explicit pledge to a high level of transparency. This policy includes publishing a substantial amount of factory assessments on their official website, including the name of buyer companies, sourcing countries and other supplier data. Each report contains a count of violations in a certain issue area, further explanation regarding this violation and recommended action. Follow-up notes mark the progress of implementation of recommended action, however without newly counting the violations in the issue area. Apart from the reports, the FLA uses a so-called "Third Party Complaint" procedure to enable social groups and individual workers in associated factories to report allegations of non-compliance, which may have gone unnoticed or need remediation. Also the reports and statuses on these remediation processes are documented online.

Finally, although the FLA is certainly not the only MSI in the area of global labour governance, it does stand out through the extent of its collaborative character, including not only companies but universities, social groups and monitoring agents alike. Whether this characteristic of being a multi-stakeholder organization is however of positive or negative consequence to the impact of private governance is contested. Anner (2012), being the first to independently built and describe a dataset from publicly available FLA reports, uncovers several weaknesses of this collaboratively collected data especially in recording violations against the right to freedom of association and collective bargaining. This is somewhat in line with Barrientos and Smith's (2007) expectations that corporate managed governance initiatives are not able to sufficiently report violations against process rights. Other arguments are, that the costliness (Locke 2013), the challenge of managerial control in GPNs (Anner 2012) and the uneven expectations of consumers (Bartley and Egels-Zanden 2015) may lead to negative incentives towards monitoring accuracy in networks where companies are involved. When looking at the monitoring data of such multi-stakeholder institutions it is thus wise to include some form of descriptive or analytical comparisons with former findings, in order to judge in how far corporate cooperation could have potentially led to a bias.

Labour Standard Compliance and Violations: A look at the Data

The principle data-set[7] the analysis of this paper is based on has been built in a time- and labour-intensive encoding effort of 1005 of the above mentioned publicly available FLA audit reports. The selection of reports is based on industry (accessories, apparel, footwear and sportswear[8]) and time (2004 to 2014). Within these parameters every publicly available report at the time[9] was included in the dataset. In order to aggregate the information in the publicly available reports, I used the number of violations in each report to build counting variables, keeping information about the buyer company, which is part of the FLA program, some standard information about the audited factory, such as size and products, and the country of the factory. For the distinction between violation variables I kept seven of the nine categories as defined by the SCI, formed a joined category for the so-called "Zero-tolerance" areas of forced-labour and child labour, and added a category "Other" which can be found in several of the reports and is mostly identifying bureaucratic issues and issues of illegal subcontracting (See Figure 1 for the categories and the relative distribution of violations). As an additional set of variables, I included the information whether the relationship between buyer and seller was continued after the audit, and the reason behind possible discontinuation.

Even though the data was coded in a time-sensitive manner, it only has a 20% rate of panel value, meaning firms that are recorded more than once over time. Therefore, the dataset is more meaningful in its evidence regarding distributive structures over a large diversity of 801 different factories, and unfortunately less so in claims of longitudinal inference. This is due to the SCI methodology, which updates old reports with progress statements rather than uploading new reports with new scores.

In order to gain a deeper understanding of the data and to compare it to the tendencies of the existing literature, let us take a first look at some main descriptives. As shown in the left box of Figure 1, a first glance at the distribution of rights in the dataset shows a picture of violations against labour rights that is in line with previous findings. With 35% of all recorded violations, the category health and safety (H&S) represents by far the largest part of violations, followed by compensation (CO) issues with roughly 20%. Together they amount to more than half of all recorded violations. This overly strong representation of health and safety issues has also been found in most previous datasets on monitoring outcomes (e.g. Barrientos and Smith 2007; Locke, et al. 2007; Anner 2012; Bartley and Egels-Zànden 2015), whereas violations in the area of compensation are much less dramatically represented in other data (Locke 2013; Bartley and Egels-Zànden 2015).

[7] This data-set shall hitherto be referred to as "StroehleFLA".

[8] Overall 31 buyer-companies are included in the data-set, all of which have their HQ in one of six countries: Germany, Hong Kong, Japan, Sweden, the United Kingdom and the United States. Companies in the relevant sectors but with less than 10 available reports online were not considered in the coding process.

[9] The data-set StroehleFLA was built between the beginning of October and the end of December 2015. There may be reports that fall into the selection parameters, which were not yet or not anymore available at that time and are thus not included in the data-set.

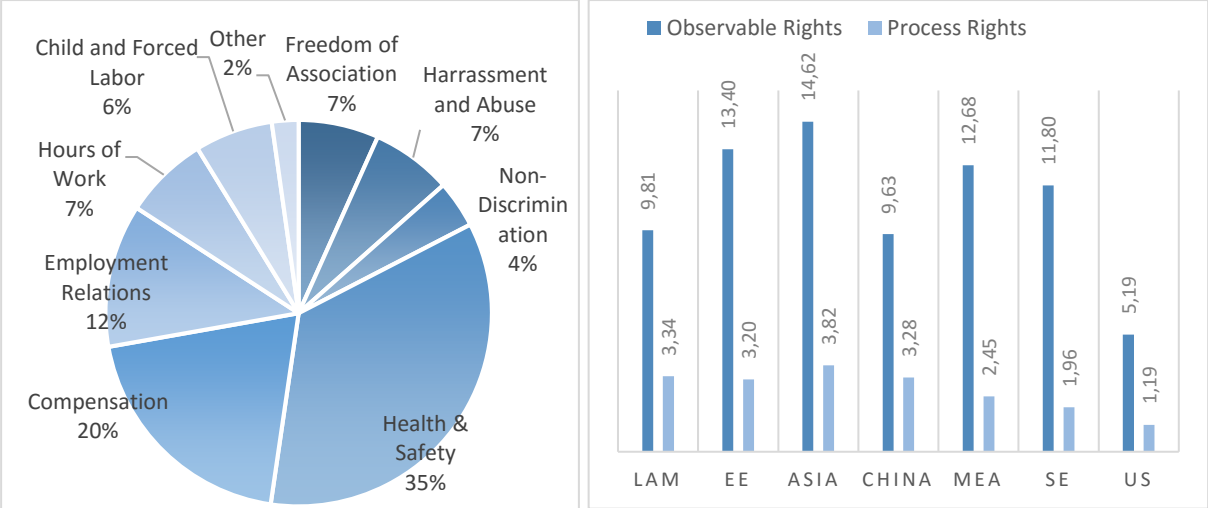

FIGURE 1: *Stroehle_FLA (2016). Left Box: n = 19.267; Category "other" includes: Illegal subcontracting, documentation verification, non-adherence to national labour law, environmental protection, employment records, possible homework. Values based on total Nr of violations. Right Box: n (observable rights) = 11.918; n (process rights) = 3.356; Observable rights: Health & Safety, Hours of Wages, Compensation; Process rights: Freedom of Association, Non-Discrimination, Harassment & Abuse. Categories read LAM (Latin America), EE (Eastern Europe), Asia (Asia without China), MEA (Middle East and Africa), SE (Southern Europe), US (United States). Values based on average Nr of violations per factory.*

Also audit-data from Nike and Timberland identify working hours as one of the more serious problems to resolve in their supplier's work practise (Locke, et al. 2007). It is curious that the FLA data only identifies 7% of violations in the field of HoW, the same amount as freedom of association (FoA) and harassment of abuse (H&A). This may have to do with the definition of the field of violation, which overlaps with the rather broadly defined field of employment relation in the SCI.

H&S is commonly the largest category in audits and this is partly due to the definition of code of conducts. The catalogue of violations which lists items for each FLA issue area[10], defines about double as many possibilities of violations for H&S as for other issue areas. They are thus more likely to be detected due to the sheer number of items defining this category. Looking at the item distribution of SCI in Table A, we can see a strong unbalance of items in the definition of issues. Child labour has e.g. eight items on Level A (e.g. I.1., where I. is child labour and 1. is an item of violation), and eight Items on Level B (e.g. I.1.a. and I.1.b., where a. and b. are further splits of item 1. into specifications). Considering that each item in the catalogue leads to a linear increase of the likelihood to be detected, violations against ER would thus be almost 14 times as likely to be detected as violations against child labour.

We have to consider that it is unlikely for each specific item of an issue area to increase the likelihood in a linear matter – the figures in table A are more for demonstration than for calculation purposes at this point. The table does also not result in a critique against the methodology of FLA, or any other monitoring which may have similar code structures, as it should clearly not be the FLA's top priority to create issue areas with equal item-numbers.

[10] Find the FLA Code of Conduct and the benchmarks used for each category online here (last access 02.04.2016): http://www.fairlabor.org/sites/default/files/fla_complete_code_and_benchmarks.pdf

	Items Level A	Items Level B	Likelihood of detection	Weights
Child Labour	8	8	1,00	13,63
Forced Labour	10	18	2,25	6,06
Harassment and Abuse	11	23	2,88	4,73
Non-Discrimination	12	25	3,13	4,35
Hours of Work	19	30	3,75	3,63
Freedom of Association	24	32	4,00	3,41
Compensation	19	43	5,38	2,53
Health and Safety	27	50	6,25	2,18
Employment Relation	32	109	13,63	1,00

TABLE A: *FLA Code of Conduct http://www.fairlabor.org/sites/default/files/fla_complete_code_and_benchmarks.pdf*

This realization is much more an indication with analytical importance, as it suggests that the structure and definition of a code in terms of benchmarks and guidelines for monitoring can also play a key role in the likeliness of issue-detection. Looking again at Table 1, we can see that the strongest categories of areas we have identified in the StroehleFLA data, CO and H&S, are indeed corresponding to a higher level of items. ER on the other hand, accounting for the largest number of items, does not correspond to this logic.

Additionally, a glimpse at the regional distribution of StroehleFLA is presented as two snapshots over time and divided into process and observable rights. It is important to not see these snapshots as developments within companies, but rather as developments over the aggregate of all factories; a general development so to speak. Regarding process rights, we find regional differences which are mostly to be expected. The number of violations in the field of freedom of association is thus the highest in China and Asia without China, however closely followed by Latin America and Middle East and Africa. Still, although those distributive dimensions make sense, there is an apparent misrepresentation of the right to freedom of association in the FLA data. This is also what Anner (2012) finds in his dataset and it gives us reason to assume, that private monitoring faces severe difficulties and/ or deficits extracting real information about phenomena such as union involvement.

Finally, if we look at the data in a time comparing matter, a first look suggests that the overall development of labour rights seems to have bettered substantially. Even though these findings have to be regarded carefully, the stability of this positive trend over regions and time is indeed noteworthy. The paradox of looking at these regional clusters is, that not the negative examples (such as China or Southern Europe), but rather the positive examples pose the real surprise here. Many recent publications have found no (Locke and Romis 2007; Locke 2013) or only moderate levels (Toffel, et al. 2014; Bartley and Egels-Zanden 2015) of improvement in factories under private governance. In light of the findings of previous studies I do thus suspect that the dataset used in this analysis is slightly positively biased, possibly due to the strong involvement of corporate actors in the monitoring process.

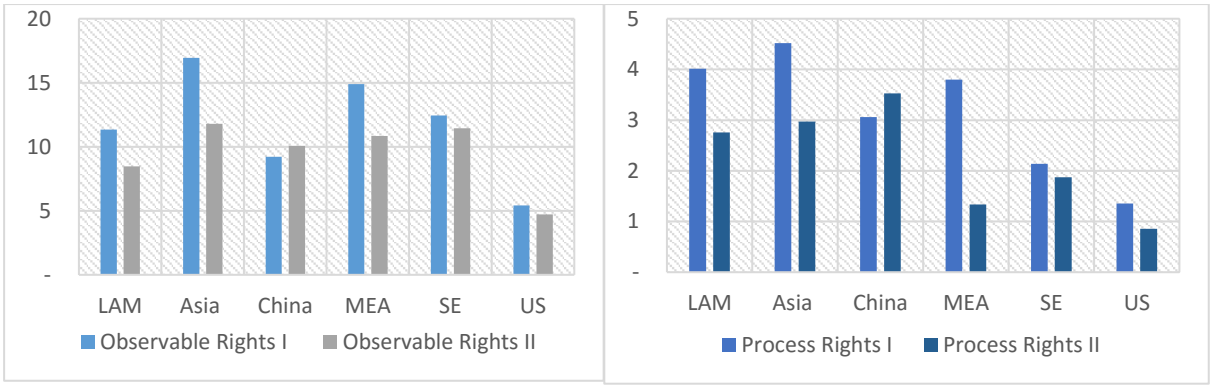

FIGURE 2: *Stroehle_FLA (2016); Time-Period I [2004-2007], Time-Period II [2008-2014]. n (observable rights) = 11.918; n (process rights) = 3.356. Observable rights: Health & Safety, Hours of Wages, Compensation; Process rights: Freedom of Association, Non-Discrimination, Harassment & Abuse. Time-frame I: 2004 – 2007; Time-frame 2: 2008 – 2014. "Asia" - Asia without China; "LAM" – Latin America and Carribbean; "MEA" – Middle East and Africa; "SE" – Southern Europe.*

Methodology

For both the descriptive analysis and the regression I had to merge the StroehleFLA dataset with the selected economic and institutional indicators alongside a unique identifier over country and year. For the analysis of two different models, I used an aggregate of violations in all issue areas as dependent variable in Model I, and the aggregate of violations in and process rights in Model II. I abstain from a further model specification of observable rights, as the results are very similar to those of Model I.

For both statistical models, I use an OLS regression with the logarithmically transformed independent variable GDP. Methodological literature suggests, that time series are heteroskedastic. Therefore, even though I introduce yearly controls as dummies, the local variance of the series could be larger where the level of the series is higher. The logarithm accounts for these movements and can fit a somewhat more stationary measure. This method of using logarithms is especially used for macro-economic measures (Benoit 2011). Thus, the slightly modified formula of linear regression I use in my analysis is the following:

$$Y_i = \alpha + \beta_1 \log x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_3 x_3 + \ldots + \varepsilon_i$$

The independent and control variables in both models are identical, with the aim of catching differences in institutional and company effects on the level of all rights versus process rights violations in firms associated with GPNs under private governance. I apply three bundles of independent variables to the two dependent variables in a series of different nested models. First applied to the models are the variables regarding lead- and production-firm characteristics. All lead-firm variables are tested as a variation of the production firms and not as a higher aggregated level in an embedded model with two sets of variations. By choosing this method I assume that all selected lead-firm variables have a direct effect on the governance of labour standards within the firms and thus on the tested level of violations. With this first bundle of company characteristics, I already apply the categorical control of buyer firm country-effects. the institutional variables ROL, GDP and press freedom are applied to get an indication

of institutional tendencies and importance for the governance of labour standards. With this I expect to have an effect through strong national institutional differences. In other words, I assume that effects which are significant under the control of a strong regulatory (ROL) and a strong economic performance indicator (GDP log), can be interpreted in a more meaningful way. The second bundle of independent variables contain the institutional variables ROL, GDP and press freedom. They are applied to get an indication of institutional tendencies and importance for the governance of labour standards. With this I expect to see company influences moderated through strong national institutional differences. In other words, I assume that effects which remain to be significant under the control of a strong regulatory (ROL) and a strong economic performance indicator (GDP log), can be interpreted in an even more meaningful way. In a last, full model I apply all other control variables, yearly dummies, industry and monitor, to the model.

Finally, diagnostics have been run for all models, including the vif test for multicollinearity (all values insignificant), a residual test to check skewness and kurtosis (slight skewness to the left, visible but not significant kurtosis), and accuracy of prediction (Cameron & Trivedi's decomposition of IM-test). The residuals indicate that there is slight heteroscedasticity, mainly caused by some outliers with extreme values of violation in the dataset, which are not ideally predicted by my models. We must therefore assume that all models are more valid for the observations with lower levels of violations than for those with extremely high levels of observations. This also makes conceptual sense: a factory with extreme levels of violations is likely to have additional factors adding to the tested variables, driving nonadherence to code of conducts. Such additive effects could be ineffective management, financial problems and weak compliance mechanisms. In order to account for possible misspecifications due to heteroskedastic tendencies, each model is tested for robustness and rerun with a robust standard error. Since general tendencies of β and significances do not change strongly with the inclusion of the robust standard error, I abstain from any further changes to the model regarding specification.

Discussion and Contributions

The results of the regression models (see appendices 1 and 2) are able to contribute to the discourse on private labour governance in GPNs regarding three main topics. Firstly, the results frame the importance of company indicators for the achievement of higher labour standards in the context of multi-stakeholder institutions and thus show the importance of lead and supplier firm characteristics and behaviour within private governance programs. Secondly, we are able to see a strong moderating effect of institutional variables, clearly showing the importance of public regulatory standards and social and economic context within a production country, thus supporting the discussion around a multitude of substituting governance-levels operating alongside private governance (Mosley 2011; Gereffi and Lee 2014). Finally, the difference in Model I and Model II adds an interesting empirical value to the widely recognized difference between process rights and other, observable rights. The results suggest, that different rights respond in unlike manners to the governance through private and/or public hand.

Concerning *company characteristics*, the regression results of Model I (see appendix) paint an interesting and diversified picture especially of the importance of corporate behaviour within private governance programs. Variables of lead firm characteristics, namely the size of lead firms and their stock-listing, are slightly significant in the first model approach. However, the importance of these characteristics is in the subsequent nested models moderated by the strong impact of institutional effects and carries no significance anymore in the full model. Concerning the size of supplier factory size however, the effect is the opposite way: only under control of institutional effects, the size of factories has a significant impact on the height of labour violations. This may be due to the fact that the correspondence of larger size and higher formalization is not true for all countries. Regarding the latest scandals of larger factories in Bangladesh and Turkey, this effect is for all intents and purposes reproducible. Controls for the country-of-origin on the other hand suggest there might indeed be an impact of a lead-firm's home countries on the governance success of labour standards. This is in line with expectations of Nadvi (2014), who highlights especially the difference of governance-approaches from so called EMNCs – multinational companies with their countries of origin being an emerging or developing economy. Apart from this, lead firm country-of-origin effects are however so far widely unstudied and may thus be worth further investigation.

In contrary to the fickle effects of lead firm characteristics, variables describing certain forms of lead firm behaviour lead to much clearer results. Whereas the buying presence of more than one FLA brand at a supplier's facility does not seem to significantly influence the level of labour standards at the companies, the effect of discontinuation is strongly significant. This indicates that more often than not, supplier factories which are facing a mandate-discontinuation in the future display significantly lower labour standards than those where discontinuation is not foreseeable. Reasons for this might be twofold. If the contractual relationship between factory and lead-firm is terminated due to compliance reasons, the lower standards are simply an indicator of the factories non-adherence to given standards. If the reason of discontinuation is however due to cost, quality or other strictly economic issues, the pressures and processes leading up to a discontinuation of a contract may have been pushing counter-productively towards higher levels of labour violations. This finding corresponds to findings in the apparel industry, highlighting the difficulty of lead firms to manage two opposing interests – that of extreme economic on-time delivery systems and the need for ad-hoc capacities of new production lines versus that of the adherence to labour standards code of conducts. These pressures call for two separate adjustments within factories at the same time which are often not compatible (Anner 2012).

In the second nested regression of Model I, we find interesting indications for the importance of public and social institutional surroundings. Whereas the measure of rule of law is not significant in any of the Model I specifications, we can see both GDP and press freedom being highly significant for the outcome of private labour governance. Even though the chosen measure for regulatory strength did not hold up, these results clearly suggest a high economic development and strong sense of public transparency and freedom of speech to correspond with lower levels of labour standard violation. Both, high development

and transparency, inherently suggest a surrounding of some form of liberal regulation and are thus in line with the findings of Toffel, et al. (2015) which highlight a clear correspondence of higher labour standards to more open and regulated societies. Whereas the topic of interdependencies of private and public regulatory systems and the importance of public reforms are still highly understudied (Alford, 2016), the indications of model I clearly support the argument of several other societal and public governance-levels operating alongside private governance (Mosley 2011; Gereffi and Lee 2014). The modus operandi and interdependencies of these different governance levels is still to be fully understood, and remains to be an interesting field of enquiry regarding global labour standard governance.

Finally, comparing the results of Model I with Model II, we find interesting empirical results which strengthen the assumption that process (or enabling) rights are to be considered as different in character to process rights such as Health & Safety (Barrientos and Smith, 2007). Even more interesting is however, that this different character seems to make them more approachable through public as opposed to private governance. Whereas discontinuation and factory size are continuously significant for the overall level of labour standards in factories, process rights are not significantly affected by any of the chosen company variables. The institutional variables however are all significant. Even the rule of law index, which was not significantly affecting the overall violation-level, is significantly predicting process right violations in Model II. This finding is extremely interesting in terms of compliance strategy management. Thus far many code of conducts, be it from individual MNCs or multi-stakeholder initiatives, have treated the likelihood to achieve compliance through private governance of certain rights as equally possible. The findings in this paper suggest that there are certain issue areas, namely those of Freedom of Association, Harassment and Abuse and Non-Discrimination, which are more like to achieve compliance, if they are subject to stronger public regulation.

Limitations

I recognize that the data and the use of the StroehleFLA lead to several limitations regarding the explanatory power of the analysis in this paper. First of all, the data does not include a counterfactual. As already stated in the theoretical part of the paper, a counterfactual is the only way a real inference towards the effectiveness of private governance can be made. The analysis in this paper is thus limited to interpreting a population of factories which are all under governance at the point of their audit and the only true statement that can be made is that all developments, difficulties and dependencies are valid for this population only. The assumption that developments and dependencies are different for factories without private governance, is only supported by studies with counterfactuals, such as Bartley and Egels-Zanden (2015), not by the data itself.

Finally, the FLA auditing mechanisms lead to the assumption that certain rights are misrepresented, and that an unweighted comparison as it is performed here may potentially lead to biased results. This may be a problematic of many studies that only weigh rights for their importance, but not for their level of

detection likeliness. While this changes nothing for the analysis of singular rights, it may have severe effects when comparing the levels and developments of different rights in the same data. Future studies (including further developments of the analysis in this paper) should consider the use of such weights when studying the mechanisms of several groups of rights.

Conclusion

The discussion in this paper adds to a debate surrounding an ever evolving topic, involving set of multiple and diverse actors on several levels and with separate strategies. To identify single effects and dependencies in this web of multi-actor and multi-level governance remains a big challenge, which many scholars solve by looking at single in-depth case studies rather than tackling it with quantitative and comparative data. The approach in this paper is different, as it uses quantitative data to try and isolate single effects in a limited set of circumstances in order to understand how certain characteristics and points of behaviour may affect the outcome of a specific governance program. By doing so, the analysis in this paper is able to add to the discussion on the effectiveness of private governance in three areas. Firstly, the paper is able to show that dynamics in high pressure situations which lead up to a discontinuation of contractual relations are in large parts counterproductive for the adherence of labour standards in a factory. The findings thus give an indication of how corporate decisions and strategy beyond labour standards (concerning quality and cost) may counteract efforts labour standard governance. Company characteristics, apart from factory size, seem to be moderated through taking part in the same multi-stakeholder initiative. This effect may well be different when comparing individual governance efforts of lead firms outside of a shared corporate code of conduct.

The findings in this paper furthermore stress the importance of incorporating public and social institutional considerations when looking at cross-country data of private labour standard governance programs. The effects of company characteristics are strongly moderated by institutional surroundings and indicate that the economic and regulatory environment of production sites may have a higher influence on the success of private governance than previously expected. This finding suggests twofold. Firstly, it supports the claim of a multi-level-governance or “synergistic governance” system of labour governance in GPNs. Secondly, it calls for more research regarding the effects of public governance and regulation on the success of private governance.

Finally, the results regarding process rights not only support the different characteristics of rights, as Barrientos and Smith (2007) suggest but they show how this different set of rights has an altogether different reaction to institutional and corporate surroundings. The analysis in this paper suggests therefore that process rights are much more influenced by public regulation rather than private governance. This finding highlights the importance of synergies or complementarities in public and private governance systems and calls for further research in different contexts for further insight.

Appendix:

Regression Results Model I

Dependent Variable: All Labour Standard Violations

VARIABLES	(1) Model with Company Vars.	(2) Model including Institutional Vars.	(3) Full Model	(4) Full Model (Robust St. e.)
Company Variables				
Size of lead firm	-2.92e-05*	-1.67e-05	-1.31e-05	-1.31e-05
	(1.61e-05)	(1.60e-05)	(1.59e-05)	(1.40e-05)
Stock-listed	1.983*	1.024	0.614	0.614
	(1.169)	(1.159)	(1.188)	(1.082)
Discontinuation	4.238***	3.619***	4.051***	4.051***
	(0.954)	(0.938)	(0.938)	(0.981)
Other Brands	0.697	0.342	0.431	0.431
	(0.811)	(0.799)	(0.815)	(0.822)
Workers at	-0.000246	-0.000400*	-0.000485**	-0.000485**
Factory	(0.000211)	(0.000212)	(0.000216)	(0.000198)
Institutional Variables				
Rule of Law		0.228	-1.144	-1.144
		(0.909)	(0.923)	(0.967)
GDP (log)		-2.698***	-1.782***	-1.782***
		(0.465)	(0.487)	(0.504)
Press Freedom		-0.0986***	-0.136***	-0.136***
		(0.0223)	(0.0230)	(0.0242)
Control Variables				
HQ: Hong Kong	-5.687	-3.809	-1.441	-1.441
	(4.238)	(4.158)	(4.098)	(2.713)
HQ: Japan	2.417	4.866***	4.423**	4.423**
	(1.816)	(1.812)	(1.807)	(2.221)
HQ: Sweden	-2.430	-1.336	-0.158	-0.158
	(1.944)	(1.922)	(1.926)	(1.598)
HQ: UK	-4.072	-1.873	-3.297	-3.297
	(3.002)	(2.961)	(3.000)	(3.027)
HQ: US	-4.514***	-4.462***	-3.820***	-3.820***
	(0.954)	(0.936)	(0.945)	(1.025)
Industry				
Apparel			-3.401***	-3.401*
			(1.187)	(1.875)
Footwear			-2.260	-2.260
			(1.466)	(2.188)
Sportswear			0.617	0.617
			(1.710)	(2.158)
Monitor			0.0974***	0.0974***
			(0.0273)	(0.0258)
Constant	18.55***	45.74***	36.79***	36.79***
	(1.325)	(4.431)	(5.059)	(5.871)
Observations	998	991	991	991
R-squared	0.075	0.121	0.181	0.181

Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.
Omitted categories: HQ -Germany; Industry: Accessories; Year: 2014.

Appendix:

Regression Results Model II

Dependent Variable: Process Rights Violations

VARIABLES	(5) Model with Company Vars.	(6) Model including Institutional Vars.	(7) Full Model	(8) Full Model (Robust St. e.)
Company Variables				
Size of lead firm	-6.51e-06	-3.91e-06	-2.94e-06	-2.94e-06
	(5.15e-06)	(5.13e-06)	(5.17e-06)	(4.50e-06)
Stock-listed	0.214	0.0462	0.0641	0.0641
	(0.373)	(0.373)	(0.386)	(0.373)
Discontinuation	0.530*	0.374	0.425	0.425
	(0.305)	(0.302)	(0.305)	(0.309)
Other Brands	0.177	0.0738	0.203	0.203
	(0.259)	(0.257)	(0.265)	(0.257)
Workers at	-2.74e-05	-8.95e-05	-8.31e-05	-8.31e-05
Factory	(6.73e-05)	(6.82e-05)	(7.01e-05)	(5.80e-05)
Institutional Variables				
Rule of Law		-0.574**	-0.749**	-0.749**
		(0.292)	(0.300)	(0.318)
GDP (log)		-0.581***	-0.446***	-0.446***
		(0.150)	(0.158)	(0.150)
Press Freedom		-0.0222***	-0.0276***	-0.0276***
		(0.00717)	(0.00745)	(0.00828)
Control Variables				
HQ: Hong Kong	-1.577	-1.066	-0.304	-0.304
	(1.353)	(1.337)	(1.330)	(1.114)
HQ: Japan	-0.168	0.404	0.303	0.303
	(0.580)	(0.583)	(0.586)	(0.682)
HQ: Sweden	-0.166	0.0977	0.259	0.259
	(0.621)	(0.618)	(0.625)	(0.509)
HQ: UK	-1.100	-0.698	-1.047	-1.047
	(0.959)	(0.952)	(0.974)	(1.061)
HQ: US	-1.049***	-1.016***	-0.815***	-0.815**
	(0.305)	(0.301)	(0.307)	(0.328)
Industry				
Apparel			-1.616***	-1.616**
			(0.385)	(0.633)
Footwear			-1.041**	-1.041
			(0.476)	(0.724)
Sportswear			-0.622	-0.622
			(0.555)	(0.683)
Monitor			0.00176	0.00176
			(0.00885)	(0.00720)
Constant	3.961***	9.686***	9.630***	9.630***
	(0.423)	(1.425)	(1.642)	(1.765)
Observations	998	991	991	991
R-squared	0.024	0.061	0.109	0.109

Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

Omitted categories: HQ -Germany; Industry: Accessories; Year: 2014.

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