Can Multinationals Regulate Global Labor Standards? Causal Evidence from a Large Retailer

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Multinational enterprises across a range of industries claim to regulate labor standards in their trading partners around the world. Yet despite a growing body of research on labor compliance in global supply chains, estimating the causal impact of these private regulatory regimes has proven difficult. This study adopts a regression discontinuity approach to shed new light on the effects of private regulation on factory labor standards. We analyze data from 7,750 audits of over two thousand factories supplying a major apparel retailer. Each factory is audited regularly, and an arbitrary numeric cutoff in the compliance score determines which factories are instructed to take immediate remedial action to avoid termination. By analyzing the subsequent improvement of factories just above and below this threshold, our study provides causal estimates of the regulatory power of the importing firm. This regulatory power is expressed in both the signals communicated to factories and the additional attention that least-compliant factories receive from compliance staff. Using detailed longitudinal audit records, our analysis also reveals heterogeneous effects across different types of factory labor practices. By analyzing the impact of private regulation at a major retailer with large purchasing volumes, our study presents a best-case scenario for the power of buyers in global supply chains to influence labor standards in their supplier factories.