

Responsibility Boundaries in Global Value Chains: Supplier Audit Prioritizations and Moral Disengagement Among Swedish Firms

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Abstract To address substandard working conditions in global value chains, companies have adopted private regulatory systems governing worker rights. Scholars agree that without onsite factory audits, this private regulation has limited impact at the point of production. Companies, however, audit only a subset of their suppliers, severely restricting their private regulatory attempts. Despite the significance of the placement of suppliers inside or outside firms’ “responsibility boundaries” and despite scholars’ having called for more research into how firms prioritize what suppliers to audit, few, if any, systematic studies have examined the topic. This is problematic, as the placement of firms’ responsibility boundaries determines what suppliers and workers are included in firms’ private regulatory attempts. Based on a study of 12 Swedish firms and the theory of moral disengagement, this paper starts to fill this research gap by exploring how firms’ responsibility boundaries are placed. The paper illustrates how firms’ responsibility boundary placement is best described as a patchwork with firms defining and delimiting their responsibilities differently. The paper also demonstrates that three supplier types (i.e., the worst, morally justified, and immediate suppliers) are particularly likely to be placed inside firms’ responsibility boundaries, while a fourth type (i.e., disregarded suppliers) is likely to be placed outside.

Keywords Audit · Code of conduct · Moral disengagement · Private regulation · Responsibility boundary · Value chain · Worker rights

Introduction

Since the 1980s, the outsourcing of labor-intensive production, increased trade liberalization, and the deregulation of national economies have facilitated the rise of fragmented production and geographically dispersed global value chains (Lund-Thomsen 2013). In these global value chains, substandard working conditions are common (e.g., Locke et al. 2007), so anti-sweatshop activists have used name-and-shame campaigns to force companies to take greater responsibility (e.g., Bartley 2007). In response, companies have developed various private regulatory systems governing worker rights (Bartley 2007), operationalized mostly in ethical standards/codes of conduct and factory audits. While some scholars have questioned the merit of this private regulation (e.g., Blowfield and Dolan 2008; Locke et al. 2007), others have demonstrated that it can achieve at least marginal improvements in some worker rights issues (e.g., Barrientos and Smith 2007; Egels-Zandén 2014).¹ Regardless of their differences, most scholars agree that without factory audits or other onsite enforcement mechanisms, private regulation is unlikely to improve working conditions at the point of production.

In practice, though, companies only perform factory audits at a subset of their suppliers, severely restricting the

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¹ See Khan et al. (2007) for a discussion of why such “improvements” might occasionally do more harm than good, i.e., it is not always in workers’ interests to be exposed to successful code of conduct implementation.

impact of their private regulatory attempts. At certain “moral decoupling points” in the value chain, companies stop taking responsibility for working conditions (Eriksson and Svensson 2015). Taken together, these moral decoupling points form what we propose to call firms’ “responsibility boundaries.” A responsibility boundary can be defined as the demarcation between those suppliers for which corporate managers assume, and do not assume, responsibility. In this paper, “assume responsibility” is operationalized as conducting factory audits. Responsibility boundaries are therefore defined here as the demarcation between those suppliers for which a firm conducts, and does not conduct, worker rights factory audits. Given that corporate managers have started to assume responsibility for worker rights beyond firms’ organizational boundaries (e.g., Bartley 2007; Egels-Zandén 2014), responsibility boundaries provide a useful concept for theorizing about how far corporate managers’ responsibilities extend in global value chains.

Despite extensive research into private labor regulation and calls for more research into how managers prioritize what suppliers to audit (Egels-Zandén et al. 2014), few, if any, systematic studies have examined the topic. This is problematic because the placement of firms’ responsibility boundaries determines what suppliers and workers are included in firms’ private regulatory attempts. In other words, while it is interesting to study the motivations and maneuvers of labor unions, NGOs, companies, and governments in creating private labor regulation (e.g., Bartley 2007), the differences and convergences between private labor regulatory systems (e.g., Fransen and Conzelmann 2014), and the effects of factory auditing (e.g., Locke et al. 2007), such studies must be complemented by sophisticated discussions of what suppliers are included, and excluded, from private labor regulation, i.e., discussions of the placement of firms’ responsibility boundaries.

This paper helps to fill this research gap by asking *how firms’ responsibility boundaries are placed*, doing so based on a study of how corporate managers in various Swedish industries prioritize what suppliers to audit, and not to audit, for code of conduct compliance. The focus is on how the Swedish managers prioritize what suppliers to audit *before* having any information about worker rights at specific suppliers. This initial decision is crucial because once a firm has audited a particular supplier it tends, based on a follow-up auditing plan, to continue to do so, i.e., once a supplier is placed inside a firm’s responsibility boundaries, it tends to remain there while other suppliers are never audited, consistently remaining outside the firm’s responsibility boundaries. Drawing on theories of “moral disengagement” (Bandura 1986, 1999), this paper explains how corporate managers rationalize the placement of responsibility boundaries and resist expanding them.

This paper makes two main contributions. First, it contributes to research into private regulation by introducing the “responsibility boundary” concept and shedding light on the important, but so far neglected, topic of code of conduct audit prioritization. It identifies key factors used by managers in audit prioritizations, links these factors to moral disengagement mechanisms, and demonstrates that managers prioritize three types of suppliers (i.e., the worst, morally justified, and immediate suppliers) and ignore a fourth type (i.e., disregarded suppliers). In doing this, it provides both an empirical and theoretical foundation for future research into firms’ placement of responsibility boundaries and the consequences of this placement for private labor regulation more broadly. Second, the paper contributes to the business ethics literature by responding to recent calls for studies of moral disengagement in organizations (Johnson and Buckley 2015), extending the application of the moral disengagement concept beyond organizational boundaries into global value chains (Eriksson and Svensson 2015).

The next sections first discuss worker rights in global value chains and then consider how moral disengagement enables corporate managers to accept complicity in worker rights violations without taking corrective actions. The method used is then presented, followed by the empirical material of the studied Swedish firms’ audit prioritizations. The paper concludes by analyzing the placement of firms’ responsibility boundaries and the implications of this for research and practice.

Worker Rights in Global Value Chains

Worker rights are integral to corporate social responsibility (CSR), for example, being enshrined in various International Labour Organization (ILO) conventions and the Universal Declaration of Human Rights, and included in most CSR standards, such as the UN Global Compact and the UN Guiding Principles on Business and Human Rights. There is also a plethora of private regulatory systems specifically designed to address worker rights, such as SA8000, the Business Social Compliance Initiative (BSCI), Fairtrade Labelling Organizations International, and the Fair Wear Foundation. Most, if not all, codes of conduct also include worker rights and explicitly state that the buying firm should strive to uphold worker rights in its value chain. Given this, violating worker rights is here defined as unethical conduct (Greenwood 2002; Ip 2008; Van Buren and Greenwood 2008; Waddock 2004) and being connected to such violations through a network of suppliers is similarly defined as unethical conduct (Schrempf-Stirling and Palazzo 2014).

Despite the prominence of worker rights, scholars have demonstrated that worker rights are poorly upheld in global value chains. For example, Egels-Zandén's (2007) study of Chinese toy suppliers to proactive Swedish toy firms found *no* factories, out of nine studied, in compliance with the Swedish firms' codes of conduct, with two-thirds of the suppliers violating all but one of the studied criteria, and Locke et al. (2013) demonstrated that only seven of 276 HP supplier facilities were fully compliant. Toffel et al.'s (2012) analysis of 31,915 code of conduct audits in various industries and Anner's (2012) analysis of 805 audits conducted by the Fair Labor Association similarly demonstrated that worker rights violations are common in global value chains. Several studies also find that certain types of non-compliance are particularly difficult to address in global value chains, for example, discrimination and suppression of freedom of association (e.g., Anner 2012; Egels-Zandén and Merk 2014).

It is therefore reasonable to assume that most companies use some suppliers that are non-compliant with their worker rights policies. This is particularly likely if suppliers are located in countries with poorly functioning public regulatory systems (Locke et al. 2013; Toffel et al. 2012). In practice, this means that reasonably informed managers are aware that at least some of their suppliers violate worker rights and their firms' codes of conduct. This raises the question of how it is possible for corporate managers to accept complicity in such immoral practices without taking corrective action in the form of, for example, auditing all of their suppliers.

Moral Disengagement

The theory of moral disengagement is useful for explaining how corporate managers can accept complicity in worker rights violations at suppliers without taking corrective action. The theory of moral disengagement, developed by the well-known psychologist Albert Bandura of Stanford University (Bandura 1986, 1990, 1999), attempts to explain why people behave immorally without imposing self-sanctions. Moral disengagement can be defined as a "propensity to evoke cognitions which restructure one's actions to appear less harmful, minimize one's understanding of responsibility for one's actions, or attenuate the perception of the distress one causes others" (Moore 2008, p. 129), and it allows individuals to reduce their sense of guilt (Tsang 2002) and cognitive dissonance (Festinger 1957) when engaging in immoral practices.

When "an individual morally disengages, they mentally remove the causal links between one's actions and possible unfavorable/unethical outcomes" (Johnson and Buckley 2015, p. 2). In this way, the typical "A" causes "B" mental

link "that would normally prohibit an individual from engaging in unethical acts is disrupted" (Johnson and Buckley 2015, p. 2), obstructing the self-sanctioning mechanisms that are central to moral conduct (Bandura et al. 2000). In other words, moral disengagement could allow corporate managers to continuously use suppliers that violate worker rights without their feeling a strong need to correct the situation.

Studies of moral disengagement have mainly focused on cases of war, violence, and bullying (Moore 2008), but recent research has also started to take an interest in ethical consumption (Paharia and Deshpandé 2009), corporate corruption (Moore 2008), and other business ethics-related issues (e.g., Barsky 2011; Beaudoin et al. 2015; Martin et al. 2014). Even so, business ethics scholars are still calling for more research into moral disengagement in organizations to complement the extensive individual-focused research (Johnson and Buckley 2015).

Moral Disengagement Mechanisms

Regardless of its focus, the moral disengagement literature is unified by its emphasis of Bandura's eight proposed moral disengagement mechanisms (e.g., Bandura 1999). The first group of disengagement mechanisms—the *cognitive restructuring of inhumane acts*—comprises three mechanisms, i.e., moral justification, euphemistic labeling, and advantageous comparison, that reframe acts to appear less harmful and potentially even beneficial. In this way, these disengagement mechanisms reinterpret the immoral practices so that a moral dilemma no longer exists or is minimized (Johnson and Buckley 2015, p. 2).

Through *moral justification*, an immoral practice is made "personally and socially acceptable by portraying it in the service of valued social or moral purposes" (Bandura et al. 2000, p. 58). The linking of harmful conduct to worthy purposes has been demonstrated to be a powerful predictor of immoral practices (Bandura et al. 1996), and one such worthy purpose is, of course, profitability, which allows for justifications of immoral means to reach this end (Kouchaki et al. 2013; White et al. 2009). *Euphemistic labeling* masks reprehensible activities or even confers a respectable status on them. Baden and Harwood (2013), for example, illustrate how the terminology used to describe CSR has facilitated the co-opting of an ethical concept by economic interests and how this is linked to moral muteness. *Advantageous comparison* can make immoral practices seem relatively benign or of little consequence when contrasted to flagrant activities. For example, suppliers' overtime violations could seem relatively benign when contrasted to the use of child and forced labor.

The second group of disengagement mechanisms—*obstructing or distorting mechanisms*—comprises three

mechanisms, i.e., displacement of responsibility, diffusion of responsibility, and the disregard or distortion of consequences, which weaken the causal link between immoral practices and outcomes so that moral self-sanctioning is no longer required (Johnson and Buckley 2015). In *displacement of responsibility*, “people view their actions as springing from social pressures or dictates of others rather than as something for which they are personally responsible” (Bandura et al. 2000, pp. 58–59). People may argue that they are not responsible for their immoral practices due to, for example, management orders, dire financial straits, and the fact that everyone else is behaving the same (Barsky 2008). *Diffusion of responsibility* for immoral practices allows people to attribute harm to the behavior of others. For example, people could disperse their responsibility for participation in immoral practices through group decision making, division of labor, and collective actions (White et al. 2009). *Disregarding or distorting the consequences* of immoral practices allows people to minimize or avoid acknowledging the harm they cause. This involves selective inattention, cognitive distortion effects, and discrediting evidence of the harm caused.

The third group of disengagement mechanisms—*blaming and dehumanization mechanisms*—comprises two mechanisms, i.e., dehumanization and attribution of blame, for attacking the victim’s character. *Dehumanization* allows people to view others as no longer constituting humans with feelings, hopes, and concerns but instead as subhuman objects. *Attribution of blame* in the form of blaming one’s adversaries or compelling circumstances allows people to view themselves as blameless victims.

Moral Disengagement Within a Range of Acceptability

The theory of moral disengagement stresses the importance of self-sanctioning mechanisms for moral conduct. Self-sanctioning mechanisms do not exist in a vacuum, however, but are embedded in inter-personal and inter-organizational relationships (Johnson and Buckley 2015). As Martin et al. (2014, p. 9) put it, moral disengagement is influenced by the “accessibility of some ostensibly legitimate justifications (to oneself and potentially to others) for the (unethical) behavior.” A “range of acceptability” therefore exists within which managers can morally disengage, but when they move outside this range, their legitimacy is challenged (Deephouse 1999). As Bersoff (1999, p. 423) put it, “the less moral ambiguity there is surrounding a situation, the less latitude an agent has in negotiating reality.”

Stakeholders can challenge managers’ moral disengagement attempts. For example, Bandura et al. (2000, p. 62) illustrate how, in the case of Nestlé infant formula

products in developing countries, Nestlé’s managers attempted to “morally justify its questionable marketing practices by referring to the freedom of production marketing,” but this “was a political disaster.” Similarly, Schrempf-Stirling and Palazzo (2014) illustrate how corporate managers’ attempts to restrict their responsibility to first-tier suppliers have been challenged by activists arguing that managers are responsible for the entire upstream value chain. Several studies have also illustrated how the range of acceptability in relation to responsibility for worker rights in global value chains has tightened over time (e.g., Åhlström and Egels-Zandén 2008; Bartley 2007; Schrempf-Stirling and Palazzo 2014), implying that opportunities to morally disengage can become more limited over time.

In sum, the theory of moral disengagement provides a useful way to analyze how corporate managers are able to continuously source from suppliers violating worker rights without imposing self-sanctions. Moral disengagement is useful in explaining both how managers attempt to place their firms’ responsibility boundaries (and in this way restrict the number of suppliers for which they need to assume responsibility), and how stakeholders can challenge such attempts in an effort to expand firms’ responsibility boundaries (making private labor regulations applicable to a broader range of suppliers and workers).

Methods

To examine how firms’ responsibility boundaries are placed and how moral disengagement is used in such placement, I interviewed managers of 12 Swedish firms. Given the dearth of empirical studies of responsibility boundaries and of audit prioritization and the associated moral disengagement, reliance on a qualitative method is in line with previous proposals (Lee 1999; Marshall and Rossman 1995). The 12 Swedish companies were selected based on their being recognized as CSR leaders (Eisenhardt and Graebner 2007) that source from countries with poorly functioning public regulation (Toffel et al. 2012). The focus on Swedish companies is merited as Swedish firms are generally identified as CSR frontrunners and allow unusual research access in sensitive areas such as the placement of responsibility boundaries (Eisenhardt and Graebner 2007). Future research is advised to complement the present study with cross-national studies, as scholars have identified national differences in firms’ sourcing and CSR activities (e.g., Hughes et al. 2007).

The studied companies represented various industries, allowing for a breadth of experience (Bryman 2004; Kvale 1996). The emphasis on CSR leaders is in line with the emphasis of the moral disengagement literature on

explaining why “eminent members of the business community,” rather than “dangerous criminally-oriented mavericks,” “ostensibly in the interests of their companies and their own” engage in immoral practices (Bandura et al. 2000, p. 58), shifting attention from “bad apples” to “good” corporate managers who prioritize moral behavior and to why these managers still engage in immoral practices (Martin et al. 2014).

The studied companies were garment retailers (three companies), coffee wholesalers (three companies), consumable retailers (two companies), a toy wholesaler (one company), a department store (one company), a sporting goods retailer (one company), and a manufacturing company (one company). In each studied company, at least one formal semi-structured interview lasting on average 1 h was conducted (in total, 18 formal interviews). The formal interviews were audio recorded and transcribed, and sometimes complemented by informal follow-up discussions to clarify specific points. The interviewees were either CSR or purchasing managers and were all responsible for their companies’ codes of conduct, factory audits, and audit prioritizations. Several interviewed managers regarded it as sensitive, relative to both competitors and the general public, to discuss how they prioritized suppliers for auditing. It was therefore agreed that the companies would be anonymized.²

The interviews concentrated on (1) the structure of the company’s value chains (e.g., countries, number of tiers, and key suppliers), (2) how the company’s code of conduct was enforced at the point of production (e.g., internal audits, external audits, and role of ethical certifications), (3) how the company decided what suppliers to audit (e.g., tools, checklists, and models), and (iv) why the company chose this particular way of prioritizing. All studied firms had formalized prioritization systems in the form of, for example, Excel spreadsheets or Word documents. During the interviews, access was often granted to these systems outlining the companies’ prioritization procedures. These documents were used to complement the interview data and few inconsistencies were found between the verbal and written sources.

Each interview was initially coded to create a list of the factors influencing code of conduct audit prioritization in the represented firm. These lists were then compiled into a table outlining the factors on one axis and the corporate names on the other. Interestingly, companies in the same industry used different ways to prioritize. Of course, this could be due to the limited number of studied companies, but it led to a decision to analyze the material in the aggregate rather than to seek explanations for industry

differences. The next step in the analysis was therefore to rearrange the empirical material based on the prioritization factors, which is also how the empirical material is presented here, and to analyze how each factor was related to the eight moral disengagement mechanisms. The final part of the analysis included grouping the prioritization factors based on their related moral disengagement mechanisms to reveal patterns in the material and to connect these patterns to the placement of responsibility boundaries. This grouping was initially done inductively, using the prioritization factors, resulting in three groups. This grouping was then more carefully compared with the analysis of how each factor was related to moral disengagement mechanisms, resulting in the identification of four distinct supplier types (i.e., the worst, morally justified, immediate, and disregarded suppliers) that were particularly (un)likely to be placed inside firms’ responsibility boundaries. These four supplier types, and their related moral disengagement mechanisms, were then somewhat modified in light of insightful comments from the *Journal of Business Ethics* reviewers.

Swedish Firms’ Factory Audit Prioritizations

A Perceived Need to Prioritize

This section provides the empirical starting point for the analysis of how firms’ responsibility boundaries are placed by discussing how the studied 12 Swedish companies prioritize what suppliers to audit, i.e., what suppliers to place inside and outside their responsibility boundaries. The interviewed managers present a consistent picture in terms of claiming to lack the resources to audit all of their suppliers and that they therefore had to develop a way to prioritize. The following two quotations typify the claims made about the need to prioritize:

We need to have a tool for selecting suppliers. Otherwise, there will be no way to choose what supplier to audit, and with only limited resources we need a way to select. (interview, CSR manager, manufacturing)

If you have 2000–3000 suppliers, it is impossible to audit them all. We therefore started with the largest and moved on to the smaller ones (interview, CSR manager, garment₂).

All studied firms had developed formalized systems for audit prioritization. For example, one firm had developed an elaborate Excel model weighing numerous prioritization factors to form an audit prioritization score for each supplier. Other firms used less elaborate models and, for

² Interested readers can contact the author to discuss how to access transcripts of the conducted interviews.

example, relied on Word documents outlining their key prioritization factors. These formalized prioritization systems were then used by purchasing and/or CSR managers when making prioritization decisions.

When asked why they used specific factors in their formalized systems, the interviewed managers typically answered along the following lines:

You know, these are the most relevant factors to our company (interview, CSR manager, toys).

We had elaborate discussions internally and with a consultancy and came up with this list of factors (interview, CSR manager, coffee₃).

However, when challenged in the interviews, it became clear that few, if any, of the managers could explain why their companies' specific chosen factors were the most relevant. The following quotations from the interviews illustrate this point:

I know that company A uses factor X when prioritizing audits. Why do you not use this factor? (interviewer)

That is interesting. We have not discussed that ... To be honest, I cannot really explain why we ended up with this list of factors. At some point, you have to stop discussing and start working. You can always revise it (i.e., the list) in the future (interview, CSR manager, garment₃).

Prioritization Factors

In addition to being unable to explain why their companies' specific chosen prioritization factors were the most relevant, it was also clear in the interviews that the studied

companies used different prioritization factors. Table 1 summarizes the 11 main identified factors and indicates the frequency with which each factor was used. It is important to note that some prioritization factors are used to identify what suppliers to audit (e.g., geographic location, supplier importance, new suppliers, labeled products, product type, geographic proximity, and sensitive products), while other factors are used to establish what suppliers *not* to audit (e.g., occasional suppliers and products for internal use). These are, of course, two sides of the same coin, but the distinction between these factors is nevertheless important.

Frequently Used Prioritization Factors

One of the most frequently used prioritization factors, used by nearly all studied companies, was the *geographic location* of suppliers. Managers claimed that it was reasonable to prioritize factory audits of suppliers in "high-risk" countries, i.e., countries where it is more likely that suppliers will violate the firm's code of conduct. Managers used more or less sophisticated tools to assign risk to specific countries: some used their own experience, some used consultants and researchers, and some relied on available rankings such as UN and Amnesty International reports on human rights and corruption rankings. The only companies that did not use geographic location as a prioritization factor were those that sourced solely from "high-risk" countries and had difficulties identifying relevant differences between them.

We have, of course, looked at geographic segmentation. I hear that others are doing that all the time. But it does not make any sense for us, since all our suppliers are based in risky countries (interview, CSR manager, coffee₁).

Table 1 The main audit prioritization factors and their respective frequencies

Audit prioritization factor	Frequency (low = 1–4 firms, medium = 5–8 firms, and high = 9–12 firms)
Geographic location	High
Supplier size	High
Supplier importance	High
New suppliers	High
Position in the value chain	High
Products for internal use	High
Labeled products	High for firms selling own-labeled products and other products; low otherwise
Product type	Medium for firms with wide product range; low for firms with narrow product range
Geographic proximity	Medium
Occasional suppliers	Medium
Sensitive products	Low

Supplier importance and *supplier size* were two other “high-frequency” factors used in prioritizing code of conduct audits. Managers usually prioritize suppliers that supply a high percentage of their company’s total purchases.

It feels natural to put more effort into auditing the larger suppliers that produce a lot of our products (interview, purchasing manager, sporting goods).

Some managers use a threshold to prioritize suppliers, only auditing suppliers from which they purchase a “substantial” amount.

We start with all suppliers where our purchasing exceeds SEK 100,000. When these are audited, we can start to think about whether there are other suppliers that we ought to audit (interview, CSR manager, consumable goods₂).

Other managers prioritize key suppliers for which few substitutes are available. As it is more problematic to stop sourcing from these suppliers, the managers therefore attempt to be proactive in improving worker rights at these suppliers. Small supplier size is also used as a reason to refrain from auditing suppliers that are small in terms of the percentage of purchased products or number of employees. For example, the CSR manager of one studied garment company stated that suppliers with fewer than ten employees were not “factories” and that the company only audited supplier “factories.” This permits claims such as “we audit all our supplier factories in this country” (interview, CSR manager, garment₂), even though the firm uses numerous unaudited small suppliers in that country. Some managers also prioritized large suppliers, since their scale of potential violations was greater relative to that of small suppliers and it was arguably easier to make the case that the firm is not responsible for small supplier non-compliance. As one manager put it,

If you were a journalist or an organization doing a ranking of companies, how would you score one child labor case versus ten cases? Or five instances of below-minimum-wage payments versus five hundred? If we just look at other companies’ scandals, it is clear that stakeholders perceive large-scale violations as worse than small-scale violations (interview, CSR manager, manufacturing).

Another highly frequent way to prioritize audits is to focus on auditing *new suppliers* for code of conduct compliance. This is because managers perceive it to be easier to impose demands on new rather than existing suppliers and because new suppliers are often subjected to quality audits, on which worker rights audits can piggyback.

Yet another high-frequency prioritization factor is the *suppliers’ position in the value chain*, with all studied companies prioritizing the auditing of first-tier suppliers for code of conduct compliance. Some companies even exclude second- and third-tier suppliers from their definition of “suppliers.” The prioritization of first-tier suppliers is related to both resource limitations and a perceived greater responsibility for worker rights at first- rather than second-tier suppliers.

Today, we only audit our first-tier suppliers because we do not have the resources to move further upstream (interview, purchasing manager, sporting goods).

Some studied companies move beyond first-tier to the “main point of production,” even though this might imply auditing second- or third-tier suppliers.

We audit to the point at which the main production is located. If not, there would be no end to our work. It is a matter of resources (interview, CSR manager, consumable goods₂).

Interestingly, some companies initially claiming to audit only first-tier suppliers were also indirectly involved in auditing further upstream. For example, garment companies involved in multi-stakeholder initiatives such as the Better Cotton Initiative indirectly fund and gain access to audits at the cotton-field level. This implies that those companies audit first-tier suppliers and cotton suppliers, but not the suppliers located between these suppliers.

Finally, a high-frequency factor used to justify *not* auditing is that a supplier supplies products for *internal company use*. None of the studied companies claimed to have a structured process for auditing such suppliers for code of conduct compliance. Most firms do not even define such suppliers as “suppliers,” i.e., they are not included in the externally communicated material regarding number of suppliers and percentage of audited suppliers. In some cases, this could lead to paradoxical results with, for example, a purchasing manager stressing the importance of auditing the pens sold in the store while being unable to provide any information about the pen he himself used during the interview.

Sporadically Used Prioritization Factors

In addition to the high-frequency prioritization factors, several factors are important for some, but not other, firms. For example, all companies selling both their *own-labeled products* and other products stressed that they prioritized their own labels for both moral and legal reasons.

We have a greater responsibility both legally and ethically when it comes to our own brands than, say,

to Coca Cola (interview, purchasing manager, consumable goods₁).

In addition, managers prioritize those wholly owned brands where the product and company brand coincide over those where it is difficult to identify the connection between the product and company brand. This is mainly due to the perceived increased brand risk when the product and company names coincide.

Similarly, companies with a wide product range prioritized producers of “high-risk” products at a medium frequency, while companies with a narrow product range prioritized such producers at a low frequency. Managers argued that code of conduct violations are more common at suppliers producing certain types of products (often those requiring unskilled manual tasks and low-wage workers), and that those suppliers therefore should be prioritized.

We audit some products more often than others. One knows that certain industries are more problematic than others (interview, CSR manager, consumable goods₂).

Geographic proximity is another prioritization factor used at a medium frequency. Many interviewed managers stated that suppliers located far from the firm’s local purchasing or quality-control office are less frequently audited. In other words, this study finds no empirical support for the idea that companies prioritize distant suppliers because they are out of sight and more difficult to control.

If we have a supplier it takes 8 h by air and then 2 h by train to get to, we might not visit that supplier or, if we do, do so less frequently. I am sorry to say, but that is the truth (interview, CSR manager, garment₁).

Similarly, suppliers located in clusters or near each other are audited more frequently than are dispersed suppliers. This strategy permits efficient auditing of numerous suppliers in a short period of time as it minimizes traveling.

You try to be as efficient as possible when you make these [audit] trips, so we focus on suppliers in the same area (interview, CSR manager, garment₂).

In addition, at a medium frequency, firms refrain from auditing *occasional suppliers*, such as those producing for a specific season or a specific campaign.

If we only are going to place one order of Christmas ornaments from a supplier, it is not reasonable to audit that supplier (interview, purchasing manager, department store).

Finally, at a low frequency, companies prioritize auditing suppliers of currently “sensitive” products, i.e.,

products recently featured in media scandals in relation to worker rights or that customers frequently ask about.

If we get a lot of questions from customers about a product, we audit this product more carefully. For example, flowers from Kenya are such a hot product at the moment (interview, purchasing manager, consumable goods₁).

Responsibility Boundaries: Defining and Delimiting Responsibilities

Responsibility Boundary Placement as a Patchwork

The above empirical material illustrates how audit prioritization, at least among Swedish CSR leaders, is done in numerous ways with none of the studied firms using the same combination of prioritization factors. This means that the studied firms place their responsibility boundaries differently. In other words, the studied firms define and delimit their responsibilities differently by assuming responsibility for different types of suppliers in their global value chains. The material also indicates that the placement of responsibility boundaries is best described as a patchwork in which corporate managers mix and match prioritization factors with little underlying systematic thought. This is illustrated by the fact that few, if any, of the studied managers could explain why they had chosen their specific combination of suppliers inside and outside their responsibility boundaries.

The firms’ patchwork approach to boundary placement has implications for private labor regulation. First, it relates to the literature about the development of private regulatory systems (e.g., Fransen and Conzelmann 2014) by illustrating how the scope of these systems varies between firms. Even if companies are involved in the same multi-stakeholder initiative or have similar policies and auditing procedures, they could differ in what suppliers are encompassed in the system. Second, it also relates to the literature on how corporate–activist struggles shape private labor regulation (e.g., Bartley 2007). The findings indicate that activists could leverage managers’ inability to justify their responsibility boundary placement to force companies to extend their responsibility boundaries through increased investments in factory audits. The findings also suggest that future corporate–activist struggles are likely in relation to those suppliers that some firms place inside, and others outside, their responsibility boundaries. Third, the firms’ patchwork approach is also relevant to research into the impact of private labor regulation at the point of production (e.g., Locke et al. 2007) in that it allows for discussion of how responsibility boundary placement shapes the impact

at the point of production. For example, it is reasonable to assume that how responsibility boundaries are placed matters for the overall impact of firms' private regulatory attempts, since scholars have demonstrated that private labor regulation is more effective for some types of suppliers (e.g., Locke et al. 2013; Toffel et al. 2012).

In or Out?

At a more detailed level, the results allow for discussion of what suppliers are generally placed inside and outside the firms' responsibility boundaries and of the rationales used by corporate managers to justify such placement. The identified prioritization factors provide an initial account of the suppliers likely to be placed *inside* a firm's responsibility boundary, i.e., large, important, new, first-tier, regular suppliers in high-risk countries producing high-risk, sensitive, own-labeled products for sales (rather than internal use) and located near the buying firm's purchasing offices and other suppliers. The flipside of this is, of course, that suppliers without these features are likely to be placed outside firms' responsibility boundaries. As the studied firms do not use the same combination of prioritization factors, it is not possible to discern how many, or what combination, of prioritization factors are necessary for a supplier to be audited, as this differs between studied firms. For example, for some studied firms being a large first-tier supplier in a high-risk country might be sufficient, while for others such suppliers are only audited if they also display additional features such as being producers of own-labeled products. In general, the rule of thumb is that the more of the above audit-relevant features a supplier displays, the more likely it is to be placed inside firms' responsibility boundaries.

The identified prioritization factors specify the features making it particularly likely, or unlikely, for a supplier to be placed inside a firm's responsibility boundaries. By drawing on the theory of moral disengagement (Bandura 1986, 1999), it is possible to pinpoint *why* companies are likely to use these specific prioritization factors, as each prioritization factor can be linked to one or more moral disengagement mechanisms. Based on this, it is then possible, through a mainly inductive process (see "Methods" section), to group the prioritization factors based on their associated mechanisms and discern four more general supplier types that are particularly (un)likely to be placed inside firms' responsibility boundaries. It is important to remember that a specific supplier could (and most do) simultaneously display attributes of several of these types, such as a "worst *and* immediate" supplier or a "worst *and* disregarded" supplier.

Three types of suppliers, i.e., the worst, morally justified, and immediate suppliers, are particularly likely to be placed inside firms' responsibility boundaries. Managers accordingly use moral disengagement mechanisms to exclude suppliers *not* of these types. In contrast, the fourth supplier type, i.e., disregarded suppliers, comprises suppliers excluded because of manager use of moral disengagement mechanisms. Moral disengagement mechanisms are used in relation to all four supplier types, but, to be in line with the identified prioritization factors, they are described somewhat differently for the different supplier types discussed here.

Type 1: The Worst Suppliers

The first supplier type that is particularly likely to be placed inside firms' responsibility boundaries is the "worst suppliers." This type is defined by three audit prioritization factors, i.e., geographic location, product type, and supplier size, and is associated with four moral disengagement mechanisms, i.e., advantageous comparison, moral justification, euphemistic labeling, and displacement of responsibility. By using *advantageous comparison*, corporate managers prioritize auditing suppliers for which there is a "high risk" of "major" or "large-scale" worker rights violations. Compared with, for example, the use of forced labor in a large factory, labor union rights violations in a small factory seem relatively benign (Bandura et al. 2000). In this way, managers justify prioritizing large suppliers in "high-risk" countries producing "high-risk" types of products, consequently ignoring potential violations at suppliers without these features. This prioritization is supported by *moral justification*, with managers arguing that by auditing the worst suppliers they are maximizing their social impact, as major improvements are possible at these suppliers.

This prioritization is further supported by *euphemistic labeling*, in which some worker rights violations are classified as "minor" violations in factory audit corrective action plans, either due to the type of violation (e.g., overtime) or the scale (e.g., one case of a violation). Suppliers likely to commit "major" rather than "minor" violations are then prioritized by corporate managers. Given that worker rights as defined by UN and ILO conventions are non-negotiable fundamental rights (Greenwood 2002; Ip 2008), it is questionable whether any worker rights violations are "minor" and such labeling could be seen as a way to mask reprehensible conduct (Bandura 1999) and help justify the non-auditing of "low-risk" suppliers.

Several firms also used a *displacement of responsibility* mechanism to justify classifications of countries and product types relying on external actors, such as consultants, NGOs, and researchers. In this way, managers can justify

the prioritization “as springing from social pressures or dictates of others” (Bandura et al. 2000, pp. 58–59), and claim to be prioritizing in line with the recommendations of legitimate organizations such as the UN and Amnesty International.

To some extent, placement of the worst suppliers inside firms’ responsibility boundaries is in line with the underlying idea that private labor regulation should address the most likely and severe worker rights violations in global value chains (Ählström and Egels-Zandén 2008; Schrempf-Stirling and Palazzo 2014). If we accept that companies only have resources to audit a subset of their suppliers, this placement lies within the range of justifiable corporate behavior. However, if we do not accept that it is reasonable for corporate managers to be complicit in immoral practices due to limited willingness to invest in factory audits, the above analysis pinpoints how to challenge managers’ moral disengagement by, for example, questioning their euphemistic labeling and advantageous comparisons.

Type 2: The Morally Justified Suppliers

The second type of supplier that is particularly likely to be placed inside firms’ responsibility boundaries is the “morally justified suppliers.” This type is defined by five audit prioritization factors, i.e., labeled products, sensitive products, geographic proximity, new suppliers, and supplier importance, and is associated with three facets of the moral disengagement mechanism of *moral justification*. First, the prioritization of suppliers producing sensitive products and products where the product and company brand coincide is cast as acceptable through being in the service of the highly “legitimate” corporate-sector purpose of ensuring profitability via *minimizing brand risk* (Bandura et al. 2000, p. 58). With name-and-shame campaigns being a central strategy by which activists pressure companies to assume responsibility for worker rights (Bartley 2007; Schrempf-Stirling and Palazzo 2014), minimizing brand risk is a well-established motivation for corporate managers to invest in private regulations (Bartley 2007; Long and Driscoll 2008). When forced to prioritize what suppliers to audit, corporate managers are likely to prioritize suppliers where they can both “do good” (i.e., improve worker rights through auditing) and potentially “do well” (i.e., improve profitability through minimizing brand risk) over those where they only can “do good.”

Second, prioritizing new suppliers and suppliers located near each other and near buyers’ purchasing offices is cast as acceptable through being “in the service of” the valued purpose of *factory audit efficiency* (Bandura et al. 2000, p. 58). Efficiency is a highly legitimate purpose in the corporate sector (e.g., Meyer and Rowan 1977), so being able to conduct more factory audits for the same

investment helps justify prioritizing these suppliers. In other words, managers can argue that the prioritization gives more “bang for the buck.”³

A similar efficiency justification underlies the prioritization of suppliers that are important to operations (e.g., suppliers with few substitutes), except that here it is *operational efficiency* rather than factory audit efficiency that is of interest. Interestingly, the prioritization of these suppliers stands in contrast to Paharia and Deshpandé’s (2009) finding that consumers are more likely to use moral disengagement mechanisms when their desire for a product increases, and to Barsky’s (2011) argument that when performance goals are central, moral disengagement is more likely. In other words, as the desirability and centrality of supplier performance increase (as in the case of suppliers important to operations), previous findings suggest that the supplier should *not* be prioritized for auditing. This discrepancy is likely due to more forceful social sanctions in the audit prioritization context than in the contexts examined in previous moral disengagement studies (e.g., Martin et al. 2014; Paharia and Deshpandé 2009).

“Morally justified suppliers” are prioritized for reasons differing distinctly from those used to prioritize “the worst suppliers.” While expected worker rights compliance is central to justifying the prioritization of “the worst suppliers,” “morally justified suppliers” are prioritized regardless of their expected worker rights compliance. Their prioritization is instead rendered acceptable by being linked to the principles, well established in the corporate sector, of profitability, brand risk minimization, and efficiency. In relation to the underlying idea that private labor regulation should address likely and severe worker rights violations in global value chains, this prioritization is somewhat problematic in that it replaces the worker rights perspective with a corporate logic. While the reasons differ distinctly between these two supplier types, it is important to remember that a specific supplier can, and often will, display attributes of both types, making such a “worst and morally justified” supplier particularly likely to be audited.

Type 3: The Immediate Suppliers

The third supplier type that is particularly likely to be placed inside firms’ responsibility boundaries is the

³ In addition, it is more difficult to disregard the consequences when injurious actions occur physically close to their effects (Bandura 1999). Hence, geographically proximate suppliers might be prioritized as it is more difficult for managers to activate the *disregarding the consequences* mechanism for these suppliers. Still, even the most geographically proximate suppliers are generally located far from buyers’ purchasing offices, making proximity less relevant to audit prioritization than, for example, when injurious actions are so close that managers can see the suffering they cause.

“immediate suppliers,” i.e., close suppliers from a business, rather than physical, perspective. This type is defined by two factors, i.e., position in the value chain and supplier importance, and is associated with two moral disengagement mechanisms, i.e., the diffusion and displacement of responsibility. By combining these two mechanisms, corporate managers prioritize code of conduct audits of first-tier suppliers by claiming that they cannot dictate conditions further upstream (Bandura et al. 2000; Schrempf-Stirling and Palazzo 2014) and that there is a division of labor, with first-tier suppliers being responsible for upstream auditing (White et al. 2009). Using the same justification, managers prioritize important suppliers because they claim to be less responsible for suppliers accounting for a low percentage of production and limited purchasing volumes.

The prioritization of immediate suppliers is highly problematic from a worker rights perspective, as it defines firms’ responsibility boundaries so as to exclude some of the most likely and severe violations in global value chains, i.e., excluding some of the “worst” suppliers. It is therefore not surprising that activists have challenged corporate managers’ disengagement attempts emphasizing immediate suppliers in an effort to extend firms’ responsibility boundaries. Schrempf-Stirling and Palazzo (2014), for example, describe the struggle between managers and stakeholders regarding whether companies are responsible only for first-tier suppliers (the corporate position) or for the entire upstream value chain (the activist position). The authors argue that activists are slowly winning this debate, redefining the range of acceptability in terms of the use of moral disengagement mechanisms such as the diffusion and displacement of responsibility. In other words, the “worst” suppliers are increasingly being prioritized over the previously dominant “immediate” suppliers.

Type 4: The Disregarded Suppliers

The fourth type—“disregarded suppliers”—is distinct from the other types in that the other types are mainly positively addressed (i.e., they are likely placed *inside* firms’ responsibility boundaries), while disregarded suppliers are negatively addressed (i.e., they are likely placed *outside* firms’ responsibility boundaries). This fourth type is defined by three factors, i.e., products for internal use, occasional suppliers, and supplier size, and is associated with the two moral disengagement mechanisms of disregarding the consequences and euphemistic labeling. In the *disregarding the consequences* mechanism, suppliers are recognized as suppliers but are still not audited for compliance. For example, several interviewed corporate managers justify not auditing occasional suppliers by invoking their short-term relationships with them. In this way, they

avoid admitting the harm they cause through the use of selective inattention (Bandura et al. 2000). Similarly, some managers justify not auditing small suppliers by its being easier to justify such neglect, in the event of public exposure, than the neglect of larger suppliers.⁴ The non-auditing of suppliers of products for internal use is also understandable as activists and other stakeholders generally exert more pressure in relation to products sold in stores (i.e., business-to-consumer products) than internally used products (i.e., business-to-business products) (Bartley 2007; Egels-Zandén 2014), making it easier to activate the disregarding the consequences mechanism in relation to products for internal use.

Disregarding the consequences is complemented by *euphemistic labeling*, whereby managers redefine suppliers of products for internal use and some small suppliers as non-suppliers or non-factories. This cognitive restructuring resolves the moral dilemma of not auditing these parties for code of conduct compliance, because the codes generally state that only suppliers/factories are to be audited (Johnson and Buckley 2015). In this way, managers sidestep pressure to improve worker rights at suppliers and can continue to source from these “non-suppliers” without considering their worker rights compliance.

The placement of the disregarded suppliers outside firms’ responsibility boundaries is highly problematic from a worker rights perspective, as it delimits firms’ responsibilities in a way that excludes some of the “worst” suppliers in global value chains. In other words, a “worst and disregarded” supplier is rarely audited even though it is likely to engage in severe worker rights violations. It is likely that most of the studied Swedish companies have suppliers violating worker rights that they disregard based on the seemingly weak justifications of disregarding consequences and euphemistic labeling.

Compared with managers’ prioritization of immediate suppliers, there has been less public debate about disregarded suppliers. The above analysis, though, indicates that this supplier type is likely to be at the center of future activist–corporate responsibility boundary struggles, with activists attempting to pressure firms to audit disregarded suppliers as well.

Table 2 summarizes the four supplier types and their related prioritization factors and moral disengagement mechanisms.

⁴ Note that small suppliers are also disregarded due to advantageous comparison and euphemistic labeling, as discussed in relation to “Type 1: The Worst Suppliers” section, i.e., the prioritization factor supplier size is used to define both the worst and the disregarded supplier types.

Table 2 Four main supplier types that are particularly (un)likely to be placed inside firms' responsibility boundaries

Supplier types	Prioritization factors	Moral disengagement mechanisms	Responsibility boundary placement
The worst	Geographic location	Advantageous comparison	Likely inside
	Product type	Moral justification	
	Supplier size	Euphemistic labeling	
		Displacement of responsibility	
The morally justified	Labeled products	Moral justification	Likely inside
	Sensitive products		
	Geographic proximity		
	New suppliers		
	Supplier importance		
The immediate	Position in value chain	Diffusion of responsibility	Likely inside
	Supplier importance	Displacement of responsibility	
The disregarded	Products for internal use	Euphemistic labeling	Likely outside
	Occasional suppliers	Disregarding the consequences	
	Supplier size		

Conclusion

Firms' responsibilities for worker rights have started to expand beyond organizational boundaries into global value chains through private labor regulation. This raises the question of how far into global value chains, firms' responsibilities extend. This paper has proposed that this question is usefully addressed by analyzing how firms' "responsibility boundaries" are placed and operationalized and by examining the subset of suppliers that firms subject to factory audits. Based on a study of 12 Swedish firms, this paper has illustrated how firms' responsibility boundary placement is best described as a patchwork, with corporate managers defining and delimiting their responsibilities differently. The paper has also demonstrated that three supplier types (i.e., the worst, morally justified, and immediate suppliers) are particularly likely to be placed *inside* firms' responsibility boundaries, while a fourth type (i.e., disregarded suppliers) is likely to be placed *outside* these boundaries. A limitation of this study is its focus on Swedish (mainly retail) CSR frontrunners. Future studies should examine whether the present findings are generalizable to, for example, other industries (e.g., those subject to less stringent CSR demands), other countries (e.g., liberal market economies rather than coordinated market economies), and companies with less explicit CSR focus.

This paper contributes to two streams of literature. First, it responds to recent calls for further studies of moral disengagement in organizations (Johnson and Buckley 2015), contributing to the ongoing extension of the theory of moral disengagement beyond organizational boundaries into global value chains (Eriksson and Svensson 2015). This paper has illustrated the usefulness of the moral

disengagement theory for studies of responsibility in value chains (Eriksson and Svensson 2015). Future studies could continue this extension into global value chains by, for example, analyzing how managers' tendencies to morally disengage are associated with their investments in private regulatory systems, and how moral disengagement shapes corrective action at audited suppliers.

Second, this paper contributes to research into private labor regulation in several important ways. It responds to calls for more research into how managers prioritize what suppliers to audit (Egels-Zandén et al. 2014) by providing one of the first, if not the first, systematic analyses of audit prioritization. It also introduces the "responsibility boundary" concept as a way to start theorizing how far in global value chains firms' responsibilities extend, and provides an analysis of firms' responsibility boundary placement that could be further developed and tested in other industries and countries. Future research could also explore why different firms place their responsibility boundaries differently. Furthermore, this paper has demonstrated that placement of responsibility boundaries is a central, although neglected, part of many scholarly conversations about private labor regulation. For example, if we understand what moral disengagement mechanisms corporate managers use to justify their current placement of responsibility boundaries, we know what arguments activists must muster to force managers to extend their responsibilities in global value chains (Bartley 2007; Levy 2008). For example, it is likely that activists, in future attempts to extend firms' responsibility boundaries, will challenge managers' euphemistic labeling of suppliers of products for internal use and of small suppliers, attempted diffusion and displacement of responsibility for second-tier

and less important suppliers, and disregarding of consequences at occasional suppliers. Scholars, company managers, and activists can use the present findings to predict future activist–corporate struggles.

The findings also raise critical questions for managers in that their limited ability to justify inconsistent audit prioritizations could be leveraged by activists. Finally, the findings are problematic for worker representatives, because only one of the four prioritized supplier types (“the worst suppliers”) is prioritized for worker rights reasons. In other words, and in line with Khan et al. (2007), it is possible that the scope of private regulatory systems is being developed to serve the interests of companies, activists, and consumers rather than those of the workers they claim to protect.

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