

## **Determinants of the Adoption of the Labor Rights by MNCs' Suppliers Operating in Latin America**

Track: Culture, Social and Ethical Issues

Key words: Labor rights, suppliers, multinationals

### **Abstract**

To examine the determinants of MNCs that affect the adoption of labor rights by suppliers operating in Latin America, a multilevel approach was used. After the conceptualization of the adoption of labor rights, this article develops a multilevel model of the determinants of the adoption of labor rights, drawing from the neo-institutional theory and literature in human and labor rights. The model explain that the adoption of labor rights is determined by institutional and organizational fields contexts and the context within the organization. Finally, it presented the discussion, the theoretical and practical implications, limitations and future research.

With globalization, the international fragmentation of production has been generating a new international division of labor (Gimet, Guilhon & Roux, 2015). Global production is increasingly reaching into poorer developing and emerging market countries (Barrientos, Mayer, Pickles & Posthuma, 2011b). As a consequence, there is a growing concern of both, developed and developing countries that the economic gains of participating in global supply chains (GSC) do not necessarily translate into good jobs or stable employment (Gereffi & Lee, 2012). In this vein, multinational corporations (MNCs) play a central role in enforcing labor rights in their supply chain, despite they often fail in protecting workers' rights, particularly, with those suppliers located in developing countries (Jackson, & Rathert, 2017; Mosley, 2011; Mosley & Uno, 2007). Research on this phenomenon tends to be addressed from the political perspective (Lim & Tsutsui, 2012; Mahon & McBride, 2009; Marx & Wouters, 2017; Murillo & Schrank, 2005; Schneider & Karcher, 2010), the social perspective (Abländer, Roloff & Nayır, 2016; Awaysheh & Klassen, 2010; Barrientos, Gereffi & Rossi 2011; Jitmaneroj, 2016; Gimet et al., 2015), or the employment approach (Becher, Stegmueller & Käppner, 2018; Fichter, Helfen & Sydow, 2011; Locke, Rissing & Pal, 2013; Lucas, Kang & Li, 2013), that take either the governmental or employees' causes. However, the perspective of the MNCs and organizations that participate in global supply chains has been overlooked in the literature on labor rights. Thus, there is a need to understand what drives MNCs' suppliers to respect or violate labor laws in favor of their own or the MNCs' economic interests.

Thus, to understand this phenomenon, the following main research question will be explored: What are the determinants that affect the adoption of labor rights by MNCs' suppliers operating in Latin America? To frame this question, the institutional theory seems a suitable approach because research on labor rights generally grants the responsibility of the enforcement of labor rights to the legal or governmental institutions (Gleeson, 2010; Langille, 2005; Murillo & Schrank,

2005; Oka, 2018). Although, there are other social institutions that are involved in the enforcement of labor rights with their own interests that the literature tends to overlook. Those institutions could be identified at the institutional or organizational fields, or be part of the same organization. Thus, the institutional theory offers appropriate theoretical tools for analyzing the institutional and organizational fields at the same time than considering the organizations' perspective and responses.

Therefore, a second research question is: What are the determinants at the institutional field, organizational field and within the organization that influence the adoption of labor rights of the MNCs' suppliers?

To answer the research questions, this article will seek to contribute to the development and testing of a theoretical model for understanding the determinants of the adoption of labor rights by MNCs' suppliers operating in Latin America through their supply chains. This article is structured as follows. The first section explains and discusses the research phenomenon. The second section explains the theoretical background and the proposed model. The third section discusses the significance and contribution, as well as lines related to future research and conclusion.

### **Background of the Study**

Globalization has given rise to a new era of international competition that is reorganizing global production, trade and altering the overall industrial structure. Thus, to compete in today's global markets, companies need to deliver their products and services more efficiently than ever (Gereffi & Lee, 2012; Sengupta, Heiser, & Cook, 2006). However, with the increasing levels of global competition, many scholars accept the notion that companies no longer compete directly, but rather compete with their supply chains (Sengupta et al., 2006). Thus, a significant proportion of trade now takes place through coordinated supply chains in which lead companies play a dominant role, globally and locally (Barrientos, Gereffi & Rossi, 2011a). In consequence, global production is increasingly reaching into poorer developing and emerging market countries (Barrientos et al., 2011b). However, the integration of less developed countries in globalized production networks does not always have a positive impact (Gimet et al., 2015). That is, there is a recent growing concern in both advanced and emerging economies that the economic gains of participating in GSC do not necessarily translate into good jobs or stable employment (Gereffi & Lee, 2012). Globalization and the dispersion of supply chains have provoked an intense debate on how to enforce labor rights. Therefore, there is a need to understand what drives suppliers to violate labor laws in favor of their own or the MNCs' economic interests. With the embeddedness of labor rights into human rights, the analysis starts with this perspective. Next, the view of labor rights from the human rights approach will be presented.

### **Human Rights and Labor Rights**

According to the United Nations (UN), human rights are a common understanding and recognition of rights and freedoms inherent with dignity, that are equal and inalienable to all members of the human family, and that are based on freedom, justice, and peace in the world. Although, through history different laws that protect people, it was not until after World War II, in December 10<sup>th</sup> of 1948 that the General Assembly of the UN introduces its Universal Declaration of Human Rights (UDHR) that proposes that all human born free and equal in dignity and rights, and recognizes their inherent

dignity and specific equal, inalienable and fundamental rights that include the right to life, liberty, security of person, protection from slavery or servitude and protection from torture, inhuman or degrading treatment. Furthermore, the General Assembly of the UN has 193 member states, making the UN an organization with global representation.

The Organization for Economic Co-operation and Development (OECD) is another organization that protects human rights. In the Declaration of International Investment and Multinational Enterprises (DIIME), the OECD stresses the relevance of human rights for development and recognizes their intrinsic value (Wickramasekara, 2009). The DIIME was promulgated in 1976 and includes guidelines for multinational enterprises related to employment (Hartman et al., 2003). Specifically, it proposes the observance of standards of employment that are not less favorable than those observed by employers in the host country. Moreover, the International Labor Organization (ILO) protects human rights and make clear that labor rights are part of human rights (Gilbert, 2016; Hilgert, 2009; Mantouvalou, 2003; Oelz, 2014). Although the ILO was founded before the modern human rights era, the notion of human rights was linked to labor standards (Hilgert, 2009). In 1998, the ILO recognized fundamental human rights in their Declaration of Fundamental Principles and Rights at work, with eight labor conventions considered as the underpinnings of the rights at work (Hilgert, 2009).

According to the literature, labor rights materialize human rights, because through them human rights can be obtained (Dawkins, 2012). Labor rights are part of human rights and are based on human experience within the work context. Thus, labor rights and human rights are interdependent, and disrespect of labor rights means disrespect of human rights (Gilbert, 2016). However, there are still problems around the world when is the turn to talk about human rights. With the global awareness of human rights, MNCs are more than ever under intense public scrutiny on how they protect or promote labor rights in their suppliers (Delgado-Wise, Márquez-Covarrubias, & Puentes, 2013; Blanton & Blanton, 2012). According to Mantouvalou (2013), the main reason is that human rights law focuses principally on the public sphere that is how a state treats its people, leaving apart the private sphere that is how people treat each other. In other words, how MNC organizations treat its workers. For example, MNCs learn in a hard way, by the exposing of mass media that workers in the bottom lines of their supply chains suffer from labor and human rights violations (Carr & Chen, 2004; Islam, Deegan, & Gray, 2018; Schrempf-Stirling, & Palazzo, 2016 & Santoro, 2003). Although this public exposure made MNCs think about how to assume greater responsibility for human rights, there is a belief that labor and human rights are separately from the principal profit-making activities (Santoro, 2003). In such a way, disrespect of labor and human rights has different consequences, like child labor or labor rights violations on unprotected people like migrants or domestic workers (Delgado-Wise et al., 2013; Oelz, 2014; Wickramasekara, 2009).

In summary, labor rights are protected by various international institutions. This is because work is central in the everyday activities of all individuals. Through work activities, individuals can achieve not only physical needs; but also, psychological needs. Labor rights, such as free choice of employment, favorable working conditions, equal pay without

discrimination or reasonable limitation on working hours, represent basic human rights like the right to life, liberty, security, protection from slavery or no discrimination. Thus, the protection of human rights is not only a matter of the public sphere that normally involves international organizations or governments but also is a matter of the private sphere in where MNCs operate.

#### **Governments as the Principal Agent in the Protection of Human and Labor Rights**

Whereas, the UDHR, the ILO's conventions or the OECD's Guidelines for Multinational Enterprises, are well known as protectors of human and labor rights (Gilabert, 2016), there are others agents with power to enforce the compliance with labor rights. According to Huang, Chen, Chen, Huang, and Huang (2018) governments under international law assume obligations to protect human rights; and that's why it is always appointed as the principal agent in the protection of labor and human rights. Nevertheless, according to literature governments are failing in the protection of human and labor rights. For example, Hafner-Burton and Tsutsui (2007), argue that some governments fail in protecting human rights because they lack the capacity to implement such policies. Furthermore, Gereffi and Lee (2012) argue that governments in developing countries do not have the state capacity or the necessary institutions to successfully enforce labor rights. Thus, a low state capacity is like to impediments to improve labor rights (Berliner, Greenleaf, Lake, & Noveck, 2015). Nevertheless, assuming that state capacity will have the same results on the protection of labor rights in different countries is ingenious (Berliner et al., 2015). Thus, despite that governments assume the principal role in the protection of labor rights, there are different institutions that compress that role and made it dependent to different institutional forces.

#### **Labor Rights and MNCs**

According to the literature, the impact of GSC on labor rights has been gaining increasing public attention (Parsa, Roper, Muller-Camen, M., & Szigetvari, 2018). Thus, MNCs have to respond to the public concerns regarding how they contribute to social development (Detomasi, 2007). MNCs play a central role in enforcing labor rights in all the supply chain, despite they often fail in protecting workers' rights, mainly, in those suppliers located in developing countries (Jackson, & Rathert, 2017; Mosley, 2011; Mosley & Uno, 2007). Therefore, to identify the determinants that make MNCs to comply with labor rights first, it is necessary to understand MNCs' responsibility on enforcing them in their supply chains.

Research shows that nowadays companies are under pressure from external stakeholders to incorporate social, environmental and economic responsibility considerations as a condition for doing business. One example is the Global Reporting Initiative (GRI). The GRI is a series of standards that companies adopt voluntary to report their social performance (Levy, Brown & Jong, 2010; Lim & Tsutsui, 2012). Nevertheless, the GRI might become a tool used to achieve legitimacy, by reporting labor practices, companies increase credibility portraying themselves as responsible citizens (Nikolaeva & Bicho, 2011). For example, research shows that GSC, adopt the GRI guidelines to declare their compliance with labor rights in their in their supply chains (Parsa et al., 2018). Although the GRI is voluntary, scholars

consider the GRI a tool for gaining corporate legitimacy (Brown, Jong & Levy, 2009; Etzion & Ferraro, 2010; Nikolaeva & Bicho, 2011; Parsa et al., 2018).

Another example of an external pressure are the OECD guidelines for MNCs. The OECD seeks to encourage positive social responsibilities in MNCs. The OECD is a node that condenses information for MNCs to make it easier for them to respect all the different regulations, because they operate in different countries (Mahon & McBride, 2009).

Although the OECD does not have the legal power, MNCs follow their recommendations because the organization is well-suited in their research capacity to produce a shared understanding of appropriate behavior (Mahon, 2009). Furthermore, the literature suggests that in countries with limited state capacity to enforce labor rights, MNCs engagement with social issues might act as an authority to enforce such rights because they respond to other external pressures, for example, the OECD guidelines (Börzel, Hönke, & Thauer, 2012).

Recently, most MNCs require suppliers to meet global standards in areas such as working conditions and human rights (Short, Toffel, & Hugill, 2015; Tate, Ellram, & Kirchoff, 2010). This is mainly attributed to the various labor scandals that resulted in public concern about employment relations among MNCs' suppliers located in developing countries (Reinecke, Donaghey, Wilkinson, & Wood, 2016). This is because developing countries are generally characterized by low state capacity to enforce labor laws (Gereffi, & Lee, 2012). Thus, when MNCs operate in developing countries characterized by a low degree of state capacity, is when the problems in the protection of labor rights arises.

Additionally, MNCs have created jobs and have moved the center of many manufacturing facilities to developing countries (Barrientos et al., 2011a; Martin-Ortega et al., 2015) and this movement is not without challenges. In this business model, lead companies do not own the production chains through which they work. Moreover, they do not develop an employment relationship with the workers of the production process. Many GSC retain their core functions in one central location while secondary functions are sub-contracted to peripheral locations (Fichter et al., 2011; Sarfaty, 2015). Lead companies also tend to negotiate with the first-tier of sub-contracting companies and excluding second or third-tier sub-contracting companies in the chain from direct negotiations and associated benefits (Carr & Chen, 2004).

One could add other challenges that are addressed in the literature that can affect the adoption of labor rights in MNCs. Among these challenges are: the complexity of managing the supply chain, the limited capacity of developing countries to regulate their economies, the lack of state capacity to enforce labor codes in developing countries, and the comparative cost advantages by which GSC are driven (Barrientos et al., 2011b; Berliner et al., 2015; Gold, Trautrim & Trodd, 2015). When MNCs are reported as not committed to labor rights, it tends to occur mostly at the beginning of their supply chain such as in those suppliers that manage the extraction, trade, processing or transportation of raw materials (Martin-Ortega et al., 2015). Moreover, much of the employment at these stages is informal or irregular, especially in the downstream tiers or outsourced activities. This tendency causes that employment in MNCs become insecure, and unprotected workers can produce different problems for the company (Barrientos et al., 2011b). MNCs that operate in

emerging markets often fail in protecting their suppliers' worker's rights. Nevertheless, they should have a central role in protecting them. Thus, to understand why MNCs in developing countries fail in the adoption of labor rights can help to explain this phenomenon. Next, the particularities of the labor markets in Latin America and the targeting challenges encountered by MNCs operating in Latin America will be described.

### **Labor Markets in Latin America**

According to the ILO's Labor Overview of Latin America and the Caribbean Report, 2017 was a year of mixed results. This is because labor markets in Latin America experienced some improvements, but not enough to enhance the general quality of work in the region. In general, the unemployment rate increased for the third consecutive year, ranging from 7.9 percent in 2016, to 8.4 in 2017, representing 26 million unemployed people, two million more than in 2016. In contrast, the unemployment rate for women increased to 10.4 percent, from 9.9 percent in 2016. This increment was slightly higher than the increment of men that went from 7.2 percent to 7.6 percent. Also, the unemployment rate of young people increased by 18.9 percent in 2016 to 19.5 percent and self-employment grew to 0.7 percent. Nevertheless, employment in the formal sector increased by 0.3 percent an apparent reversal of the trend of previous years. Furthermore, the employment in the manufacturing industry grew 1.9 percent from January to September 2017, which contrasts with the contraction experienced in 2016. This is a positive indicator, because this sector represents about 13 percent of the total employment in the region, that is characterized more of formal labor relations. Thus, the current implementation of labor rights in Latin America is characterized by difficulties in some areas but has little improvements in others. Currently, the protection of labor rights in Latin America is still precarious and improvements in the adoption of labor rights in the region are still waiting.

One has to add to the mixed results, other elements, for example, research on the subject shows that labor markets also have an unequal income distribution (Frankema, 2012; Gandelman, Ñopo & Ripani, 2011; Ocampo & Vallejo, 2012). Gender and ethnic discrimination, for example, Gandini and Lozano-Ascencio (2016) explained that skilled women have fewer possibilities for finding a job, and their wages are lower than men. Kolev and Suarez Robles (2015) found that the ethnic wage gap in Latin America is larger than the gender gap and that the ethnic wage gap is wider among women than men. Gandelman et al., (2011) also identified that minorities, like afro-descendants, indigenous people, migrants and individuals with disabilities, have fewer opportunities in accessing the formal labor market. Finally, high turnover, low pensions systems, and low power, also portray the regional labor market (Melguizo, Bosch & Pagés, 2017; Schneider & Karcher, 2010).

In summary, the main dimensions that currently represent the Latin America's labor market, are informality, unemployment, low wages, youth unemployment, job instability, poor working conditions, and ethnic and gender discrimination. These issues are a constant source of concern in Latin America that makes it remain as an unequal region. Thus, the study of labor markets from the labor rights perspective in the context of Latin America is relevant because its

analysis will contribute with new insights to understand the labor market determinants that influence organizations from the institutional environment in which they are embedded. In particular, this study will take the perspective of the MNCs, focusing on formal jobs, a view that is hardly addressed in the literature. In the next section, I present the theoretical approach to explore this phenomenon.

#### **Institutions and Institutional Field**

According to Scott (2008): “Institutions are comprised of regulative, normative and cultural-cognitive elements that together with associated activities and resources provide stability and meaning to social life” (p.56). Additionally, institutions are stable social structures that remain through time, have symbolic meaning, social and material resources, and influence the organization’s activities through cultured-cognitive, normative, and regulative elements, known as the three pillars of institutions (Scott, 2008). The regulative pillar represents coercive rules and norms that influence individual behavior. The cognitive pillar represents shared conceptions of meaning in a particular field. Finally, the normative pillar, include values and norms that internally influence individual behavior (Scott, 2008). In summary, institutional fields are made up of a set of institutions that through the three pillars influence the behavior of individuals, behavior that became institutionalized when acquire meaning and take for granted status, for members of the institutional fields.

#### **Organizational Fields in Institutional Theory**

According to Scott (2008), institutions through the process of institutionalization influence the formation of organizational fields. As defined by DiMaggio and Powell (1983) an organizational field is “Those organizations that in aggregate constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products...” (p.148). Hence, different organizations that operate in the same field are central elements in organizational fields. According to Scott (1987), organizations are “Adaptive vehicles shaped in reaction to the characteristics and commitments of participants as well as to influences and constraints from the external environment” (p.494). Furthermore, organizations work in fields that represent different and interdependent organizations that reveal a recognized area of life (DiMaggio & Powell, 1983). Fields have a set of recognizable boundaries that limit the area of the group of organizations with analogous activities that together shape the field (Scott, 2008). Thereby, fields are a network of organizations that to survive they need resources and support of cultural or political authorities and that modify their activities according to the field authority’s expectations.

According to DiMaggio and Powell (1983), in organizational fields occurs the process of organizational homogenization that is called the “isomorphic process.” In this process, organizations become similar to one another, because they face different pressures of field’s authorities that made them modify their activities to comply with their desires (DiMaggio & Powell, 1983; Heugens & Lander, 2009). There are two types of isomorphism, the competitive and the institutional. The competitive isomorphism occurs in markets with free and open competition. The institutional isomorphism occurs when organizations deliberately create similarity organizational structures and strategies to gain legitimacy in the

eyes of cultural and political authorities (DiMaggio & Powell, 1983). Furthermore, institutional isomorphism occurs through three mechanisms: coercive, normative and mimetic isomorphism.

The coercive isomorphism mechanism explains how organizations become similar because of direct response to governmental mandates, such as national or international laws, regulative associations, governments with legislative power or actors with critical resources for the organizations (DiMaggio & Powell, 1983). The mimetic isomorphism mechanism explains that organizations became similar because they face uncertainty in their technologies or goals. Thus, organizations model themselves following other organizations that they perceive to be successful (DiMaggio & Powell, 1983). The normative isomorphism mechanism proposes that organizations became similar because of professionalization, that is, where members of the same occupation establish their conditions and methods of how their work should be done (DiMaggio & Powell, 1983). In sum, the three isomorphic mechanisms influence organizational behavior through different levels.

Thus, from the institutional theory perspective organizations are embedded in different environments, with different pressures that influence organizational behavior. Furthermore, organizations are embedded in both institutional and organizational field contexts. While institutional fields are broader in their scope and represent country characteristics; organizational fields are narrow and represent specific key suppliers, buyers, consumers or industries from specific groups. Nevertheless, both environmental levels impose pressures on organizations either through the three pillars of institutions or by the three isomorphism mechanisms. Thus, it can be derived that MNCs that operate in different countries are subject to institutional and organizational field pressures. In the next section, I present the theoretical model of adoption of labor rights developed to shed light on this phenomenon.

#### **Theoretical Model**

The model of adoption of labor rights presented in this article is based on the neo-institutional theory and the conceptualization of two key constructs: (a) labor rights and (b) adoption of labor rights. This section will discuss these constructs, which then serve as the basis for the development of the model.

#### **Conceptualization of Labor Rights**

According to Mantouvalou (2013), labor rights are “entitlements that relate specifically to the role of being a worker” (p. 27) and they include all those organizational practices related to fair working conditions. Also, labor rights can reflect the well-functioning of an organization, and they tend to be accepted by the organization. According to the literature, labor rights are multifaceted, because they consist of different elements, that include a set of (un)written rules, specifying for example, worker’s rights and obligations in their workplace. In addition, there is a cognitive element that refers to the scope and to which extend rules with ethical implications. Then, one can find organizational differences in their treatment of their workers (Irwin & Naylor, 2009; Matusitz, 2011). Labor rights also have strategic importance for the organization, because according to some scholars, labor rights are associated with superior production and social performance (Locke, Kochan, Romis & Qin, 2007; Nayar & Willinger, 2001).

**Adoption of Labor Rights**

How does a MNC lead company know whether if labor rights have been adopted by their suppliers? The theoretical definition of adoption provided here is based on the above conceptualization of labor rights and is consistent with the institutional perspective. In this work, adoption of labor rights is defined as the process by which an organization accepts the labor rights that are favorable to workers and at the same time starts to implement them through organizational labor practices. Thus, one could suggest that the adoption of labor rights has two dimensions: (a) the implementation of labor rights and (b) the internalization of labor rights. That is, the full adoption of labor rights both implementation and internalization of labor rights are necessary to be adopted and institutionalized in the organization, in order to guarantee labor rights. Institutionalization is the process by which reality is created and achieves a taken-for-granted status in the organization (Kostova & Roth 2002; Scott, 1987). Thus, institutionalization as a process that creates reality covers labor rights with a symbolic meaning for workers and for the suppliers.

Implementation refers to those objectives and actions of the subsidiary to implement the rules suggested by the transferred knowledge (Kostova & Roth, 2002), generally from the lead company. Thus, implementation of labor rights is defined as the degree to which the supplier is actually implementing or applying labor rights as suggested by the MNC. This practice could be reflected in certain objectives, behavior or actions in the supplier's organizational practices such as those of human resource management. In contrast, internalization is the position in which employees at the subsidiary grant a symbolic meaning to the knowledge transferred (Kostova & Roth, 2002). A practice acquires symbolic meaning and becomes infused with value when it is accepted and approved by employees and when it becomes part of the employee's organizational identity (Kostova & Roth, 2002). Thus, based on the Kostova and Roth (2002) concept of internalization, in this work the knowledge transferred is represented by the labor rights adopted by the suppliers of the MNC. Further, labor rights become internalized by the supplier when those labor rights are accepted by the employees and become part of the supplier's organizational identity, or as part of their organizational culture. Therefore, internalization of labor rights is the degree of the supplier's acceptance, absorption, and implementation of labor rights, making them part of their set of beliefs or their organizational culture. In other words, it is part of their mission and vision.

Implementation and internalization are two dimensions of organizational actions and can be represented along the degree of their mutual impact (Kostova, 1999). In the realm of this study, organizations might be characterized with a high implementation of labor rights and high internalization of labor rights or vice versa. Therefore, one can assume that the more labor rights are respected by the lead company (the MNC), the more likely will be that the suppliers will adopt them and therefore institutionalize those labor rights. Nevertheless, the implementation of labor rights does not automatically result in their internalization. Consider for example, that a MNC imposes a specific labor practice among their suppliers as a condition for doing business with them. The adoption of labor rights should be done in terms of both implementation and

internalization of labor rights. Thus, implementation of labor rights by the suppliers is not a sufficient indicator of a full adoption. What it must also be considered is the internalization of labor rights (e. g., the incorporation of a code of labor with manuals or procedures for implementation). Therefore, only when labor rights are implemented and internalized in the organization, they will be considered as fully adopted and therefore became institutionalized and will be of strategic importance and a source of better social performance.

#### **Determinants of Adoption of Labor Rights**

I have developed initial propositions towards a theoretical model on the determinants of adoption of labor rights based on the institutional theory, what we know about Latin American labor markets and research on human and labor rights. The model is based on the premise that the adoption of labor rights by MNCs' suppliers operating in Latin America, is determined by the context where they operate. Therefore, I consider three levels of contexts: institutional field, organizational fields, and organizational. The institutional context is conceptualized in terms of the differences between the three institutional pillars (Scott, 2008) of the home country of the MNCs and those ones of the supplier. The organizational field context is conceptualized in terms of the three isomorphic mechanisms. The organizational context is conceptualized in terms of the organizational culture of the MNC. The theoretical model is represented in Figure 1 and the three types of context are explained in the following sections.

-----  
Figure 1 about here  
-----

As it can be seen in Figure 1, implementation and internationalization of labor rights are the elements that together lead to the adoption of labor rights, which in turn receive different pressures from the institutional field, the organizational field context, and the context in the organization.

#### ***Institutional Field Context***

Nowadays, research is focusing on labor issues in MNCs, such as GSC and their suppliers when they operate in different countries (Ferner, Edwards, & Tempel, 2012). Nevertheless, the literature offers contradictory results regarding this issue. On one side, research suggests that when firms move abroad promote better labor rights through their suppliers (Bartley, 2007) and, on the other side, GSC employment have poor labor rights because they change the location of their production process (Carr, & Chen, 2004). For example, empirical studies on labor rights in Mexican suppliers and the Czech Republic shows that the enforcement of labor rights came from governmental regulations supported by private initiatives, nevertheless, in governments with weak regulation, private initiatives came to substitutes them (Locke et al., 2013). Thus, the adoption of labor rights will be affected by country-level pressures. Furthermore, from the institutional theory perspective MNCs face institutional duality, this means that MNCs have to deal simultaneously with pressures coming from different environments that can come from the host or home countries where they operate. Research suggests that MNCs are socially embedded organizations influenced by institutional contexts (Ferner et al., 2012). Thus, MNCs have to deal with different institutional contexts that have different normative expectations and that change from one country to another. In

summary, each country has different institutional context with different degrees of the institutional pillars (Scott, 2008). For example, the regulative pillar can be stronger in a developed country and weaker in a developing country. Additionally, the fact that MNCs are exposed to different institutional environments make these companies face complex challenges in the implementation of labor rights. Accordingly, I suggest that the adoption of labor rights will be affected by the regulative, normative and cognitive pillars of the country of the MNCs and the country of their suppliers. This leads to the following propositions:

*Proposition 1.* The country of origin of the MNCs will affect their suppliers' adoption of labor rights.

*Proposition 2.* The country of origin of the MNCs' suppliers will affect the adoption of labor rights.

*Proposition 3.* The regulative pillar of the institutional field context of the MNCs will affect suppliers'

implementation of labor rights, more than the normative or cognitive pillars.

*Proposition 4.* The normative and cognitive pillars of the institutional field context of the MNCs will affect the

suppliers' internalization of labor rights more than the regulative pillar.

### **Organizational Field Context**

According to institutional theory, the process of institutional isomorphism has three basic mechanisms that are the coercive, the normative and the mimetic isomorphism. The coercive isomorphism explains that organizations became similar because they are forced to do so, by laws or regulations with coercive power (DiMaggio & Powell 1983). Another characteristic is that not only regulation can be coercive, also moral or utilitarian justifications can impose coercive pressures (Parry & Tyson, 2009). For example, firms face pressures from stakeholders, customers, and governments for the introduction of social responsibility issues that include labor rights (Tate et al., 2010). Additionally, research highlights that the coercive isomorphism is relevant for the legitimation of social responsibility practices that include labor rights (De Abreu, De Castro, De Assis & De Silva Filho, 2012). Empirical research shows that the coercive isomorphism is a useful tool in the promotion of firm's social responsibility (Othman, Darus, & Arshad, 2011). Thus, one could propose, based on the literature, that the coercive isomorphism impacts the adoption of labor rights by MNCs and their suppliers.

The mimetic isomorphism explains that organizations became similar because they face uncertainty in their technologies or goals (DiMaggio & Powell, 1983). Thus, organizations model themselves according to other organizations that they perceive to be successful (DiMaggio & Powell, 1983; Greve, 2000). For example, research stresses that organizations mimic only legitimacy-base reference groups, even against their lack of information (Barreto, & Baden-Fuller 2006). Other studies show that new firms can learn how to gain higher performance satisfaction when enter into emerging markets by mimicking other organizations in emerging markets (Brouthers, O'Donnell, & Hadjimarcou, 2005). In addition, research suggests that mimetic isomorphism is low in contexts with high levels of coercive isomorphism (Nurunnabi, 2015). Based on these studies, organizations that do not know how to adopt labor rights mimic other organizations that were successful in the adoption of labor rights. Finally, the normative isomorphism proposes that organizations became similar because of the professionalization. That is, when members of the same occupation establish their conditions and methods to

work (DiMaggio & Powell, 1983). Research suggests that this type of isomorphism highlights the importance of professionalism in policy design and implementation (Teodoro, 2014). Further research suggests that normative isomorphism is key in firms first time adoption of social responsibility reports that include labor rights (Bhimani, Silvola, & Sivabalan, 2016). Therefore, one could propose that the adoption of labor rights by MNCs and their suppliers will be affected by coercive, normative and mimetic isomorphism pressures from the organizational field in which they are located.

This leads to the following propositions:

*Proposition 5.* Stakeholders with coercive power will positively affect suppliers' adoption of labor rights.

*Proposition 6.* Stakeholders of the specific work or professional association or industrial sector will positively

affect suppliers' adoption of labor rights.

*Proposition 7.* Approaches of labor rights by organizations perceived as to be successful will affect positively the

supplier adoption of labor rights.

### **Organizational Culture Context**

Organizational culture is an intangible element that also can influence the adoption of labor rights in MNCs and their suppliers. For example, in the 2010 tragedy at Foxconn, research revealed that the cause was the organizational culture of the firm that promoted inadequate labor practices and denied workers dignity (Lucas et al., 2013). Characteristics of organizational culture appear in the organizational mission statements and influence the adoption of labor rights. Further, research highlights that to improve labor conditions, firms need to take an active attitude in the implementation of labor rights (Coslovsky, & Locke, 2013; Fichter et al., 2011). There are numerous definitions of organizational culture.

Nevertheless, Chatman and Jehn (1994) conceptualize organizational culture as a group of values that are shared and strongly held by the members of the organization. Drawing from the literature, organizational culture of MNCs and that of the suppliers will influence the adoption of labor rights. This leads to the following proposition:

*Proposition 7.* The supplier's organizational culture that emphasizes the value for the employees, reinforces the adoption of labor rights.

Adoption of labor rights in the organizational context is also influenced by the implementation of a code of conduct. Research suggests that to improve labor rights in MNCs, it is not sufficient to have commitment and trust, it is also required the development of strategies that improve social performance (Yawar & Seuring, 2017). Empirical research conducted in Mexico shows that differences in working conditions are caused by the different ways in which the work is organized. For example, factories that implement a common code of conduct for all the supply chain develop in a better way labor rights (Locke et al., 2007). Thus, research suggests that a strategy that can improve the adoption of labor rights in MNCs is the implementation of codes of conduct. Recently, GSCs started to implement codes of conduct to reduce labor abuses along their supply chains (Coslovsky & Locke, 2013). Thus, consistent with the literature, the implementation of codes of conduct in GSC will affect the adoption of labor rights. This leads to the following proposition:

*Proposition 8.* The supplier's code of conduct with emphasis on the respect human rights reinforces the adoption of labor rights.

### **Conclusions**

In this project the phenomenon under study is the influence of MNCs in the adoption of labor rights in their suppliers operating in Latin America. Along with the model of the determinants of the adoption of labor rights, drawing from the institutional theory perspective and literature human and labor rights, and its focus is on labor rights in organizations, more specifically in the determinates of the adoption of labor rights by suppliers of MNCs operating in Latin America. This article used a multilevel approach, which is suggested to study a multilevel phenomenon, such as the adoption of labor rights across national borders. The theoretical model developed reflects the complexity of the adoption of labor rights. First, the model recognizes that the full adoption of labor rights resides primarily in both the implementation and internalization of labor rights by the supplier. Furthermore, the model draws on the premise that the adoption of labor practices is determined by three levels of contexts, that is, the institutional field context, the organizational field context and the context within the organization. In this sense, the model can help to understand the different determinants that make organizations to adopt labor rights while others do not. Thus, the main theoretical contribution of this article is the development of a theoretical model to which the institutional theory framework is applied and that facilitates the identification of the determinants of the adoption of labor rights at three different levels: the institutional field, the organizational field, and in the organization level. Additionally, this article proposes a more holistic conception of labor rights and the means by the supplier operating in Latin America adopt labor rights. Finally, the development of theoretical propositions that explain the specific determinants that can affect the adoption of labor rights is another contribution of this article.

This article has managerial implications as well. Because MNCs are under intense public scrutiny of how their suppliers protect their worker rights (Blanton & Blanton, 2012; Delgado-Wise et al., 2013) this issue is of strategic importance for MNCs. This article provides the guidelines to understand those specific determinants that can influence the adoption of labor rights, hence managers can reflect on them. Finally, the model presented has some limitations. That is, it presents a relatively simplified portrait of a complex phenomenon. For example, it does not cover other theoretical tools such as the institutional voids. This is a concept that can also provide insights how or why MNCs should compensate for the institutional voids in the realm of labor rights. Another reminding question is the process by which the implementation and internalization of labor rights are implemented. How does the order of the concepts affect the adoption of labor rights? Do organizations need to implement first labor rights and then internalize them, or there is not a specific order. Finally, the model does not cover the existence of different determinants for the adoption of labor rights in the lower tiers of the supply chain. Thus, addressing these further inquiries in future research could add to the understanding of the determinants of MNCs that affect the adoption of labor rights by supplier operating in Latin America.

### **References**

- Abländer, M. S., Roloff, J., & Nayır, D. Z. (2016). Suppliers as stewards? Managing social standards in first-and second-tier suppliers. *Journal of Business Ethics*, 139(4), 661-683.
- Awaysheh, A., & Klassen, R. D. (2010). The impact of supply chain structure on the use of supplier socially responsible practices. *International Journal of Operations & Production Management*, 30(12), 1246-1268.
- Barreto, I., & Baden-Fuller, C. (2006). To conform or to perform? Mimetic behaviour, legitimacy-based groups and performance consequences. *Journal of Management Studies*, 43(7), 1559-1581.
- Barrientos, A. (2009). Labour markets and the (hyphenated) welfare regime in Latin America. *Economy & Society*, 38(1), 87-108.
- Barrientos, S., Gereffi, G., & Rossi, A. (2011a). Economic and social upgrading in global production networks: A new paradigm for a changing world. *International Labour Review*, 150(3-4), 319-340.
- Barrientos, S., Mayer, F., Pickles, J., & Posthuma, A. (2011b). Decent work in global production networks: Framing the policy debate. *International Labour Review*, 150(3-4), 297-317.
- Bartley, T. (2007). Institutional emergence in an era of globalization: The rise of transnational private regulation of labor and environmental conditions. *American Journal of Sociology*, 113(2), 297-351.
- Becher, M., Stegmueller, D., & Käppner, K. (2018). Local union organization and law making in the US congress. *The Journal of Politics*, 80(2), 539-554.
- Berliner, D., Greenleaf, A., Lake, M., & Noveck, J. (2015). Building capacity, building rights? State capacity and labor rights in developing countries. *World Development*, 72, 127-139.
- Bhimani, A., Silvola, H., & Sivabalan, P. (2016). Voluntary corporate social responsibility reporting: a study of early and late reporter motivations and outcomes. *Journal of Management Accounting Research*, 28(2), 77-101.
- Blanton, R.G., Blanton, S.L. (2012). Labor rights and foreign direct investment: Is there a race to the bottom? *International Interactions*, 38(3), 267-294
- Börzel, T. A., Hönke, J., & Thauer, C. R. (2012). Does it really take the state? *Business & Politics*, 14(3), 1-34.
- Brouthers, L. E., O'Donnell, E., & Hadjimarcou, J. (2005). Generic product strategies for emerging market exports into triad nation markets: A mimetic isomorphism approach. *Journal of Management Studies*, 42(1), 225-245.
- Brown, H. S., de Jong, M., & Levy, D. L. (2009). Building institutions based on information disclosure: Lessons from GRI's sustainability reporting. *Journal of Cleaner Production*, 17(6), 571-580.
- Carr, M., & Chen, M. (2004). Globalization, social exclusion and gender. *International Labour Review*, 143(1-2), 129-160.
- Chatman, J. A., & Jehn, K. A. (1994). Assessing the relationship between industry characteristics and organizational culture: how different can you be? *Academy of Management Journal*, 37(3), 522-553.
- Coslovsky, S. V., & Locke, R. (2013). Parallel paths to enforcement: Private compliance, public regulation, and labor standards in the Brazilian sugar sector. *Politics & Society*, 41(4), 497-526.
- Dawkins, C. E. (2012). Labored relations: Corporate citizenship, labor unions, and freedom of association. *Business Ethics Quarterly*, 22(3), 473-500.
- De Abreu, M. C. S., de Castro, F., de Assis Soares, F., & da Silva Filho, J. C. L. (2012). A comparative understanding of corporate social responsibility of textile firms in Brazil and China. *Journal of Cleaner Production*, 20(1), 119-126.
- Delgado Wise, R., Márquez Covarrubias, H., & Puentes, R. (2013). Reframing the debate on migration, development and human rights. *Population, space and place*, 19(4), 430-443.
- Detomasi, D. A. (2007). The multinational corporation and global governance: Modelling global public policy networks. *Journal of Business Ethics*, 71(3), 321-334.

- DiMaggio, P., & Powell, W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 48(2), 147-160.
- Etzion, D., & Ferraro, F. (2010). The role of analogy in the institutionalization of sustainability reporting. *Organization Science*, 21(5), 1092-1107.
- Ferner, A., Edwards, T., & Tempel, A. (2012). Power, institutions and the cross-national transfer of employment practices in multinationals. *Human Relations*, 65(2), 163-187.
- Fichter, M., Helfen, M., & Sydow, J. (2011). Employment relations in global production networks: Initiating transfer of practices via union involvement. *Human Relations*, 64(4), 599-622.
- Frankema, E. (2012). Industrial wage inequality in Latin America in global perspective, 1900–2000. *Studies in Comparative International Development*, 47(1), 47-74.
- Gandelman, N., Nopo, H., & Ripani, L. (2011). Traditional excluding forces: A review of the quantitative literature on the economic situation of indigenous peoples, afro-descendants, and people living with disability. *Latin American Politics & Society*, 52(4), 147-179.
- Gandini, L., & Lozano-Ascencio, F. (2016). The effects of the crisis on occupational segregation of skilled migrants from Latin America and the Caribbean in the United States, 2006–2012. *Population, Space & Place*, 22(5), 441-456.
- Gereffi, G., & Lee, J. (2012). Why the world suddenly cares about global supply chains. *Journal of Supply Chain Management*, 48(3), 24-32.
- Gilbert, P. (2016). Labor human rights and human dignity. *Philosophy & Social Criticism*, 42(2), 171-199.
- Gimet, C., Guillhon, B., & Roux, N. (2015). Social upgrading in globalized production: The case of the textile and clothing industry. *International Labour Review*, 154(3), 303-327.
- Gleeson, S. (2010). Labor rights for all? The role of undocumented immigrant status for worker claims making. *Law & Social Inquiry*, 35(3), 561-602.
- Gold, S., Trautrim, A., & Trodd, Z. (2015). Modern slavery challenges to supply chain management. *Supply Chain Management: An International Journal*, 20(5), 485-494.
- Greve, H. R. (2000). Marketing niche entry decisions: Competition, learning, and strategy in Tokyo banking, 1894–1936. *Academy of Management Journal*, 43(5), 816-836.
- Hafner-Burton, E. M., & Tsutsui, K. (2007). Justice lost! The failure of international human rights law to matter where needed most. *Journal of Peace Research*, 44(4), 407-425.
- Heugens, P. P., & Lander, M. W. (2009). Structure! Agency!: A meta-analysis of institutional theories of organization. *Academy of Management Journal*, 52(1), 61-85.
- Hilgert, J. (2009). Mapping the boundaries of human rights at work: Questioning how the ILO defines labor rights and social justice. *Labor Studies Journal*, 34(1), 21-38.
- Huang, Y., Chen, C. H., Chen, C. N., Huang, M., & Huang, S. L. (2018). Contextualization of UN human rights indicators: Modifying “right to work” indicators for application in Taiwan. *Journal of Human Rights*, 1-17.
- Irwin, J. R., & Naylor, R. W. (2009). Ethical decisions and response mode compatibility: Weighting of ethical attributes in consideration sets formed by excluding versus including product alternatives. *Journal of Marketing Research*, 46(2), 234-246.
- Islam, M. A., Deegan, C., & Gray, R. (2018). Social compliance audits and multinational corporation supply chain: Evidence from a study of the rituals of social audits. *Accounting & Business Research*, 48(2), 190-224.

- Jackson, G., & Rathert, N. (2017). Private governance as regulatory substitute or complement? A comparative institutional approach to CSR. *Research in the Sociology of Organizations*, 49, 445-478.
- Jitmaneeroj, B. (2016). Reform priorities for corporate sustainability: environmental, social, governance, or economic performance? *Management Decision*, 54(6), 1497-1521.
- Kolev, A., & Suarez Robles, P. (2015). Ethnic wage gaps in Peru: What drives the particular disadvantage of indigenous women? *International Labour Review*, 154(4), 417-448.
- Kostova, T. (1999). Transnational transfer of strategic organizational practices: A contextual perspective. *Academy of Management Review*, 24(2), 308-324.
- Kostova, T., & Roth, K. (2002). Adoption of an organizational practice by subsidiaries of multinational corporations: Institutional and relational effects. *Academy of Management Journal*, 45(1), 215-233.
- Langille, B. A. (2005). Core labour rights—The true story (reply to Alston). *European Journal of International Law*, 16(3), 409-437.
- Levy, D. L., Szejnwald Brown, H., & De Jong, M. (2010). The contested politics of corporate governance: The case of the global reporting initiative. *Business & Society*, 49(1), 88-115.
- Lim, A., & Tsutsui, K. (2012). Globalization and commitment in corporate social responsibility: Cross-national analyses of institutional and political-economy effects. *American Sociological Review*, 77(1), 69-98.
- Locke, R. M., Rissing, B. A., & Pal, T. (2013). Complements or substitutes? Private codes, state regulation and the enforcement of labour standards in global supply chains. *British Journal of Industrial Relations*, 51(3), 519-552.
- Locke, R., Kochan, T., Romis, M., & Qin, F. (2007). Beyond corporate codes of conduct: Work organization and labour standards at Nike's suppliers. *International Labour Review*, 146(1-2), 21-40.
- Lucas, K., Kang, D., & Li, Z. (2013). Workplace dignity in a total institution: Examining the experiences of Foxconn's migrant workforce. *Journal of Business Ethics*, 114(1), 91-106.
- Mahon, R. (2009). The OECD's discourse on the reconciliation of work and family life. *Global Social Policy*, 9(2), 183-204.
- Mahon, R., & McBride, S. (2009). Standardizing and disseminating knowledge: The role of the OECD in global governance. *European Political Science Review*, 1(1), 83-101.
- Mantouvalou, V. (2013). Labour rights in the European convention on human rights: An intellectual justification for an integrated approach to interpretation. *Human Rights Law Review*, 13(3), 529-555.
- Martin-Ortega, O., Outhwaite, O., & Rook, W. (2015). Buying power and human rights in the supply chain: Legal options for socially responsible public procurement of electronic goods. *International Journal of Human Rights*, 19(3), 341-368.
- Marx, A., & Wouters, J. (2017). Rule intermediaries in global labor governance. *The ANNALS of the American Academy of Political and Social Science*, 670(1), 189-206.
- Matusitz, J. (2011). Disney's successful adaptation in Hong Kong: A globalization perspective. *Asia Pacific Journal of Management*, 28(4), 667-681.
- Melguizo, A., Bosch, M., & Pagés, C. (2017). Better pensions, better jobs: Status and alternatives toward universal pension coverage in Latin America and the Caribbean. *Journal of Pension Economics & Finance*, 16(2), 121-143.
- Mosley, L. (2011). *Labor Rights and Multinational Production*. Cambridge: Cambridge University Press.
- Mosley, L., & Uno, S. (2007). Racing to the bottom or climbing to the top? Economic globalization and collective labor rights. *Comparative Political Studies*, 40(8) (pp. 923-948).

- Murillo, M. V., & Schrank, A. (2005). With a little help from my friends: Partisan politics, transnational alliances, and labor rights in Latin America. *Comparative Political Studies*, 38(8), 971-999.
- Nayar, N. N., & Willinger, G. (2001). Financial implications of the decision to increase reliance on contingent labor. *Decision Sciences*, 32(4), 661-682.
- Nikolaeva, R., & Bicho, M. (2011). The role of institutional and reputational factors in the voluntary adoption of corporate social responsibility reporting standards. *Journal of the Academy of Marketing Science*, 39(1), 136-157.
- Nurunnabi, M. (2015). Tensions between politico-institutional factors and accounting regulation in a developing economy: Insights from institutional theory. *Business Ethics: A European Review*, 24(4), 398-424.
- Ocampo, J. A., & Vallejo, J. (2012). Economic growth, equity and human development in Latin America. *Journal of Human Development and Capabilities*, 13(1), 107-133.
- Oelz, M. (2014). The ILO's Domestic Workers Convention and Recommendation: A window of opportunity for social justice. *International Labour Review*, 153(1), 143-172.
- Oka, C. (2018). Brands as labour rights advocates? Potential and limits of brand advocacy in global supply chains. *Business Ethics*, 27(2), 95-107.
- Othman, S., Darus, F., & Arshad, R. (2011). The influence of coercive isomorphism on corporate social responsibility reporting and reputation. *Social Responsibility Journal*, 7(1), 119-135.
- Parry, E., & Tyson, S. (2009). Organizational reactions to UK age discrimination legislation. *Employee Relations*, 31(5), 471-488.
- Parsa, S., Roper, I., Muller-Camen, M., & Szigetvari, E. (2018). Have labour practices and human rights disclosures enhanced corporate accountability? The case of the GRI framework. *Accounting Forum*, 42, (1), 47-64.
- Reinecke, J., Donaghey, J., Wilkinson, A., & Wood, G. (Eds.). (2016). Global supply chains and social relations at work. [Special issue] *Human Relations*, 68 (12), 1953-1957.
- Santoro, M. A. (2003). Beyond codes of conduct and monitoring: An organizational integrity approach to global labor practices. *Human Rights Quarterly*, 407-424.
- Sarfaty, G. A. (2015). Shining light on global supply chains. *Harvard International Law Journal*, 56, 419.
- Schneider, B. R., & Karcher, S. (2010). Complementarities and continuities in the political economy of labour markets in Latin America. *Socio-Economic Review*, 8(4), 623-651.
- Schrempf-Stirling, J., & Palazzo, G. (2016). Upstream corporate social responsibility: The evolution from contract responsibility to full producer responsibility. *Business & Society*, 55(4), 491-527.
- Scott, W. R. (1987). The adolescence of institutional theory. *Administrative Science Quarterly*, 32(4), 493-511.
- Scott, W. R. (2008). *Institutions and organizations. Ideas and interests*. Third Edition. Thousand Oaks, CA: Sage Publications.
- Sengupta, K., Heiser, D. R., & Cook, L. S. (2006). Manufacturing and service supply chain performance: A comparative analysis. *Journal of Supply Chain Management*, 42(4), 4-15
- Short, J. L., Toffel, M. W., & Hugill, A. R. (2015). Monitoring global supply chains. *Strategic Management Journal*, 37(9), 1878-1897.
- Tate, W. L., Ellram, L. M., & Kirchoff, J. F. (2010). Corporate social responsibility reports: A thematic analysis related to supply chain management. *Journal of Supply Chain Management*, 46(1), 19-44.
- Teodoro, M. P. (2014). When professionals lead: Executive management, normative isomorphism, and policy implementation. *Journal of Public Administration Research and Theory*, 24(4), 983-1004.

Wickramasekara, P. (2009). Development, mobility, and human rights: Rhetoric and reality. *Refugee Survey Quarterly*, 28(4), 165-200.

Yawar, S. A., & Seuring, S. (2017). Management of social issues in supply chains: A literature review exploring social issues, actions and performance outcomes. *Journal of Business Ethics*, 141(3), 621-643.

Figure 1. Model of adoption of labor rights.

