

A Double-Edged Sword of Strong Ties: The Case of a Korean MNC and its Labor Auditing*

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This study introduces one Korean multinational corporation and its labor audit process to offer a deeper understanding of a lead firm's supplier audit on the ground. Specifically, we examine how the close relationship between a buyer company and its suppliers—particularly in the context of partnered foreign expansion—positively and negatively affects its labor audit process, focusing primarily on audit style, coverage, and outcomes. While building on the recent consensus that buyers' auditing is more likely to benefit from a long-term, capacity-building approach rather than a short-term, policing one, we suggest that this relationship is more complex than the current literature assumes. Examining one Korean MNC's supplier labor audit, we found that their close, sticky relationship functions as a double-edged sword. On the one hand, this labor audit—which is comprehensive across all labor-related areas—has significantly contributed to improving suppliers' labor standards through long-term, close interaction. This audit also helped its suppliers reshuffle their HR and labor relations practices. This finding is generally consistent with the positive view of the long-term, capacity-building model in existing literature. However, our findings also demonstrate that this close and sticky relationship can prevent buyer firms from imposing penalties and renders contract termination even more difficult. We also found that, due to their interconnectedness, any problem related to buyer factories can directly cause corresponding problems in supplier factories. In short, by introducing a specific Korean case, this study seeks to advance and enrich the current discussion of corporate-based supplier labor auditing.

Keywords: Korean MNC, supplier labor audit, partnered foreign expansion, close relationship

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Introduction

Over the past few decades, the world economy—along with production—has become rapidly globalized. This has given rise to an important discussion of labor issues regarding multinational corporations (MNCs) and their suppliers in the global supply chain. The global supply chain refers to a multi-national production system in which a product or service is designed, manufactured, distributed, or sold through division and cooperation between multiple independent companies in multiple countries (OECD 2013; ILO 2016). Leading companies such as Wal-Mart and Apple have taken a central position in global trade and investment by coordinating and integrating transnational-level, cross-enterprise production networks. In turn, this has had a profound impact on supplier companies' survival and working conditions. Although the globalized production system appears to be very efficient, it has recently been subject to significant issues, such as with the cases of Foxconn and Rana Plaza.

Both academic and policy-based discussions on this topic have emerged. This issue has drawn close attention because the emergence of global supply chains threatens the effectiveness of governments' labor regulations, which are usually intended to work within a country, and the traditional labor governance model, which features labor movements limited to the corporate level. In turn, this is because the extent and enforcement of labor laws in regions where production is mainly carried out are questionable. Given the weakness of state-initiated enforcement, corporate-led voluntary auditing has drawn significant attention as a more viable option to tackle poor working conditions in supplier factories, particularly in developing countries (Ruggie 2003; Santoro 2009; Scherer and Palazzo 2007; Jenkins 2001).

Multinational corporations such as Apple and H&M have introduced their own codes of conduct and pushed their suppliers to obey these codes and global labor standards, such as the codes of conduct put forth by the Electronic Industry Citizenship Coalition (EICC) and the Fair Labor Association (FLA). If a supplier factory does not comply with a buyer company's standards, the factory will face various disadvantages ranging from warnings to contract termination. Proponents of this approach argue that if this punishment works well, then private regulations can effectively improve supplier factories' working conditions (e.g., Scherer et al. 2006; Matten and Crane 2005). On the other hand, another group of scholars have suggested that the above punishment-based approach may be limited because

it can lead to a cat-and-mouse game between a buyer and its suppliers, rather than promoting real improvement (Boiral 2007; Distelhorst et al. 2017). These scholars argue that more long-term consultation can make a real difference by positively motivating suppliers to revamp their practices, including human resource management practices, working conditions, and factories' production systems (Porteous et al. 2015; Grossi et al. 2019). Even more recently, a growing body of studies has focused on the enhancement of audit effectiveness; for instance, by arguing that a buyer's audit needs to be linked to its purchasing policy (Locke et al. 2009; Anner et al. 2013; ILO 2017; Amengual and Distelhorst 2019).

While building on the recent consensus that buyers' auditing is more likely to benefit from a long-term relationship with suppliers than a short-term one, we suggest that this relationship is more complex than the current literature discusses. We argue that existing discussion does not account for a full story of corporate-based, voluntary labor auditing on the ground because current discussion largely draws upon lead Western firms' experience. Through an in-depth examination of a Korean MNC and its labor audit of suppliers in the context of partnered foreign expansion in China, we show that a long-term buyer-supplier relationship is prone to become a double-edged sword in ensuring labor standards. Specifically, this study focused on audit style, coverage, and outcomes in the unique business circumstances of the partnered foreign expansion in which a buyer-supplier relationship is far stickier and closer. Ultimately, the study uncovered that a buyer audit, which is long-term and consultation-oriented, covered every aspect of labor issues in its key suppliers, and that this comprehensive labor audit significantly contributed to improving suppliers' labor standards. This audit also helped its suppliers reshuffle their HR and labor relations practices. This finding is generally consistent with the positive view of the long-term, capacity-building model presented in the existing literature. However, our findings also demonstrate that this close and sticky relationship can prevent buyer firms from imposing penalties and renders contract termination even more difficult. We also found that, due to this type of interdependence, many problems can arise when buyer firms experience production issues. In sum, we seek to fill the current research gap by offering a detailed account of this close relationship and its positive and negative impacts on supplier auditing.

In the sections that follow, this paper reviews the current literature on supplier labor auditing and provides a brief explanation of the research context. Next, the study's methodology is described, followed by a presentation of the case analysis of a Korean MNC and its supplier audit. The paper then

provides a summary of the research, outlines its contributions and limitations, and offers suggestions for future research.

Literature Review

Global buyers have been at the forefront of developing and leading a private labor regulation regime in global supply chains. Buyer-given labor standards and monitoring of supplier compliance with these standards form the basis of this private regulation regime (Esbenshade 2016; Lund-Thomsen and Lindgreen 2014). Buyers either use their own labor standards or adopt sustainability standards developed and administered by multi-stakeholder initiatives (e.g., US-based Fair Labor Association, UK-based Ethical Trading Initiative, etc.). Whichever standards are adopted, they tend to be similar in content as they derive labor ideals from key international standards regarding decent work and responsible business practices. While not all buyers enforce such labor standards or require compliance with them, buyers with global visibility and a consumer base with strong interest in ethical consumption (e.g., Western European and North American markets) require their suppliers to comply with these standards to gain and access their supply chains (Bae et al. 2020; Nadvi 2008).

Buyers monitor supplier compliance with their labor standards through auditing. Buyers may work with in-house auditors, external auditors (who belong to for-profit auditing firms or multi-stakeholder initiatives that buyers participate in), or a mix of both (Distelhorst et al. 2017). Auditing takes place in a short time span (from one to several days), it can be announced or unannounced to suppliers, and it involves checking physical facilities and employment and work-related records, conducting worker interviews (either on-site or off-site), and having discussions with factory management (Fair Wear Foundation 2012; Lund-Thomsen and Lindgreen 2014; Kuruvilla 2021). Violation of critical issues (e.g., hiring underage workers) and lack of improvement can result in immediate contract termination. Otherwise, suppliers are given a period to remedy their problems and receive another audit (c.f. amfori BSCI 2018).

In the existing literature, the labor stipulations of buyer audits are derived from two main sources: national laws of the countries in which buyers operate and international labor standards. This means that typical buyer's labor standards protect four core labor rights (no child labor, no discrimination, no forced labor, and freedom of association) and the

guarantee of other rights such as fair compensation, decent working hours, etc. that derive from the eight fundamental conventions of the International Labour Organization, OECD Guidelines for Multinational Enterprise, and UN Guiding Principles on Business and Human Rights (Kuruville 2021). When the laws of suppliers' operating countries and a buyer's labor standards stipulate contradicting demands (such as different interpretations of the definition of underage labor), suppliers are required to follow a stricter standard (Bae et al. 2020).

Auditing outcomes have been a key interest of both academics and labor rights non-government organizations (NGOs). A consensus among academic studies is that while auditing has shown noticeable progress in measurable and technocratic labor issues (e.g., provision of health and safety protocols, correct payment of wages), it has failed to achieve such progress with rights-based and other fundamental issues (e.g., freedom of association and excessive overtime mainly arising from extant production systems) (Barrientos and Smith 2007; Bartley and Egels-Zandén 2015). In regard to this failure, numerous studies have focused on the relationship between a buyer and its suppliers (Vogel 2005; Anner et al. 2013; Locke and Samel 2018). Scholars have suggested that a short-term relationship is mainly responsible for worsening suppliers' working conditions (Egels-Zandén and Merk 2014; Esbenshade 2016). Under short-term, transactional contract relations, it is easy to end a contract; thus, buyers have little incentive to care about suppliers' labor conditions or invest in building supplier capabilities to improve labor conditions. This is because the return from such investment might not be captured in a short-term contract. Furthermore, even with pressure from a lead firm, supplier firms are less likely to adhere to a lead firm's regulations since violation costs are typically low. More fundamentally, short-funded suppliers likely set aside labor standard improvement because financial performance is a greater priority to them. Hence, unsurprisingly, suppliers often game the system by appearing to comply with buyers' labor standards (e.g., "fixing" the books and keeping underage workers from coming to work during audit days), especially when an audit is announced in advance and worker interviews are pre-arranged by factory management (Lund-Thomsen and Lindgreen 2014; Kuruville 2021).

Taking these issues into account, proponents of a long-term, capacity-building approach argue that it is important to promote win-win outcomes by building a long-term, close relationship between buyers and suppliers, which could simultaneously improve productivity and labor conditions through persuasion and education. They stress that in this process the

improvement of suppliers' labor standards would happen naturally (Porteous et al. 2015; Distelhorst et al. 2017; Grossi et al. 2019). For instance, Distelhorst et al. (2017) found that lead firms' support of vendors' adoption of lean production systems and high-involvement work practices in their long-term relationship helped achieve both production system changes and labor standard improvements, enabling buyers and suppliers to coexist. A recent study by Grossi et al. (2019) contrasted the cases of relationship-oriented Gap and non-relationship-oriented JC Penney to argue that the longer the relationship becomes, the more knowledge is transferred, and the better labor standards suppliers can develop.

Having reviewed the existing literature, we can turn our attention to Korean MNCs and their suppliers in their common context of *partnered foreign expansion*. Partnered foreign expansion is an entry strategy in which buyer firms enter into foreign countries with their key suppliers (Oh 2015; Kim and Oh 2017). Just as in their home countries, these firms maintain close relationships overseas. This strategy is also called pre-clustered foreign entry (Hatani 2009). Under this approach, the existing production system—which includes not only a buyer firm's factory, sales branch, and R&D center but also its suppliers for parts and equipment—is relocated to a foreign country (Kwak et al. 2013). As large business groups become increasingly globalized, this strategy for foreign expansion has become preferred. In the past few decades, numerous Korean manufacturing MNCs have entered into new markets—including China, Vietnam, India, and Eastern Europe—in this way. This type of foreign expansion was first introduced by Japanese Keiretsu, which relocated its production system to a foreign country (Florida and Kenney 1991; Provan 1993; Martin et al. 1998). The Korean strategy for foreign expansion is similar to the Japanese one, but the Korean approach is known to feature a more closed form where suppliers are more dependent on their buyers (Kwak et al. 2013; Kim and Oh 2017). In other words, suppliers provide their products exclusively to their buyers. Hence, buyer firms tend to have stronger bargaining power against their suppliers, deeply engaging with their suppliers in foreign countries.

This type of foreign entry has been beneficial for both Korean buyer firms and their suppliers, particularly in terms of production (Oh 2015). This strategy is advantageous, especially when firms are required to quickly stabilize their production in a new location. First, from the Korean MNC standpoint, this strategy has greatly contributed to quick production settlement and early adaptation in local environments by lowering transaction costs in these new environments. This is because finding local suppliers in

foreign countries is a highly risky and costly endeavor. In contrast, firms and their domestic suppliers have typically known each other for a long time, often for a decade or longer, so suppliers tend to be responsive and obedient. Therefore, relocating pre-existing production systems overseas and maintaining a deep and productive relationship with current suppliers in new markets has contributed to Korean buyer companies' competitive advantage. From the supplier standpoint, this system is beneficial as well. Small and medium-sized suppliers usually do not have sufficient resources, knowledge, or know-how in foreign environments (Provan 1993; Martin et al. 1998; Kim and Oh 2017). In these situations, buyers can act as important sources of knowledge for foreign expansion. In this way, suppliers can minimize the liability of "foreignness" in new environments and ensure their orders with assistance from their buyer companies. In sum, partnered foreign entry offers benefits for both buyer and supplier firms by helping stabilize production systems in new environments through mutual support.

However, despite these benefits, recent studies have pointed to the possible shortcomings of this type of long-term contractual relationship, arguing that it cannot become a panacea (Locke et al. 2009; Anner et al. 2013; ILO 2017; Amengual and Distelhorst 2019). For instance, since it is long-term, this type of relationship is likely to continue without any sanctions in spite of labor regulation violations. Locke (2013, p. 20) emphasized that it is an open secret that very few suppliers who violate labor norms end their contracts. Internally speaking, the opinions of compliance departments often conflict with those of purchasing departments; moreover, compliance staff have no decision-making power over purchasing departments (ILO 2017; Dickson 2018). Building on this ongoing discussion, the present study has two purposes: first, it seeks to demonstrate the complex nature of the close buyer-supplier relationship and its impact on the labor audit process. We emphasize that this close, sticky relationship in the context of partnered foreign expansion functions as a double-edged sword in labor auditing. Second, the study seeks to clarify the concept of the *long-term* relationship. We point out that *long-term* can have different meanings in different parts of the world. In the existing literature, a long-term relationship is largely interpreted as an arm's-length relationship with mutual trust and understanding that develop over time. This relationship may end if any serious contract violation is committed by any party. For instance, a buyer company can terminate its contract with its suppliers if it finds any serious violation or repeated violations following warnings. However, the close relationship between a Korean buyer and suppliers examined in our study defies this assumption. We argue that

current research cannot fully account for a buyer-supplier relationship underway in the global supply chain. Hence, by introducing the impact of Korean buyer-supplier governance on labor auditing, this study enriches the current discussion of labor auditing done by a buyer on its suppliers.

Case Study

Background

A longitudinal, qualitative case study of the sampled large Korean MNC and its key suppliers in China was conducted herein. The case study method is appropriate since we are studying a less explored topic; the purpose of this method is to offer a nuanced understanding of under-studied topics (Eisenhardt 1989; Balogun and Johnson 2004; Eisenhardt and Graebner 2007). The present study is part of the authors' ongoing research on Korean MNCs and globalizing actors, and it is based on multiple rounds of open and semi-structured interviews and extensive documentary analysis conducted between 2015 and 2020. Prior to this study, the first author engaged with the sampled MNC through a research project dating back to 2010. Thus, his existing familiarity with this company and its suppliers facilitated and enabled an intensive analysis of the sampled company's regular audit process. In 2018, the authors visited the MNC's China subsidiary and its partnered subsidiaries; a year later, in 2019, they visited its headquarters in Korea. Overall, the authors' knowledge of the company's context—including its major products, foreign expansion history, and relationship with its suppliers—helped the authors produce a more in-depth understanding of the company's supplier audit process.

The authors took several steps to ensure the trustworthiness of the study's qualitative data (Lincoln and Guba 1985). They conducted formal and informal interviews with as many managers from the MNC and its suppliers as possible. The authors also continuously compared the interview data against different sources; for instance, objective production data from the sampled MNC, data from its Korean headquarters' suppliers, and data from its China-based subsidiaries. These multiple sources of evidence enabled a triangulation strategy. However, the authors acknowledge the potential subjectivity of a single-N case study and its findings and that making the case study generalizable will require further research.

The company sampled in this study is a global electronic components

manufacturer. It entered into China with its key suppliers in the early 2000s. Since it produced a high-tech product and had difficulty finding local suppliers, the company encouraged its key suppliers to enter into China. There have been many trials and errors along the way because China is completely new to this company and its suppliers. However, due to its large size and high production volume in the region, the company was able to negotiate with local governments and quickly enhanced its understanding of the local situation. The partnered suppliers relied heavily on the buyer firm from the beginning due to their lack of foreign experience and insufficient local understanding.

Around 2013, the sampled company decided to audit its suppliers for the following reasons. First, labor regulations have become stricter in China (Lee et al. 2016). In response to rising labor unrest, the Chinese government has implemented pro-labor provisions and strengthened legal enforcement (Elfstrom and Kuruvilla 2014; Kuruvilla 2018). Hence, both this MNC and its partnered suppliers faced far higher violation risks, possibly leading to significant financial penalties and administrative paperwork. Second, societal pressures emerged following a series of worker suicides at Foxconn factories (e.g., Franceschini 2014). Any global company maintaining contract relationships with suppliers with illegal and/or unethical labor practices came under severe criticism and scrutiny in China. Furthermore, due to the exclusive buyer-supplier relationship, any strike or sabotage by its suppliers would directly affect the sampled MNC's production system (for the case of Honda in China, see Chan and Hui (2012) and Lyddon et al. (2015)). Considering all of these points, the MNC began monitoring its key suppliers starting in 2013. Our study focuses on the company's four-year labor audit experience between 2015 and 2018, which is based on 30 formal and informal interviews with auditors, expatriate managers, and managers in HR and other compliance-related divisions of the Korean MNC and its suppliers.

Findings

(1) Audit style: How to conduct a labor audit?

To properly discuss audit style, we must better understand how the buyer-supplier relationship affects it. First, this is structurally an ongoing, interrelated relationship as buyer and supplier companies have long cooperated in Korea. Notably, in foreign environments, suppliers' dependence on their buyer company is significantly greater and more deeply intertwined because suppliers provide the entirety of their products to their buyer company.

Managers and engineers in buyer and supplier subsidiaries are not new to each other because many of them have known each other since their tenure at Korean headquarters. Hence, they understand their counterparts and are well aware of the ways in which their counterparts do their work.

Second, significant personnel exchanges occur between buyer and supplier firms. This is similar to what occurs in Japan, where managers have often served as supervisors of buyer firms before moving to higher positions within supplier firms (Dyer and Nobeoka 2000). Through this process, knowledge, information, and know-how have been transferred naturally between the sampled company and its suppliers. Additionally, managers, engineers, and line managers from buyer and supplier firms attend numerous official and informal dinner gatherings, seminars, and sports gatherings. Due to the special nature of the overseas environment, these formal and informal gatherings are held more frequently and more intimately in foreign environments than in Korea.

Through fieldwork, the authors found that these structural characteristics are reflected in audit style as well. Basically, the labor audit process is similar to a consulting process used to improve the labor standards of suppliers' workplaces, rather than imposing a penalty. Buyer companies tend to conduct regular labor audits every year, and many informal gatherings are held before and after this process. For example, during visits ahead of regular labor audits, buyer firm auditors will explain the purpose and focus of each year's implementation, its emphasis, and why it would provide benefits to the buyer and supplier firms. Oftentimes, these informal meetings will lead to dinner gatherings where the two companies learn about each other and exchange thoughts. One auditor at a buyer company described this relationship and practice as follows:

In supplier firms, there are a number of managers and engineers who previously worked for a buyer firm, including subsidiary presidents and C-level directors at Korea's headquarters. They know a lot of people in the buyer firm. We often exchange greetings and information, having dinner or tea time, before and after official buyer-supplier audit meetings. Through this process, supplier managers come to know what a buyer firm's intent is and what it expects from supplier firms. (Interview with an auditor, April 2019)

To conduct a regular labor audit, auditors will visit the supplier workplace, staying from morning until evening, for a period of approximately three to four days. The purpose of the audit is to examine the firm's paperwork

and documentation and conduct interviews with on-site production managers, on-site production workers, and subsidiary heads. After the audit, the buyer company will analyze the findings and then ask the supplier head or managers to gather and share each year's audit results. A follow-up audit meeting is scheduled about a month later in order to check on improvements. Meanwhile, the buyer firm auditors will call supplier managers or visit them in person to perform consulting and training on the improvements to date. This regular audit process continues in subsequent years. In sum, the buyer company conducts these four steps annually: pre-meeting, formal labor audit, consultation and education, and follow-up audit.

(2) Audit coverage: What to audit?

We found that the company's labor audits address a wide range of labor issues experienced by its key suppliers; these include labor standards, labor relations, and labor risk management. It is first necessary to understand the basic purpose of conducting an audit. The comprehensiveness and intent of a supplier audit are illustrated by the following quote:

The key purpose is to stabilize production. It's important that our production continues without a hitch. To do so, there should be no problems or risks at supplier factories. Any serious legal violation or wildcat strikes may stop suppliers' production line and more terribly, it can directly affect a buyer's production. So, we conduct supplier audit in labor areas very comprehensively and provide consulting in various ways. (Interview with an auditor, April 2019)

As emphasized above, an audit's key purpose for a buyer company is to stabilize production quickly and minimize associated risks after entering a new country. Unsurprisingly, given this governance and relationship, the Korean MNC's labor audit has taken a different form than audits conducted by Western MNCs. We found that the Korean labor audit process is far more comprehensive than that of Western MNCs. Since a buyer firm tends to avoid multi-sourcing, the relationship between a buyer and suppliers is mostly exclusive. Hence, a buyer and its supplier firms conduct their business almost as if they were subsidiaries of the very same company. Accordingly, the buyer company conducts comprehensive auditing and provide in-depth consulting across all areas, ranging from labor standards to labor-management relations and risk management. The audit agenda typically covers three major areas: 1) labor standards, 2) human resource management, and 3) employee relations.

The area of labor standards includes basic workplace conditions reflecting local labor laws and globally accepted codes of conduct, including written document contracts, minimum wage payments, insurance subscriptions, legal payment of overtime pay, and workplace safety regulations. Human resource management involves examining suppliers' human resource management practices, including hiring practices, employment contracts, wages and benefits, promotions, and evaluations. These HR issues are closely related to workplace productivity concerns. Thus, production consulting and workshop consulting are provided to improve quality and productivity by adjusting line managers' key performance indicators (KPIs) at production sites. Finally, employee relations covers individual labor issues, collective labor issues, and labor risk. Specifically, in terms of labor-management relations, auditors provide extensive consulting on how to deal with and manage labor unions, how to deal with employees' bottom-up voice, and how to establish and maintain relationships with local governments or local officials.

TABLE 1
LABOR AUDIT COVERAGE

Audit Coverage	Details
Labor standards	Written contracts, minimum wage, social insurance, housing funds, overtime premiums, workplace safety, etc.
Human resource management	Hiring practices, wages and benefits, promotions, evaluations, disciplining
Employee relations	Individual labor relations, collective labor relations, employees' voice, labor risk, government relations, legal risk management

(3) Audit outcomes: What are the audit results?

Due to audits' comprehensive nature, ability to cover a wide range of content, and deep involvement through close interaction, the labor audit examined in this study generally produced quick improvements. This is exactly what the buyer firm intended to achieve. For example, violations of local labor laws arising from ignorance or misunderstanding were largely corrected over one to two years of steady education and consulting. The buyer firm induced compliance by continuously emphasizing that violation costs are more expensive than compliance costs. Examples of quick improvement also

include the prevention of the following practices: the employment of child labor, the payment of wages under the legal minimum, and the imposition of penalties for workers' company policy violations. In many cases, supplier factory managers took these practices for granted and were not aware that they were violating labor laws. Auditors emphasized that unless these violations were corrected by suppliers, they would face far more serious violation penalties from local authorities. Additionally, some of the problems caused by inefficiency in the supplier workplace's production line were corrected by upgrading the production line or changing the production system through close interaction and frequent visits. This process enabled the rapid improvement of written contracts, workplace safety, minimum wage compliance, and overtime premiums (respectively, 150%, 200%, 300%)—all of great importance to China's labor laws and labor authorities—to comply with all local labor regulations. In a nutshell, the positive effects of the supplier audit under this kind of close relationship can be summarized by the following quote: "since it's an old relationship, and we invest our time in good faith, and they're also willing to learn from us, the improvement is very quick" (Interview with an auditor, September 2017).

On the other hand, despite several years of auditing, some issues were addressed very slowly and/or some violations still remain. These violations largely relate to suppliers' financial burden or production line reshuffling. Examples of violations include having employees work for over 60 hours per week, not giving employees at least one day off a week, having more than the legal percentage of student interns (Chinese labor law mandates it must be under 10%), overtime and/or night work for student interns (Chinese labor law bans overtime and night work for student interns), having more than the legal percentage of dispatched workers (Chinese labor law mandates that be under 10%), and not purchasing social insurance and housing funds for dispatched workers.

Fundamentally, despite the buyer firm's training and/or consulting, these issues were not fully accepted by the supplier firms because they were directly related to the firms' operating profit and production type. Moreover, there were several reasons for these continuous violations or poor labor standards. First, a buyer firm has no countermeasures to control supplier firms' violations. Despite what has been suggested in academic discussions, punishments have not worked smoothly; they are also challenging to implement going forward because audits are essentially persuasion-based. Furthermore, in this particular case, it is not easy to terminate the contract because the product is high-tech; thus, it is difficult for the buyer firm to quickly replace its current suppliers.

In other words, linking a labor audit to a firm's purchasing policy—a topic that is being actively discussed in the literature—is fundamentally difficult to implement. One HR manager at a buyer firm confirms the current situation as follows:

In this situation, it is almost impossible to end the contract if you are a key vendor. Finding a local supplier in China is time-consuming and it is difficult to establish trust between us and them. This is a dilemma. To my knowledge, it is almost impossible to cut off the contract in Korea's buyer-supplier setting. (Interview with an HR manager at a buyer firm, March 2020)

Moreover, issues also arise with buyer firms themselves. Problems on the part of a buyer firm often delay and/or disrupt supplier firms' production lines or schedules. In other words, to improve suppliers' labor standards, buyer firms' production lines must be improved and made more predictable and supplier-friendly.

In sum, we found that the close relationship between buyer and supplier firms is a double-edged sword. On the one hand, this close interaction and education were effective in improving supplier firms' labor standards; however, some challenges and issues still remain. Certain kinds of violations are not easily fixed or are treated as low priorities in supplier workplaces. This is because a buyer firm rarely polices or punishes suppliers' violations and rarely connects its audits to its purchasing policies due to structural reasons. We also uncovered that buyer firms' production characteristics can be responsible for some of the issues on the supplier side. Furthermore, we identified that suppliers' factory systems are too dependent on buyers' business cycles.

Discussion and Conclusion

This study explores how the close relationship between a buyer company and its suppliers affects labor audits both positively and negatively. Specifically, we focused on audit style, audit content, and audit outcomes. As with other Korean MNCs, the company sampled herein entered into China with its key suppliers via 'partnered' foreign expansion or 'pre-clustered' foreign entry. The sampled company's relationship with its key Korean suppliers in China is exclusive, long-term, and interdependent. Its managers often transfer to new positions in supplier companies. Through these exchanges, employees,

knowledge, information, and know-how are freely transferred. Moreover, managers from both sides frequently hold discussions and meet together for dinners and other social events. Unsurprisingly, this type of governance and structural relationship was strongly reflected in the supplier labor audit examined here. We found that the Korean MNC's labor audit exhibited a strong orientation towards consulting-based capacity-building. As far as audit coverage, we found that the Korean MNC's labor audits are far more comprehensive than those of Western MNCs. The sampled buyer company audits every aspect of the supplier workplace to stabilize production and minimize labor risk. Regarding audit results, we found that this close relationship between buyer and supplier firms is a double-edged sword. While close interaction and education were generally effective in improving suppliers' labor standards (in particular, basic labor standards emphasized by local authorities), this type of relationship is not wholly positive. The buyer firm rarely polices or punishes its suppliers' violations and seldom connects its audits to its purchasing policies due to structural reasons. Moreover, this study concluded that the buyer firm's production characteristics are responsible for some issues on the supplier side.

The present study offers two scholarly implications. First, it presents a detailed account of the East Asian buyer-supplier relationship, which has been understudied in previous research. While some studies on this relationship have been conducted in operation management (e.g., Cao and Lumineau 2015; Kim and Choi 2018; Sting et al. 2019), buyer companies' labor auditing of their suppliers in East Asia is a little known area. Our study fills this gap by showing how this close relationship, particularly in the context of Korean MNCs' partnered foreign expansion, affects MNCs' supplier labor audit process. Future research may assess the generalizability of our study's findings in the electronic industry by producing findings in other industries. Second, our study expands recent discussions on how to enhance the effectiveness of supplier labor auditing. While the recent consensus is that a long-term, capacity-building approach matters, a growing number of studies indicates that this soft, long-term relationship alone cannot improve audit effectiveness (e.g., Locke et al. 2009; ILO 2017; Amengual et al. 2019; Amengual and Distelhorst 2019). For instance, Amengual and Distelhorst (2019) suggest that compliance is increased when buyers link their audits to purchasing policies under these long-term relationships. Our study indicates that even this type of linkage would be difficult to implement under the sticky buyer-supplier relationship in the context of East Asian MNCs' partnered foreign expansion. Prior studies have failed to address the variety

of relationships and supplier audit processes used in other parts of the world. Hence, the present study aims to offer a more balanced understanding of buyers' labor auditing of their suppliers by presenting a specific Korean case.

The study's practical implications are clear. Leading actors involved in global supply chains' private labor regulations should pay greater attention to the potentially negative impacts that an inter-dependent relationship with buyers may have on supplier compliance with buyer-given standards. This must involve experimentation with auditing approaches. Buyers may audit their suppliers regarding issues where dialogue can be effective (such as industrial relations) while engaging third parties, such as external auditors and local NGOs, to audit issues where objectivity is required (for example, checking the accuracy of employment and payment records). Buyers can also complement their auditing data with other forms of information, such as interviewing workers in a comfortable place so they can share candid feedback about their workplace.

While the present study offers a detailed analysis of a Korean MNC's labor audit process, it does have some limitations. First, our findings—which are based on one manufacturing sector—cannot be applied to other sectors. Thus, future research would benefit from comparing several industries in Korea for broader generalizability. In addition, our study focused on one company's experience of a four-year labor audit and thus cannot speak to the current situation, particularly given the COVID-19 outbreak. Nonetheless, this study highlights productive areas for future research. Both the present study and the existing literature provide mixed views regarding the effects of a long-term sourcing relationship on suppliers' compliance with labor standards. Future studies can address the question of when this long-term relationship becomes an asset or a liability in terms of suppliers' improvement of their labor practices. Another high-impact question is whether the link between buyers' purchasing practices and compliance enforcement on suppliers can benefit from a long-term relationship with suppliers. Further research would do well to examine how the Covid-19 has affected MNCs' supplier audits especially in the context of close buyer-supplier relationship.

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