Corporate human rights governance across borders: insights from a German MNC operating in China

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Abstract

Purpose – This paper aims to examine how multinational corporations (MNCs) organise labour governance and manage labour-rights risks in global supply chains when operating in politically constrained host-country labour regimes. Focusing on China, it analyses how a German automotive MNC navigates tensions between politically bounded workplace representation and extra-territorial due diligence expectations linked to European markets.

Design/methodology/approach – A qualitative, in-depth case study methodology was used. Evidence is drawn from 21 semi-structured interviews, conducted between June 2024 and March 2025, complemented by corporate documents, media reporting and NGO materials. Data were analysed inductively using a Gioia-informed coding process to develop an empirically grounded analytical framework.

Findings – The case study reveals a dual configuration of labour governance. Firstly, the firm practices minimalist adaptation in day-to-day employment relations by operating within China's enterprise union and contract-centred regime, where collective bargaining is legally present but organisationally non-central. Secondly, it deploys progressive compliance measures – risk assessment, audits, grievance channels and supplier standards – consistent with home-country institutional expectations and mandatory due diligence regimes. These approaches are coordinated through cross-border organisational mechanisms, including transnational engagement involving the German works council, which functions as an internal accountability channel that can trigger investigation and escalation when credible risk signals arise. The analysis also shows persistent limits: due diligence tools can expand monitoring and responsiveness, yet they cannot readily substitute for autonomous worker representation and remedy under political constraint.

Originality/value – This paper develops an empirically grounded analytical configuration linking host-country political constraints, home-country labour institutions and mandatory due diligence expectations. It clarifies how due diligence-oriented corporate governance is operationalised in practice in China and specifies the organisational conditions under which such governance expands responsiveness while remaining structurally constrained.

Keywords Business and human rights, Mandatory human rights due diligence, Labour governance, Global supply chains, Multinational corporations, Works councils, China, Germany, Supply chain accountability

Paper type Research paper

Introduction

Globalization in the late 20th century enabled multinational corporations (MNCs) to extend their operations worldwide, often seeking lower labour costs and looser regulations. However, recent shocks – including geopolitical tensions, a pandemic and war – have spurred talk of "de-globalization" as firms and governments re-evaluate the resilience of supply chains (Walter, 2021; Rodrik, 2018). These pressures have not only raised questions about where production should be located but also intensified scrutiny of how production is organised and governed across borders, including the labour conditions under which suppliers operate. This shift has brought unprecedented attention to the ethical dimensions of global supply chains (Uddin *et al.*, 2023). In particular, new business and human rights frameworks are reshaping corporate responsibilities. Legislative measures in countries like Germany and France, along with the introduced EU Corporate Sustainability Due Diligence Directive (CSDDD), which entered into force on 25 July 2024, signal that human rights and environmental due diligence is becoming a legal obligation for companies within scope, including non-EU firms whose operations and business partners are linked to EU markets (Bueno *et al.*, 2024). Recent research has begun to assess the design and likely effects of the EU directive and related due

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Supply Chain Management: An International Journal
31/5 (2026) 711–725
Emerald Publishing Limited [ISSN 1359-8546]
[DOI 10.1108/SCM-06-2025-0592]

Received 22 June 2025
Revised 31 January 2026
22 February 2026
Accepted 12 March 2026

diligence regimes, including questions of monitoring, enforcement and regulatory effectiveness (Marx, 2025; Schilling-Vacaflor and Gustafsson, 2024). Labour relations – encompassing working conditions, collective representation and fair treatment of workers – lie at the heart of these supply chain human rights concerns (Short *et al.*, 2020).

One catalyst for these regulatory developments has been rising concern over labour abuses linked to global production networks. A prominent and contested issue in European debates has been exposure to forced labour risks which has heightened both reputational and legal sensitivity for firms operating in or sourcing from China. After four decades of integration into the world economy, China has become an indispensable part of many MNCs' supply chains. Global brands, including major automotive firms, have faced scrutiny for possible links to labour abuses, creating reputational and legal risks under new due diligence regimes. In Germany, the Supply Chain Due Diligence Act (Lieferkettensorgfaltspflichtengesetz, LkSG) has been in force since 1 January 2023 and obliges large companies to identify and mitigate human rights risks, including certain responsibilities relating to indirect suppliers (Buttke *et al.*, 2024; Krajewski *et al.*, 2021). This evolving context places European MNCs in China under a dual pressure: they must comply with rigorous home-country and international standards while operating in a host-country environment that often contradicts those standards.

China presents a particularly complex political and regulatory context for managing labour relations. On the one hand, the country's political system constrains labour activism and independent unionisation. The All-China Federation of Trade Unions (ACFTU), the national union, is state-linked and subordinates enterprise-level unions to state oversight (Friedman and Lee, 2010; Howell and Pringle, 2019). This system keeps labour costs low and industrial unrest minimal – conditions that attracted foreign investors (Ding and Warner, 2001). On the other hand, the institutional architecture through which labour rights are governed at the point of production in China is increasingly entangled with transnational governance demands emanating from home-country institutions and extra-territorial due diligence regimes. This articulation between workplace-level governance and wider production systems is central in labour-regime and global production scholarship, which conceptualises labour outcomes as shaped by the interaction of labour market segmentation, workplace governance and transnational regulatory-commercial arrangements (Campling *et al.*, 2021). Such perspectives are particularly relevant for supply-chain due diligence, because they clarify why firm-level compliance tools (e.g. audits and codes) may face structural limits in contexts where worker representation and access to remedy are constrained.

Germany's labour relations institutions highlight the extent of this cross-border mismatch. The German system features industry-level collective bargaining and co-determination through works councils, which institutionalise employee voice in corporate decision-making (Tüselmann *et al.*, 2010; Hall and Soskice, 2001). When German MNCs operate in China, they must implement corporate labour governance in a setting where independent unions are absent and formal enforcement may be uneven, with labour dispute resolution embedded in local political priorities (Su and He, 2010). This creates a dual governance challenge: firms are expected – under evolving due diligence regimes – to demonstrate robust processes for identifying and addressing labour rights risks while simultaneously operating in a host-country labour regime that limits collective representation and constrains independent verification and remedy. Importantly, due diligence frameworks do not automatically require firms to "improve labour relations" as an outcome; rather, they require firms to implement risk-based due diligence processes that may, under certain conditions, contribute to improved labour outcomes.

The question arises:

Q1. How do German MNCs adapt their ethical labour relations approaches to China's context, and what strategies enable them to uphold human rights standards under such constraints?

This paper explores these questions through an in-depth case study of a German MNC in the automotive sector operating in China. The study draws on interviews with the company's human resources and labour relations managers, as well as experts on Chinese labour governance. It addresses a gap in the supply chain due diligence and labour governance literature: while existing research has advanced understanding of due diligence norms and emerging legal frameworks, comparatively little is known about how MNCs translate these requirements into concrete labour relations practices inside China, where worker representation and regulatory enforcement are politically shaped. The case therefore offers leverage for examining how due diligence is enacted in workplace governance under conditions of constrained worker voice and institutionally mediated compliance.

This study contributes to the literature on supply chain human rights governance by developing an empirically grounded analytical framework that explicates how MNCs navigate labour rights risks under the combined pressures of politically constrained host-country labour regimes and mandatory home-country due diligence obligations. Drawing on a qualitative case study of a German automotive MNC operating in China, the paper identifies a dual strategic configuration – minimalist adaptation to host-country institutional constraints alongside progressive, home-country-driven compliance measures – and shows how these elements are coordinated through transnational organisational mechanisms, including internal due diligence processes and cross-border employee representation. By linking workplace-level labour governance in China to evolving European due diligence regimes and home-country labour institutions, the framework clarifies both the practical possibilities and structural limits of corporate labour governance in politically constrained contexts.

Literature review

Labour governance in global supply chains

Scholarship on global supply chains and labour relations has long examined how cross-border production reorganises employment relations and redistributes power between firms and workers. Classic literature emphasises how competitive pressures and fragmented sourcing can encourage downward pressure on labour standards and weaken collective representation (Meardi *et al.*, 2013; Wright and Kaine, 2015). Subsequent research shows that labour conditions in global supply chains are shaped not only by cost competition but also by institutional environments and governance arrangements that structure what is monitored, what is incentivised and what is sanctionable across tiers of production (Lévesque *et al.*, 2015; Short *et al.*, 2020). In this literature, the compliance and governance toolkit of lead firms – supplier codes, audits, contractual clauses and grievance mechanisms – has been widely discussed as a means of managing labour risks across dispersed supply bases.

However, a substantial stream of research cautions that these firm-centred instruments frequently deliver uneven results. In particular, voluntary private regulation and auditing have been found to have limited effects on freedom of association and collective bargaining, precisely because such rights depend on power relations and institutional conditions that cannot be manufactured through monitoring alone (Egels-Zandén and Lindholm, 2015; Egels-Zandén and Merk, 2014; Lund-Thomsen and Lindgreen, 2014). Research on modern slavery governance further strengthens this critique: audit- and disclosure-oriented approaches may fail to identify coercion and unfree labour when abuses are embedded in recruitment systems, local labour markets or political constraints on worker voice and remedy (Flynn and Walker, 2021; Fransen and LeBaron, 2019; LeBaron and Lister, 2022). Complementary work on the practice of supply chain auditing highlights additional recurring limitations, including constrained audit scopes, short audit windows, strategic concealment, limited worker engagement and weak reach into subcontracting and lower-tier networks (Sarfaty, 2021). These limitations are important for due diligence research because they indicate why "more auditing" does not necessarily translate into stronger labour rights outcomes when the conditions for worker voice and remedy are structurally restricted.

These insights converge with interdisciplinary work on labour regimes in global production. Baglioni *et al.* (2022) conceptualise labour regimes as configurations of labour control, reproduction and regulation shaped by interactions among states, firms, labour intermediaries and workers. This perspective foregrounds the point of production as a site where labour outcomes are politically and institutionally constituted, not merely the downstream result of firm policies. Campling *et al.* (2021) illustrate this logic by showing how transnational governance arrangements – including buyer power, regulatory frameworks and trade-linked labour provisions – shape labour outcomes through their interaction with local labour regimes. Understanding corporate labour governance under due diligence requires connecting firm-level instruments (audits, grievance channels, supplier standards) to the institutional constraints and power relations that structure labour governance at production sites, especially where worker voice and independent remediation are restricted. Related scholarship on human rights due diligence in supply chains similarly stresses that what matters empirically is the standard of practice and the organisational conditions under which it is implemented, rather than the formal adoption of due diligence language alone (Smit *et al.*, 2021; McCorquodale *et al.*, 2017).

Regulatory hardening and mandatory human rights due diligence

Alongside debates on private regulation, an increasingly prominent body of work analyses the "hardening" of supply chain labour governance through mandatory human rights due diligence. Anchored in the UN Guiding Principles on Business and Human Rights, due diligence has evolved from soft-law expectations into a growing set of domestic and supranational legal obligations (Deva, 2021; Schilling-Vacaflor and Lenschow, 2023). Importantly, this legal turn followed a regulatory path in which early interventions were largely disclosure-based, most notably the California Transparency in Supply Chains Act (2010) and the UK Modern Slavery Act (2015). Evaluations of disclosure regimes suggest that they can raise awareness yet often generate standardised reporting practices and symbolic compliance when enforcement and liability are limited (LeBaron and Rühmkorf, 2017). This critique is central to LeBaron's broader argument that corporate transparency alone is structurally insufficient when exploitative labour relations are produced through complex and often opaque labour supply chains (LeBaron *et al.*, 2018). This concern is also consistent with evidence from research evaluating corporate responses under modern slavery reporting laws, which finds substantial variation in reporting quality and limited operational detail in the absence of strong oversight and enforcement (e.g. Pinnington *et al.*, 2023).

European regimes subsequently moved beyond disclosure towards procedural and, in some cases, remedial obligations. France's Duty of Vigilance Law (2017) and Germany's Supply Chain Due Diligence Act (adopted 2021; in force 2023) institutionalise risk management duties, complaints procedures and expectations of preventive and remedial action, backed by varying enforcement architectures (Krajewski *et al.*, 2021; Buttke *et al.*, 2024). At the EU level, the Corporate Sustainability Due Diligence Directive further consolidates this shift by imposing due diligence obligations across firms' chains of activities and creating a more standardised governance framework for corporate accountability (Bueno *et al.*, 2024; Sinnig and Zetzsche, 2025). An emerging governance literature examines how mandatory due diligence has been contested and institutionalised across European jurisdictions, including the interpretation and translation of the due diligence norm in France and Germany (Gustafsson *et al.*, 2023) and evaluates the institutional design and likely effectiveness of the EU directive (Marx, 2025). Yet governance scholarship consistently emphasises a crucial point: mandatory due diligence is primarily a process obligation. It requires firms to establish systems for identifying and addressing risks, but it does not mechanically translate into improved labour relations outcomes, particularly where enforcement is uneven or where local conditions impede worker voice and remedy (Fasterling, 2017; Chambers and Vastardis, 2020). Related work on grievance mechanisms underscores that remedy remains difficult to secure in practice and that the effectiveness of complaints channels depends heavily on design features and operating context, even where mandatory due diligence creates stronger incentives for formalisation (Harrison *et al.*, 2024). For supply chain research, this raises an empirical and analytical priority: to understand what due diligence produces in practice, scholarship must examine *how firms operationalise*

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compliance tools under different host-country labour regimes, and how those regimes condition the effectiveness and limits of due diligence processes.

The context of China and cross-border labour governance

China constitutes a critical setting for analysing these dynamics because it combines deep integration into global production networks with a politically constrained labour governance system. Market reforms introduced contractual employment and decentralised labour management while maintaining state control over labour representation and dispute resolution (Ding and Warner, 2001; Howell and Pringle, 2019). The ACFTU remains the single national union, and extensive scholarship documents how enterprise unions are typically embedded within state structures and often prioritise welfare provision and mediation rather than independent collective bargaining (Friedman and Lee, 2010). Legal institutions for labour dispute resolution exist, yet enforcement and adjudication are embedded in local political priorities, generating uneven worker leverage and constrained pathways for remedy (Su and He, 2010; Hui, 2016). Work on labour process and industrial relations in China further specifies how labour control is organised through production–reproduction arrangements in export-oriented manufacturing, including employer-controlled dormitories that keep labour "on tap" and enable firms to extend working time and respond rapidly to demand fluctuations. This "dormitory labour regime" links labour control at the point of production to broader transnational production dynamics and the spatial organisation of work and daily life (Smith and Pun, 2006; Pun and Smith, 2007). Related analyses of "constrained labour" show how firms can draw on institutionally mediated forms of labour supply – such as vocational student internships – where labour deployment is shaped by dual workplace control involving both management and educational authorities (Smith and Chan, 2015). These contributions also caution against treating insecurity or "precarity" as a simple proxy for labour power, emphasising instead how class formation and worker leverage are rooted in conflictual capital–labour relations at the point of production (Smith and Pun, 2018). Taken together, this literature indicates why due diligence tools – audits, grievance mechanisms and supplier compliance systems – may face structural limits in China: where labour control depends on institutionally embedded constraints on mobility, representation and remedy, monitoring mechanisms alone are unlikely to secure sustained worker voice or effective remediation.

At the same time, scholarship on "country-of-origin" effects and comparative capitalism shows that home-country institutions can matter materially for how MNCs approach labour governance abroad. Firms embedded in coordinated market economies such as Germany operate within institutional environments characterised by co-determination and stakeholder-oriented governance arrangements that can travel across borders through internal corporate governance mechanisms (Hall and Soskice, 2001; Ferner *et al.*, 2001; Edwards *et al.*, 2013; Tüselmann *et al.*, 2010). Works councils and transnational employee representation can serve as channels through which labour concerns are articulated and escalated within the MNC, enabling cross-border knowledge exchange and internal monitoring that may partially compensate for restricted worker voice in host settings (Whittall *et al.*, 2017; Fiedler *et al.*, 2020). Yet research on responsible business conduct in politically complex contexts cautions against assuming that firm-level agency can substitute for constrained civil society space and politically embedded labour institutions; corporate labour governance remains bounded by host-country political conditions, even where firms possess advanced internal compliance capacities (Maier and Gilbert, 2023; Maier, 2021).

These literatures point to an analytical gap. There are substantial insights into (i) the limits of firm-centred labour governance instruments and the importance of labour-regime conditions at the point of production and (ii) the regulatory hardening of labour governance through mandatory due diligence and its emphasis on procedural compliance. Yet little is known about how these dynamics intersect empirically when an MNC from a home-country with strong labour relations governance operationalises due diligence in a politically constrained labour regime, and how home-country labour institutions (e.g. works councils) interact with compliance mechanisms to shape corporate strategies and their limits. This study addresses that gap by developing an empirically grounded analytical framework of how a German automotive MNC manages labour rights risks in China, connecting host-country institutional constraints with home-country-driven compliance measures and the cross-border organisational mechanisms through which they are coordinated.

Methodology

This study uses a qualitative case study methodology (Yin, 2018) to explore in-depth the dynamics of labour relations management within an MNC operating in China. A German automotive manufacturer was selected as the focal case due to its established operations in China and its renowned commitment to labour standards and corporate responsibility in its home-country. The purpose of the study is not to build new theory in a strong sense, but to develop an empirically grounded analytical framework that categorises and characterises the types of labour governance approaches deployed by an MNC when home-country labour institutions and mandatory due diligence expectations intersect with a politically constrained host-country labour regime. Accordingly, the case is treated as a revelatory case that enables close-grained analysis of processes and constraints that are difficult to observe directly and that may be analytically transferable to other EU-facing MNCs operating in similarly constrained production contexts.

Data collection

Primary data were collected through semi-structured interviews conducted with two distinct groups of informants:

1 managers within the focal company directly involved in labour relations; and
2 external experts with comprehensive knowledge of the Chinese labour relations landscape and foreign MNC operations.

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A total of 21 interviews were conducted with 10 interviewees (i.e. several interviewees were interviewed multiple times), with each lasting between 30 and 90 min. Four interviewees were internal to the focal firm (two at headquarters in Germany and two in China operations), and six were external experts based in China. Purposive sampling was applied to ensure informants had extensive, relevant experience. To ensure candidness, anonymity was guaranteed; thus, internal informants are referenced as Interviewees 1–4, and external informants as Interviewees 5–10.

To improve transparency regarding the empirical base of the study, Table 1 provides an anonymised summary of interviewees, indicating their role/function, organisational category (focal firm vs external expert), location, country and the number of interviews conducted with each informant. All interviews were conducted between June 2024 and March 2025; interviews took place in Germany and in China.

Interviews used a guided yet flexible protocol with open-ended questions to allow informants to highlight issues of particular importance. Major topics addressed included: company strategies regarding collective bargaining and worker representation in China; the implementation of global labour standards and due diligence processes; institutional and political challenges specific to the Chinese context; interactions and coordination between German headquarters (including the Works Council) and the Chinese subsidiaries or joint venture (JV) partners; and corporate responses to labour rights controversies. Interviews were conducted either in English or Chinese according to the preference of the participants. Chinese interviews were translated into English by the researcher. All interviews were recorded with participant consent and subsequently transcribed *verbatim* for analysis.

Additionally, the study integrated secondary data, including internal company policies, corporate sustainability reports, media articles and NGO documentation, to triangulate and verify key incidents and narratives described by informants. Secondary sources further provided essential context regarding regulatory frameworks such as the LkSG and documented allegations of labour rights violation involving automotive industry actors.

Data analysis

To systematically analyse qualitative data, this study used an inductive coding strategy informed by the Gioia-informed approach to developing data structures and maintaining a transparent analytical trail from informant accounts to researcher-developed categories (Gioia *et al.*, 2013). Consistent with the paper's aim of developing an analytical framework, the analysis prioritised careful abstraction from empirical material to a set of stable analytical categories that describe and distinguish the focal firm's labour governance approaches in China. The analysis involved two main coding cycles using MAXQDA software.

In the first coding cycle, interview transcripts were inductively coded, retaining informant-centric terminology and capturing initial descriptive categories (e.g. "lack of routine negotiations", "established grievance mechanism", "supplier contract protection"). This process generated a set of first-order codes closely reflecting informants' language and emphases.

In the second coding cycle, the first-order codes were abstracted into broader thematic categories through axial coding. At this stage, I treat these categories as second-order analytical categories that consolidate recurring patterns in how labour governance challenges are framed and managed across the firm's China operations and supply base. These categories were then integrated into higher-level aggregate dimensions that organise the paper's core empirical contribution:

1. a dual configuration of labour governance approaches – minimalist adaptation to host-country constraints alongside progressive, home-country-driven compliance measures; and
2. the cross-border organisational mechanisms through which these approaches are coordinated (e.g. headquarters–subsidiary coordination and employee representation channels).

The resulting analytical framework was visually summarised in a data structure (see Figure 1), explicitly demonstrating the progression from first-order informant terms to second-order analytical categories and aggregate dimensions. Figure 1 is presented as an analytical map of the coding and abstraction process, rather than as a claim to general theory development. Its function is to make the chain of evidence transparent – showing how the key categories and dimensions reported in the findings were derived from the interview and documentary material – while remaining consistent with the paper's overall contribution as an empirically grounded categorisation framework.

I assessed analytic completeness by examining whether additional rounds of coding and comparison yielded new

Table 1 Interviewee overview

ID	Category	Role/function (anonymised)	Location	Country	No. of interviews
1	Focal firm	Corporate human rights governance manager	Headquarter	Germany	2
2	Focal firm	Work council sustainability manager	Headquarter	Germany	3
3	Focal firm	China human resources / labour relations manager	China operations	China	3
4	Focal firm	Corporate strategy manager	China operations	China	2
5	External expert	Academic (China Labour regime)	External	China	2
6	External expert	Consultant / auditor (China Labour governance)	External	China	2
7	External expert	Former practitioner / official	External	China	2
8	External expert	NGO / legal practitioner	External	China	2
9	External expert	Industry expert (automotive supply chains)	External	China	1
10	External expert	Policy / governance expert	External	China	2
Total					21

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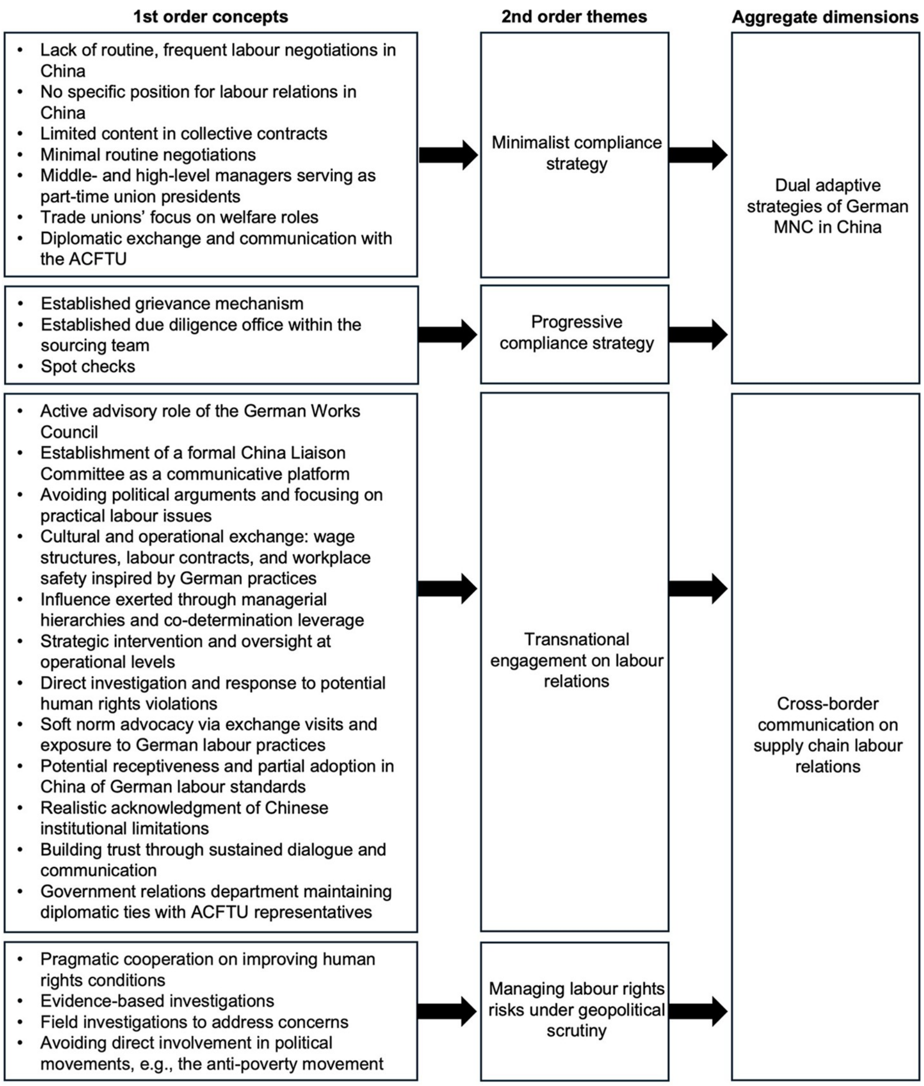
Figure 1 Data structure



first-order codes or materially altered the structure of the second-order categories and aggregate dimensions. Once continued analysis produced no substantive changes to the coding structure, I treated the framework as sufficiently stabilised for reporting. Triangulation enhanced validity, as interview-derived insights were triangulated with secondary data. For example, narratives of managerial interventions such as Works Council supplier visits were corroborated with media reports. Discrepancies and divergent interpretations, including contrasting managerial and NGO viewpoints, were explicitly acknowledged, contributing to a nuanced understanding of the complex institutional dynamics at play.

Findings

Dual strategy: Minimalist adaptation and progressive compliance

The German MNC in China uses a dual strategy for managing labour relations, which is characterised by a blend of minimalist adaptation to local practices and progressive compliance driven by international norms. On one hand, the company conforms to China's individualistic and management-centric employment relations system, operating largely within the institutional boundaries of the enterprise union system. On the other hand, the firm has introduced additional measures to proactively uphold human and labour rights in its operations and supply chain – a more progressive stance influenced by home-country standards and global compliance pressures. This dual configuration is presented as an empirically grounded categorisation of observed practices and organisational mechanisms in the case.

Minimalist adaptation to local labour regime

In its day-to-day operations, the case company largely follows common practices of foreign firms in China, which means limited formal collective bargaining and a focus on direct management control. Notably, the company does not maintain a dedicated labour relations or industrial relations manager in its China subsidiaries – a role that it does have in countries with strong union systems. One HR manager explained that formal negotiations with the union are infrequent and largely perfunctory:

> When the company needs to negotiate a collective contract, colleagues from the union and the management side might sit down to discuss it. There is no need to have a dedicated labour relations position [...] In practice, the collective agreement is often a formality, and once signed, it might not change for ten years. [...] When it comes to annual salary increases, there's no need for the company's management to negotiate with the union. (Interviewee 3)

This statement reflects how collective bargaining in the firm is treated as a tick-the-box exercise to meet legal requirements, rather than a genuine process of worker-management dialogue. Indeed, Chinese labour law mandates that enterprises with unions should sign collective contracts, but in this MNC's case the content of those contracts is minimal and static.

Interviewees noted that the individual employment contract is the primary instrument governing wages and conditions, consistent with Chinese norms. As one manager contrasted, a typical German collective agreement can exceed 100 pages with detailed provisions, whereas:

> [...] a Chinese collective contract might only be 25 pages [...] outlining basic protections like a 40-hour workweek and minimum wage. It's impossible to list out wages for each grade as in Germany – the individual contract is much more important, and the collective contract is just a framework, a kind of minimum guarantee. (Interviewee 3)

In short, the company does the legal minimum for collective agreements in China, relying on direct employer-employee arrangements for specifics. This minimalist stance is enabled by China's environment, where unions have neither the power nor the independence to push for more.

The role of the enterprise union at the case company has accordingly been marginalised to welfare functions. Multiple interviewees (both managers and experts) described the union as chiefly organising employee benefits, recreational activities, and distributing mandated welfare funds – all under the close watch of higher-level (district or provincial) ACFTU chapters. "Unions in China are primarily welfare unions", explained one manager:

> [...] and there are specific regulations that guide the distribution of benefits and the organisation of activities, which require the oversight of higher-level unions [...] When we're uncertain about these things, we need guidance from the higher-level union to tell us what's permissible and how to proceed. (Interviewee 3)

This welfare-oriented role is consistent with the literature, which emphasises that workplace unions frequently prioritise welfare provision, mediation and stability maintenance over adversarial bargaining and independent representation, particularly in private and foreign-invested firms (Friedman and Lee, 2010; Yao and Zhong, 2013). Importantly, it does not imply that workplace unions have no effects; rather, it shows that their effects are often channelled through welfare provision and problem-solving within politically bounded parameters, rather than through autonomous collective bargaining (Yao and Zhong, 2013).

The company's union is not entirely an independent actor but effectively an administrative arm. The union chairperson at the wholly owned subsidiary is elected by employees (to comply with law) but typically is a mid-level manager who works closely with HR. In the company's JVs with Chinese state-owned partners, the union is even more closely tied to the Party apparatus – often the union chair is the Communist Party Secretary of the plant. In such JV settings, as interviewees confirmed, the union serves as an extension of management/party, not as a voice for workers. Consequently, from the MNC's perspective, engaging the union in collective disputes or negotiations is largely futile, and the firm's strategy is to handle labour issues through management channels.

One adaptive tactic the company uses is to maintain direct lines of communication with the ACFTU hierarchy outside the formal enterprise union structure. A government relations specialist in the company acts as a liaison with union officials to ensure the company is seen as cooperative. The purpose is more about diplomacy than resolving labour grievances. As a manager described, *"Through our own government relations department, we communicate directly with the ACFTU, but it's more of an exchange and dialogue."* These interactions – luncheons, courtesy meetings, participation in ACFTU events – help the MNC stay in the good graces of the official labour authorities, which can be crucial for avoiding unwanted attention. They do not, however, translate into the ACFTU intervening on behalf of workers at this company (which would be outside its typical function). In essence, the MNC has adapted by treating the union and ACFTU as stakeholders to be managed, rather than partners in industrial relations.

Progressive compliance measures

Despite the minimalist internal approach, the company has simultaneously implemented a set of forward-looking practices aimed at mitigating labour rights risks in its operations and supply chain. This proactive stance has been driven largely by external pressure – both from the MNC's head office in Germany, which is attuned to global norms, and from the changing regulatory climate in Europe. The case company established a dedicated human rights due diligence team within its procurement department, tasked with overseeing labour standards across its global supply chain (including China). This team monitors supplier compliance, conducts risk assessments and coordinates audits. By instituting such a function, the company goes beyond what Chinese law requires (which is very limited in terms of supply chain responsibility) and aligns with the expectations of laws like the LkSG and EU Directive.

Concretely, the MNC has rolled out several mechanisms in China as part of this progressive compliance strategy.

Grievance mechanisms: The company created channels through which both its own employees and workers in its supply chain (e.g. at supplier factories) can report labour issues or human rights concerns anonymously. This includes hotlines and email portals accessible in local languages. Such grievance systems are recommended by the UN Guiding Principles and now mandated by some due diligence laws. According to interviewees, a few complaints have indeed come through these channels in China – for instance, reports about excessive overtime at a supplier – which the company's team then investigated. While it is challenging to publicise these channels in supplier factories (due to fear of retaliation or unfamiliarity), the very existence of a formal mechanism is a step not typically seen among firms only following Chinese regulations.

Audits and monitoring: The case company conducts regular audits of its Chinese operations and key suppliers on labour and safety criteria. Some audits are internal, led by the due diligence team, and others involve third-party auditors for more impartial assessments. One manager noted that since 2021, they intensified audit frequency because of heightened international scrutiny. The audits check compliance with the company's code of conduct (which covers things like working hours, no child or forced labour and freedom of association). Interviewees admitted that auditing in China, especially on issues like freedom of association or forced labour, has limits. Nonetheless, by instituting a formal audit programme, the company signals internally and to stakeholders that it is actively looking for red flags rather than assuming all is well.

Supply chain standards and training: The MNC updated its supplier code of conduct to explicitly reference international human rights and labour standards. Suppliers are required to agree to these terms via contract. The company also offered training sessions for major Chinese suppliers to explain the expectations (e.g. prohibiting use of forced labour, ensuring safe workplaces). This again is not mandated by Chinese authorities but comes from global best practice. According to an expert I interviewed, many Chinese suppliers initially view such requirements as "Western compliance formalities", but the company has tried to communicate that failure to meet them could jeopardise business and create legal risk exposure under extra-territorial regulatory regimes (for example, products being blocked from European or US markets).

These progressive measures illustrate an attempt by the case company to "import" elements of its home-country ethics and the emerging international compliance norms into its Chinese operations. A senior executive from headquarters made it clear in an internal memo (shared by an interviewee) that the firm must compensate for gaps in China's enforcement with its own oversight: "*We know local governance in some regions doesn't effectively protect labour rights – so we have to fill that void if we want to avoid serious risks.*" This sentiment encapsulates the motivation behind the progressive strategy.

It is important to note that these added measures are voluntary from the Chinese legal standpoint – they are done because of foreign stakeholders (German works council, EU regulators, NGOs, etc.), not due to demands by Chinese workers or unions. In fact, local employees in China may not even be fully aware of the audits or global policies; they primarily care about their immediate employment terms. Thus, the progressive strategy is somewhat top-down and externally oriented, in contrast to the bottom-up nature of organic worker representation that might drive change in a pluralist industrial relations setting.

Cross-border communication on supply chain labour relations

Transnational engagement: leveraging the German Works Council

A distinctive aspect of this case is the active role played by the company's German Works Council (an employee representative body at headquarters) in labour relations issues related to China. The presence of a strong Works Council and union infrastructure on the home side has led to a form of transnational engagement that is not common for all MNCs. Over the past 15 years, the German Works Council grew increasingly concerned about labour conditions in the China operations, worrying that exploitative practices abroad could undercut standards and jobs in Germany. This prompted a series of interactions and interventions that have significantly influenced the company's approach in China.

One major initiative was the creation of a formal China Liaison Committee by the German Works Council in the late 2000s. This committee serves as a platform for regular dialogue between German and Chinese labour representatives. According to an interviewee from the HR department:

> The committee meets twice a year. German Works Council representatives attend, as do the Chinese union chairpersons. On the HR side, the international HR department from Germany and the VP of HR in China also participate. Through this platform, the two sides engage in communication and exchange.

Initially, these meetings were fraught with mutual mistrust – the Germans viewed Chinese unions as lackeys of management, while Chinese representatives were wary of foreign interference. Early discussions often hit a wall due to fundamental political differences (e.g. German side raising freedom of association, which Chinese side could not acknowledge). However, over time the focus shifted to more practical issues. Since around 2013, the dialogue has emphasised concrete labour relations topics (safety, training, wages) rather than abstract rights.

Through this sustained engagement, the German side managed to transfer some of its practices and values to the Chinese context in subtle ways. For instance, the Works Council organised exchange visits: Chinese union delegates were brought to Germany to see how worker representation and health & safety committees function in the home plants. One interviewee recounted showing Chinese visitors the plant's on-site medical clinic and independent fire brigade, as examples of advanced labour welfare provisions. They also discussed differences in pay structures – highlighting that in Germany, the bulk of income is fixed wage with modest bonuses, whereas in China pay is heavily performance-based with potentially "24 or even 36 months' salary" as bonus, creating instability for workers. By exposing these contrasts, the German representatives gently advocated for more stable, predictable wage systems in China. According to the interviewees, some Chinese counterparts were receptive and even implemented small changes (e.g. a JV plant agreeing to increase the base wage proportion in its next compensation review). While these changes are not dramatic, they represent instances of soft influence facilitated by transnational communication. Prior literature calls such agreements International Framework Agreements or social dialogue (Whittall *et al.*, 2017; Hammer, 2005; Riisgaard, 2005); in this case, it is more informal but aligns with that spirit.

Crucially, the Works Council did not rely on soft influence alone. It also wielded hard influence when deemed necessary. Under Germany's co-determination system, the Works Council holds significant sway over corporate decisions, including those involving foreign subsidiaries. One tactic mentioned was leveraging the Works Council's authority to approve certain investments or budgets: if labour issues in China were not addressed, the Works Council could theoretically stall or oppose related decisions at the board level. As one interviewee described:

> If a Chinese union chairperson is a mid-level manager, the German Works Council can influence them by approaching their superiors, or even the CEO in China. The manager will then take action. [...] If labour relations aren't handled well, we can cause trouble in the financial side of things. It's all part of [...] negotiation and exchange, where both sides cooperate to achieve their goals.

This quote reveals that the Works Council was willing to escalate issues up the hierarchy, using the fact that German executives ultimately oversee Chinese operations. Essentially, the message to Chinese management was: fix labour problems (or keep standards high), otherwise headquarters might intervene in ways that could affect careers or funding.

One notable example of this dynamic was when allegations surfaced about a joint-venture partner-linked facility within the focal firm's supply chain potentially using forced labour. The German Works Council, cognisant of the reputational stakes, pressed corporate leadership to act swiftly. The company dispatched a team – including Works Council delegates – to the Chinese facility in question to investigate. This was not the focal firm's wholly owned subsidiary; the allegation concerned a facility associated with a partner and/or supplier where the focal MNC's contractual leverage was indirect. The visit took place with the cooperation of the local partner, and the focal firm treated the episode as a due diligence investigation triggered by a credible risk signal. An interviewee recounted that the Chinese JV partner, understanding the gravity (and perhaps under subtle pressure from the government to clear the company's name), cooperated by allowing an on-site inspection that ultimately "cleared up concerns." While details are confidential, the incident demonstrated the Works Council's role as a watchdog: it did not wait for proof of wrongdoing but insisted on due diligence at the first sign of risk. This aligns with external expectations from NGOs and regulators. Indeed, a Works Council member explicitly stated in a press release that the company "must take a clear stance on human rights violations in China", underscoring that internal employee representatives see protecting labour rights as integral to the firm's values.

In summary, the transnational engagement via the German Works Council has yielded four key outcomes for the case company's China labour relations: (1) acknowledgement of fundamental institutional barriers (so the company is realistic about what Chinese unions can/cannot do); (2) establishment of formal communication channels that built trust and enabled sharing of best practices; (3) implementation of some improvements in areas like safety and wage structure, inspired by German standards; and (4) a robust oversight mechanism on human rights risks, where the Works Council can prompt investigations or corrective actions in China when serious issues arise. These mechanisms illustrate how home-country institutions can extend their reach into host-country operations, albeit in a careful, negotiated way. It's worth noting that these strategies required willingness on both sides – the Chinese side had to be open to dialogue, which was likely influenced by the importance of the partnership and perhaps encouragement from Chinese higher authorities to maintain the JV harmony.

Managing labour rights risks under geopolitical scrutiny

Managing labour relations in China has become even more delicate as geopolitical tensions heighten scrutiny of human rights issues. The case company has adopted a pragmatic risk management approach in response to the international spotlight on China's labour practices. Interviewees outlined a three-pronged strategy the firm uses when dealing with allegations or risks related to labour rights.

Avoidance of high-risk programmes: The company consciously avoids involvement in certain government-led initiatives that, while not illegal, carry reputational risk due to potential rights concerns. One example given was China's poverty alleviation. These programmes have been "accused of involving forced labour" by international human rights NGOs, so the MNC decided not to participate in related partnerships or supplier arrangements. The company also steered clear of public endorsements of government social programmes that might later be linked to coercion. This risk-avoidance stance sometimes put it at odds with local officials' requests, but managers felt it was necessary to protect the brand internationally. It illustrates how geopolitical context directly influences corporate decisions on the ground.

Grievance mechanisms and whistleblowing: As noted, the firm set up channels for human rights complaints. When issues are raised – whether through these channels, via NGOs or media reports – the company's policy is to respond with thorough investigations. A manager stressed that they take a "constructive approach, asking whether there is an issue, and cooperating to investigate" any allegations. Importantly, there is a degree of scepticism towards external accusations; the interviewee added that "media or human rights organisations' accusations are often politically motivated", so the company seeks "solid, credible evidence" before confirming a problem. This reveals the tightrope the company walks: it cannot dismiss claims outright (since that would be seen as ignoring human rights), but it also does not accept all claims at face value, mindful that some might be part of geopolitical agendas. Nonetheless, by committing to investigate, the MNC demonstrates a form of accountability. In one instance, an NGO alleged that a supplier was exploiting Chinese student interns; the company's team audited the facility, interviewed workers and ultimately required the supplier to adjust its internship programme to comply with labour laws (per an expert I spoke with).

Evidence-based engagement with partners: The toughest scenario is when a labour rights issue is suspected at a JV or sub-supplier where the company lacks full control. Here, the MNC's policy is to gather evidence first, then engage the partner. An interviewee from the procurement team explained the limitation: "If I can't prove that my partner is involved in something like forced labour, I can't accuse them or demand action." This was precisely the challenge in the case of the alleged labour rights violation at a JV supplier – until the Works Council's push enabled an on-site visit, the company didn't have "smoking gun" evidence, so it felt constrained in approaching the Chinese partner's management. The quote underscores a reality of due diligence: without conclusive proof, the company risks both a false accusation and straining business relationships. Therefore, the approach is to quietly investigate (sometimes hiring third-party investigators) and, if something is found, then use diplomacy or leverage to induce the partner to remedy it. This cautious strategy is partly influenced by the Chinese context, where accusing a partner (especially a state-affiliated one) of labour rights violation is sensitive and could have legal or political repercussions if the accusation proves unfounded.

During my research, the case company did face a labour rights violation controversy in its supply chain, which became a

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real-world test of its risk management strategy. Public reports and the interviews confirmed that when allegations emerged, the German Works Council and headquarters swiftly intervened. The company sent representatives to the site, and under that pressure, the local partner agreed to an on-site investigation. While the findings were not made public, company sources indicated that no definitive evidence of labour rights violation was found at that particular facility – but the exercise prompted the MNC to discontinue sourcing from that region altogether as a preventive measure. This incident highlights both the value and limitations of the company's approach: thanks to internal and external scrutiny, the issue was not ignored, but the resolution (ceasing business in a problematic area) came at the cost of altering supply lines.

Overall, the case company's management of labour rights risks in China can be seen as reactive but improving. Ten years ago, such issues might have been swept under the rug; now they trigger dedicated responses, albeit within the company's cautious, evidence-focused framework. The German Works Council's involvement has clearly strengthened the responsiveness – giving an internal impetus aligned with what global civil society would demand. Yet, there remain structural constraints. In wholly owned operations, the MNC can directly implement fixes, but in JVs or deep supplier networks, it must rely on persuasion and monitoring.

Discussion

Navigating China's context: limitations and adaptations

The findings from the case study highlight how China's politically bounded labour governance system shapes MNCs' labour relations strategies, often producing a dual approach. The minimalist–progressive configuration identified in the German MNC reflects a balancing act between compliance with host-country institutional constraints and alignment with home-country expectations and extra-territorial due diligence requirements. Rather than treating this as a paradox of "rule of law" versus "weak governance", the case suggests a more specific mechanism: formal legal requirements for collective contracts and dispute resolution exist, yet the organisational conditions for autonomous worker representation and independent remedy remain politically bounded, which limits the practical leverage of workplace institutions and channels conflict into management-led administration. This combination creates a setting in which an MNC can maintain relatively stable production with limited open contestation while simultaneously facing heightened external scrutiny regarding labour rights risks.

The choice of minimalist adaptation in day-to-day labour relations is best understood as a response to institutional feasibility and risk distribution. In the case, collective bargaining is treated as legally required but organisationally non-central; the firm relies on individual employment contracts and management-led arrangements because these are the dominant and administratively workable instruments in the local labour regime. This is not necessarily equivalent to a deliberate attempt to weaken labour standards; rather, it reflects a judgement about what forms of labour governance can be institutionalised inside a politically constrained labour system. However, the case also indicates that minimalist adaptation has predictable consequences: when worker voice and remedy are constrained, labour problems may be less visible to management and external stakeholders until they escalate, and firm-centred instruments may be insufficient to detect or correct harms embedded in subcontracting, recruitment or politically sensitive contexts. This is precisely why the literature has cautioned that voluntary codes and basic compliance efforts rarely strengthen collective representation or change underlying power relations – particularly where freedom of association is politically bounded (Egels-Zandén and Merk, 2014; Lund-Thomsen and Lindgreen, 2014; Gold *et al.*, 2015).

The case demonstrates that German companies' labour strategies in China carry significant limitations. The minimalist approach, by sticking only to what Chinese law and institutions require, fails to push for improvements that could protect workers. It meets the "letter of the law" in China but not the spirit of the international labour norms that the same company espouses at home. For instance, while legal in China, letting collective agreements remain static for long periods or maintaining enterprise unions primarily as welfare-oriented bodies means employees have limited institutionalised channels to influence wage setting and conditions. In this sense, minimalist adaptation may amplify an existing power asymmetry even when it is organisationally "rational": the firm benefits from the predictability of management-led governance, while workers face constrained avenues for collective voice and remedy. The case therefore supports a core implication of global supply chain governance scholarship: without countervailing institutions and enforceable stakeholder leverage, corporate self-regulation tends to plateau and improvements in labour outcomes are unlikely to emerge endogenously (Campbell, 2007; Egels-Zandén and Merk, 2014).

At the same time, the progressive compliance measures observed in the case highlight both their promise and their dependence on governance incentives and organisational capacity. The company implemented due diligence procedures – such as risk assessment, audits and grievance mechanisms – that extend beyond host-country legal requirements and are more consistent with evolving European expectations. These measures were not selected randomly; they correspond to the "toolkit" that is legible to home-country stakeholders and increasingly expected under due diligence regimes – namely, auditable processes, documented risk analysis and formal channels for complaints and remediation. Yet the case also shows the limits of such tools when local worker voice and independent verification are constrained. Where civil society and worker organisations cannot function as equal governance counterparts, progressive compliance becomes primarily an internalised compliance system. This can strengthen organisational learning and risk detection, but it also shifts the centre of gravity towards business risk management – an outcome consistent with concerns that due diligence may prioritise process compliance and corporate risk control rather than guaranteeing improved labour relations outcomes (Fasterling, 2017; Chambers and Vastardis, 2020).

In this case – where there is evidence of internal commitment and home-country institutional influence – transparency remains limited and the system relies heavily on internal

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monitoring. For firms that are less committed, or firms headquartered in countries where domestic labour regulation and enforcement are weaker than Germany's, the likelihood of purely symbolic adoption of grievance mechanisms, codes or audits may be higher. In such contexts, due diligence "systems" may exist formally without meaningful resourcing, worker access or escalation capacity. This possibility aligns with the broader critique of disclosure- and process-oriented governance regimes: where enforcement is weak, corporate compliance may concentrate on documentation rather than substantive labour governance (Fasterling, 2017; Chambers and Vastardis, 2020). Accordingly, variation in home-country regulatory strength and enforcement capacity should be treated as a key condition for the effectiveness of internal due diligence systems.

This is where mandatory supply chain due diligence legislation becomes analytically important. As noted, the European and German due diligence legislation provides an external framework that can bolster and verify what companies do. Indeed, an emerging consensus is that mandatory human rights due diligence requirements can drive more substantive corporate action on labour standards than voluntary CSR alone (Birchall and Bernaz, 2023; Chambers and Vastardis, 2020). In the case, these evolving standards are pushing the company in the right direction: the anticipation of legal liability and reputational damage has led to more rigorous risk management and transparency (e.g. being more forthcoming about supplier issues to regulators or investors). These laws strengthen expectations for stakeholder communication and oblige firms to address risks, and initial evidence suggests such pressure is yielding positive impacts (Buttke *et al.*, 2024; Schilling-Vacaflor and Lenschow, 2023). In this case, the relevance of these regimes lies less in a direct "improvement" requirement and more in how they reshape organisational priorities: they raise the costs of ignorance, strengthen internal mandates for procurement and compliance teams and create escalation pathways when credible risk signals emerge. The case therefore illustrates how due diligence obligations, home-country labour institutions and host-country constraints interact in practice: the host context makes collective representation difficult; home-country institutions (e.g. works council) increase internal accountability; and due diligence obligations provide a compliance rationale and organisational infrastructure for continuous risk work. This combination helps explain why the firm invests in formal mechanisms (audits, grievance channels, supplier standards) while remaining constrained in advancing collective bargaining or worker representation in China.

Overall, operating in a politically constrained context necessitates adaptive strategies, but those strategies have inherent shortcomings. The case illustrates a partial mitigation of labour rights risks through internal efforts and home-country institutional involvement, yet it also underscores the need for structural change beyond the firm. The company's experience suggests that a combination of internal commitment and external enforcement is required to truly safeguard labour rights. MNCs can navigate the local system to a point – for instance, by finding creative ways to give workers a voice (through home-country channels) or by policing their supply chains – but without changes in the host context or strong outside pressure, their impact is bounded. The contribution of the paper is thus not to claim a new "best practice" model, but to specify an analytical configuration and to show the organisational and institutional conditions under which this configuration is likely to emerge and where its limits lie.

The role of cross-border communication and home-host synergy

Effective corporate human rights governance in a politically constrained host-country hinges heavily on transnational communication channels and a strong synergy between home and host entities. Research shows that when MNCs enable transnational employee voice – for example, through global works councils or similar cross-border dialogue forums – it can significantly strengthen knowledge exchange and trust within the firm (Fiedler *et al.*, 2020). In the present case, cross-border communication functions less as a general "participatory culture" and more as a governance mechanism: it establishes a routine forum for raising concerns, comparing labour governance practices and generating internal pressure for response when risk signals are credible. This is particularly consequential in settings where local worker voice is institutionally constrained.

In this case, regular engagement between the German works council, headquarters managers and Chinese union/management representatives created an internal oversight channel that exceeded host-country expectations. This mechanism matters because it alters the firm's internal accountability structure: issues that might remain local and manageable within the Chinese unit can be escalated to actors at headquarters with both normative commitments and formal leverage under co-determination arrangements. This aligns with prior work suggesting that home-country employee institutions can help amplify employee voice beyond national borders and shape MNC practice abroad (Whittall *et al.*, 2017). The findings also clarify why this mechanism is consequential for supply chain due diligence: it provides an internal route to trigger investigation and response even when external verification is politically sensitive and when local channels are not reliable for surfacing problems.

A second dimension of home–host synergy is the translation of home-country standards and institutional commitments into host-country practice. Literature suggests that an MNC's human rights orientation is shaped by home-country institutional environments, particularly where stakeholder-oriented governance arrangements are embedded (Detomasi, 2015; Edwards *et al.*, 2013; Ferner *et al.*, 2001). In coordinated market economies such as Germany, co-determination and collective bargaining institutions can travel through internal corporate governance, shaping how compliance priorities are defined and resourced overseas (Hall and Soskice, 2001; Tüselmann *et al.*, 2010). In this case, this influence is visible in two linked ways:

1. the works council's capacity to demand information and press for action; and
2. the integration of due diligence roles into procurement and compliance structures that are accountable to headquarters expectations and external regulatory demands.

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Importantly, however, the case also shows that home-country leverage does not eliminate host-country constraints: it can intensify monitoring and response capacity, but it cannot easily generate independent representation or collective bargaining where these are politically bounded. This suggests a nuanced implication for supply chain governance: transnational mechanisms can partially compensate for constrained local voice, but they remain contingent on both organisational willingness and the institutionalised leverage of home-country actors.

Finally, sustaining cross-border communication is not costless. In politically constrained contexts, local employees may hesitate to raise concerns, and local managers may perceive transnational scrutiny as risky. Here, home-country support and regulatory incentives interact: due diligence requirements create formal reasons to build reporting channels and investigate risk signals, while home-country employee institutions can provide pressure and legitimacy for escalation. The novelty of this case for the supply chain governance literature is therefore comparative and configurational: it specifies how a co-determination-intensive home-country institution, operating alongside mandatory due diligence expectations, can reshape an MNC's internal governance of labour rights risks in an politically constrained host labour regime – without implying that this configuration automatically produces improved labour relations outcomes. The case thus contributes to a more precise understanding of what corporate human rights governance can realistically achieve under political constraint, and which institutional levers most plausibly expand organisational responsiveness.

Conclusion

This study has examined how a German MNC manages labour relations in China's complex political and regulatory context. The case of the German automotive MNC illustrates a configuration that combines minimalist adaptation to host-country institutional constraints with progressive, home-country-driven due diligence measures to navigate cross-border governance tensions. Rather than framing the firm's approach as an outright contestation of China's politically bounded labour governance, the analysis shows how the company operates within local legal and organisational boundaries – where enterprise unions are state-linked and collective bargaining is legally present but organisationally non-central – while simultaneously implementing internal due diligence processes and engaging home-country governance channels (e.g. employee representation) that strengthen internal accountability. Accordingly, the paper's contribution is not a "model" of ethical labour management, but an analytical specification of how this minimalist–progressive configuration can arise, how it is coordinated organisationally, and where its limits lie under political constraint.

The findings contribute to the discourse on business ethics and supply chain management in several ways. Firstly, they provide an empirically grounded analytical framework for understanding how MNCs organise labour governance and due diligence practices in environments where workplace representation and independent remedy are politically bounded. Rather than presenting a prescriptive "toolkit", the study differentiates four recurrent elements in the case – minimalist adaptation, progressive compliance practices, transnational employee-representation engagement and risk-triggered escalation – showing how these elements interact and under what conditions they are likely to co-occur. This contribution speaks directly to research emphasising that labour outcomes are shaped at the point of production through the interaction of local labour regimes and transnational governance arrangements, and that firm-level instruments must be understood in relation to those institutional conditions (Baglioni *et al.*, 2022; Campling *et al.*, 2021; Short *et al.*, 2020).

Secondly, the case underlines the importance of emerging regulatory regimes in shaping corporate behaviour. The company's experience shows that laws such as the EU CSDDD and Germany's LkSG restructure internal priorities and escalation pathways by increasing the costs of inattention to labour-rights risks and strengthening mandates for procurement and compliance functions (Chambers and Vastardis, 2020; Buttke *et al.*, 2024). This dynamic is particularly visible when home-country labour institutions possess formal leverage, enabling internal actors (e.g. works councils) to press for investigation and response when risk signals emerge.

However, the study also reveals the limits of firm-centred corporate action in a challenging political context. The MNC's adaptive strategies, while potentially improving risk detection and internal responsiveness, do not fully resolve power asymmetries that restrict worker voice and constrain external oversight. Ultimate accountability for labour rights in such contexts may require sustained external monitoring and enforcement beyond what any single company can do. Indeed, analyses of labour exploitation in global supply chains underscore that no single firm can root out abuses without broader systemic changes and multi-actor interventions (Gold *et al.*, 2015). The case company's reliance on its own governance and the German Works Council's involvement may partially compensate for constrained local voice, but it cannot completely substitute for unions or civil society organisations. The broader implication is therefore conditional: due diligence-oriented corporate governance may expand organisational responsiveness, yet it remains bounded by host-country political constraints and by the strength of home-country (employee-representation) institutions (Whittall *et al.*, 2017) and regulatory oversight and enforcement (Fasterling, 2017; Chambers and Vastardis, 2020).

For practitioners, the case provides implications. MNCs operating in politically complex contexts may need to combine baseline compliance with host-country requirements with well-resourced due diligence processes and clear internal escalation routes. Engagement with official local bodies can be operationally important, but firms should avoid treating the appearance of stability as evidence of low risk, particularly where worker voice and remedy are constrained. The case also indicates that home-country employee representation can function as an internal accountability mechanism that complements due diligence systems, especially in triggering investigation and response in cross-border supply chains.

This research has some limitations. It focused on a single company and one host-country context, which may limit generalisability. Future research could conduct comparative studies of multiple MNCs or different industry sectors in China to see if similar strategies are used or if outcomes differ. Additionally, the perspective of Chinese workers themselves was not directly captured due to access and trust issues; incorporating worker viewpoints (perhaps via anonymous surveys or third-party interviews) would enrich the understanding of how effective these corporate strategies are at ground level. Despite these limitations, the case offers a timely snapshot of how a European MNC organises labour governance under combined host-country constraint and extra-territorial due diligence pressure.

As global supply chains continue to draw legal and public scrutiny, the experiences of German MNCs in China help clarify what corporate human rights governance can realistically achieve under institutional constraint. Incremental expansion of internal monitoring is possible even where labour institutions are restricted, but it also demonstrates why improvements in labour outcomes cannot be assumed from procedural compliance alone (Smit *et al.*, 2021; McCorquodale *et al.*, 2017). Rather than offering optimism about progress, the paper specifies the institutional levers most plausibly associated with greater organisational responsiveness – mandatory due diligence expectations and home-country employee-representation leverage – while emphasising the structural limits that remain in politically bounded labour regimes.

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