Abstract

Private gatekeeping institutions, from credit rating agencies in financial regulation to supply chain auditors in private transnational regulation, are important players in contemporary regulatory regimes. Yet little is known about what influences the decisions of the individual accountants, auditors, analysts, and attorneys who interpret and apply the rules embodied in the regulatory schemes they help to implement. Drawing on insights from the literatures on street-level bureaucracy and on regulatory and audit design, we theorize and investigate the economic incentives and social institutions that shape key gatekeeping decisions. We find evidence to support those who have argued that gatekeepers’ decisions are influenced by financial conflicts of interest. But we also find evidence that their decisions are shaped by a number of social factors, including an auditor’s experience, gender, and professional training, ongoing relationships between auditors and audited factories, and gender diversity on audit teams. By demonstrating the importance of both economic incentives and social institutions to gatekeeping decisions, our research significantly extends the gatekeeping literature’s narrow focus on economic incentives. By providing the first comprehensive and systematic study of supply chain auditing practices, our findings also suggest strategies to design private regulatory regimes that will more effectively detect and prevent corporate wrongdoing.