

Social Auditing and Responsible Outsourcing: Improving a Sustainable Global Supply Chain

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Abstract:

Outsourcing is increasingly considered as a value creation that can provide companies with a long-lasting competitive advantage. Regrettably, many social and environmental impacts continue to plague the global supply chain, creating scandals for the buying companies. Failure to manage these impacts has increased the risk of non-compliance, which in turn harms the company's reputation. Given the absence of a global enforcement mechanism and the regulation deficit of many developing countries, pressures have led many companies to develop CSR initiatives and a variety of monitoring mechanisms. Realising the difficulties in managing external relationships with independent suppliers operating in different contexts, the question is how a company can hold their suppliers responsible and whether the social auditing, embraced as a monitoring mechanism, is efficient in improving a sustainable outsourcing. The present contribution tries to address many of the issues raised. Firstly, a short description of the different underlying causes of 'unsustainable' outsourcing is provided. Secondly, the scope and typology of social auditing and the quality of auditors are reviewed, and different aspects of the social auditing process are highlighted. Finally, the paper evaluates the credibility and effectiveness of the social auditing and outlines what this mechanism has to offer in relation to the core question of promoting a sustainable global supply chain.

Key words: Global Supply Chain, Sustainability, Social Auditing, compliance.

Introduction:

A distinguishing characteristic of the current phase of globalization is that economic activity is not only global in scope, but also in organization. Falling barriers to trade and investment and advances in communication technologies and management systems made it possible to locate production processes in different countries in order to take advantage of lower costs, the availability of raw materials, and more favourable policy environments. In today's competitive environment, pressures to increase sales on the outbound side and to lower costs and improve supplier performance on the inbound side continue to rise (Carter, 2001). As a result, a growing proportion of production is functionally integrated into global production systems for supply to global markets, and all cross-border production lines are coordinated on a global basis (Courville, 2001). This change produces a *qualitatively* different level of global economic integration (Gereffi, 2004) and complex supply chains (NZBCSD, 2003). And despite the fact that such a structure makes it difficult for a company to handle the whole supplier network and thus increases the complexity of purchasing (Corswant/Fredriksson 2002), outsourcing is gradually more considered as a value creation that can provide multinational companies with success and long-lasting competitive advantage.

Such evolution holds regrettably important social and environmental implications and a growing concern currently exists about the inherent tensions between market pressures and sustainability of the global supply chain. Despite stated intentions of multinational corporations to recognize sustainability issues, the realities of trade agreements (Barbaro, 2006), lobbying efforts, free trade zones, and general market pressures to remain competitive in the global market present consistent challenges. These tensions are exacerbated by unrewarding tax systems, conflicting laws and regulations, unrealistic targets for speed and quality, and short term planning. In many sectors (*i.e.* textiles and toy industries), the labour market is gradually more flexible and subcontractor relationships are widespread. Many pressures (price, flexibility, unrealistic time frames and expectations of quality, coupled with lack of education, knowledge, weak voice and negotiating power) are often more enhanced

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when passed down the global supply chain. In addition, no consistent mechanisms exist at present to identify or correct abuses at the informal levels (Casey, 2006).

This fact represents a significant risk to a company's reputation and its attractiveness on the sales market, because it has to take the responsibility for its suppliers in front of the different stakeholders (Lawrence, 2002). The saturation, fragmentation, and deregulation of established markets, as well as the intensification of competitive pressure render this reputation even more important, especially for publicly visible companies. In general, the NGOs, media, consumers, investors, governments and trade unions are becoming increasingly vocal in their questioning of the conditions under which goods are manufactured (ILO, 2006). NGOs, scrutiny of 24-hour news, and the Internet consistently uncover 'unsustainable' practices across the global supply chains, and reveal how companies make money from these unjust circumstances (Graafland, 2002). As a result, companies are growingly required to come to terms with these practices as well as finding ways to manage the inherited risks. On the one hand, they have to ensure manufacturing of products without creating environmental damage or disobeying social standards (Seuring 2004), and on the other to integrate sustainability aspects in supply policies (Com. European Communities, 2002).

Numerous definitions of the terms '*sustainable*' and '*supply chain*' have been suggested. For the purposes of this study, the following definition is adopted: "*Management of raw materials and services from suppliers to manufacturer/service provider to customer and back with improvement of the social and environmental impacts explicitly considered*" (NZBCSD, 2003). Why does it really matter to develop a sustainable global supply chain? In all sectors, quality and costs, the traditional competitive differentiators, have become broadly similar across many suppliers. One way in which companies can differentiate themselves, reduce costs and improve service and reputation is to consider the sustainability of the supply chains.

Actually, the demand for sustainability and social accountability is clearly on the rise. Companies are more than ever required to care for one's reputation, especially under combined pressure of boycott and denunciation risks. As a response to market incentives rather than regulatory compulsion (Diller, 1999), many of them are coming up with voluntary CSR policies to prevent abuses. These flexible initiatives that normally go beyond legal requirements aspire to produce an overall positive impact on society. Motivations ranged generally from a desire for green image upgrade, an interest in implementing risk-reduction strategies, and a need to address shareholders concerns (Houlder, 2001). In addition, one of the primary drivers of CSR is the need for companies to manage risk across several countries, cultures and socio-political situations (Ferro, 2004). Thus, the set of stakeholders and issues which companies consider strategically important is expanding from those most closely associated and protected by legal accountability to those further removed (such as suppliers).

And despite the fact that CSR is advancing slowly as a counterculture to the long established idea of private and free enterprise, CSR instruments have multiplied and we are a bit less fixated on corporate self-regulation and whether a company simply should have an environmental policy or a code of conduct. Companies start in effect to look at their supply chains to enhance their overall sustainability profile (Hall, 2000), and perceived themselves as important actors in this process (Koplin, 2007). As a consequence, tools has been adopted to identify new criteria for supplier selection and evaluation, aiming at the integration of sustainability guidelines as well as the implementation of related control mechanisms and compliance stimuli. These requirements are then passed on to suppliers (Zhu et al, 2005).

In this perspective, social auditing is considered as one of the most innovative and encouraging strategies to emerge in recent years, but it also reveal just how tough it can be to rein in the corporate beast (Cox, 1998). This control mechanism, in addition to dialogue with stakeholders, involves reporting on that dialogue and on what the company has achieved in

relation to its stakeholders and where it is trying to go. It can be considered, both in the narrow sense of checking workplace conditions, and in the broader sense of assessing the state of a company's social and environmental management system, and its progress against a range of indicators or targets, through mechanisms like company reporting, external monitoring, verification and certification (Utting, 2005:1). A number of major companies have been using this tool and even if the quality of current social reports varies considerably, the practicality of doing it is fairly well established. According to the European Federation of Accountants, "*it is perhaps worse for a company to implement a code of conduct and not monitor its use than it is to have no code of conduct at all*" (FEE, 2005: 6). Hence, social auditing is increasingly becoming an important monitoring mechanism of standards, and auditing activities has grown rapidly in recent years, involving various actors. And despite the fact that auditing the global supply chain is undoubtedly an important and tough issue, because of complication due to distance, different cultural contexts and interests, complexity of suppliers' network, and strategic significance, there is now a strong need for increasing management and auditing of the whole supply chain to improve the compliance feature.

However, social auditing has been suspected as a marketing tool¹, a way to deceive the public, a merely form of risk assessment and a protectionism policy to limit foreign investment flows to developing countries. A related debate over codes of conduct and social auditing focuses on whether those conducting the compliance audits can be trusted to make accurate and honest assessments of supplier conditions and transparently report their findings (Locke, Kochan, Romis, Qin, 2007). Critics identify a number of important conflicts of interest that exist among the key actors involved in this process. According to some opinions, social auditing is also less efficient and often don't provide a good picture of the real state of compliance. It tends generally to be short on meaningful indicators to measure performance and impacts, and isn't particularly useful for assessing how positive CSR initiatives are faring in relation to negative social performance (Utting, 2005:2). In general terms, concern about the credibility and effectiveness of social auditing has been a major issue in the public debate about CSR instruments. Social auditing is still understood as a mere tool for companies to demonstrate compliance to market or civil society regulatory demands, as opposed to a critical function in helping to shape social change in the private sector. It is certainly a useful, productive, and dynamic tool, but a tool that is considered as imperfect (Casey, 2006).

This perception of social auditing, especially in the context of global supply chain, raises many questions such as: How can sustainability values be integrated into the global supply policies and what social auditing has to offer with this regard? What are the drivers and motivations of auditing global supply chain and what are its effective outcomes in relation with sustainability? Who is determining the standard-setting process and how? Who should be involved to guarantee both legality and legitimacy? Who should perform the social auditing? Who should pay for the audits performed? Social auditing of global supply chain should be mandatory or voluntary (Dennis, 2007)? Do the audited companies have any commitment to societal needs? Is there any convergence or divergence between social auditing as a self-regulation mechanism and public regulation mechanisms?

This paper, based mostly on my professional experience as a social compliance consultant, is a contribution to this debate and addresses in four steps many of the issues raised. First, there is a short description of the different underlying causes of 'unsustainable' global supply chain. Secondly, the paper reviews on the one hand the scope and typology of social auditing and the

¹ "*Auditing is more about securing orders than improving the welfare of the workers, that is why the management only makes cosmetic changes to impress the auditors and not to better the conditions of workers.*" (Reported in Clean Clothes Campaign, 2005).

quality of auditors, and on the other hand highlights the different aspects and issues of the social auditing process. Finally, the paper evaluates the credibility and effectiveness of the social auditing and outlines what this mechanism has to offer in relation to the core question of promoting a sustainable global supply chain. Recommendations for more research and policy agenda will be provided whenever it is necessary.

I. Underlying Causes of ‘Unsustainable’ Global Supply Chain

Since the emergence of globalization, corporations have been able to reap large profits while keeping prices low for consumers. Average westerners can at present enjoy a variety of goods and services that are amazingly affordable compared to prices just several years ago. But the dark side of the globalization is the cruel exploitation of “sweatshop” labour conditions such as child labour¹, poor health and safety standards, forced pregnancy tests, indentured servitude, sexual harassment and abuse, excessive overtime and under compensation. It is currently no more a secret that millions people around the world suffer dangerous and abusive working conditions through the global supply chain. National and international labour standards, which render these practices illegal, do exist. The problem is that many countries where global supplier factories are located are either unable or simply unwilling to enforce their laws for one reason or another (Skouras, 2007). The nation-state, considered as the overwhelming legitimate vehicle for governance, is increasingly powerless to enforce the prevailing norms, nor are they able to move towards more stringent ones. The reasons include, among others, fears that this will affect their competitiveness in the global economy and the high cost of insuring compliance (Braithwaite and Drahos, 2000). This reality is behind the public regulation deficit in many developing countries which participates to global supply chain. As a result, multinational corporations have been able to take advantage of this situation without strong repercussions for a long period of time.

Moreover, competitive demands between developing countries to attract foreign investments push them to offer unnecessary environmental and labour concessions². Related to this is a concern that companies are abusing their market power, threatening to disinvest or pull a production contracts in order to secure the most favourable conditions in developing country labour markets. This situation is placing downward pressure on working conditions and undermining the bargaining position of national employers’ organizations. This challenge to national regulation has been compounded by the orthodoxy on the deregulation of labour markets which dominated development thinking during last decades. Part of the response to this regulatory deficit has been demand for new international regulatory frameworks (*i.e.* social clauses in WTO trade agreements). Some argue that these responses are not sufficient to protect workers and others see them as no more than protectionist reactions to prevent competition from low-wage countries (Hayter, 2004).

As market competitiveness is defined mostly by market criteria, several underlying causes can be market driven, and a high number of actors applying pressure within the market can be involved by establishing boundaries and influencing the process and performance of individual firms. In addition, the relationship between suppliers and buyers has profoundly shifted during last decades. In the past suppliers were the drivers of the supply chain, managing the pace of production processes. Today it is buyers that drive the agenda and successful suppliers are those who can meet customer demands in terms of quality and quantity as well as fulfil and deliver orders quickly (NZBCSD, 2003). Consequently, the push

¹ According to ILO estimates, there are in 2004 some 317.4 million children aged 5 to 17 engaged in some form of legal or illegal economic activity in the world, by reference to ILO Child Labour Conventions (ILO, 2006).

² For example there are particular concerns about the ‘loose’ regulatory framework for social and employment rights in Export Processing Zones (EPZs) and the widespread violations detected.

to meet production goals within the time constraints, directly leads to compliance problems: *i.e.* the terms of the standard supply agreement generally specify that the supplier pays air freight if he can't make delivery at time; when orders arrive late, suppliers often choose to work excessive hours rather than pay penalties (Casey, 2006). Thus, the comparatively weak negotiating position of suppliers is often an important cause of non-compliance. Suppliers can't influence significantly the terms of trade or buyer behaviour and consequently, the compromises that they make to keep or conclude contracts and to remain competitive are frequently passed down to the workers in the form of abuses (Casey, 2006). Sometimes, non-compliance is due to the feeble interest given by a supplier to the CSR or to limited bargaining power of the buyer against the supplier (Pedersen and Andersen, 2006).

According to a NGO survey¹, *“current sourcing strategies - premised on flexibility and fast turnaround - combined with lowering of unit costs, are significantly contributing to suppliers using exploitative employment practices”*. These practices refer to short-term contracts, piece rate pricing basis, decreases in wages coinciding with falling unit costs, restrictions on freedom of association, and forced or excessive overtime. The study noted that the failure to *“address the disparities between code of conduct commitments on the one hand and sourcing priorities on the other has meant that working conditions remain, by and large, exploitative.”* In addition, the commitments made by both the buyer and suppliers *“are viewed as something that can be derogated from in the normal run of business”*, leading to instances where compliance staff rationalize issues of non-compliance as exceptions, or workers fake compliance simply to pass inspection (Dhanarajan, 2007). Many suggest that as many as one of every two non-compliance issues can be traced back to the buyer.

The issue of cost is also of fundamental concern when discussing the causes of non-compliance. As well as the direct costs of making improvements, monitoring social compliance involves significant costs because independent auditors are often expensive, particularly where they involve international professional services firms. This is sometimes paid for by the buying company and sometimes by the supplier (especially for certification). Where suppliers are producing for a number of companies, each with their own social and environmental criteria, this can increase the burden (Raynard and Forstater, 2002:50). Meanwhile, when costs are set to high, only few companies will be able to access to social certification and benefit from market rewards. As a result, social compliance becomes growingly inaccessible to vulnerable companies who may benefit from such initiatives. The tension between accessibility through lowering costs and improving the quality of the auditing is currently a hard issue in many social auditing and certification systems².

Lack of education and lack of knowledge are also key underlying causes of non-compliance. Indeed, during many suppliers' audit operations, it's not always about monitoring, it's mostly about education. The lack of participation can also be considered as a key cause; a weakness that often links directly to lack of education and knowledge. Undeniably, there is currently wide agreement that workers are not yet sufficiently involved in the process of social compliance and that greater involvement by workers and increased engagement at the community level will alleviate underlying problems and drive systemic, effective solutions. In the absence of education, knowledge, participation and positive alternatives, workers have no choice but to surrender their rights in favour of economic imperatives.

¹ Conducted by Oxfam UK to review the working conditions in supply chains of over 20 factories, based on the premise that, despite the existence of monitoring programs, conditions of factories have remained unchanged.

² SAI's accreditation program is freely open, but there have been criticisms with respect to access because of high costs. Given this, SA8000 certification audits are not generally seen as a profitable activity by certification firms and most participate because it is seen to be important to have SA8000 in their standards portfolio, and income can be generated through conducting second-party SA8000 audits.

At the consumer level, the underlying causes relate to buying behaviour and an increasingly affordably affluent consumer market. In a recent survey by the World Bank on the business case for suppliers and governments in Cambodia, the surveyed companies indicated that consumer behaviour and preferences on this issue are inconsistent. The survey also indicated that consumers lack a consistent source of information from which they can make decisions and base their buying behaviour. *“When asked about consumer preferences, responses indicated that international labour standards are of ‘major’ or ‘moderate’ importance, but seemed to differ on how consumers know about or evaluate these issues. Answers indicated that this issue may be driven by media and/or public relations efforts”* (FIAS, 2004).

II. Social Auditing as a Tool within CSR Initiatives

Scope of Social Auditing:

What differentiates social auditing from other areas of auditing is the type of issues under assessment: The core focus is mainly labour rights referenced in ILO Conventions. Initiatives that focus on these issues tend to use the terms *social accountability* or *social responsibility* to represent the issues they address. It should also be noted many initiatives include within their scope both social and environmental concerns. Most recently, in order to address sustainability, there has been a trend to produce combined reports. While these follow largely the practices established by social auditing, it does emphasize the interconnectedness of sustainability issues and of the subtle nature of the risk that avoiding sustainability brings. However, most initiatives addressing both aspects tend to cover one much more thoroughly than the other. While there is trend to defend coverage of social and environmental issues with the end goal being sustainability, this does not necessary need to be integrated within the same initiative. Instead, initiatives with significant expertise in one area could work together with initiatives specialising in another area in innovative and complementary ways so that complete packages may be offered to the private sector companies (Courville, 2001).

Typology of Social Auditing:

Social auditing is one tool within the wider framework of the various CSR initiatives focusing on verification of information. The information that is the focus of verification can take a system-based approach (used in environmental or social accountability management systems) whereby the focus is placed on the process for addressing social accountability issues, or it can take the form of a performance assessment to a set of standards and indicators. A few initiatives integrate both process and performance benchmarks into their audit processes.

Another way of understanding the range of CSR initiatives that focus on verification is by core function and structure. Some based on the function of reporting¹. The role of social auditing in this context is to verify the validity of information or it may be process-based information, depending on how the company structures its report. This information may be verified by company itself (first party) or by a second party such as a hired consultant, an independent expert, or participative NGO representative. As companies are the decision makers with respect to what information is provided in their report, and given the lack of widely accepted standards and auditing methodologies in this category, there are few reporting systems involving independent third-party verification.

A second type of CSR initiatives is the social certification system where social auditing is most advanced. This system use social auditing as one component of its activity. Unlike reporting systems, social certification systems have definitive standards, usually based on

¹ This include systems such as Global Reporting Initiative with its suggested reporting framework and indicators across a range of stakeholders issues of interest and individual company social or sustainability reports.

widely accepted standards (such as ILO Conventions) and through some form of member or stakeholder discussion. To date, the standards of most social certification systems, while incorporating aspects of the management system process-based approach, include concrete performance benchmarks. In order to ensure independence of verification systems and to avoid conflicts of interest, standard-setting activities tend to be separated from implementation component of audit and certification processes. This can be accomplished through the establishment of institutional structures with two legally distinct entities.

Companies wishing to demonstrate to stakeholders that they comply with high standards can submit themselves to verification. The social auditing component verifies the compliance to the set of standards using a mix of methodological approaches, including documentation review, interviews, and site visits for visual verification. If successful, certification is granted. Once certified, a company has an independent third-party guarantee to its stakeholders that it complies with the standards. This is used as a communicative and marketing tool in a number of ways¹, depending on how the certification is structured (Courville, 2001).

A third category is learning initiatives which can be situated between reporting and certification systems, as their main purpose is to improve how social accountability issues are implemented, audited, and reported on. While they may have set well-developed standards, these initiatives create opportunities for different approaches to verification, requiring a significant amount of flexibility. They also set up pilot audit exercises between different stakeholders to trial different models of verification². While these initiatives can be extremely important in learning more about how social auditing can be conducted, the danger is that companies can sign up to such systems, benefiting from the green image through participation without in fact needing to demonstrate compliance to any concrete performance benchmarks.

Socially responsible investment-SRI is another type of verification activity. It relies on information provided by the other initiatives and information collected through questionnaires administered by SRI agencies. Questions generally focus on compliance with standards or on management systems outcomes, though this rarely independently verified. From this database, information is organised in a number of ways through positive screens, negative screens, and best-of-sector approaches to create specific ethical portfolios (Michelson et al, 2004).

Who carries out social audits?

This question is a contentious issue both in practice and literature. The main concern here is whether social auditing can be appropriately done by trained auditors with backgrounds in other auditing fields or whether different skills are required. Currently, two main answers are provided and two types of social auditing co-exist: for-profit and not for-profit.

For-profit social auditing is generally based within large accounting and assurance firms³ as one service offered among many others within the same firm. An argument in favour of this type is significant experience in financial and management systems auditing (Burnett and Mahon, 2001). There may also be a higher degree of regulatory oversight through accreditation of large certification firms. In addition, such firms are valued by clients sourcing

¹ Products-based certification systems may allow for the certification logo to be placed on company letterhead, Web sites, hang tags, or packaging. Certification systems are also involved in raising awareness of the social accountability issues covered in their standards and help to promote their certified companies through their own Web sites, publicity, campaigns, and events.

² For example the Ethical Trading Initiative has experimented with a number of auditing approaches, including using independent social auditing experts from audit firms as well as more participatory community or stakeholder-led audits and approaches that lie somewhere in between.

³ These include PricewaterhouseCoopers, KPMG, SGS, and BVQI among others.

internationally as they provide consistency in audit and certification services across a wide range of countries. A further concern is that audit firms may develop long-standing financial relationships with companies and then take on social auditing as yet another service to be provided. While there is a trust relationship based on years of experience in interaction, this could weaken auditor independence and efficiency¹ (O'Rourke, 2002). This weakness may be due to a question of resources or to a belief that social auditing is essentially similar to other forms of auditing, rather than a unique form of evaluation. In reality, the experience required for an auditor to undertake a high quality and credible social audit is significant. By reference to lessons learned from experience, we can assume that an audit team (composed of a social auditor, a financial auditor and a health/safety inspector) can work with a high efficiency. In addition, a high quality social audit can take a great deal of time as it requires not only a review of the management system and documentation, but also a number of interviews with management, workers, workers representatives, and health and safety officers and could also include interviews with other relevant stakeholders, such as trade unions or NGOs (Prieto and Bendell, 2002). Moreover, while some of the best social auditors have worked for large auditing firms, they are expensive and in high demand.

Given the underlying moral and value-laden nature of social auditing, many criticisms have been addressed to the business approach to auditing and have raised concerns about its credibility and the financial accessibility for developing countries and small-scale producers. In addition, sustainability issues are complex and require as many actors as possible to use their influence to find solutions. Therefore, civil society organizations are considered as a precious resource because they can provide independent auditing founded upon expert knowledge of audited issues and can also serve to hold companies accountable to their own professed CSR commitments. Moreover, when companies join together with civil society groups their own monitoring practices become more legitimate as illustrated by a statement from the FLA's Chief Executive Officer: "*One of the most powerful vehicles we have for ensuring the implementation of labour standards in global supply chains is the multinational enterprise, and we can avoid the danger of privatizing labour law enforcement by ensuring that those enterprises act in partnership with public and other private stakeholders in a transparent way to improve the conditions in the factories where goods are made.*" (FLA, 2006:4).

One of the most consistent critics raised against for-profit social auditing is the lack of sensitivity of foreign auditors to local values. In contrast, NGOs tend to operate within a local context rather than the international level and this often helps to reduce costs and improve trust and credibility relationships with stakeholders. However, even if NGOs may be able to provide such advantages because of in-depth local knowledge and experience, it must also be recognized that they are political players with specific normative motivations that could conflict with social auditing drivers and motivations of key stakeholders, such as trade unions (Braun and Gerhart, 2004). While the NGOs' normative focus yields certain advantages, it can also be detrimental to the perceived neutrality of the auditing and certification function. Based on this, the separation of this function from other NGO functions, as well as clearly defined, transparent, reproducible, and accessible auditing and certification procedures, are absolutely critical to the legitimacy of not-for-profit social auditing. In general terms, if social auditing is understood as a critical function in helping to shape social change in the private sector, as opposed to a tool for companies to demonstrate compliance to market or civil

¹ In his evaluation of one of the world's largest auditing firms, O'Rourke found significant problems with its social auditing methods linked to the management bias in the audit process. Most information was gathered from managers, with significant failures in effectively gathering information from workers or systematically triangulating it from different sources - one of social auditing's most critical methodological tools.

society regulatory demands, then it will become less of a business and more of a mission-driven activity that can be effectively carried out by NGOs.

III. Social audit process: Aspects of accountability

According to Courville, a critical part of audit process is the interpretation of what the auditors find through the documentation review, management and workers' interviews, and site observations into the assessment process. This is made more transparent where there are clear guidelines for auditors about how to translate the audit findings into final results or recommendations regarding compliance. Such frameworks are also helpful in communicating results to the audited companies. Many social auditing and certification systems (such as SAI¹ and FLA²), compared with other recently developed systems which have no clear form or agreed methodology (Parker, 2003), have defined graduated degrees of non-conformances to their respective standards as well as corresponding sanctions, depending on the seriousness of the non-compliance (Courville, 2001).

A further aspect of accountability involves complaints and appeals mechanisms in place for all the key stakeholders affected by the process including the suppliers, trading companies, end-consumers, and societies in general: e.g. with SAI, there are three levels of appeals or complaints where there are reasons to believe that a certified company has breached the standard. The first is the complaints to the company itself: if its answer is disappointing, the next step is to take the issue to the certification body (CB). If the issue is not adequately addressed at this level, the final step is a complaint to SAI about the CB's failure to resolve the complaint. Besides, there is a formal widely publicized mechanism for consumers' action where the public appeals mechanism is explicitly used as an accountability loop to ensure that companies maintain compliance with the standard through public awareness and monitoring.

An area where the balance is not so easily maintained is during the audit process itself. Power identifies the tension in relational distance between auditors and suppliers. He suggests that, with greater relational distance, the behavioural dysfunctions associated with the audit explosion hypothesis will be amplified. Factors that affect relational distance include the relative scope of ambiguity or negotiability within the "target domain" of the audit and the degree to which an auditor's interpretation of a given situation is based on objective and reproducible forms of assessment. If the audit process is understood as a change agent for a wider social goal, then auditors might be more inclined to take on advisory, as opposed to verification, roles, thereby decreasing the relational distance. Simultaneously, this could impact on the transparency, consistency, and independence of the audit activity (Power 2003b).

The issue of relational distance is directly relevant to the field of social auditing, given the nature of social accountability issues and the need to situate the interpretation of social standards within the local context of the supplier. While there is an explicit normative goal in social auditing requiring a learning process over time, social certification systems are based

¹ For SA8000, 2 levels of non-conformances corresponding to minor and major Corrective Action Requests (CAR) exist; failing this, other options include non-certification or de-certification in the case of severe non-conformance. A major breach CAR is defined as a breakdown in a procedure critical to social accountability or the operation of the facility's management system and may be life-threatening or in some way dangerous for workers (such as the use of forced labor or physical abuse). If a facility has any major CARs, it can't be certified. Ultimately, all CARs are time bound in order to tie them to follow up or surveillance audits.

² FLA defines a Major Infringement as secretly using prohibited material practice, and an irregularity is considered a contravention to one of the FLA rules. The minimum penalty imposed will be the condition that the non-compliance will be corrected immediately or within a specified time of period. Where a non-compliance is repeated, more severe sanctions must be imposed.

on independent third-party verification, requiring increased relational distance. But how can these two positions be balanced? According to Courville, the audit process and the consequent certification should be significant, not only to external stakeholders, but also and primarily to the audited company, if not the auditee will not continue its engagement. One way for the audit process to be so is through a focus on continual improvement via a management-system approach. In this way, the audited suppliers can play a better role in implementation and monitoring of their performance over time. However, for external stakeholders, this need to be balanced with compliance to concrete performance benchmarks. Otherwise, social auditing and certification systems will be inundated with the same credibility problems and lack of clarity about performance outcomes as environmental auditing systems overwhelmed by the ISO 14001 management system certification approach (McDonach and Yaneske, 2002).

Many social certification systems include management systems in their standards. Therefore, the method of the implementation of the performance criteria is strongly linked to the management system requirements. As auditing can serve for diagnosis and verification, the management system plays a critical role in identifying problems and building capacity for compliance improvement. Depending on how well the internal audit system is functioning, the external audit can be more or less comprehensive, checking on the performance of the internal control system as well as the performance of the company in terms of compliance to the standard, to a greater or lesser extent. Since one of the expectation gaps in social auditing is the inability of the external auditor to constantly monitor performance of the supplier, internal control system can provide a critical tool for more regular monitoring (Daykin, 2006). This is then complemented by periodic planned or unexpected checks by external auditors.

The issue of ambiguity or negotiability in determining the meaning of compliance is perhaps extremely important in social auditing than in other auditing spheres. International social certification systems need to have global standards that are in line with consumer values; at the same time they need to allow for some degree of interpretation to meet local auditee realities. Some social certification systems (e.g. SA8000 and FLA) address this issue through various layers that help to unload and make tangible the intent of the standards in different contexts. Despite the fact that the principles are applied universally, the way in which they are applied may vary. With different layers of detail from general standards down to specific verifiers, social certification systems are working to maintain and improve certification systems that are auditable and systemic, while balancing local needs and realities.

IV. Social Auditing of Global Supply Chain: Effectiveness and Criticisms

Social Auditing Methodologies and Results:

The fixed aims of most compliance programs include: identification of non-compliance and underlying causes, corrective action, and continued engagement with suppliers that comply or aspire to meet standards. Social auditing identifies instances and, ideally, trends or systemic areas of non-compliance. While this identification may seem to be a basic element in this process, not all labour rights - such as harassment, discrimination, and living wage (Van Der Vegt, 2005) - have consistent, easily identifiable metrics. For issues with well defined metrics, the indicators tracked do not always tell the story accurately or completely. Essential data may be generally overlooked or misrepresented (Casey, 2006).

Many criticisms of social auditing have focused on inconsistent or flawed methodology in supplier audits, and, in particular, in worker interviews. The location and circumstances of interviews may cause bias or limit the integrity of results. On-site interviews may be coached and contrived, with threats of reprisal for negative claims or incentive for false statements that cover-up abuses and compliance issues and favour supplier management. Off-site interviews are challenging as well, posing problems with accessibility, logistics, willingness of employees, and threats of reprisal for participation (Clean Clothes Campaign, 2005).

The redundant and inefficient nature of monitoring programs has been cited as a key weakness, as well. Examples confirm that duplicative codes and standards and repetitive supplier audits contribute to lack of compliance¹. By reference to experience, we can also assume that we need currently a country specific common code able to take into consideration deficiencies in existing rules and regulations. More importantly, these duplications often contribute to a lack of commitment to and ownership of the compliance process at the supplier level. Suppliers must allocate necessary resources to an inefficient process and accommodate for conflicting customers requirements. The nature of this process leads some suppliers to focus on ephemeral audits and meeting external requirements rather than taking ownership of goals and objectives, integrating process into management practices, and creating sustainable change. Sometimes, social auditing is unable to improve compliance because supplier management has developed institutionalized methods of fooling auditors (Skouras, 2007).

Despite the limited value of results, the cost of external social audits can be significant, as well, and may be a further negative incentive affecting commitment at the supplier level. Monitoring, verification and remediation activities decrease significantly as you move down through the supply chain. While most codes of conduct aspire to improvement throughout the supply chain, and some state this explicitly, the responsibility of improving compliance at the sub-contractor level falls to the primary supplier. Despite intentions, none of the current initiatives claim to effectively reach the informal supplier level; thus many workers of the supply chain remain out of reach. Progress at this level is contingent on commitment by and ability of first tier suppliers to enforce standards. It also relies on real change in knowledge, attitudes and behaviour by suppliers, workers, governments and communities.

Regardless of the availability of data and methodology of collection, the results of auditing are limited by the quality of data collected and its interpretation. Recent studies highlight the need to present monitoring data in more transparent ways that are meaningful and useful to a variety of stakeholders. While some, especially trade unions and advocacy groups, seek detailed and comparative data for analysis, other stakeholder groups (consumers, government agencies, the media and others in both buyer and supplier countries) may have different needs in terms of the level, sophistication and presentation of the monitoring data provided.

The criticism of increased bureaucratization on the part of suppliers to demonstrate compliance is also of real concern. Most social auditing and certification operations are document-heavy, requiring policies and procedures for a range of auditable issues. While documentation and record reviews are generally critical components of social auditing, they are insufficient because they provide only evidence of planning or monitoring rather than evidence of the effectiveness of the system. In order to uncover evidence of compliance, documentation and records need to be corroborated with worker and management testimony via interviews. While larger companies may already have sophisticated management systems in place, smaller companies, especially in developing countries, may not (Courville, 2001).

In addition, Power has noted an inverse relationship between organizational trust and the audit explosion whereby audit functions to reduce trust placed in auditees while increasing trust in formalized *rituals* of auditing. The impact of auditing on trust can be conceptualized in terms of a shift in whom or what we place our trust. However, relationships of trust are much more complex than simple transference processes: *i.e.* in social auditing, consumers and supply chain companies are asking for independent assurance that a company is complying with the standards. If consumers don't trust the system, it breaks down. Often, suppliers voluntarily submit to the scrutiny of an external audit in the hopes of gaining benefits through

¹ For example one supplier in China reported being audited by teams from 40 customers in a single month (Reported Kaplinsky and Readman, 2001).

certification. But before submission, they must trust that the rules governing the audit process are transparent, consistent, and fair (Power, 1997a).

Moreover, with the multiplication of CSR initiatives, it is becoming increasingly hard for consumers to differentiate between real performance benchmarks and green imagery. If trust is mislaid, the effective option is often exit, and given the voluntarily nature these initiatives, exit often provides a very powerful and relative low-cost choice for stakeholders. Trust is thus continuously required for the auditing and certification process to operate, both by the auditee and by end-users of the process outcomes, especially consumers.

Given the need to create trust in their own systems, some initiatives (*i.e.* SAI and FLA) try to provide incentives for the auditee to do the right thing. If the auditee is unsuccessful in its initial application for certification, this kept confidential. This can be understood as a critical element in facilitating a learning process. If an auditee is punished with negative publicity for trying to comply with social standards, it's unlikely to participate again. Instead, auditees can learn from the feedback provided in the initial inspection exercises and improve on their performance. Only when certification is granted that this fact is made public¹. However, once certified, there is significant pressure placed on the auditee to continue meeting the requirements of the relevant standard and to improve on performance. If clients of a company knew it was decertified in a subsequent audit, this would reflect negatively on the company's reputation and, in some case, could rupture trading relations.

Remediation and Capacity Development:

As mentioned above, most social auditing recommendations require suppliers to develop and submit corrective action plans inclusive of specific benchmarks and time frames. If a supplier does not implement the plan or act in good faith to correct problems, the buyer-supplier relationship will likely be affected. The supplier in case on non-compliance is in fact defining the relationship as one of inherent risk and unacceptable terms of engagement. However, the description of the consequences of non-compliance are often absent in codes of conduct. Therefore, it is rather unclear, what sanctions are open to a buyer, which discloses a supplier's non-compliance with a code. The fastest and most ultimate sanction is to break off the relationship with the supplier in case of non-compliance. However, this exit strategy has certain limitations. Most importantly, the principal's ability to terminate an agreement depends on the bargaining power of each party in the relationships. Exit is only applicable as a safeguard, if it is a credible threat. Hence it follows that the threat of exit has little effect, if the supplier's products and services are of vital importance to the buyer (buyer-dependence). On the contrary, the supplier has at strong incentive to honour the terms of a code of conduct, if the future of the company depends on continuous co-operation with the buyer (supplier-dependence) (Pedersen and Andersen, 2006).

Anyway, in case of interruption or termination of trading relationships the unintended consequences of social auditing process are worthy of consideration. If the process is not managed well, it may simply force a trade off between labour rights and other social, economic, and cultural rights (Schrage, 2004). If identification of non-compliance by social auditing leads to lost contracts, the end result may be factory closures, unpaid labour, and lost jobs for a sizeable workforce. If stakeholder pressures does not encourage and facilitate corrective measures, suppliers may simply redirect their resources and business to more merciful and favourable buyer markets. If continued or increased business is not the result of corrective measures, suppliers will lose faith in the arguments promoting compliance and the

¹ SAI provides a list of all SA8000-certified facilities on its Website and interested parties can ask FLA for a list of all registered producers and importers.

possibility of a win-win outcome for investments carried out. Overall, when remediation efforts fail, those who are most vulnerable pay the greatest price.

For this reason, many codes of conduct include a stated commitment to continued engagement with suppliers, including remediation and capacity development, but the question of who bears the cost remains. Many companies agree that they must make an investment in the early stages of the process to create momentum and to support the intentions and efforts of suppliers that lack the necessary financial and managerial resources to begin this process. Capacity development programs are an investment to move the process forward and to build critical positive momentum, but they should be a co-investment by buyers and suppliers. However, and at a certain point, it is the obligation of suppliers to leverage external investments, to systematize processes, and to ensure improve sustainability in their factories.

Conclusions:

Because social auditing is deeply a tool in which suppliers voluntarily participate to demonstrate their compliance, it will undoubtedly continue to function providing it is flexible and receptive to their needs and to the needs of concerned stakeholders. And despite the above criticisms, good practices are emerging in this field. Many creative examples of identification, remediation and correction of detected abuses within global supply chain are appearing, with a focus on capacity development, increased communication in the workplace, improved systems, and increased local participation. Some initiatives are particular to a company, while others are whole-of-industry initiatives developed at the national or international level (WBCSD, 2002). Some initiatives focus on social and environmental certification of many products and services, whereas other softer approaches claim to be learning initiatives with the aim of learning how social and environmental performance of companies can be improved and evaluated.

Even if social auditing is burdened with methodological difficulties and credibility concerns, many initiatives are currently grounded in systems and operations that allow for significant participation of key stakeholders and for continued learning and improvement, enabling them to address these challenges over time. In a world where the credibility of the auditing business has come under serious attack, perhaps other arenas of audit could learn from the structures and operations of these initiatives (Courville, 2001). In general terms, social auditing is not, in isolation, an agent of change. If the process stops at “name and shame”, sustainability requirements will not be met on a large scale. The goal is to raise the level of education and commitment, and to demonstrate seriousness of buyers and all stakeholders in developing a new outsourcing model that will make change sustainable. Furthermore, most stakeholders concede that the past decade has very much been a time of learning and adapting, and that best practices are slowly emerging. Auditing is a snapshot, yet compliance is a process. Efforts to address gaps between performance, compliance and best practices must be based on a process and mutual commitments.

At the global level, social compliance programs and initiatives are voicing a powerful message that sustainability is a crucial value and can be incorporated into business culture and practices. In all cases, care and thought must be given to the bigger picture within which sustainability requirements are being enforced, and a dedicated effort must be made to offer a common voice and consistency in the requirements made on those striving to comply with good practice in the global supply chain. Multinational corporations have acquired a significant amount of power since the trends of globalization started to develop, and with this increase in power comes an increase in responsibility (Viederman, 2007). These corporations have effectively the bargaining power and the resources to effect positive change in the suppliers that produce for them by requiring the implementation of prevailing norms (which become a condition of their purchasing from factories throughout the supply chain) and by

controlling implementation outcomes via social auditing. This is really a power that can serve sustainability and which many governments do not have over factories or do not care to use.

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