HOW MANY SOCIAL AUDITS ARE ENOUGH?

THE CHRONIC – AND GROWING – PROBLEM OF AUDIT FATIGUE AND WHAT TO DO ABOUT IT.

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Introduction

With the rise of global trade in the closing decades of the 20th century and the movement of production of many goods (especially apparel) from high cost to lower cost countries, buyers were repeatedly stung in the mid-to-late 1990s by allegations that their products were made with child labor, forced labor or in unsafe or abusive working conditions. A need arose to ensure that workers making products for buyers were treated fairly and in accordance with local laws and developing international norms. This gave rise to social audits, with buyers initially conducting their own audits with in-house staff or hired contractors. Later, independent third-party programs began conducting or overseeing social audits at factories. One result has been a gradual rise in the number of audits a single facility is required to complete, a phenomenon known as “audit fatigue.” This paper examines that problem and recommends solutions.

The problem

WRAP (Worldwide Responsible Accredited Production), an independent social compliance program with over 20 years’ experience with social audits in apparel and related industries, recently conducted a survey to measure the extent of the audit fatigue problem. The survey was sent out to 2,755 WRAP-certified facilities on August 3, 2023, and was open through September 4, 2023. A total of 525 facilities in 32 countries submitted responses (a response rate of a little over 19 percent, or approximately one out of five facilities).

The purpose of this survey was to assess the frequency of social compliance audits conducted in manufacturing facilities each year, with the goal of gauging the level of disruption experienced and resources required to meet buyer audit expectations. Respondents were asked to provide information about audits conducted in their facility in 2022 as well as in the first six months of 2023 (the survey also captured data on supply chain security audits; this paper concentrates only on the data related to social compliance audits).

Survey respondents were asked how often audits were conducted in their facilities, who paid for the audits, and how long they took.

Here are some highlights (see full survey results here):

FACILITY SIZE
45% of facilities were between 200 – 1,000 workers
35% of facilities were between 1,001 – 5,000 workers

FREQUENCY 2022
30.3% of responding facilities had 1-2 social audits in 2022
46.2% had 3-5 social audits in 2022
16.0% had 6-10 social audits
5.2% had 11-15 social audits
2.3% had 16 or more social audits

FREQUENCY 2023 (Jan 1-June 30)
60% of facilities had 1-2 social audits
31% had 3-5 social audits
7% had 6-10 social audits
2% had more than 11 social audits

AUDIT COST 2022
36% of facilities paid between 2,000 – 5,000 USD in audit fees in 2022
30% paid between 5,000 and 10,000 USD
15% paid between 10,000 and 20,000 USD
7% paid over 20,000 USD

PAYMENT 2022
76% of facilities paid the application fee for a program
68% of facilities paid the full audit fees
29% reported some funding from buyers
Less than 1% reported that the buyer paid for the full audit fees

DURATION 2022
56% reported that each audit took 1-2 days
31.5% reported the audit took 3-4 days
12.5% said the audit took five or more days (7.5% said the audit took more than seven days)

BUYER AUDIT PROGRAM 2022
76% reported at least one brand insisting on conducting their own proprietary audit

What did we learn from the survey?

The typical factory in the survey undergoes 3-5 social audits per year, the audit takes two days, and the audit and program fees are paid by the factory almost all of the time. Forty-five percent of the facilities are paying between 5,000 and 20,000 USD per year for audit expenses, and all facilities absorb the labor expense to support and staff responses for each audit.

At the extreme, five percent of facilities undergo 11 or more social audits per year, with two percent of facilities reporting 16+ audits in one year, a rate of one audit every three weeks.

How did we get here?

Beginning in the late 1990s outsourcing in the apparel industry increased, supported by expanded trade programs like the North American Free Trade Agreement (NAFTA), the Caribbean Basin Trade Partnership Act (CBTPA), and the Dominican Republic–Central America Free Trade Agreement (CAFTA-DR). Initially, offshore production focused on assembly of components made in and shipped from US facilities; eventually the western hemisphere moved towards full package production as trade programs became more flexible.

In 2005, apparel quotas were eliminated, and buyers were able to move full package production into Asia without the cost and restrictions of quotas on imports, provided they could offset the tariff cost with more efficient and affordable production. Countries like China increased their share of the US and global apparel market. The EU (in 2001) and Canada (in 2003) also adopted and extended programs that permitted lesser developed countries like Bangladesh to gain duty free access to their markets, leading to a rapid increase in apparel outsourcing and employment of Asian garment workers.

One problem with the surge in outsourcing of apparel production was the inconsistent application of worker protections around core principles like child labor, forced labor, pay and benefits for hours worked, and excessive working hours.

As production moved offshore, buyers recognized the risks of sourcing in facilities where local laws and codes were not enforced consistently due to resource constraints. Many buyers began requiring or conducting audits of facilities against their own code of conduct. Audit and testing firms expanded to meet the growing need for social compliance audits across an expanding supply chain.

At the same time, several independent social compliance programs were formed to meet the need for social compliance audits more efficiently. These included WRAP, the Fair Labor Association (FLA), and Social Accountability International (SAI or “SA-8000”) in the United States, and Sedex and amfori in Europe.

In 2013, the industry was devastated by the tragic loss of life caused by the collapse of Rana Plaza in Bangladesh. The disaster pointed out the limitations of social audits, like the inability to conduct structural reviews of buildings, and also the wide variation in the types of audits that were being conducted by buyers in Bangladesh. The tragedy also gave rise to innovative approaches to worker safety like the Alliance for Bangladesh Worker Safety and the Accord on Fire and Building Safety in Bangladesh.

There are multiple stakeholders driving the increase in social audits: buyers (importers), NGOs, governments, audit firms, consulting firms, customers, shareholders, and social compliance programs. These stakeholders often work independently but with a common goal of improving worker safety and workplace conditions. Individually, each stakeholder’s effort is intended to improve conditions and add value, however, when taken together the result is an increasing number of social audits at each facility.

One key stakeholder, buyers, felt the need for creating proprietary social compliance programs because twenty-five years ago they had no choice but to conduct their own audits. There were no other solutions to address the challenge of poor worker treatment in recently expanded global supply chains. However, in the past decade and a half, social compliance programs have matured, and new programs have been started to meet the needs of buyers to conduct due diligence on their global suppliers to ensure working conditions meet international standards and local laws.

Programs like the Sedex Members Ethical Trade Audit (SMETA) and amfori's Business Social Compliance Initiative (BSCI) have created standardized audits that members can use and share. These programs provide an audit to buyers who can then make an assessment if a facility meets their standards and what, if any, remediation is required. And certification programs like WRAP and SA-8000 provide buyers with an audit and an independent certification that a facility meets international standards and local laws.

Given the range of available and tested outside programs, why do some buyers still conduct their own proprietary audits? Some of the reasons are old, like the ongoing need to protect the company and brand reputation. Also, for some companies, a strong public brand identity of worker treatment and respect for the environment means they need to run programs that they argue are more stringent or more hands-on by including things like worker training and capacity development.

More recent rationales include the need or desire to capture data from facilities on a regular basis to continue reporting to their senior management and boards about the good progress being made at the facility level. Data capture has driven many companies to turn over their audit requirements to consultants who then process the audit data and provide reports. Finally, some buyers continue internal programs and proprietary audits because that is how they have always handled the challenge of worker protection in their global supply chains (an "if it ain't broke, don't fix it" approach).

Buyers that continue to do their own audits for the original reasons of brand protection and doing the right thing by workers have alternatives that can be tested and benchmarked against their own program. In most cases, buyers will find they are not investing as much as those independent programs in staying current with international standards and laws, in using trained and professional social audits and in systematically identifying and closing audit noncompliance.

The approach of internal programs may have worked in a voluntary, soft law environment of guidelines and standards from international bodies and local government. However, the current direction is towards mandatory due diligence on human rights, as exemplified by the Germanys new Supply Chain Act and the EU's Corporate Sustainability Due Diligence Directive (CSDDD). The US and Canada have also seen the effectiveness of stopping imports if there are allegations they were made with forced labor. This movement towards hard laws is a clear signal to buyers to evaluate their approach to human rights due diligence and to assess whether audits conducted with internal programs and without adequate transparency will be sufficient in a future of mandatory due diligence legislation.

Data capture from audit reports can be a helpful way to assess progress at the facility level. However, it is possible to work with third-party program audits and to capture similar data for CSR reporting without the need to conduct a proprietary social audit. Many firms are now capturing and aggregating this data for buyers.

How many audits are enough?

The good news from the survey is that 28 percent of facilities reported only 1-2 social audits last year. WRAP's view is 1-2 social audits annually per factory, when done by a credible, objective program with effective follow up and quality control measures, should be sufficient to identify and remedy worker rights issues in a facility. With most social audit programs there is an existing mechanism for the certification and audit to be shared with buyers and prospective buyers eliminating the need for each buyer to conduct audits.

For example, the Sedex SMETA program and the amfori BSCI program allow for audits to be conducted to a standard format and then shared amongst members. The Social & Labor Convergence Program (SLCP) was established with a model of factory self-reporting, a verification from a third-party and report sharing with members using the SLCP database to store and exchange reports. When working with programs that only provide an audit report, the buyers have to do their own evaluation of whether the report indicates compliance with their standards and have to take on the role of conducting any follow-up on corrective action and remediation themselves.

Independent certification programs, on the other hand, require facilities to demonstrate they meet a standard, as opposed to simply auditing them against that standard. As such, any noncompliances will need to be corrected and verified as part of the process. WRAP is one such program, and each facility that successfully completes a WRAP audit receives both a certification from WRAP and an audit report. These can be shown to current and future buyers conducting supply chain due diligence. WRAP also publishes on its website a list of all WRAP-certified facilities, so buyers can authenticate a factory's certification status.

What should be done to reduce audit fatigue?

Step One

Buyers should stop conducting their own proprietary social compliance audits at facilities. In the past twenty years, an army of social compliance managers, directors and vice-presidents has grown up with a mandate to run audit programs, acquire data and demonstrate good practices. The obvious problem is that facilities have many customers and if each buyer insists on doing their own audit, making the factory pay and not sharing the results, the problem of audit fatigue only grows. Logically, if there exists a current, credible audit / certification program that addresses local law and international standards, which is available at little or no direct expense to a buyer, there should be no need for a buyer to insist on running its own audit, and paying staff to manage, review and report on the results.

As the world moves from soft to hard laws, the expectations of what constitutes effective supply chain due diligence are evolving. The EU CSDDD looks to the UNGP's and the OECD for guidance and incorporates risk based due diligence across a buyer's entire supply chain that is independent, credible, and verifiable. Given this direction, buyer self-audits against their own standards will be questioned, particularly if there is no transparency in the process and the results.

The recommendations are for buyers to evaluate and recognize existing social compliance programs and to accept and work with certifications and audits from one or more of those programs if their supplier has already completed the audit process with the program. More buyers are recognizing the value of moving to accepting or requiring one or more of these programs as part of their supply chain due diligence process. Instead of reviewing and managing individual audits, these buyers have moved to risk management of audit programs, addressing problematic outlier facilities, and pivoting to focus on broader ESG issues.

Step Two

Buyers should identify, evaluate, and recognize the social compliance audit program or programs that they accept and publicize this in their vendor guides and on their website reporting on ESG efforts. Buyers can begin by asking which third-party audit programs they will work with? What are the differences? Are there gaps with their code of conduct? Is their code of conduct current? Which program meets today's requirements and is aligned to meet future requirements? Is an audit enough or is a certification important? Does the buyer want to invest in worker training and capacity building? If so, what programs are best suited for that goal?

As buyers recognize the value of shifting to one or more programs to meet their supply chain due diligence requirements, there will be a reduction in total audits conducted, an increase in transparency and a decrease in unnecessary audits.

Step Three

Social compliance programs can also align and collaborate to reduce unnecessary audits. Member based programs representing buyers can assess and recognize audits from other programs that are comparable to their own program audits. Buyers who stop doing their own audits help address the problem. However, if the program they work with insists on doing its own audits even though a facility already has a current and credible audit from another program, there will still be too many audits.

The landscape of social compliance programs is not a uniform one. Some are member-based and answer to a board made of their members; some have formal tri-partite governance structures and include labor unions in their governance model. Financially, some social compliance programs are nonprofits while others operate a for-profit model. Some solicit and are funded by government and/or institutional grants. Some programs disclose their financials; some choose not to do so.

Additionally, there are some for-profit consulting and audit firms that conduct buyer proprietary audits, offer their own audit program and in some cases also conduct audits for independent social compliance programs. As the demand for environmental and security audits increases, there is an opportunity to have a net reduction in social audits and redeploy auditor resources to other areas.

Not all independent programs are created equal, and buyers are encouraged to conduct due diligence on social compliance programs to identify those that best align with their approach.

Conclusion

There is a chronic, and growing, problem of audit fatigue in the apparel industry driven by multiple stakeholders individually seeking to improve worker conditions at the factory level. A first step to tackle this problem is for buyers to assess their approach to ensuring suppliers meet international standards and local laws. Compare that approach to working with a third-party program and reducing the number of additional audits a supplier undergoes.

Buyers should ask if managing social compliance audits is a core value for their organization, and are they committed to investing to continue to run a proprietary social compliance audit program.

Another question buyers should ask is will their proprietary social compliance audit program meet the requirements of mandatory human rights due diligence laws coming in the near future? Or is now the time to assess and work with expert third-party programs to meet those requirements?

As more buyers move away from individual proprietary approaches to social compliance the problem of audit fatigue is reduced.

Lastly, third-party programs can play a role by collaborating to foster mutual alignment and recognition of their audit / certification programs.

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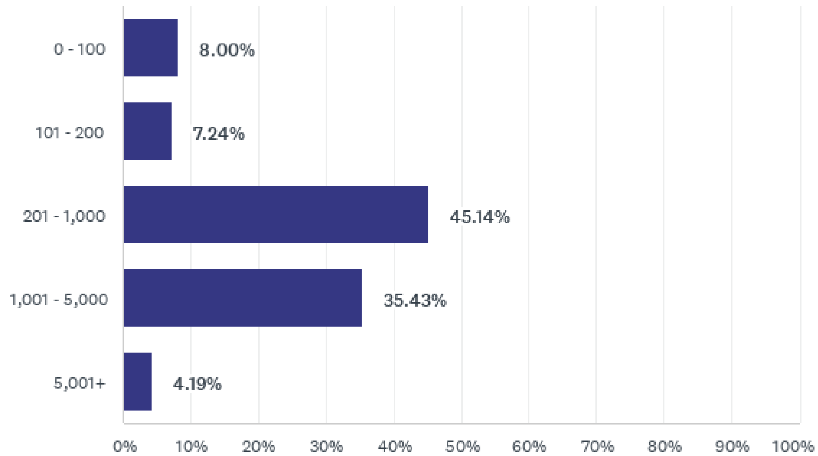
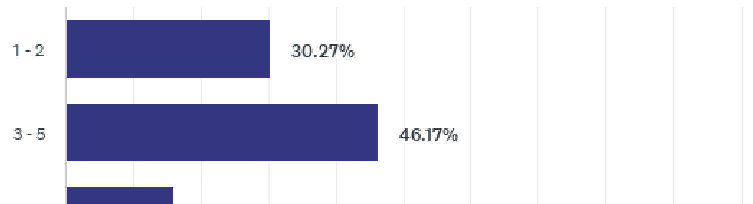
EXTRACTS FROM THE RESULTS OF WRAP'S FACILITY SURVEY

This survey was sent out to 2,755 WRAP-certified facilities on Thursday, August 3, 2023, and closed on Monday, September 4, 2023. A total of 525 facilities from 32 countries completed the survey.

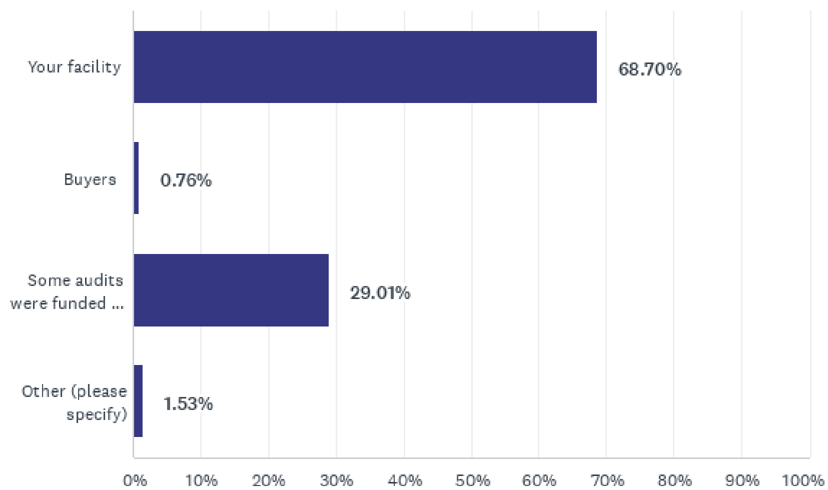
How many workers are in your facility?



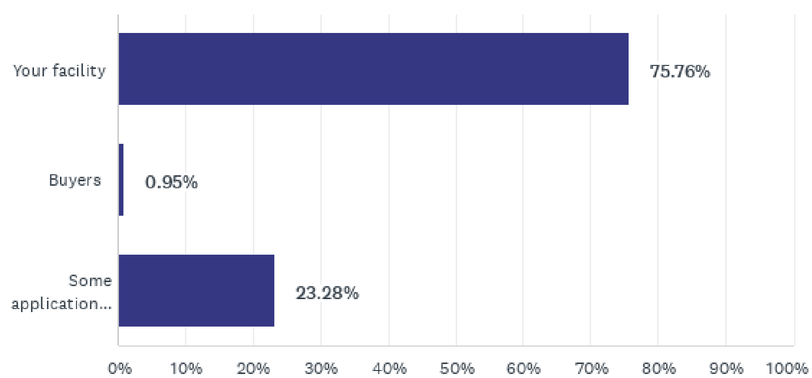
How many social compliance audits were conducted in your facility in 2022?



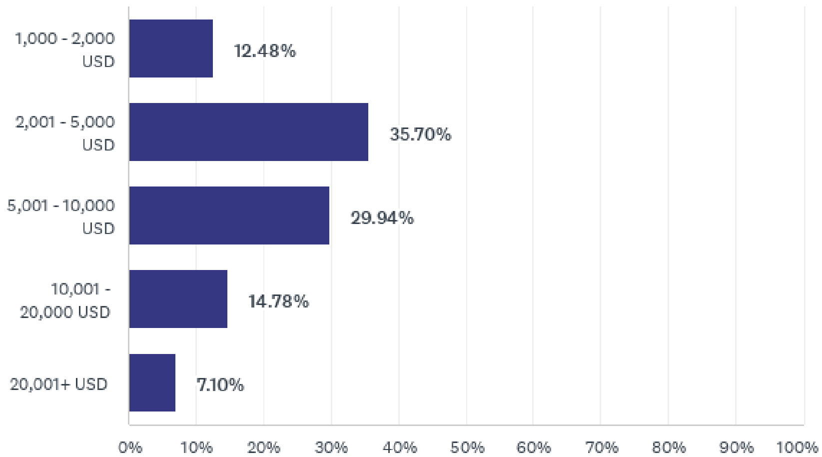
Who paid for these audits?



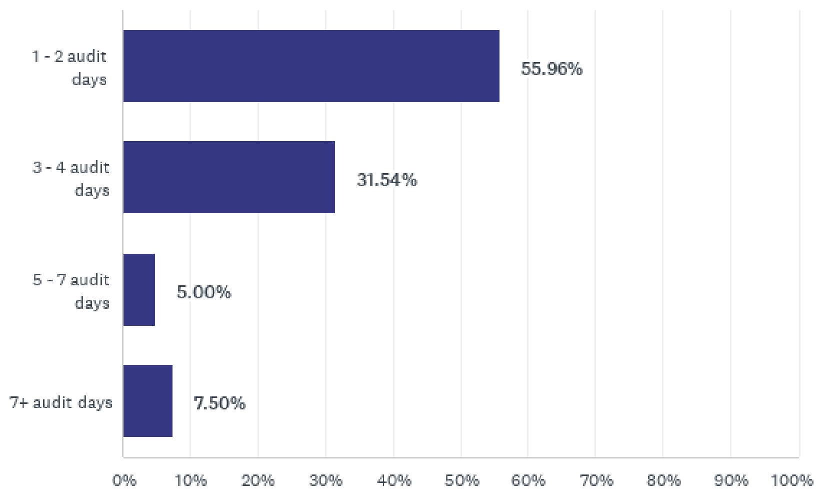
Who paid for the application fees?



How much money did you spend on social compliance audits in 2022 (including auditor fees and program application fees)?



On average, how long were the audits in your facility last year?



How many social compliance audits were conducted in your facility in the first half of this year (January 1 – June 30, 2023)?