



The market for social compliance audits in Bangladesh: On the edge of a paradigm shift?

2021

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**MINISTRY OF FOREIGN AFFAIRS
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Foreword

This report is the first result of activities undertaken in the Bangladesh Social Compliance Audit Practices project (BASCAP). The project is funded by a grant from the Ministry of Foreign Affairs of Denmark (19-M01-SDU) and executed by the University of Southern Denmark and Bangladesh University of Health Sciences. The project commenced in March 2020 and runs until 2023. The overall project goal is to improve occupational safety and health and the business competitiveness of the garment industry in Bangladesh. The goal is achieved by studying the audit practices in the garment industry to find ways to make the most efficient use of social audit to improve social and labour conditions, including occupational safety and health (OSH) in the industry.

The authors of this report take this opportunity to thank all the representatives from garment factories, international brands, audit companies, international organisations, NGOs, and others who have contributed to the report by sharing their experiences about audits with the authors. We sincerely hope this report about the social audit market in Bangladesh can contribute to the discussion about how to use audits to contribute to better conditions for both workers and business.

1 Executive summary

The report documents that most stakeholders find the status concerning social audits inadequate and not delivering the expected value considering the costs and resources used. This implies that social audits are not considered solving the problems they are presumed to solve. With an estimated market size of US\$ 20 mill per year, this is a substantial cost incurred by the suppliers and buyers, which could be used for improving occupational safety and health (OSH) and working conditions.

The report argues that the challenges associated with social auditing practices reflect the co-existence of a multiplicity of different private codes of conduct and audit standards, all rooted in ILO's eight core conventions. In practice, this means that each global brand has its code of conduct, which they audit according to. Thereby, they spend both their own and the suppliers' time and resources. This led to a prevalence of auditing fatigue among the global suppliers and a general lack of legitimacy of established standards. The consequence may be that both global buyers and suppliers are motivated to experiment with new standards. Yet, there are also factors maintaining the current status quo, e.g., satisfying behaviour tendencies of change-fatigue among global buyers.

Problems with social audits

Social audits are increasingly criticized for not being effective in improving working conditions in the garment industry by most scholars; the exception is the Accord and Alliance, which have proved to result in a considerable impact. Scholars point to that codes of conduct and audits are unlikely to lead to any improvements, as they function as stand-alone measures without integration into management structures and systems and with the absence of trade unions in the assessments. Moreover, there are themes (e.g., sexual harassment), which are notoriously difficult to capture in audits due to among others cultural stigma. In addition, the problems observed in the system include the use of a 'checklist approach' or 'policing' approach to labour issues, methodological shortcomings in the inspection process, reliance on a top-down policing approach and the failure of the system to involve workers voice sufficiently in the audits – although workers' voices are considered controversial by many stakeholders.

The report also argues that, while there are numerous problems associated with the use of third-party auditors, their formal independence of the global buyers adds a degree of legitimacy to their practices – in short, it is not global buyers auditing themselves. Yet, third-party auditors are also prone to displaying strategic behaviour. The auditor is never free from the potential for conflict of interest ('opportunistic' behaviour) and bias from wanting to modify audit results to obtain payment and retain the business contract. The result may be that audits may provide a more positive interpretation that is warranted.

New directions: Platforms

Except for the notable Social & Labor Convergence Program (SLCP) and The Higg Index (as the Higg Index uses SLCP in combination with other non-social audit standards), numerous companies have

recognized the challenges associated with the audits. As a result, they have started working to introduce alternative approaches addressing, especially audit fatigue. HIGGs/SLCP represents a new paradigm to social audits by replacing the policing approach with a digital platform approach based on suppliers' self-reporting and external verification processes. It is premature to claim that this will replace conventional audits for various reasons, for example, limited knowledge and experimental fatigue among certain global buyers. Yet, there is a high probability that HIGGs will become a key player at the Bangladeshi social auditing market.¹ This claim echoes a call for a unifying standard that can be legitimate and efficient across Bangladeshi stakeholders.

Policy recommendations

In terms of policy recommendations, the report findings point to the need for supporting experimentation with alternatives to the existing standards and especially exploring how digitalization and self-reporting can be designed in a manner that lends itself to be considered a legitimate approach. Policy-makers – and other actors – need to pay special attention to developing robust verification processes in the context of said digitally-based social audits. Policymakers also need to attend to resistance among incumbents against developing new standards, encourage experimentation, and provide support for upscaling promising activities. This combination may result in the development of new and more legitimate standards. The standards, however, are not expected to solve all possible challenges connected to social auditing practices.

¹ HIGGs do not have their own standard for collecting data on social compliance but uses the SLCP standard.

2 Introduction

Today, decades after the first social compliance initiatives were established, the corporate-led social audits and certification industry has evolved into a multi-billion dollar – yet highly controversial – industry (AFL-CIO, 2013). Auditing companies employ thousands of auditors, trainers and managers and issue tens of thousands of audit reports and/or compliance certificates for paying clients – suppliers or brands – every year. As a result, auditing has become a mainstream practice used to ensure compliance with codes of conduct of most multinational corporations (MNCs) and global buyers in connection to sourcing from suppliers located in emerging markets (Huq et al., 2016).

Almost from the outset has the study of social audits and certifications divided actors in supply chain analysis, labour studies, CSR (Lund-Thomsen & Ramirez, 2020) and Occupational Safety and Health (Hohnen & Hasle, 2018) (OSH). As a result, virtually nobody is fully satisfied with the social auditing practices, related certification schemes and outcomes of the investments in social auditing activities, but actors from the industry and researchers are nevertheless divided about how to assess the value of social auditing practices.

On one end of the spectrum are the critical voices not considering social audits as anything but greenwashing and window-dressing to prevent formal regulation from being imposed on various industries (Fransen & LeBaron, 2019). On the other end of the spectrum, companies and moderate scholars acknowledge that social audits are far from perfect but an important tool in ensuring certain minimum standards among suppliers in global supply chains (Huq et al., 2014, 2016). In between the two extremes, one finds researchers suggesting that social audits are important ingredients in improving working conditions among suppliers but only when they work in tandem with external pressure/stakeholders and competency-building (Distelhorst & Locke, 2018; Hasle & Vang, 2021; Villena & Gioia, 2018).

In this report, we are less concerned with such a ‘grand statement’. We are more interested in understanding how social audits unfold and are experienced in a given geographical setting, including how new initiatives (e.g., Higgs/SLCP platform-based auditing) are received among the local stakeholders in Bangladesh. We purport the position that social audits need to be understood in their national and geographical context. Understanding their role among suppliers in a given destination calls for an in-depth description and analysis of the specificities, contingencies and particularities of stylized facts and perceptions about audits in the context, including how the context impacts what is perceived as critical regarding (new) standards.

Our understanding of what a standard is, is based on Gilbert et al. (2011), who define it as “*voluntary predefined rules, procedures, and methods to systematically assess, measure, audit and/or communicate the social and environmental behavior and/or performance of firms*” (2011). However, there are a number of internal differences between the standard setting initiatives and programs considered in this report. Formally, some of them are certification standards such as WRAP and SA8000, while others such as BSCI and Sedex are so-called principle-based standards (not issuing certificates) (Gilbert et al., 2011). Both types require that suppliers demonstrate compliance with specific social issues. The SLCP is included as a social data collection standard (it provides raw

data to other actors who can then integrate them in conventional standards). Similarly, Better Work, which we also include differs from conventional standards by emphasizing implementation of improvement activities, where conventional standards rely more on hand-off corrective action plans only. This implies that we take on a broad definition of standards in this report.

In this report, we pay special attention to new and emerging initiatives potentially challenging the dominance of conventional social audits with new digital platform-based social audits incorporating self-assessment elements. These emerging initiatives aim to become new and alternative paradigms to solve well-documented problems concerning social audit practices such as audit fatigue (Benstead et al., 2020; Fraser et al., 2020; Khalid et al., 2020). To state it bolder, we are especially interested in whether the social auditing industry in Bangladesh is in an early phase of a paradigm shift and whether such a paradigm shift would entail dramatic improvements in the value of social audits in the context of Bangladesh.

In this report, we zoom in on the audit market for the garment industry in Bangladesh. The garment industry in Bangladesh is notoriously infamous for precarious working conditions among the largely female-dominated sewing operators (Khan, 2019). The history of the global garment industry is known for devastating industrial accidents, dating back from the Triangle shirtwaist factory accident in New York in 1911, where almost 150 workers died, to the Rana Plaza accident in Dhaka, Bangladesh, in 2013, where more than 1100 mainly female workers died. In Bangladesh, the Rana Plaza accident was the peak of a series of significant accidents (e.g. in 2005 and 2006 Bangladesh experienced accidents in garment factories with more than 60 deaths, while in 2012, in the Tazreen fashions factory fire accident, more than 150 workers died (Rossi, 2015)).

The positive outcome of these devastating tragedies is that with the effort of the Accord and Alliance, structural safety has improved dramatically in Bangladesh, especially compared to similar countries such as Pakistan and India. Almost nobody is questioning the significant progress achieved by the two multi-stakeholder initiatives (although some scholars point to the focus on structural safety aspects leading to a neglect of other critical issues). However, in early 2019, the Alliance ended its operations, while just recently, the commencement of the Accord was signed on 1. September 2021. Later, we will return to the Accord and Alliance in Bangladesh; these two multistakeholder initiatives have undeniably influenced the social audit market despite their main focus being on structural building safety (Donaghey & Reinecke, 2018). The positive effect of the two multistakeholder initiatives has resulted in that actors in Bangladesh now increasingly question if ordinary social audits are functioning optimally or perhaps questioning social audits more intensely.

The need to qualify the discussion of social audits has renewed the attention concerning the social audit market. Currently, there is limited knowledge about questions such as the size of the audit market, which standards dominate the audit markets, how said standards are perceived by the industry actors and the new trends in the social audit market. Therefore, it is possible to provide informed conclusions about whether the audit market is moving in the right direction only by addressing these questions. By 'right direction', we refer to reducing window-dressing and supporting a higher degree of supplier compliance with social audit requirements. However, for

clarification, 'moving in the right direction` does not equate to becoming fully socially sustainable; there is much scope for improvements without the industry becomes fully socially sustainable (De Brito et al., 2008).

With the critical role of third-party audits and the stretched resources of OSH regulatory authorities in Bangladesh and other developing countries, there is a need for research-based knowledge about how third-party compliance audits of OSH can be carried out efficiently to ensure compliance and promote a convincing and correct image of the industry and factories, as well as new knowledge about the upcoming new standards (and the associated challenges and opportunities).

The remainder of this report aims to reduce the knowledge gap about the dynamics mentioned above on the Bangladeshi audit market to critically assess the importance of the social audit actors in connection to improving social compliance among suppliers in developing countries represented by Bangladesh's suppliers.

3 Background

The last decades have witnessed significant changes and growth concerning the use of social audits globally. In this section of the report, we provide the general ‘audit-background’ information needed to understand the current situation in Bangladesh.

3.1 The international development of social compliance audits

As offshore outsourcing of low value-added production activities gained traction from the mid-1990’s, companies increasingly started to experience challenges related to poor working conditions, child labour and poorly developed labour standards. Initially, companies such as Nike and Gap received much scrutiny in the mass media and instigated changes towards ensuring compliance among the suppliers located in the Global South (G. D. Brown, 2015). However, the initial wave of compliance was largely driven by reputational concerns among leading brands and retailers; and with pronounced resistance to acknowledge a responsibility for working conditions among their suppliers. In the Bangladeshi context, the focus was initially on eliminating child labour in the garment export industry (and global consensus points to that this has successfully been achieved).

The negative exposure of selected brands in mass media prompted retailers and big brands initially to introduce social auditing as an internal tool to monitor and manage risks related to key suppliers (Lebaron & Lister, 2015). The focus was and is mainly on suppliers in the Global South. Here, weak institutional settings (i.e., institutional voids²), including a limited focus on enforcement of labour laws, few resources in the relevant ministries, the prevalence of corruption and bribing of labour inspectors and limited competencies among public labour inspectors, resulted in the prevalence of window-dressing among suppliers. According to Connors et al. (2017), window-dressing refers to ‘.. self-serving enhancements undertaken by companies to distract from larger truths or underlying problems’.

To understand the institutional history of labour governance in global supply chains, the role of the ILO must be mentioned. Since its creation in 1919, the ILO has adopted 189 conventions covering topics such as freedom of association, forced and child labour, working time and occupational safety and health. States can commit to international labour standards and ratify the conventions into their national legislature, thereby protecting fundamental human rights (Baccini & Koenig-Archibugi, 2014). For example, Bangladesh has ratified 35 ILO conventions, including seven of the eight fundamental conventions (ILO, 2021), with only the ILO’s minimum age convention missing.

The history of the social auditing industry is relatively young. Brands developed their first party audits, and in parallel, an industry offering what is labelled as third-party audits gradually emerged. The social auditing industry started to manifest itself in the 1990s when consumers became aware of the inadequate working conditions that characterized production in supplier countries in the Global South. Brands saw themselves in a position where they could not rely on government

² Institutional voids refer to poor regulation and enforcement of ILO’s conventions

regulation and inspection due to the prevalence of institutional voids in the global south countries. Although this does not necessarily result in large changes of the the poor working conditions amongst their suppliers, companies gradually realized the need to react to the growing pressure from consumers in particular social movements in the US. The student movements, e.g., were instrumental in placing demands on global brands. This pressure forced brands and retailers to start addressing poor labour conditions and implement voluntary codes of conduct. In parallel, the industry of third-party audits gradually emerged to enforce compliance with the newly developed codes of conduct.

However, soon questions were raised both about the legitimacy of social audits procured directly at the request of the brands – a practice that especially was complicated to implement for smaller and less resourceful buyers. Therefore, to ensure compliance with labour standards, civil society organizations and researchers started to ask for more independent monitoring efforts (O'Rourke, 2006). This paved the way for social compliance initiatives comprising multiple stakeholders from either USA or Europe, made up of members from the textile industry, NGO's, social movements and/or academia. Collectively, these actors started to create comprehensive social compliance standards based on several international core labour conventions, such as the core principles and conventions of the ILO and other international guiding principles (Terwindt & Armstrong, 2019). Amongst these social compliance initiatives are:

- The Social Accountability International (SAI) and the SA8000 standard (1997)
- The Fair Labor Association (FLA - 1999)
- The Worldwide Responsible Accredited Production (WRAP – 2000)
- Sedex and the Sedex Members Ethical Trade Audit (SMETA – 2001), which is based on the Base Code of the Ethical Trading Initiatives (1998)
- The Business Social Compliance Initiative (BSCI – 2003), which since has changed to Amfori BSCI
- The Sustainable Apparel Coalition (SAC- 2009) that three years later launched the Higg Index

Third-party audits were complemented by norm-setting initiatives by global organizations such as United Nations promoting business and human rights initiatives, such as the Global Compact and later the Guiding Principles on Business and Human Rights (UNGP). The UN thereby introduced volunteer standards and monitoring to improve companies' global labour and other human rights practices (Ruggie 2008). In contrast to the voluntary basis of most social standards, CoCs and third-party audits legal requirements are growing in Europe. For example, France and Germany will make it mandatory to assess their first-tier suppliers through UNGP's due diligence process, and the EU commission has similar plans (National Law Review, 2021). However, these norm-setting activities are not included in this report as they are not considered social audits but more institutional entrepreneurial activities influencing the social auditing industry.

3.2 Social compliance audits and Codes of Conducts

The standards against which a buyer audits its suppliers in Bangladesh and other developing countries are either firm-specific (internally developed) code of conducts (CoC) or Codes developed by social compliance initiatives. The firm-specific are by nature idiosyncratic, but most resemble to a large extent each other. The social compliance initiatives range from more open without a fixed type of template to closed approaches based on assessment schemes where, e.g., Sedex monitors in an 'open manner' while BSCI uses a more closed one. The official overarching aim of a code of conduct is to promote better working conditions in supplier factories in global supply chains and facilitate a system of compliance control through monitoring supplier's performance according to standard specific expectations. However, critics point to that the real goal is to avoid introducing more formal regulation; we will return to this later in the report.

What does a social audit entail? Social audits typically involve reviewing the factories and manufacturer's labour standards (e.g. reviewing their documents regarding labour contracts, working hours and company policies, Freedom of Association (FoA)) and physical inspection of working conditions, including safety and health issues (Huq et al., 2014) on the factory sites. Social audits come in several shapes, but despite differences between the various types of codes of conduct and social compliance standards, they have, at least until recently (see later about how digital platform-based social audits aims at disrupting the industry), shared a standard set of ideas concerning social auditing practices and the core foci areas. These are all rooted in ILO's eight core conventions, e.g., Freedom of association and organising rights.

Audits are carried out to ensure conformity with a certain standard and are conducted regularly to check whether conditions are still being complied with (Hohnen & Hasle, 2018). Thus, auditing is a tool to document the supply chain's social performance and improvement areas, as audits allow assessing social requirements and supposedly guide continuous improvement actions to meet legal, voluntary and customer requirements. In addition, their oversight role is argued to be necessary to cover the whole gamut of social auditing responsibilities and working conditions that legal liability may not reach (Terwindt & Armstrong, 2019), especially in countries characterized by a high degree of institutional voids.

Codes of conduct are contractual provisions requested by buyers. Codes are typically based on the core labour standards articulated by the International Labour Organization (ILO), and buyers require suppliers to agree to adhere to them as a business condition. The codes are typically followed by monitoring programs, which deploy private social auditors to inspect suppliers and assess their adherence to codes of conduct. To illustrate what this means in practice. A global buyer requires a supplier's audit based on a given standard (e.g., Sedex). The auditor then assesses the supplier factory according to expectations of the given standard and subsequently issue a report stating the findings, including needed corrective actions required. The supplier is then supposed to implement improvements ensuring compliance in the areas where the supplier failed to meet the expected conditions or to face sanctions imposed by the buyers.

3.3 After Rana Plaza: The Accord and Alliance

More recent developments in the social auditing practices in Bangladesh were spurred by the Rana Plaza accident in 2013. With the Rana Plaza accident, the poor working conditions characterizing Bangladesh's garment industry received increased global exposure. Both brands and suppliers acknowledge the need for dramatic improvements in the industry and especially for building safety (Beierlein, 2020). A special audit version was created after the Rana Plaza collapse, where buyers/brands, regulators, trade bodies, NGOs and unions developed joint initiatives to improve the industry's social standards. Two consortiums were established: 1) The Bangladesh Accord on Fire and Building Safety and 2) The Alliance for Bangladesh Worker Safety. The two buyer consortiums audited fire, electrical and structural safety with similar standards.

These audits undertaken by the Accord and Alliance were different from previous audits in several ways. As before, data was gathered and checked by third-party auditors, but they now reported to the consortium and made the audit outcomes publicly available. Much like the other forms of audits mentioned previously, documentation was essential, but the verification processes had significantly improved, and the buyers/brands, which signed up to the consortium agreed to follow up on problems and if they were not remedied to stop doing business with the supplier. This has resulted in most garment suppliers being compliant with Accord and Alliance structural safety requirements (James et al., 2019). As mentioned in the introduction, the Alliance ended its operations in 2019, while the commencement of the Accord was signed on 1. September 2021. As the original agreement from 2013, the commencement contains essential issues such as

- the ability to subject suppliers to legal actions if they fail to meet safety and health standards in their factories
- shared governance responsibilities between suppliers and buyers
- safety committee training and monitoring activities by the Bangladeshi-based RMG Sustainability council

Moreover, the new Accord agreement expands its scope to include more general safety and health issues beyond the initial focus on fire and building safety that characterized the original Accord.

3.4 Most recent developments

More recently, new standards or redesigned standards have emerged aiming at outcompeting established standards. These standards rely on, for example, the Converged Assessment Framework of the SLCP, which offers a more collaborative approach involving self-assessment in the context of multi-sided platforms. SLCP is facilitated by the Sustainable Apparel Coalition (SAC). In addition, other approaches are promoted by the audit companies, such as Elevate, which provides a service where one audit covers several standards. Sedex, as another example, is currently experimenting with how AI can be used on collected data to improve the quality of social audits; later in the report, we will return to these new developments.

To sum up, Bangladesh has been going through a process of development of social compliances practices and the emergence of new standards (we'll return to their effects later).

3.5 Labour Standards and social compliance audits in Bangladesh

Bangladesh has been a member of the ILO Region Asia and the Pacific since 1972 and ratified 29 of its total 35 conventions in the same year. Since then, the country ratified additional six conventions, which sums up to 35 in total, of which 30 are still in force.

	Convention	Date
7 of 8 fundamental conventions	C029 – Forced Labour Convention	22. June 1972
	C087 – Freedom of Association and Protection of the Right to Organise Convention	22. June 1972
	C098 – Right to Organise and Collective Bargaining Convention	22. June 1972
	C100 – Equal Remuneration Convention	28. January 1998
	C105 – Abolition of Forced Labour Convention	22. June 1972
	C111 – Discrimination (Employment and Occupation) Convention	22. June 1972
	C182 – Worst Forms of Child Labour Convention	12. March 2001
2 of 4 governance conventions	C081 – Labour Inspection Convention	22. June 1972
	C144 – Tripartite Consultation (International Labour Standards) Convention	17. April 1979
26 of 178 technical conventions	e.g., C001 – Hours of Work, C014 – Weekly Rest (Industry), C019 – Equality of Treatment (Accident Compensation)	

Figure 3.1 - Selected ILO conventions ratified in Bangladesh

Bangladesh has now initiated to ratify the last fundamental convention on the minimum age; this is done to secure its duty-free market access to the European Union³. According to the ILO convention, the minimum age shall not be less than 15 years. Currently, The Bangladesh Labour Act-2018 only prohibits the employment of children under the age of 14. This ratification does not hold major implications because child labour has been eradicated already in the export sector in the garment industry.

³ <https://www.thefinancialexpress.com.bd/trade/bangladesh-set-to-ratify-ilos-minimum-age-convention-for-duty-free-eu-access-1612670443>

The implementation of ILO conventions mentioned above has not led to an effective good enforcement strategy in the country, which indirectly led to the increasing rise of private monitoring programs of brands, multi-stakeholder initiatives and NGO's.

4 Methodology

The report is built on case study research, considered the most appropriate scientific method for exploratory studies to uncover complex issues and underlying mechanisms (Yin, 2014). Within the case study research tradition, the report is built on an abductive approach which consists of several iterations between theories and empirical findings. An abductive research method is appropriate, given that there is a limited amount of literature focusing on audit standards.

Interviews are carried out with auditors, representatives from factories, brands representatives, NGO representatives, Workers Rights-based organisations, employers' associations, companies providing corporate social responsibility platforms such as BSCI, and alternative initiatives such as Better Work. Cases were chosen purposefully based on their role in the market: global buyers (from different countries), auditors, garment suppliers, trade unions, and social audit standard organisations (e.g., Sedex). Initially, we screened the audit market based on desktop research to identify actors. This was supplemented with snowball sampling (e.g., contacting new informants recommended by other informants) and through personal and digital networks (e.g., LinkedIn).

We chose one informant from the relevant department for each organization, typically the CSR or sustainability department in buyers and suppliers. For strategic issues, we selected members of the top management, while for operational issues, we selected middle management or professionals. Informants were selected based on their recent employment, but since the analysis covers the developmental phase too, informants with earlier experience from different functions were also interviewed about these experiences.

All interview persons and organisations are kept anonymous and guaranteed anonymity in the contact information to ensure that information was not withheld. The method proved to help establish a trusting relationship with the informants, as they volunteered to provide information also on illegitimate or illegal practices (e.g., providing entertainment to auditors, being flexible in what is noticed). In total, 44 informants were interviewed; the informants represented different stakeholder backgrounds, some of them with more than one (e.g., social compliance managers of global buyers have a professional background as third-party auditors). The final number of informants reflected that the interviews reached saturation; in our case, saturation reflects that new information was not revealed in extra interviews, and solid information was in place concerning the mechanisms we investigated. In sum, this ensured what Yin (2015) refers to as analytical generalizability. In addition to the interviews, we organised a stakeholder workshop on 9th December 2020 to present and validate our tentative findings and a validating workshop in autumn 2021.

In addition, data collection included secondary material; that is, collection of relevant standards, codes of conduct, information about audits at webpages and other relevant written sources including official company homepages, official webpages concerning the standards and relevant scientific literature. Secondary material is important for identifying information in general and triangulating interview information. Interviews often suffer from ex-post justifications and ex-post reflections undertaken after a given event, while secondary sources typically are written closer to

the event in question. Yet, no data are perfect and secondary material may be written with a strategic purpose and not always be correct. Therefore, we used triangulation of multiple sources to reduce these potential error sources as much as possible.

Type of Stakeholder	No. of informants
Audit companies	12
Buyers/Brands	19
Suppliers/Factories	7
Social Compliance Initiatives	4
NGO's and Trade unions	4
Industry experts	3
Total	49

Figure 4.1 - Overview of topics covered and informants

Interview guides were dynamic and developed based on learnings from the interviews and were also prepared for the interview fitting the target groups. Further developments of the interview guide also reflected the incorporation of learning-based new insights, as is expected when relying on an abductive approach. The main topics focussed on formal and practice-oriented dimensions and included:

- Education and professional background of the interviewed person
- Scale of operations (type of product, number of employees, value, number of pieces, % of sourcing, etc.)
- Audit process, relations to comply with the legal framework in Bangladesh
- Accreditation and certification process by the auditors
- Selection of audit conductor (third party audit firms, buyer visits/audits, others)
- Implementation of audits (activities, sequence, interview persons, tools/checklists, observations)
- Frequency of audit, affiliation of audit firm with international standards and multi-stakeholder initiatives such as Amfori BSCI, SEDEX
- Payment structure for different audits (payments procedures, who pays, payment/fee structure)
- Follow up on an audit report (non-conformity)
- Active audit company in Bangladesh (satisfaction/impression of audits, auditing practice, their effects, feedback procedures)
- Self-assessments (experience and effects)
- Role of government in ensuring OSH compliance in factories
- Future trends in auditing systems and practice in Bangladesh? Future changes anticipated
- Proposal for improvement of audit system and practice
- New standards and data collection initiatives (e.g., digital platforms), opinion about new standards.

Standards and codes of conduct were collected through an internet search and by prompting organizations to share their codes of conduct and standards. We ended up selecting the most common eight standards and multi-stakeholder initiatives for further analysis.

Critical aspects and findings of all the interviews were captured in comprehensive minutes. The obtained data were analysed to establish an understanding of common patterns with importance for the social auditing practice in Bangladesh. Subsequently, results were discussed in stakeholder workshops with the interviewed informants and actors from Bangladeshis social audit industry. These workshops were both used to recruit new participants for further research activities of the BASCAP Project, but also to get feedback on the report findings and secure validity and reliability.

5 The standards, social compliance initiatives and codes of conduct

Above, we introduced the Bangladeshi social auditing industry dynamics, including the drivers behind the dynamics. In this part of the report, we move from the helicopter view to the close-up view of the social audit companies in Bangladesh today and address which are present and what characterize their approach to auditing. This allows for a more granular understanding of the challenges of using social audits to enhance compliance in the context of Bangladesh.

5.1 Social compliance Initiatives

The social auditing industry is rooted in global audit companies originating in different countries; this has implications for which standards the global buyers use and thereby for the challenges they encounter about using social audits for compliance enhancement in Bangladesh.

Standard	Geographical preferences
Amfori BSCI	Continental Europe
Better Work	Mixed, preferred in the USA
SLCP/Higg	Mixed
ICS	France
FLA	USA
SA 8000	Mixed
Sedex	Britain
WRAP	USA

Figure 5.1 - Geographical preferences of social compliance standards

According to our informants, while not black and white, the global buyers' reliance on standards reflects nonetheless on their country of origin. For example, SEDEX is particularly strong among UK firms, ICS is most prevalent in France, and BSCI dominates among European buyers. At the same time, e.g., Wrap is used almost exclusively by US buyers. More minor standards such as Fair Trade are mainly considered a boutique standard with limited traction. However, as we will come back to later in the report, there are currently changes, which may result in significant changes in the market for social audits.

Two types of standards are very common in Bangladesh to audit in the garment factories. The first one is the general standards formulated by social compliance initiatives such as Amfori BSCI, Sedex, WRAP, ICS. The second one is buyer codes of conduct such as H&M, Walmart, and BEST-SELLER ('new' data collection standards such as SLCP, used by e.g., the Higg Facility Social & Labor Tool (Higg FSLM) are currently challenging the established standards, we'll elaborate on the latest 'standards' below). To understand the impact and efficiency of standards, there is a need to unpack their different coverage, as the coverage influences their impact.

We have mapped eight standards and multistakeholder initiatives, which play roles in Bangladesh's social compliance audits. The included standards cover two approaches: 1) focus on content requirements mainly from ILO basic conventions and UN global compact and UN guiding principles.

Topic	SA 8000	FLA	WRAP	Amfori BSCI	ETI	SEDEX/SMETA	SLCP/Higg FSLM	Better Work
Compliance with Laws and Workplace regulations	X	X	X	X	X	X	X	X
Prohibition of Forced Labour	X	X	X	X	X	X	X	X
Prohibition of Child Labour	X	X	X	X	X	X	X	X
Prohibition of Harassment or Abuse	X	X	X	X	X	X	X	X
Compensation and Benefits	0	X	X	X	X	X	X	X
Hours of work	X	X	X	X	X	X	X	X
Prohibition of Discrimination	X	X	X	X	X	X	X	X
Health and Safety	X	X	X	X	X	X	X	X
Freedom of Association and Collective Bargaining	X	X	X	X	X	X	X	X
Remuneration (Is often covered in Compensation and benefits)	X	0	0	X	0	0	0	0
Management System	X	0	0	0	0	0	X	X

Figure 5.2. - Overview of requirements in the content standards

We start with an overview of eight content standards (Figure 5.2). As the table indicates, the selected social compliance standards only differ to a limited extent. They all comprise a core number of general working conditions, such as the prohibition of forced labour, child labour, harassment or abuse, or discrimination. Yet, there are in some cases more differences when it comes to the specific requirements under each theme. Especially for OSH, the specifications are somewhat limited and the requirements rather general – for a detailed description, see Figure 5.5. Only three standards go beyond addressing general human rights requirements and demand the implementation of a management system to secure compliance with the demands.

	Themes	Description
SA 8000	Policies, Procedures and Records	How the organization defines its principles, objectives, and commitment to SA8000 and instructs its personnel to implement those principles on a day-to-day basis.
	Social Performance Team	The trained people who lead and facilitate the organization's SA8000 implementation, as required in SA8000 9.2.
	Identification and Assessment of Risks	How the organization determines its risks and prioritizes its actions to address them.
	Monitoring	How the organization tracks its SA8000 implementation and performance to achieve its objectives and targets.
	Internal Involvement and Communication	The organization's methods and channels for communicating with workers and getting their input for SA8000 implementation.
	Complaint Management and Resolution	How the organization receives and addresses grievances or other suggestions from workers or interested parties.
	External Verification and Stakeholder Engagement	How the organization cooperates with external auditors or involves interested parties to get comprehensive input to its SA8000 implementation
	Corrective and Preventive Actions	How the organization addresses risks and gaps in its SA8000 implementation and makes system changes to prevent recurrence and drive continual improvement.
	Training and Capacity Building	How the organization trains its personnel and develops their attitudes, skills, and knowledge to implement SA8000 effectively.
	Management of Suppliers and Contractors	How the organization conducts due diligence on its business partners and encourages them to implement SA8000 and improve.
SLCP	Policies & Procedures	How the organization defines its principles, objectives and commitments related to topics such as social & labour practices, child labour, forced labour, abuse & harassment, working hours, wages and benefits, freedom of association and collective bargaining, grievance systems, health & safety, suppliers & subcontractors.
	Roles & Responsibilities	How the company defines roles and responsibilities for implementing and managing social & labour practices and whether training and communications are provided.
	Self-Assessment	How and if the company monitors social & labour practices, policies, and procedures.
	Continuous Improvement	How the company addresses social and labour practices and communicates improvements to interested stakeholders.

Figure 5.3 – Overview of Management System requirements

Some requirements in the standards are broad and offer a wide scope for interpretation, such as Sedex´ SMETA, which focuses on national laws and regulations, in this case, Bangladeshi law.

Why do the standards differ, where do they have their roots? Drawing on our interviews and publicly available material from the standard organizations, we have traced the sources for the social compliance demands in the standards (Figure 5.4). However, many standards do not indicate which sources/conventions, guidelines, and principles they are based on; hence interpretations should be treated cautiously.

Source for standard	SA 8000	FLA	WRAP	Am- fori BSCI	ICS	SMETA	SLCP/Higg FSLM (a)
UN guiding principles for Business and Human Rights	X	0	X	X	X	X	0
UN Global Compact Conventions	0	0	0	X	0	0	0
ILO Conventions	X	X	X	X	X	X	X
OECD Guidelines for Multinational Enterprises	0	0	X	X	X	0	X

Figure 5.4. - Overview of sources to the standards

(a) Higg FSLM uses SLCP’s standard and therefore the two are treated together.

As depicted in Figure 5.5, the different social compliance standards listed above incorporate several generic OSH-risk factors, such as the requirement of personal protective equipment, emergency exits, chemical and electrical safety, and access to clean drinking water or first aid kits. This means that factories that comply with these standards meet a certain minimum standard in terms of working conditions. However, only a few have more detailed prerequisites of specific risk factors related to work in the RMG-industry, such as ergonomic workstations that help prevent musculoskeletal diseases. Only FLA, WRAP, Better Work and SLCP take ergonomic issues into account, such as heavy lifting, repetitive work, MSD, or workstation design. And even though these issues are mentioned, it remains questionable how much they are considered during the audits. For example, the WRAP-standard only asks the auditor to check “*well-lighted and comfortable workstations*”.

OSH Risks	OSH risk	SA 8000	FLA	WRAP	Amfori BSCI	SMETA	SLCP/Higg	ICS	BW
	Emergency exit	X	X	X	X	X	X	X	X
Aisles marking	0	0	0	0	X	0	X	0	0

	MSDS	X	X	X	X	X	X	X	X
	Chemical safety	X	X	X	X	X	X	X	X
	Electrical safety	X	X	X	X	X	X	X	X
	Building/structural safety	X	0	X	X	0	X	X	X
	Fire protection	X	X	X	X	X	X	X	X
	Machine safety	X	X	X	X	X	X	X	X
	Ergonomics (heavy Lifting, repetitive work, MSD, workstation design)	0	X	X	0	0	X	0	X
	High temperature	X	0	X	X	X	X	X	X
	Noise	X	X	X	X	X	X	X	X
	Dust	X	X	X	X	X	X	0	
	PPE	X	X	X	X	X	X	X	X
	First Aid (Kit, training, and protocol)	X	X	X	X	X	X	X	X
	Professional health surveillance	0	X	X	0	0	X	0	X
	Clean drinking water	X	X	X	X	X	X	X	X
	Sanitation	X	X	0	X	X	X	X	X
OSH-Management System	Risk assessments	X	X	X	X	X	X	X	X
	Action plan for OSH risks	X	X	X	X	X	X	X	X
	Management Commitment	X	X	0	X	0	X	X	X
	Accident analysis	X	X	X	X	X	X	X	X
	OSH-Training (proper and safe use of machinery, equipment, and PPE)	X	X	X	X	X	X	X	X
	OSH Committee (or co-operation)	X	X	X	X	X	X	X	X
	Workers' representatives	X	X	X	X	X	X	X	X

Figure 5.5 - Specification of OSH requirements

Although only three of the included standards have an explicit focus on management system requirements, all standards include prerequisites that are typically associated with OSH-management systems, such as risk-assessments and action plans to address the identified issues, systematic analysis of occupational accidents and OSH committees or co-operation between workers and management in relation to OSH.

We were able to find accreditation details for the six social compliance initiatives listed below in fig. 5.6. There are, however, significant differences in how the accredited audit companies are monitored and grievances addressed, especially regarding the level of transparency and involvement of the suppliers. As we will elaborate further on the coming pages, especially the relatively newer social compliance initiatives such as the SLCP, are perceived as more transparent and fairer by the interviewed informants.

Accreditation	SA 8000	WRAP	Amfori BSCI	SMETA	SLCP/Higg FSLM	ICS
General accreditation requirements	Yes	Yes	Yes	Yes	Yes	Yes
APSCA membership required	No	Yes	No	Yes	No	No
Specific auditor training courses	Yes	Yes	Yes	Yes	Yes	Yes
Auditor qualification maintenance	Yes	Yes	Yes	Yes	Yes	No
Monitoring of audit company	Yes	Yes	Yes	Yes	Yes	Yes

Figure 5.6 - Accreditation requirements

APSCA – the Association of Professional Social Compliance Auditors - is becoming an essential actor in social compliance audits. This is also represented in the auditor accreditation requirements of the listed social compliance initiatives: While only WRAP and Sedex explicitly make an APSCA membership a prerequisite, the SLCP recommends auditors to have an APSCA certificate. Furthermore, although ICS and Amfori BSCI do not require APSCA memberships, all the audit companies accredited by them are APSCA members. This underlines the growing importance of APSCA.

Another certification standard that we initially expected to be used more than it turned out to be, is the ISO 45001. The ISO 45001 specifies requirements for an occupational health and safety management system. However, while it is implemented in many production- and manufacturing sites in the global north, there are no accredited companies in Bangladesh. Asked about this, our informants indicated that the scope of ISO 45001 is not considered as sufficient in terms of a social compliance audit amongst stakeholders in the industry, since the focus predominantly lies on occupational health and safety and does not cover other core areas such as child labour, working hours or remunerations systems.

The details of the standards are specified in Appendix 1 where we address their history and highlight special features of both content and the related audit practice.

5.2 Code of conducts

Although most brands and retailers primarily rely on audits against standards or frameworks of social compliance initiatives, corporate code of conduct is still regarded as a tool to promote corporate or supplier compliance with social and labour standards. According to our informants, most brands and retailers have developed internal audit practices where the responsible employees of the companies' CSR- or Sustainability-departments visit the most critical tier-1 suppliers about once every year / every second year. The initial internal audits against codes of conduct are usually done to assess whether the supplier can be trusted enough to engage in a business relationship with the brand. Subsequently, findings will be published in annual corporate sustainability reports. These internal audit practices are, however, in most cases viewed as a tool that supplement third-party audits, which have become a requirement to access markets. The brands often require audit reports from BSCI or Sedex as prerequisite to start dealing with the supplier. In case of a contract they will eventually follow up with their own audit of code of conduct.

Three cases were selected to give a broad overview of the corporate code of conduct and the social compliance issues they cover. The example of Bestseller, ALDI, and H&M show that formal requirements to suppliers are very similar. All three companies mention how their CoC's are based on the same core documents, such as:

- The UN Universal Declaration of Human Rights
- The UN Convention on the Rights of the Child
- ILO Conventions

This translates to the following topics:

- Compliance with local laws and workplace regulations
- Prohibition of Forced Labour
- Prohibition of Child Labour
- Prohibition of Harassment or Abuse
- Compensation and Benefits
- Hours of work
- Prohibition of Discrimination
- Health and Safety
- Freedom of Association and Collective Bargaining
- Management System

As mentioned above, debates over corporate codes and conducts and the brand's ability to monitor and enforce compliance with social compliance requirements have been critical. Arguments have especially been that neither brands nor suppliers are interested in finding and reporting poor factory conditions but rather may benefit from hiding or downplaying non-compliances. However, the same concerns could also be raised against third-party auditors. At the end of the day, they are contracted by either the supplier or the buyer and, therefore, might be interested in pleasing the contractor to not miss out on future businesses. Nevertheless, third-party auditors have in recent years become the dominant monitoring and verification actors in the industry.

Whether third-party auditors are, in fact, more reliable than buyers own in-house auditors is hard to determine. However, according to a study by Distehorst et al. (2017), there are no systematic differences between social audits conducted by in-house auditors and third-party auditors. The study compared Nike's internal and third-party auditors' systematic audit reports, which monitor Nike's supplier factories' compliance with environmental and labour standards and concluded that no significant differences could be found. These observations can be carefully confirmed by the interviews with the various informants that build up this report.

When considering the effect corporate codes of conduct have on suppliers' safety and health performances, there are inevitable problems. On the one hand, codes of conduct are shaping a regulatory interplay with institutional forces, thereby adding pressure on the supplier to improve working conditions and implement good practices relevant to the factories' floor level and the management system. On the other hand, corporate codes of conduct often contribute to auditing fatigue amongst suppliers. Moreover, many of our informants indicated that compliance with codes of conduct becomes an added financial and operational burden for the suppliers, who at the same time face other demands from buyers like shorter lead times or price decreases. A further issue is differences in reactions to non-conformity. One supplier told that some brands may consider a specific non-conformity problems as a zero tolerance issue while others take it as a moderate problem, which can be corrected over time. That was for instance the case for so different problems as exceeding working hours and missing labels on chemicals.

6 The Audit Firms

6.1 Introduction

Who conducts the audits? The interviews with the different stakeholders indicate that most third-party audits are carried out by seven international audit firms (see details about each of them in Appendix 2). In addition, there are smaller national audit firms, but according to our informants, they only cover a minor part of the market. However, many of the auditors used by the international firms are freelance independent Bangladeshi consultants hired to do specific audits by the firms.

In 2015 a group of leading social compliance audit firms (Arche Advisors, Bureau Veritas, ELEVATE, Intertek, SGS, RINA, TÜV Rheinland, TÜV SÜD and UL) came together and founded APSCA, the association of professional social compliance auditors. APSCA states its mission to “*enhance professionalism, consistency and credibility of individual auditors and organizations performing independent social compliance audits*” (APSCA, 2021). As depicted in Figure 5-6, APSCA has grown into a critical stakeholder in the social compliance industry, and several large social compliance initiatives have initiated collaboration with them. According to our informants, this has created fierce competition between audit companies since auditors now must pass an APSCA auditor course to be eligible to conduct audits as lead auditors against several social audit standards.

Figure 6.1 depicts the social compliance initiatives and standards the seven firms audit and certify. Most of the firms cover most of the initiatives and standards. However, ETI is unique because they do not accredit any auditing firm to work for them but allow anyone to use their standard.

	ISO 45001	SAI/SAAS SA8000	WRAP	FLA	AM-FORI BSCI	SEDEX/SMETA	SLCP/Higg FSLM	ETI	Assessment of COC
Bureau Veritas	X	X	X	0	X	X	X	X	X
Elevate	?	0	0	X	X	X	X	X	X
SGS	X	X	X	0	X	X	X	X	X
Intertek	X		X	0	X	0	X	X	X
TÜV Rheinland	X	X	X	0	X	X	X	X	X
TÜV SÜD	X	X	X	0	X	X	X	X	X
UL	X	0	X	0	X	X	0	X	X
RINA	X	X	X	0	0	X	X	X	X

Figure 6.1 - Selected social compliance initiatives and standards audited and certified by the international firms in Bangladesh.

As already explained, global buyers typically use third-party auditors for auditing their suppliers to solve an agency information asymmetry problem between global buyers and local suppliers. The asymmetry consists in that the global buyers do not have inside information about what is being done within the supplying companies and do not trust the information provided by the suppliers. Therefore, global buyers need to design monitoring and data collection strategies to solve the said problem. Third-party audits play a central role in solving the problem and the third-party auditors are formally independent from both the buyers and suppliers.

Then again, the auditing market is competitive, and auditing firms depend on income from conducting audits; thus, they need to ensure that their reputation is not tainted by misconduct (e.g., corruption or inappropriately critical audits). In other words, there is, therefore, also an agency and information asymmetry problem between the global buyers and auditors built into the solution to the agency problem between the global buyers and suppliers. Ideally, quality and independence problems are to be secured by the accreditation mechanisms where another independent organization accredits the firm to carry out the audits. The accreditation body subsequently checks the quality and independence of the audit firm.

Yet, the development and implementation of a robust system lack in this regard, e.g., the agency problem is not fully solved. Although all social compliance initiatives on paper seem to have developed an accreditation system (Figure 5.6), our interviews indicate significant differences in how these systems are implemented and with many loopholes negatively impacting the effects of the standards. Without a reliable accreditation system, the risk of biased third-party audits will inevitably grow. The suppliers pay the auditors for audits of the standards and brands only pay for audits of their own code of conducts. The third-party auditor firms may consider providing positive assessments to avoid creating problems for the suppliers who pay for their audits. They thereby believe they can maintain the customer this way. Yet, global buyers may face reputational challenges due to this strategy and may not appreciate it. Especially, the big audit firms need to maintain their international reputation and frequently have quality assurance schemes to secure the quality and independence of their audits.

The quality of the accreditation schemes as well as the internal quality assurance systems are not considered adequate by our informants, although several recognize an improved quality in recent years. The audit companies thus face a tension between being flexible towards their customers and maintaining high standards. Moreover, the scholarly literature also illustrates that it is not only a problem on the company level because even audit companies with high moral standards or reputational risks will face challenges concerning employees. This could e.g. be because employees pursue their own interests which may not be aligned with the company's. The implication is that the problems pertaining to the design of the monitoring system (and how to monitor the monitor) remain unsolved, and that reputation effects therefore are not strong enough to weed out malpractices.

6.2 Training and qualifications of auditors

It is an open question whether auditors are trained sufficiently to perform their duties. Auditors are trained on various topics organised by the audit companies. The normally include audit skills to

help auditors identify violations; substantive issues relevant to a specific industry, region, or supplier (for example, subcontracting in the garment industry); and the requirements of specific auditing protocols that certain clients have adopted, such as SA8000. In addition, it is part of the accreditation for all standards and social compliance initiatives to receive training (see Figure 5.6).

Auditors' training typically teaches them how to find violations and what conditions tend to cause them. However, research also indicates that suppliers will achieve higher improvement rates if audits are performed by better-trained auditors (Short et al., 2020). The knowledge and skills level of the auditors is generally questioned by our informants among both auditors and other stakeholders. Our informants, for example, pointed to that, except for the mandatory APSCA Audit exam (AFRI-3), it is not considered difficult to pass the auditing qualifying exams.

In many firms, the low formal qualifications requirements are compensated for through internal training procedures, but the quality and commitment to this activity varies between the different auditing firms. It should be noticed that for the more narrow audits task, the limited training gets slightly less important than one could anticipate, as most audits *“only focus on violations and provide little assistance to develop compliance solutions”* (Huq et al., 2016). The question of how to achieve the compliance improvements is left to the suppliers. A more learning approach to audits, which can help suppliers to improve conditions would in most cases require additional qualifications.

7 The audit practice in Bangladesh

This chapter of the report introduces the characteristics of the contemporary audit market in Bangladesh, including the audit procedure structure. Special attention is paid to different challenges related to the social auditing practice.

7.1 The audit procedure

When a supplier audit is carried out in Bangladesh, as in other countries, the process covers three phases: the preparation phase, the actual audit phase, and the follow-up phase. Therefore, understanding the whole auditing process is critical for understanding the effects the audit has on increasing compliance.

In the preparation phase, the auditor communicates with the clients for schedule and requests them to send relevant documents for review. If any material is missing, the auditor asks them to have it ready before audit day. They also follow up on prior audit outcomes.

For the actual audit phase the duration of the audit depends on the size of the factory. For example, a factory with about 1000 workers faces an average audit duration of 4 to 6 days. The duration can vary according to the specific standard or multistakeholder initiative to audit. A first-time audit takes more time compared with a follow-up visit. Most of the social audit companies follow similar audit procedures for their actual audits – typically with five broad elements.

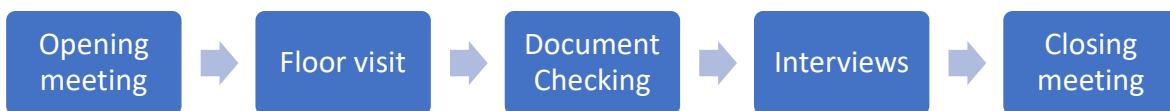


Figure 7.1 - Sequence of a standard audit

1. Opening meeting with management to share the plan for the audit and request them to cooperate by allowing access to all premises and workers and access to necessary documents.
2. During floor visits, safety and health standards are checked. Additionally, assessments of possible underage workers are conducted.
3. The document-checking includes employee salary sheets, age records, attendances, license checking (such as environmental clearing certificate, fire license, boiler operation license).
4. Interviews with workers are conducted, usually both individual and focus group interviews.
5. Closing meeting with the top management: Presentation of findings and discussion of follow up.

Audits are usually conducted semi-announced or fully announced. The reason for using semi-announced or unannounced audits is that it reduces the opportunity of the suppliers to engage in opportunistic behavior (e.g., informing informants about what to say, ensuring the factory is shining that day) while pre-announced audits are used in a context with a high degree of trust mainly.

If non or only minor violations are found during the auditing process, a supplier may be given a one-year approval, and if needed, followed by a follow-up audit. In case of violations, suppliers are typically requested to develop Corrective Action Plans (CAP) where non-compliances are addressed. If a major violation is found, a buyer may withhold orders and give the supplier three to six months to rectify conditions. However, this happens very rarely. Typically, a supplier will only fail altogether if there is a severe violation, e.g., child labour. Global buyers have different zero-tolerance issues. For most, e.g. child labour is considered a zero tolerance situation, but other issues might also qualify as a zero tolerance case if they are severe enough, such as forced and bonded labour, or unethical behavior like the attempting to bribe auditors. Audits may be conducted by the buyer directly or by a third-party auditor.

The process for conducting supplier audits can be carried out using three general approaches, each requiring different skills and practices:

- The buyer's own internal staff conducts the audits.
- A subcontracted third-party perform the audit initiated by the buyer.
- A supplier initiates an audit of its own operations using a third party, often to demonstrate compliance with a recognized standard, thereby attracting and retaining buyers.

If a factory is not approved, then another essential part of the auditing process is the auditor's proposal of a corrective action plan to address the defects identified during the social audit. Once such an action plan is issued, the factory is responsible for implementing it within an established timeframe, subject to verification by the auditors.

7.2 Challenges related to audits in Bangladesh

In many cases the corrective plans are not implemented, as the the factory owner is not willing to make the necessary investments, and the brands do not follow up. This was the case for example the case at the Tazreen Fashions factory in Bangladesh, where a fire broke out in 2012 and killed more than 110 workers. A BSCI audit report had accurately noted safety and health issues, but no action was taken to fix them.

Despite the limitation to the current situations, the audit industry in Bangladesh has since the early 1990'ies made strides forward. Based on assessments from our interviews we can roughly indicate that around 10% of suppliers are fully compliant with social audit requirements, 40% are mainly compliant, and 50% are not yet compliant. Yet, even in the context of the best firms, are there still issues concerning Freedom of Association (FoA) and (forced) overtime. The situation as in particular improved after Rana Plaza, where the Accord and Alliance set a new standard with much more strict procedures for follow up.

Yet, social audits still face challenges related to eliminating issues causing non-compliance. The audit process is not without opportunities for the suppliers to rig it. Suppliers may, for example, train workers to provide correct answers to auditors and use tailored computer programs to falsify worker records (Huq et al., 2014). Thus, they meet the commercial requirements of international

buyers while maintaining the appearance of compliance with corporate codes of conduct. This is what we refer to as window-dressing.

One core issue experiencing window-dressing is Freedom of Association (FoA). In connection to FoA and window-dressing, our informants explain that global buyers pay lip-service to FoA only, that suppliers are concerned with limiting trade unions in Bangladesh and that workers seem less inclined to support unions too. Several informants pointed to a national narrative saying that trade unions were responsible for closing an industry earlier and thus that the informants, in general, are sceptical of trade unions. Bangladesh has also experienced tense relations between trade unions and factory owners/BGMEA (imprisonment of union leaders and union busting) and between the different trade unions (conflicts even covering death threats). Thus, in general, a trust relationship based on FoA does not exist in Bangladesh. This lack of trust and fear of costs associated with FoA has resulted in the limited focus on FoA in social auditing practices.

Another central and critical issue where social audits have not delivered value, is regarding overtime. In connection to overtime and window-dressing, several suppliers acknowledge that they keep different accounts depending on whether the social auditors represent European or US global buyers. European global buyers tend to be flexible towards extensive overtime, while US global buyers are considered stricter. Therefore, European buyers tend to receive reasonable accurate information about the use of overtime, while US global buyers tend to get more misleading information. Due to the low salaries, workers are also not keen on informing auditors about violations of overtime laws, as they often try to get as many hours as possible. Our informants suggested that reduced overtime payment increased labour turn over. Therefore, neither suppliers, auditors, nor workers frequently raise issues about the extensive use of overtime in audits.

Finally, according to our interviews, one of the significant challenges related to social audits is the high likelihood of under-reporting core social compliance outcomes. Issues such as sexual harassment or discrimination are fundamentally different to monitor than, e.g., working hours, management systems or OSH measures related to physical risks. While all the latter can be observed or assessed as objective and (at least to a certain extent) uncontroversial evidence, sexual harassment or discrimination calls for more time consuming and interpretative assessments – even if the supplier supports the investigation. Although all auditors are said to include these issues in their assessments, our interviews indicate that they are most often not prepared to have them in the audit report and hesitate to issue such non-conformities.

Based on our interviews, we have developed Figure 7.2 to visualize the degrees of difficulty associated with assessing compliance with core social issues by using audits as the main methodology. They are not supposed to be absolute, but as relative to each other, e.g. it is easier to identify the sufficient number of fire extinguishers and emergency exits than the prevalence of social dialogue and freedom of association in factories.

	Social compliance issues
Easy	<ul style="list-style-type: none"> • Safety and health (accident and other physical risks) • Management System

Medium	<ul style="list-style-type: none"> • Working hours • Freedom of Association • Forced labour • Child labour • Ergonomics
Difficult	<ul style="list-style-type: none"> • Sexual harassment • Discrimination • Other psychosocial issues

Figure 7.2 - Degrees of difficulty to capture social compliance issues

The methodological limitations of audits as they are conducted in the current practice, constitute an important reason for flaws in audits of specific issues. Due to the nature of the issue, sexual harassment may be associated with cultural stigma and shame. However, methodologically it is difficult to detect since women may not want to speak up to people they do not know. They lack feeling of psychological safety and are uncertain if they risk sanctions from the employer for speaking up.

To sum up, the auditing process suffers in many accounts, and especially for FoA, overtime and 'difficult-to-capture' issues will the audit results show misleading results.

8 The experience of the garment factories

Social audits consume extensive resources and lead to high direct costs for the suppliers. The results is that many suppliers experience social auditing fatigue; all actors in the industry express this opinion during the interviews. According to suppliers, the extensive resource use reflects that they are being exposed to multiple social audits every year and/or that the audit companies rely on different types of audits and data format, which subsequently require different follow up activities. The global brands, for example, expect that their suppliers are audited according to their company-specific codes of conduct, resulting in suppliers being audited for each larger brand customer. Asked about this, one of our informants working as a senior compliance manager at a big manufacturing company with multiple factories elaborates: “It really becomes a big stress issue for us. In the last year, we had 800+ audits for 40+ brands”. In addition to the number of audits, the different codes of conduct come with different expectations. Despite overlapping in themes, they may ask for different measures or different data formats.

Moreover, they may have explicitly conflicting codes of conduct. Typically, American companies do not accept overtime to the extent stipulated in Bangladesh’s labour law, while European companies are less concerned. This leads to that suppliers also work with multiple registration systems—for example, one for overtime for European buyers and one for Americans. Conflicting codes of conduct thereby leads to additional use of resources.

In addition to the private codes of conduct, suppliers are also being audited by generic standards (e.g., BSCI). Sometimes, this is a mandatory supplement to the global brand’s codes of conduct. The suppliers frequently use it to signal legitimacy to global buyers to qualify as a supplier worthy of consideration for receiving orders. Next to the human resources used during the audits, the audits of compliance with standards and multistakeholder initiatives are also paid by the suppliers – compared to code of conduct audits normally paid by buyers.

While several global brands recognize multiple generic standards to qualify for orders, a larger supplier often has to be audited according to most of the major standards. This causes additional resources for audits, which are not creating any additional value for the supplier. Some suppliers also pointed out that global buyers would not recognize it despite having a valid auditing certificate, perhaps because of the responsible auditing firm. This results in using additional resources for being audited up against the same standard several times. The suppliers – and supported by global buyers – also pointed to that some auditors are corrupt and demand payment to guarantee that the supplier factories pass the evaluations. Several other informants, however, pointed out that s it was not documented that auditors behaved in a corrupt manner. Yet, there are research pointing towards the existence of that particular problem (Huq et al., 2014).

In sum, the audits result in extensive resource-uses and thereby high costs for both suppliers and buyers. A cost which is eventually transmitted to the global buyers and their customers through the price mechanism. This situation ought to incentivize all stakeholders to improve the system. The suppliers in general also pointed to that the high frequency of audits and the challenges associated with multiple often conflicting social audits resulted in pervasive audit fatigue. More

suppliers, therefore, called for a cheaper and less resource-demanding system without duplications and multiple audits. As a nuance, it should be said that retailers⁴ selling to the public, as a rule of thumb, rely less on their codes of conduct and more on generic standards such as BSCI and Sedex. And thereby contribute less to resource-use among the suppliers. Exceptions, e.g., Lidl, of course, exist.

⁴ In the garment industry, there is a distinction between brands (with retail) and retailers (e.g. Walmart). Brands rely on their own brands while retailers typically sell other companies' brands.

9 The size of the Bangladesh social audit market

One may wonder whether the Bangladeshi social auditing industry is merely a minor activity or whether the market size has the size to justify that it could generate changes. The precise size of the social audit market in Bangladesh is unknown, and this section aims at providing a rough estimation of the market size. The market calculations focus on third-party audits only, including audits conducted according to established standards, and do not include environmental audits. Moreover, the estimations do not introduce the possible cost reductions associated with introduction of new simplified methods and standards such as the Higg FSLM and SLCP self-assessments (see next chapter). Yet, such systems have still some supplier external auditing costs associated with the verification and corrective action plan verifications. Moreover, assessing the costs reflects definitions of whether a company is included and the correct price for its audits. Better Work could be considered part of the audit industry or not. Moreover, the prices Better Work charges does not reflect their market prices because of their public support. These, and similar challenges, provide the estimates with some degree of error. Furthermore, the cost of internal human resources used by the suppliers are not included.

Based on information from our informants, approximately 20,000 audits are undertaken in the garment industry in Bangladesh every year. This is calculated as a number of firms in BGMEA times an average of five audits per company; both local companies and global actors believe a factory on average has five audits per year.

Each audit is estimated to cost approximately US\$ 1000. This gives a market size of at least US\$ 20 million per year. Of this, above 50% are captured by SGS, Intertek, Bureau Veritas, TÜV SÜD, TÜV Rheinland and UL. This is a very conservative estimate, and the real cost is likely to be considerable higher.

To sum up, the costs associated with social auditing in Bangladesh are of a magnitude that justifies that the social auditing industry could play a significant role in ensuring compliance; it is not just a marginal industry.

10 Towards a paradigm shift?

The informants unambiguously point out that the current policing approach is inefficient and costly, leading to auditing fatigue. Trends in the social audit industry point to rapid changes, introducing what multiple informants refer to as a new paradigm for social auditing. Audit companies address the new paradigm by introducing different strategic initiatives. This section zooms in on the new alternatives to established social audit practices and proposes a first tentative interpretation of the development of the new potentially disruptive attempts. It should, however, be emphasized that it is too premature to provide conclusive findings.

According to our informants, the new paradigms have to respond to the high costs associated with audits, the limited value of the audits, reduce risks associated with reputation damage for the global buyers, and solve audit fatigue. In addition, new standards should provide an alternative to distrust and limited empowering of suppliers (policing by buyers and auditors). At the same time, also be compatible with environmental auditing and new technological solutions (e.g., platforms).

While the market for the new standards is only emerging, and it is impossible to predict the future entirely, there are signs that the auditing market in Bangladesh is in an early phase of a third S-curve. The Idea behind S-curves is that markets go through processes of different stages where the initial step is characterized by multiple competing standards that, through selection, result in dominance by one or few standards. At the beginning of a new S-curve, dominant standards will then be challenged by other standards leading to new dominant standards. The idea does not assume that the best or technically most advanced standards will dominate nor that multiple standards cannot coexist.

Currently, the established standards (e.g., Sedex, BSCI, WRAP) are being challenged by new standards or new approaches to standards for social auditing. It is possible that the social audit industry will perhaps be changed with regards to not only which standards will dominate, but also concerning the roles of the different actors due to the entrance of new types of actors (e.g., data handling actors relying on a digital platform approach), see more about SLCP below.

We have found three major developments:

- 1) New integrated methods by the audit firms
- 2) Programs using audits focusing on capacity development such as ILO Better Work
- 3) SLCP and the Higg FSLM

Although also smaller boutique standards such as Fairwear represents frontrunner, we will not include them in this report as they represent niches aiming at pushing the frontier of more mainstream audit standards. Especially SLCP and the Higg FSLM look like holding the possibility for fundamental changes, and after brief presentations of the first two developments we will dive deeper into the possibilities and challenges related to the SLCP and the Higg FSLM. SLCP is in Bangladesh closely associated with the Higg FSLM but is independent of it and aims at providing data collection for all standards, thereby being a one-point entry, so to say.

10.1 Audit companies own approaches

As mentioned above, audit companies themselves have also realized the challenges for the present audit systems, and they have started to develop their own new social auditing methodologies, often comprising multiple social audit standards. One example of those approaches is ELEVATE's Responsible Sourcing Assessment (ERSA), which works as an assessment framework comprising self-assessment tools and checklists, grading matrixes and data collection processes (ELEVATE, 2021). The idea is that ERSA integrates

audits of most of the key standards and multistakeholder initiatives, and the suppliers will therefore only be subject to one audit whereas the traditional method would require multiple parallel audits. ERSA is developed based on ILO conventions and the additional content of multistakeholder initiatives and standards such as:

- Responsible Business Alliance (RBA)
- Ethical Trading Initiative (ETI)
- Amfori Business for Social Compliance Initiative (BSCI)
- Global Social Compliance Program (GSCP)
- ICTI Ethical Toy Program
- Sedex SMETA 6.0 framework
- Worldwide Responsible Accredited Production (WRAP)

ERSA covers all the common topics in social compliance audits:

- Transparency & Business Integrity
- Management Systems
- Hiring, Disciplinary & Termination
- Child Labour
- Forced Labour
- Harassment or Abuse
- Non-Discrimination
- Freedom of Association & Grievance Mechanisms
- Foreign Migrant Labour
- Wages and Benefits
- Hours of Work
- Health & Safety
- Environment
- Sub-Contracting
- Homework

Based on our research, ELEVATE is not the only audit company that developed an audit framework that comprises multiple standards. For example, UL has developed its own Responsible Sourcing Workplace Assessment- (UL, 2020).

It has, however, been very hard to collect information on the audit companies own approaches. Although audit companies were approached, it was not possible to conduct interviews related to these themes.

To sum up, SLCP aims to disrupt the social auditing industry globally and is collaborating closely with especially the Higg Index and Better Work in the context of Bangladesh. SLCP and the Higg FSLM address critical dimensions associated with the problems of the social auditing market. Yet, the verification process is still not sufficiently well established to ensure that quality is not compromised. AI tools etc., are considered as means for solving the quality challenges but not yet introduced.

10.2 Better Work

Better Work (BW) is a program launched by the partnership of the ILO and the International Finance Corporation (IFC). Although this provides Better Work with funding and through the ILO the advantage of being close to governmental decision-makers and institutions, BW is only a minor player compared to the conventional audit standards and -companies. Currently, BW only operates in the greater Dhaka region and Chittagong. However, by 2021, plans are to expand operations further to reach 400 factories in Bangladesh (Better Work, 2021b).

Like conventional audits, Better Work also conducts assessments of factories' social compliance performance. However, Better Work doesn't rely on third-party audit companies but uses ILO trained people for its assessments. The procedure of Better Works service activities has a much stronger emphasis on addressing corrective actions than conventional audits.

Better Work originally developed its standard for the assessment practice, the Better Work's Compliance Assessment Tool (CAT). The CAT covers compliance issues drawn from the eight ILO core conventions (e.g., Child labour, discrimination, forced labour, freedom of association & collective bargaining) and issues related to working conditions (e.g., compensation, contract and workplace relations, working time, and occupational safety and health).

Better Work states that its standards for working conditions "*are drawn from each country's national labour law*" (Better Work, 2021a). Therefore, a benchmark of international standards and good practices only will be applied in cases "*where national law either fails to address or lacks clarity around a relevant issue regarding conditions at work*" (ibid.). However, when speaking with informants from Bangladesh, it became clear that Better Work must consider the local regulation of several topics such as working time and overtime as absent, since it is common practice for Better Works to base the assessment activities on international standards and not local law.

Better Work's assessment practice is undergoing changes due to collaboration with SLCP. The ties between the two organizations have been close since 2017, where Better Work started to provide strategic and operational advice to the SLCP and represented the ILO in the steering committee of the SLCP as a non-voting international observer. Although the ILO later in 2019 decided to step off from the steering committee, Better Work continued collaborating with and testing SLCP's tools.

In 2021, BW and the SLCP started to launch data-sharing activities in Bangladesh, Indonesia, and Vietnam. The integration of Better Works assessment standard into SLCP's Converged Assessment Framework (CAF) is described by BW as the aim to "*decrease audit duplication, facilitate data sharing across the industry, and promote compliance with national laws and international standards*". (Better Work, 2021c)

The collaboration, however, does not change anything of Better Works core service model: After the assessments, BW's standard procedure is to launch advisory sessions with supplier management to address the assessment findings in factory improvement plans. Additionally, the factories receive training and information about social dialogue and management systems via Better Works online learning portal.

Our informants' evaluation of Better Works activities in Bangladesh was diverging. Especially buyers praised Better Works assessments as the most transparent approach to monitoring social compliance. When comparing two assessment reports from the same supplier where one was from Better Work and the other one from one of the “conventional audit standards”, assessments made by Better Works would usually be more comprehensive and uncover more non-compliances. In contrast, the conventional audit usually only would detect minor issues.

10.3 SLCP and restructuring of roles

The Social & Labor Convergence Program (SLCP) is a new data collection program developed in association with the Sustainable Apparel Coalition (SAC). SLCP is providing the backbone for the potential disruption of the audit market in Bangladesh. However, it constitutes a semi-invisible actor as SLCP is only engaged in data collection.

The SLCP can be characterized as an analytical data company responsible for creating a new standard for collecting data which can be used by other actors too. SLCP aims at collaborating with all major standards and collect data covering their standards.

The SLCP developed the Converged Assessment Framework (CAF), which is an audit standard that measures working conditions in supplier facilities. All large MSI's can potentially integrate their data collection standards into the CAF. In Bangladesh, currently, only the Higg Index (in their Facility Social & Labor Module) and Better Work are using the SLCP's data collection methodology.

However, according to SLCP, other actors such as BSCI and Sedex are also potential users. If this happens, we may witness a fundamental restructuring of the auditing market with multistakeholder initiatives such as BSCI potentially stopping collecting audit data and start building on SLCP data to provide interpretations and scores to buyers and suppliers using the data. SLCP themselves claim that “\$800,000,000 could be saved by reducing the average annual number of social compliance audits per factory from 5 to 1” (SAC, 2016) if SLCP is used as a new standard for data collection.

While it is premature to propose that SLCP will result in creative destruction processes it is worth pointing out that numerous industries have been undergoing such transformations when digital platform companies entered the market, especially markets with low switching costs. Typical examples are in transport (e.g. Lyft) and hospitality (e.g. Airbnb) as well as in automobile production (e.g. VW). It is therefore not unlikely that SLCP will have a significant impact. It is, however, critical that they can build legitimacy (see above) and critical momentum and reach a tipping point before momentum evaporates.

Above we pointed to selected drivers supporting the advancement of SLCP, but there are also inhibiting factors. Especially critical in this context, many global companies, including large retailers and brands, are not aware of the potential in the transformation associated with SLCP and rely more on a ‘satisfying behaviour’ approach (R. Brown, 2004). Among informants interviewed, many did not know much about SLCP and recurred to non-reflexive answers reflecting a ‘new-standard-tiredness’. Moreover, they also indicated that if they are satisfied with current standards, they are

not interested in adopting new standards and/or processes. They are not interested in spending time on new standards. Experienced informants expressed a 'been there before'-world view.

In addition, the conventional audit companies also have to see the possibility of new ways of ensuring value capture in new business models; unless this happens, they will not endorse the SLCP proposal for role redesign. Yet, given the weight of the leading players working within SAC and SLCP, the frontrunner is likely to succeed in convincing late adopters in the value of the new standards. Therefore, it is not unlikely that SLCP will succeed in becoming the dominant data collection methodology within social compliance.

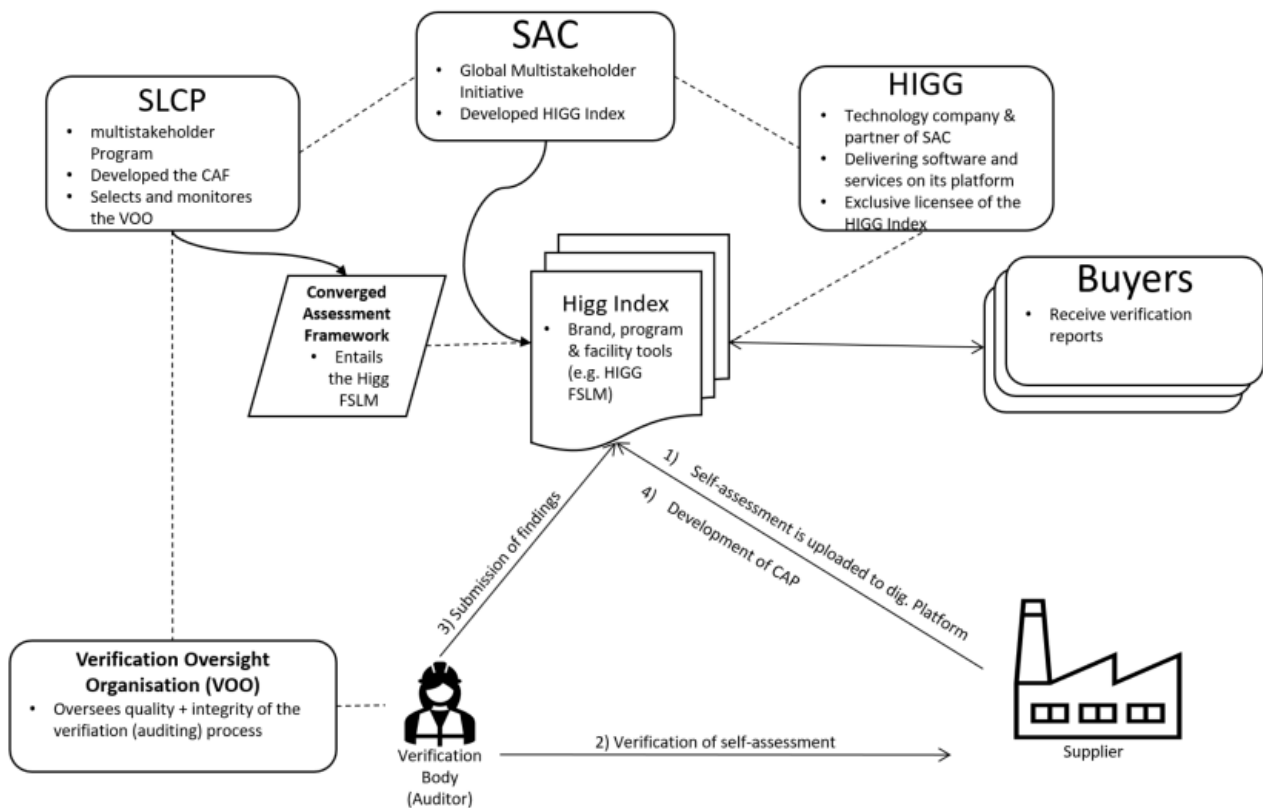
10.4 Higg index: A likely new standard

To explain further how the SLCP data collection methodology is working, we will use the example of the Higg Index. The Higg Index has picked up and utilized the SLCP standard in its new social audit services.

The Higg Index is a collection of tools to measure both social and environmental sustainability in supply chains. It consists of five tools: The Higg Facility Social & Labor Module (FSLM) – which we focus on – and the complementary Facility Environmental Module (FEM), Higg Brand & Retail Module (BRM), Higg Materials Sustainability Index (MSI), and Higg Product Module (PM). It was developed by the Sustainable Apparel Coalition and is currently considered the standard most well-connected and legitimate among social movements. Since 2019, the Higg Index is exclusively licensed to the technology company Higg which provides the software and digital platform for all the tools entailed in the Higg Index. The SLCP is also associated with SAC and provides the data collection methodology for the social compliance part of the Higg Index. To ensure a systematic quality and integrity enforcement of the auditing / verification process, the SLCP has appointed a Verification Oversight Organization (VOO), who is responsible for selecting Verifier Bodies (audit firms). An illustration of the SLCP and Higg ecosystem will be presented on the next page.

The Higg Index aims to reduce costs, audit fatigue and enhance supplier empowerment by modifying the policing dimensions of social auditing. As said, the Higg Index does not have its own social audit standard but relies on SLCP for content, process, and data handling. A critical component in the SLCP approach is that it introduces a combination of self-assessment and verification processes in the context of a digital platform set-up to replace the conventional top-down checklist approach.

Higg FSLM measures nine social impact areas divided into 1) Social compliance, 2) management systems and 3) Beyond compliance issues. A more detailed description follows in the attachment.



The suppliers must conduct a self-assessment on what the informants describe as an extensive list of social compliance questions divided across the several hundred questions divided in the above-mentioned themes (the authors of the report have also assessed the compliance questions and can confirm the impression of the informants). While the newest version of the Converged Assessment Framework (CAF) already is quite comprehensive and contains 901 questions, this is already a much leaner model than its predecessors, which were more than 1500 questions heavy. However, since the SLCP aims to integrate all the major social compliance standards into its converged assessment framework, it must necessarily be large. It is considered a one-off investment instead of answering multiple calls for data etc., by competing social audit firms following different standards.

According to Higg, the FSLM requires representatives from different functions and departments to ensure adequate data quality; however, workers and trade unions are not explicitly requested to participate in the data collection. A first assessment may take up to two to six weeks.

Suppliers upload the answers to a digital platform (a minimum of 95% of questions need to be answered before they can be uploaded). The system compiles a score from 1-100 on compliance. However, the focus is less on the absolute scores (e.g., pass/non-pass) and rather on the continuous improvement. This means that there is not an explicit pass threshold, but suppliers can individually decide a pass-level. This is also why it is not an audit standard in the strict sense of the word but rather a data collection standard.

The uploaded answers are not automatically considered correct (i.e., validated) answers but answers that need verification by an external auditor. The external auditor may represent a buyer or a third-party auditor (i.e., a third-party auditor certified in conducting the SLCP / FSLM audits) who verifies (or falsifies) the self-reported answers. The supplier chooses the verifier body among all approved audit companies (buyers can informally inform the suppliers that they accept only certain verifier bodies). The verifier body is typically a traditional audit company accredited in FSLM auditing, but it can also be organizations such as Better Work. However, to ensure data integrity, the supplier will not select which auditor will conduct the audit. This has to be done by the audit company.

The self-assessment process should not be misunderstood as a naïve trust-based exercise but instead shifting the focus from data collection to data verification. The suppliers are asked to complete a self-assessment of their social and labour data

The verifying process typically consists of three steps:

1. An off-site document review (optional): Auditor uses a checklist to get a list of documents (Like previous audit reports, policies, etc.) for review before going to an on-site visit. This document review takes one day. After reviewing the documents, the auditor asks the factory to prepare the documents if the auditor finds any gaps.
2. An on-site verification (mandatory): On-site visit is mandatory. Most of the onsite visit takes three to four days for a social compliance audit. On visit day, they review all the documents to follow the checklist, discuss with workers, employers, and share audit findings with the management at the end of the visit.
3. The submission of the findings on the SLCP platform (mandatory): Visit report get posted on the platform to make access of the report possible to learn about the factory/ industry safety situation.

The number of full man-days needed for an on-site verification is determined by the number of workers employed at the factory as for other audit standards.

The verifier has ten days after the audit to submit the findings to the SLCP platform. If the verifier finds limitations to the self-assessment, the supplier has fourteen days to respond to the critic; this enhances transparency and enables dialogue between buyers and suppliers compared to the conventional standards where the auditor per default is right.

The legitimacy of the new standard reflects the quality of both the self-assessment and the verification process. It should be noticed that the score can be either increased or reduced based on the verifying process. Examples of verifying reports made available by the SLCP provides examples of both (SLCP, n.d.). An example leading to an improved score shows that the supplier had misunderstood the question and forgotten to mention aspects. One example leading to a higher score came from a supplier who conflated average weekly work hours with the regular hours and had written 62 instead of 40. Lower scores typically reflect misunderstandings or direct cheating. An example that leads to a lower score is whether a supplier requests secondary proofs of workers age and keeps a copy of the proof where the supplier had requested and copied one type of ID

only. If the supplier completes the audit, the company will have a valid certificate for one year. If the suppliers experience a need to improve their scores, the system allows for designing and enacting a corrective action plan. A corrective action plan (CAP) is to be developed by factory management in conjunction with structural, fire, and electrical engineers that the owner needs engage. CAPs include a list of observations and recommendations to improve the safety of the factory. The interviewed suppliers were, in general, expressing satisfaction with this new approach to creating corrections.

Several, but not all the informants, tend to believe that the Higg FSLM - using SLCP - is likely to become a new dominant standard in the industry in Bangladesh because it addresses most of the demands for the various stakeholders.

Most informants also point out that the Higg Index may represent an approach that can be dominant in the near future. Yet, it should be noticed that the latest version of the Higg FSLM standard was just launched in the autumn of 2020, and it is thus premature to draw strong conclusions (alternatives may enter the race for dominance). Yet, the strong support by the informants in combination with that it has secured the exclusive support of key brands and retailers such as H&M and Zalando suggests that it is far from an unrealistic scenario.

Initial attempts at establishing high-quality self-assessments have shown mixed results in studies reported from Cambodia. The suppliers typically scored themselves high (around 80 or thereabout on a 1-100 scale), while external verification auditors often reduced the score to approximately 30. This points to that suppliers need to behave less opportunistic and/or develop competencies in self-assessment, but it also suggests that the verification process captures inadequate self-assessments. It is, however, premature to point to the verification process that will function efficiently in the long run. SLCP is aware of quality challenges and is pursuing solutions based on AI to ensure that auditors cannot rig the process; however, it is prematurely to draw conclusions on the value of AI in this context.

Our informants are also somewhat mixed in their interpretations of the efficiency of the SLCP verification process. One informant representing a large brand, for example, said that the verification process was the 'scary' part of the new standard for the companies because mistakes can lead to reputation damage. Another informant noted that their in-house data showed considerable differences in the quality of the individual audit companies and the individual auditor. Moreover, in a recent paper, Short et al. (2020) also present evidence that individual characteristics influence the findings of the auditor; SLCP has not solved these quality problems and will face similar problems (SLCP currently considers using AI for solving the problem but it remains to be seen if this provides a viable solution). In addition, it is crucial also to factor in the whole incentive system for individual auditors, according to our informants, meaning that unless incentives are changed so they support quality as opposed to quantity then the problems with sloppy audits will be replaced with sloppy verification processes. One informant also pointed to that the criticality of the one verification process resulted in it quickly becoming a target of opportunistic behaviour (e.g., bribery). Unless legitimacy around this topic is established, the standard will not gain legitimacy. As mentioned above, the SLCP has addressed this issue by appointing a Verification Oversight Organization

(VOO), a controlling authority that “*oversees the quality and integrity of the verification process*” (SLCP, 2021). As such, the VOO is responsible for monitoring and scoring accredited audit companies’ verification performances and reports findings directly to the SLCP. Suppose, for instance, a supplier disagrees with the audit company on a non-compliance issue. In that case, the factory management can call the VOO and raise a complaint against the verification body. Although similar grievance systems are in place for some of the competing social compliance standards, the interviewed suppliers emphasized how SLCP’s approach makes them feel more equal and empowered than the rest.

By providing additional services, which suppliers can use to improve their performance and emphasize the importance of continuous learning, Higg FSLM also incentivizes suppliers not to manipulate the answers. If they do not manipulate the data, they will have a better opportunity to identify areas for improvement and implement data-driven improvements. Yet, Higg’s emphasis on continuous learning is not necessarily embraced by buyers. Therefore, suppliers may be incentivized to manipulate their answers since getting an order is more important than getting better scores. However, it should be said that research suggests that buyers reward suppliers with better compliance scores (Distelhorst & Locke, 2018).

Suppose Higg and SLCP are successful in convincing several global buyers that only one audit is needed. In that case, it will reduce audit fatigue and direct and indirect audit costs, enhancing the legitimacy further of the SLCP and the Higg FSML standard.

For frontrunners among the buyers, the larger focus on management systems (compared to other standards) is also considered pivotal and perhaps even more important than the social dimensions of the audit. Frontrunner informants argued that management systems were far more critical for them compared to traditional social compliance indicators. The management system can lead to a better understanding of the root causes behind the social compliance levels.

The multisided dimension also has an impact on reputation management strategies. Say, Clean clothes can get access to the suppliers working for H&M and judge and critically assess the level and accuracy of the suppliers’ scores. This creates a higher degree of transparency in the industry and contributes to the Higg Index’s legitimacy. This suggests that in terms of switching costs, they are not preventing the new standards from becoming established as a new standard.

The integration of other themes such as environmental modules, also contributes to create an operational legitimacy for FSLM because the focus with the introduction of the SDGs in combination with and general awareness of climate and environmental challenges have increased the focus on ‘green audits’ (Villena & Gioia, 2018). Moreover, by using the same standard format for environmental compliance, the costs of relying on FSLM too are minor. Yet, if membership costs to SAC are a barrier for numerous smaller buyers who would still require, e.g., BSCI audits, then the importance of this argument is partially undermined because the suppliers would have to be audited in other standards anyway.

The SLCP’s CAF and the Higg FSML also receive pronounced critic among our informants. While it is empowering suppliers, it is not assessed to empowering workers and stimulate workers voices.

It is also considered somewhat naïve if it assumes suppliers will acknowledge serious violations (e.g., child labour). Yet, these factors seem not to be different from traditional audits and thus do not constitute a barrier for FSML to become the new standard.

It needs to be mentioned that WRAP and BSCI also require self-assessments. In some cases, like BSCI, SEDEX and Wrap, the factories must fill out self-assessment forms, which are uploaded and can be checked before an audit. For example, the audit in SEDEX upload it on the website, but these companies have a limited coverage in their self-reporting compared to SLCP requirements.

11 Discussion and conclusion

This section briefly discusses the findings of the report and summarize the conclusions.

11.1 Many resources used for audits: Audit fatigue

The report's first important finding is that most stakeholders consider the status quo concerning social audits as inadequate and not delivering the expected value taking the costs and resources used into consideration. This means that social audits are not considered solving the expected problems in the current context. With an estimated market size of more than US\$ 20 mill per year, this is a substantial cost incurred by the suppliers and buyers, which could be used for improving OSH and working conditions.

The market is characterised by numerous co-existing standards where several are applied in each factory. In practice, this means that each global brand has its code of conduct and in addition often uses other standards. The consequence is that suppliers are subject to multiple parallel audits, which are requiring payment and human resources, but do not add any additional value. Similarly, global brands use their own human resources and pay third party auditors to carry out audits of their code of conduct and they have furthermore to navigate between several parallel audits outcomes to assess their suppliers. This situation is leading to audit fatigue among the global suppliers and a general lack of legitimacy of established standards. There is therefore motivation among both global buyers and suppliers change the present system and to experiment with new standards. Yet, there are also factors maintaining the current status quo such as satisfying behaviour tendencies and change fatigue among global buyers.

11.2 Quality problems of audits

Social audits are increasingly criticized for not being effective in improving working conditions in the garment industry by most scholars; the exception is the Accord and Alliance. The problems include using a 'checklist approach' to labour issues, methodological shortcomings in the inspection process, reliance on a top-down policing approach, and the auditing standards' failure to involve workers' voices sufficiently in the audits – although workers' voices are considered controversial.

Our informants point to that in spite of numerous problems associated with the use of third-party auditors, their formal independence of the global buyers adds a degree of legitimacy to their practices; in short, it is not global suppliers auditing themselves. The legitimacy of audits should, however, not be exaggerated. Third-party auditors are also prone to displaying strategic behaviour. The auditor/client business relationship influences the interpretation of protocols the content of audit reports. Whether a professional global or local audit business, the auditor is never free of potential conflict of interest and bias from modifying audit results to obtain payment and retain the business contract. This may mean reporting 'corrective action' audit results in a more positive or negative light (that is, minor versus major non-conformance) depending on the interests of the suppliers and/or buyers. On top of influence from the business interests corruption also weakens the legitimacy.

Numerous stakeholders especially SLCP and have recognized the challenges associated with the audits and have started working to introduce alternative value propositions, which may remedy the audit fatigue. HIGGs FSLM is based on SLCP and aims at becoming a new standard replacing conventional standards. The methodology developed by SLCP and applied by the Higg Index represents a new paradigm to social auditing by replacing the policing approach with a digital platform approach based on suppliers' self-reporting and external verification processes. It is premature to claim that SLCP's data collection methodology will replace conventional audits for various reasons. There is, for example, still limited knowledge about this new system as well as experimental fatigue among certain global buyers. Incumbents of the present audit business will try to resist change since said changes may challenge their business and require them to reinvent themselves. However, there are also pronounced drivers indicating that SLCP may be successful. Many Bangladeshi suppliers are prepared and willing to change to the Higg Index, because it reduces the causes behind audit fatigue, provides a degree of supplier empowerment, and is linked to new emerging standards such as environmental standards. There is, therefore, a high probability that the Higg Index will end up dominating the Bangladeshi market.

Thus, to sum up, existing social audits standards are increasingly being exposed to criticism, and new standards are emerging, addressing some but typically not all challenges associated with conventional standards. Signs indicate that the Converged Assessment Framework and the underlying processual premises of the SLCP can become a dominant data collection (auditing) methodology.

11.3 Conclusions

The findings show that social compliance audits are in a legitimacy crisis both regarding external stakeholders and within the industry. There are quality issues related to audits, and audits are considered a resource-consuming activity that do not deliver sufficient value to global buyers and local suppliers and have resulted in persuasive audit fatigue.

Across stakeholders interviewed, there is a call for a unifying standard that can be both legitimate and efficient. Currently, the industry is in an early stage with multiple alternatives competing for becoming the new standard, and it is yet not clear whether one standard will emerge and become dominant. The Higg FSLM relying on SLCP currently shows convincing features, which may lead to be the dominant standard in the Bangladeshi context. This reflects, among other issues, that it build on a platform-based approach relying on self-assessment and verification processes with a high degree of transparency. SLCP also aims to be compatible with conventional standards and have the possibility to be the preferred platform-based data handling organization within the industry. This points to a process combining dis- and reintegration of the role of existing audit companies. Auditing companies will, in this scenario, primarily focus on issues about verification and consultancy. It remains, however, to be seen how the application of this new standard will evolve in the future. SLCP, for example, acknowledge that there are still numerous challenges about for instance the verification process.

We can conclude that the emerging alternatives deal with auditing fatigues and that existing problems related to the quality of the audits thus far remain unsolved.

The findings presented are based on a combination of desktop interviews and semi-structured interviews. These methods have limitations and need to be complemented with additional data and interpretations rooted in other methods. Especially promising is ethnographic observations of conventional auditing practices onsite to identify how auditors navigate and negotiate in the actual audit situations to gain a deeper understanding of the linkages from formal requirements over practices to impact quality and effectiveness. In addition, there is a need to conduct ethnographical observations related to both the self-assessment process and the verification process related to the new standards.

Ethnographic observations may not capture all aspects of behaviour due to the presence of the researchers in the setting. However, supplementary methods such as role games and reflexive exercises involving auditors, buyers and other stakeholder can provide a means for a more constructivist approach to gathering data on practices.

Regarding policy recommendations, the findings point to the need for supporting experimentation with alternatives to the existing standards and especially to explore how self-reporting can be designed in a manner that lends itself to be considered a legitimate approach. Self-assessment should also be embedded in a technological trajectory using digital means (e.g., digital platforms and artificial intelligence) for becoming transparent and efficient. Policy-makers – and other actors – need to pay special attention to developing robust verification processes. Policymakers also need to attend to resistance among incumbents against developing new standards, encourage experimentation, and provide support for upscaling promising activities. This combination may result in the development of new and more legitimate standards.

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Appendix 1: Description of major social compliance standards and initiatives

Sources are listed in the footnotes in the end of the appendix.

Social Accountability International (SAI) - SA8000

SAI was created in 1997 as a multi-stakeholder initiative by NGO's, governments, trade union representatives and various representatives from the private sector such as companies and auditing firms. While SAI still is the system's owner of the SA8000 and in that capacity conducts a revision of the standard every five years, in 2007, both the accreditation functions and the responsibility for overseeing auditors and certification bodies was transferred to the newly created Social Accountability Accreditation Services (SAAS). SAAS is listed as a department of the SAI, and even though the SAAS homepage states that it "*maintains its own independent decision-making process for its accreditation systems*",¹ Clean Clothes Campaign has raised doubts about the independence.

The SA8000 is a certification standard, which combines content requirements and requirements for a management system. The content requirements are based on several UN human rights standards, ILO's core conventions and national labour laws. The standard measures social performance in eight areas:

1. Child Labour
2. Forced or Compulsory Labour
3. Health and Safety
4. Freedom of Association & Right to Collective Bargaining
5. Discrimination
6. Disciplinary Practices
7. Working Hours
8. Remuneration

Organizations applying for a SA8000 certification must implement a management system to secure full compliance with the standard. This implies that third-party auditors assess the maturity of the Management System and issue a 'Management Systems Maturity Declaration'. To do so, the organisations seeking or maintaining the SA8000 certification must conduct a Management System Self-Assessment.

The process to acquire a certificate requires audits in two stages. Before the certification process starts, the certifying body will typically carry out optional pre-assessment audits². In addition, certification bodies must conduct an Initial Research six months before the Stage 1 audit to ensure that the applying organization does not have a history of significant violations of the SA8000 standard.

Stage 1 audit (typically 1-2 days duration) includes:

- Document review to investigate whether the factory/organization has established the necessary procedures and processes to match the legal requirements
- Review of organizations' pre-audit questionnaire
- Competence of the organization's internal auditors
- On-site audits in day and night shifts (night shifts focus primarily on worker interviews and OSH)
- Auditors visiting the local community to collect information on possible non-compliance (e.g. forced labour)

Stage 2 audit:

- Confirms that the management system complies with the requirement in the SA8000 standard (among others, systematic use of the Plan-Do-Check-Act approach)
- Includes assessment of OSH and working conditions through a tour around the premises

Non-compliance issues are addressed through follow up mechanism. When minimum requirements: social environment (wages, forced labour) and environments (chemicals etc.,) are not in compliance with the national and international standards, the factory gets a risk score, and the factory will not get more orders before the issues are taken care of. Factories get one score for each violation or minimum requirements. If they score a 5, then brands/buyers stop the collaboration.

SA8000-certificates are valid for three years. Surveillance audits are conducted throughout the three-year period. The Annual Surveillance Program requires two surveillance visits per certification cycle (6 and 18 months after certification). The surveillance visits will typically last two days and must be semi-announced. In the last years, there have been some changes to the surveillance program. Traditionally, most surveillance audits were conducted in a six-month cycle (6, 12, 18, 24 and 30 months after certification), had a duration of one day, and were led by one auditor. According to the SAAS, these changes were made to give the factories more time to promote corrective actions over "quick fixes", reduce auditing fatigue and provide auditors with sufficient time to conduct the audits and record all the findings³.

SAAS accredits third-party auditing firms to be SA8000 Accredited Certification Bodies. SAAS evaluates the applying Certification Bodies based on the following elements: a document review, a pre-assessment if applicable), an office audit and a witnessed CB audit where SAAS auditors observe the CB auditors confirm that all procedures are consistent with the SA8000 standard. In addition, the Certification Bodies must comply with requirements stated in ISO 17021-1:2015, which specifies the requirements for audits⁴.

SAI provides five-day Introduction and Basic Auditor training courses necessary for all SA8000 Team Auditors and represents a prerequisite for the SA8000 Advanced Lead Auditor Training⁵. In addition, CB auditors are required to attend SAAS development training courses (against a fee of 1200-2000 \$ per person) and SA 8000 calibration meetings⁶. Detailed information on

requirements to auditors and other personnel involved in certification functions are presented on the homepage⁷.

Fair Labor Association (FLA)

The Fair Labor Association was created in 1999 in the USA in the wake of several sweatshop scandals. The FLA emerged based on a task force that US president Bill Clinton started in 1996 and is a coalition of three constituent groups – companies, universities, and civil society organizations (CSOs). All groups are equally represented in the FLA's Board of Directors along with an Independent Chair. Amongst the buyers with accredited Social Compliance Programs are Adidas, Nike, Patagonia, Puma and NewBalance⁸.

The FLA Workplace Code of Conduct is based on ILO Conventions. Brands that become members of the FLA, commit to nine principles of fair labor and responsible sourcing and agree to require their suppliers to commit both to the FLA Workplace Code of Conduct and the national labour laws. The nine principles are:

1. Employment Relation
2. Non-Discrimination
3. Harassment or Abuse
4. Forced Labour
5. Child Labour
6. Freedom of Association and collective bargaining
7. Health, Safety and Environment
8. Hours of Work
9. Compensation

The FLA Board of Directors accredits third-party audit companies. In total, the FLA approved seven third-party audit firms and about 10-15 independent auditors to monitor the FLA Code of Conduct. The third-party audit firms active in Bangladesh are ELEVATE Ltd., Innovatus, InSync Global and Social Compliance Services Asia (SCSA). None of the independent auditors is active in Bangladesh⁹. In addition, there is no information about any training for third-party auditors.

When suppliers sign a membership with FLA, they start with a two- or three-year implementation schedule. In 2016, the FLA conducted a total of 149 assessments in facilities in 27 countries. Out of those 149 assessments, 13 were conducted in Bangladesh. All the assessed factories showed a lack of safety and health procedures and gaps in their management of hazardous chemicals and required improvement in avoiding excessive hours of work¹⁰.

FLA has initiated a special investigation process called '*The FLA Third-Party Complaint Process*' that allows workers, unions, universities, civil society or other stakeholders to request the investigation of FLA Workplace Code of Conduct violations. In 2016 FLA initiated nine of these Third-Party Complaint processes that led to improved working conditions for nearly 20,000 workers¹¹.

Worldwide Responsible Accredited Production (WRAP)

WRAP was launched in 2000 by a coalition of US apparel companies - the American Apparel and Footwear Association (AAFA). WRAP is a certification standard that consists of 12 principles and is based on conventions of ILO, UN's Guiding Principles on Business and Human Rights and OECD's Guidelines for Multinational Enterprises¹²:

1. Compliance with Laws and Workplace regulations
2. Prohibition of Forced Labour
3. Prohibition of Child Labour
4. Prohibition of Harassment or Abuse
5. Compensation and Benefits
6. Hours of work
7. Prohibition of Discrimination
8. Health and Safety
9. Freedom of Association and Collective Bargaining
10. Environment
11. Customs Compliance
12. Security

Auditors need to attend a 5-day Lead Auditor Training Course¹³. Besides this, WRAP also provides courses on Fire Safety Training and Internal Auditor Training - the latter fulfilling the training requirements for the International Register of Certificated Auditors (IRCA) as a Social Systems Internal Auditor. In Bangladesh, WRAP audits are conducted by six accredited audit companies: Accordia, Bureau Veritas, Intertek, SGS, TÜV Rheinland and TÜV SÜD.

Before factories get certified, they must submit a WRAP application and pay a registration fee of U.S. \$ 1195. Hereafter they must complete a self-assessment to demonstrate compliance with several social principles. Then, they select one of the six accredited third-party auditors to audit the factory against the WRAPS Principles. If the audit is not successfully passed within six months after paying the registration fee, the factories must re-apply for another 1195\$ payment. The third-party auditor will send the audit report and recommendations to the factory and the WRAP. Finally, WRAPs certification Boards evaluates the audit reports and - provided its approval - certifies the factory¹⁴.

There are three different kinds of certification: Platinum, gold and silver¹⁵.

- The Platinum certificate is valid for two years. Factories will be awarded the platinum certificate if they can demonstrate full compliance with the WRAP principles for three consecutive certification audits without corrective actions or observations. Furthermore, the certifications need to be awarded with no gaps between the periods.
- The Gold certificate is the standard WRAP certification level, and it is valid for one year. It is awarded to factories that demonstrate full compliance with WRAP's 12 Principles.
- The Silver certificate is valid for six months. It is awarded if the auditor finds the factories to follow WRAP's principles but issues minor non-compliances such as policies, procedures or training that must be addressed.

Amfori BSCI

The Business Social Compliance Initiative (BSCI) was founded in 2003 by the Foreign Trade Association (FTA). This private non-profit trade association represents more than 200 members of the international trade community. After discontinuing the bond with the FTA and rebranding as Amfori in 2018, the organization now encompasses:

- Amfori BSCI (focusing on social performance in supply chains)
- Amfori BEPI (focusing on environmental performance in supply chains)
- Amfori Advocacy (representation of its members' interest)¹⁶

The Amfori BSCI Code of Conduct builds upon 11 core principles that refer to international conventions relevant to improve working conditions in the supply chain. Among those are The Universal Declaration of Human Rights, UN Guiding Principles for Business and Human Rights, OECD Guidelines, the Children's Rights and Business Principles, UN Global Compact and conventions and recommendations from the International Labour Organization (ILO). In addition, there is a zero-tolerance policy on a few issues, such as child labour. Still, Amfori advises its members against issuing penalties for non-compliances but instead focuses on capacity building.

An exclusive circle of third-party auditors are approved to conduct Amfori BSCI audits, primarily consisting of big international audit companies with local offices in different countries. Even though it is theoretically possible for any audit company to become accredited, Amfori prefers to collaborate with fewer audit companies to ensure better capacity building. As a result, from 2015 to 2019, Amfori reduced its number of approved auditing partners from 21 to 13. Audits can be both announced and unannounced. Auditors from Amfori BSCI's accredited monitoring firms must complete a 5-day training course and are hereafter required to retake an exam every 18-24 months.

The audit frequency depends on the factories' auditing score (from A-E). If the factory scores A or B, the next audit will be conducted after 24 months. A score of C-E will be valid for a maximum of 12 months¹⁷. If a factory is reported for a severe non-compliance issue, the factory has 60 days to make a corrective action plan. The third-party auditors are not following up on the non-compliances. Instead, the facilities' corrective action plans must be approved by Amfori (desk-approval).

Amfori BSCI provides a platform where members can upload and share the results of monitoring activities to *"reduce effort, save money and increase consistency for buyers and suppliers"*¹⁸. However, according to several interviews with former auditors and factory representatives, the different Amfori members rarely cooperate or coordinate their audits. This means that factories will be subject to multiple various Amfori BSCI audits during a year.

The Sustainable Apparel Coalition (SAC) and Social & Labour Convergence Program (SLCP)

SAC was founded in 2010 as a result of a partnership between Patagonia and Walmart. The two companies put together a steering committee and decided to jointly invite CEOs of leading global companies to develop a standard that could measure the environmental impact of their products. The invited companies were carefully picked, making sure that only executives of companies were invited that were believed to support the effort. One of the most important companies that needed to be persuaded to join was the multinational corporation Nike, which had developed an index called '*Nike Considered Index*' that analysed the environmental impact of materials used in footwear and apparel production. After joining the coalition, Nike agreed to share its database with the other members and make its database public¹⁹. In the following years, the SAC's growth continued, and in 2017 about 10.000 buyers around the world used the system²⁰. The SAC also continued its growth and consists now of an industry-wide group of more than 250 brands, retailers, suppliers, service providers, trade associations, non-profits, NGOs and academic institutions²¹.

The Social and Labour Convergence Program (SLCP) is another project facilitated by the SAC and its members. The SLCP is a multi-stakeholder initiative comprising more than 220 signatories, including brands, manufacturers, audit firms and civil society groups. During its development phase from 2016-2018, the SLCP received funding from the SAC, the C&A Foundation, the Netherlands Ministry of Foreign Affairs, and the Norges Bank Investment Management. It was established to "*tackle the issue of audit fatigue in the apparel & footwear sector*"²². The SLCP aims to develop and implement a Converged Assessment Framework (CAF) designed to collect and verify social audit data in one framework, thereby replacing all proprietary social audit programs. The SLCP digital platform is a so-called multisided platform with access for multiple stakeholders divided into corporate and affiliate members covering respective commercial organizations and trade unions, NGOs etc. Ordinary affiliated members, manufacturers and brands pay between US\$ 11-60.000 per year while NGOs and academics pay US\$1000. All members of SAC have unlimited access to the modules, while nonmembers pay a fee per module, typically around \$ 165-335 depending on what is being purchased (SAC, 2021). Additional services can be bought, allowing for getting access to additional data, analytical services, and data for benchmarking purposes, for mentioning a few only.

However, the first version of the SAC's social compliance standard was released years before the launch of the SLCP in 2011 under the name Higg Index. The Higg index is a comprehensive set of tools that enables brands to assess and measure a company's or product's social and environmental sustainability performance. One of these tools is the Higg Facility Social & Labor Tool (Higg FSLM), which offers companies a framework to assess and measure the social impact of its production and "*promotes safe and fair social and labour conditions for value chain workers all over the world*"²³.

In October 2020, the SAC and SLCP jointly announced a new, digitalized version of the Higg FSLM that can share verified audit data beyond the Higg platform and is based on the Converged Assessment Framework as the foundation of the tool. Not only was it described by Amina Razvi, Executive Director of the SAC, as "*a game-changer for the industry*", but also as "*an opportunity for brands to retire independent proprietary tools and move towards performance improvement and*

increased collaboration to address social and labour issues across the value chain. This has been a key goal of the SAC since its inception, and with this launch, we get one step closer to reducing auditing fatigue and shifting resources towards improvement and collective action”²⁴.

The measured impact areas of the Higg FSLM are:

Section	Topic
(1) Recruitment and Hiring	Child Labor, Forced Labor, Discrimination, Employment Practices, Suppliers / Subcontractors
(2) Working Hours	Working Hours
(3) Wages and Benefits	Wages and Benefits, Other and Best Practices
(4) Employee Treatment	Forced Labor, Harassment and Abuse, Discrimination, Discipline
(5) Employee Involvement	Freedom of Association and Collective Bargaining (Unions and/or Employee Representative Groups and Industrial Action / Strikes), Discrimination, Grievance Systems, Employee Feedback
(6) Health and Safety	General Work Environment, Building Safety, Emergency Preparedness, Chemicals/Hazardous Substances, Employee Protection, Materials Handling and Storage, Electrical Safety, First Aid/Medical, Contractor Safety, Dormitories, Canteens, Child-care
(7) Termination	Forced Labor, Discrimination, Employment Practices
(8) Management Systems	Policies and Procedures / Goals and Strategy, Roles and Responsibility / Communication and Training, Self-Assessment, Continuous Improvement
(9) Above and Beyond	Workplace Well-being, Community

Higg FSLM’s social compliance issues

Except for the Beyond compliance and management systems questions, the questions are typically yes/no-questions (see examples below). For example, it could be whether the factory accepts that workers refuse to take on overtime. The factories have the opportunity to upload documentation supporting their claims. The focus on management systems addresses codified policies concerned with social compliance (e.g. systems and policies for child labour). An example of a question is: Which of the following topics are included within the facility's written policies and procedures for child labour and young workers? (SELECT all that apply with an "X"). Beyond compliance covers questions, which are not mandatory compliance issues, but rather differentiate the particular firms. An example of a question is: In the last 12 months within the assessment period, did the

facility actively seek to provide (or attain) any of the following types of wage aspirations for employees? (SELECT all that apply with an "X" (companies can, e.g. tick off Living wages).

The SLCP accredits audit companies to become an approved auditing body. To conduct audits (called verification in the system) against the Converged Assessment Framework, auditors must 1) work for an accredited audit company, 2) meet several SLCP criteria (such as at least three years of audit experience), 3) take a mandatory e-learning course and certificate consisting of seven modules and 4) pass a Verifier Exam²⁵. It is not uncommon that audit companies do not cover all the tools incorporated in the Higg Index. For example, the American audit company UL supports the Higg Facility Environmental Module but does not conduct audits against the Higg FSLM²⁶.

Factories must contact an accredited auditor to complete an audit against the Higg FSLM. Before getting audited, factories must conduct a self-assessment of their social and labour data. In the next step, the accredited auditor visits the factory to verify the answers that the factories have provided in their self-assessment and record new answers if they find the self-assessment to be incorrect or incomplete. According to the SLCP, audit firms will provide necessary services to help the factories identifying issues and develop a corrective action plan²⁷. None of the assessment data and information collected during audits against the Higg FSLM is publicly available. Members are not allowed to share any auditing data outside the Higg Platform²⁸. However, the SLCP has published a list of supplier facilities participating in the SLCP process, containing basic information and information on the assessment status²⁹. According to our informants, about 140 suppliers were audited in the Higg FSLM in 2020.

SOCIAL & LABOR CONVERGENCE

Recruitment and Hiring **ANSWERS MUST BE IN ENGLISH LANGUAGE**

Sub-section	Category	Number	Question	More Info	Response	Follow-up Question	Follow-up Answer
<ul style="list-style-type: none"> Child Labor Forced Labor Discrimination Employment Practices Additional comments 							
<p>Child Labor</p> <p><i>The International Labour Organization (ILO) defines child labor as "work that deprives children of their childhood, their potential and their dignity, and that is harmful to physical and mental development. It refers to work that is mentally, physically, socially or morally dangerous and harmful to children; and interferes with their schooling by depriving them of the opportunity to attend school, obliging them to leave school prematurely, or requiring them to combine school attendance with excessively long and heavy work." (International Programme on the Elimination of Child Labor (IPEC) http://www.ilo.org/public/ilo/eng/provifacts) In its most extreme forms, children are involved in illegal activities, or in work that exposes them to physical, sexual or psychological abuse.</i></p> <p><i>However, not all work done by children is classified as child labor that should be eliminated. Work that does not affect children's health and personal development or interfere with their schooling can be constructive. Whether or not work being carried out by children constitutes child labor depends on the child's age, the type and hours of work performed, and the impact of the work on the child's health, development and access to education. The sub-section below includes questions on the facility systems in place to prevent child labor from occurring, whether or not child labor exists in the facility and how the facility deals with child labor once it is found (i.e. remediation). The section also covers questions related to the hiring of "Young Workers" (employees under the age of 18 and above the legal minimum age) and those involved in facility apprenticeship/internship programs. Answers to the specific questions below may not in and of themselves constitute "Child Labor", but rather, offer an opportunity to further understand the facility's situations and processes so that additional discussions outside of the tool with interested parties can take place.</i></p>							
Child Labor	Minimum Age	CL-1	Does the facility verify minimum age requirements prior to hiring employees?	More Info	SELECT		
Child Labor	Minimum Age	CL-1.2	What is the age of the youngest employee in the facility?	More Info	SELECT		
Child Labor	Minimum Age	CL-1.3	Are all employees currently at or above the applicable legal minimum working age?	More Info	SELECT		
Child Labor	Remediation	CL-2	Does the facility have a remediation system in place for when children are found to be working in the facility?	More Info	SELECT		
Child Labor	Historical Child Labor	CL-3	In the last 12 months within this assessment period, do all records indicate that all employees were hired at or above the legal minimum working age?	More Info	SELECT		
Child Labor	Young Workers	CL-4	Does the facility employ young workers?	More Info	SELECT		
Child Labor	Apprenticeship / Trainee / Internship Programs	CL-5	Which of the following apprenticeship / trainee / internship programs does your facility offer? (SELECT all that apply with a "X")	More Info	<input checked="" type="checkbox"/> SELECT ALL THAT APPLY		
				More Info	Apprenticeship program		
				More Info	Trainee program		
				More Info	Internship program		
				More Info	No apprenticeship/internship/trainee		

Navigation: Facility Profile | **Recruitment & Hiring** | Working Hours | Wages & Benefits | Employee Treatment | Employee Involvement | H&S | Termination | Management Systems

Example of HIGG FSLM assessment paper

Ethical Trade Initiative (ETI)

ETI is an alliance formed by companies, trade unions and NGO's based in the UK. ETI developed a Principles of Implementation (POI) Framework to help its members implement the ETI Base Code throughout their supply chains. In addition, ETI is working intensively on a programme to improve social dialogue between workers and employers in the Bangladesh garment sector and its ETI sister alliances from Denmark and Norway.

The ETI Base Code is founded on the International Labour Organisation (ILO) conventions and national laws. Member companies of ETI can either adopt the ETI Base Code or incorporate it in their own Company CoC. It builds on nine principles³³:

1. Employment is freely chosen
2. Freedom of association and the right to collective bargaining are respected
3. Working conditions are safe and hygienic
4. Child labour shall not be used
5. Living wages are paid
6. Working hours are not excessive
7. No discrimination is practised
8. Regular employment is provided
9. No harsh or inhumane treatment is allowed

The ETI neither conducts audits against the ETI Base Code nor accredit any third-party auditors to do so. Nevertheless, the ETI mentions several auditing firms on its homepage, of which several also are active in Bangladesh, such as Bureau Veritas, SGS, Intertek, Impact and Pricewaterhouse Coopers. Unfortunately, ETI's members do not coordinate their audits properly, which leads to many audits against the ETI Base Code at the same factories.

Even though ETI does not provide any training courses for auditors, it provides several different training courses on themes such as Gender Equality, Worker Representation, Ethical Buying, Management and Environment, Health & Safety.

The Supplier Ethical Data Exchange (Sedex)

Sedex was founded in 2001 by several UK retailers. It now comprises about 60.000 member organisations from over 180 countries, with regional teams across the UK, Australia, India, Latin America and China³⁴. Sedex Members Ethical Trade Audit (SMETA) is Sedex' social auditing methodology. Audits against SMETA can either be built on a 2-pillar SMETA Audit or a 4-Pillar SMETA Audit. SMETA is based on ETI's Base Code as well as national labour law³⁵.

- 2-Pillar SMETA Audit Builds on ETI's base code and SMETA additions such as the requirement of management systems, responsible recruit, sub-contracting and more

4-Pillar SMETA Audit Builds on the 2-Pillar Requirements plus assessment of environment, assessment of business ethics and an appendix concerning customer's supplier code.

To conduct SMETA-audits, third-party auditors must apply to become an Affiliate Audit Company. To be considered a potential affiliated audit company, auditor firms are required to be members of The Association for Professional Social Compliance Auditors (APSCA). This initiative was founded in 2015 by several leading social compliance auditors such as Bureau Veritas, ELEVATE, Intertek, SGS, Rina, TUV Rheinland, TUV SUD and UL³⁶.

Sedex developed a standard protocol to assist auditors in carrying out audits, called the SMETA Best Practice Guide³⁷. The guide must be applied when audits are conducted and covers the following four core documents of SMETA:

1. SMETA Best Practice Guide
2. SMETA Measurement Criteria: A document that lists in detail which items should be examined during a SMETA audit³⁸
3. SMETA Audit Report: A template to record audit findings
4. SMETA Corrective Action Plan Report: A template to summarize audit findings and corresponding corrective actions³⁹

Before the SMETA-audit is conducted, suppliers must fill out a Self-Assessment Questionnaire (SAQ). Going forward, the SAQ will be considered by auditors who are to carry out a SMETA audit at the facility. In addition, factories must make the SAQ available to buyers before deciding whether to commission an audit. Once the SAQ is submitted, Sedex will feed the information obtained from the SAQ into its Risk Assessment Tool. Depending on the risk assessment outcome, the audit will either be announced, semi-announced or unannounced.

The auditing process always consists of an opening meeting, a document review, a site tour and interviews with management and workers. The duration of the audit depends on the number of employees and factory locations. Once the audit is completed, both the buyer and the factories work together on a Corrective Action Plan.

Depending on the outcome of the initial audit, follow-up audits may be carried out to check the factories progress and improvement. Follow-up audits can both be full audits, partial audits focusing on the reported issues or desktop follow-up. Sedex has not determined a fixed audit frequency. It is, however, recommended to conduct annual audits at high-risk facilities and 2-yearly audits at medium risk facilities, leaving it to the buyers to categorize the factories⁴⁰.

Sedex does not provide any formal training courses for auditors. Nevertheless, Sedex is developing an "Audit Quality Programme" to define minimum requirements for SMETA auditors, and Sedex is frequently monitoring accredited auditors⁴¹.

In 2015 Sedex Advance was created, a Data Exchange Platform that Sedex describes as "*the largest*

collaborative platform in the world for buyers, suppliers and auditors to store, share and report on information quickly and easily"⁴². However, according to representatives from leading supplier factories in Bangladesh, the Sedex platform has not improved the load of auditing frequency. Sedex A-members are not coordinating their audits with each other.

Companies can be registered in the platform as A-Members (Buyers), B-Members (Suppliers) and AB-Members (Buyers/suppliers)⁴³. In 2019, Bangladesh had two A-members, 1,045 B-members, and 0 AB-members enrolled in Sedex Advance. While Sedex members can choose to upload social audit methodologies, most uploaded audits are SMETA audits. In 2019, a total of 27,810 new audits were added on a global scale throughout the year; 26,180 of these were SMETA audits⁴⁴.

Better Work

Better Work (BW) was launched in 2007 as a partnership program between the ILO and the International Finance Corporation (IFC). BW has established a program in Bangladesh since 2014. The program consists of three central pillars:

- Audits / Compliance Assessment Activities: Audits are conducted to evaluate whether factories comply with ILO Core Labour Standards and national labour laws.
- Continuous Improvement: BW staff facilitates various activities to address non-compliances and improve factories' capacity to identify and manage social compliance issues.
- Stakeholder Engagement

After six years, BW is collaborating with 27 brands and retailers and 277 factories in Bangladesh⁴⁵. As mentioned above, BW has plans to expand its supplier collaboration in Bangladesh to reach 400 factories in 2021.

Better Work developed a Compliance Assessment Tool (CAT) used by its enterprise advisors when assessing factories. The CAT covers the following areas:

- Child Labor
- Discrimination
- Forced Labor
- Freedom of Association and Collective Bargaining
- Compensation
- Contract and workplace relations
- Occupational Health and Safety
- Working Time

BW conducts both unannounced and announced audits. They are carried out by BW's staff (ILO trained assessors) and based on the Compliance Assessment Tool.

When a factory is recruited, BW staff will typically visit the factory up to three times and start their advisory work with factory managers to identify issues and establish means of improvement. Hereafter the assessments will take place. Findings will be coupled with the factory's problem

diagnosis. Workplace assessments are conducted annually, forming the basis for BW's improvement plan for each factory.

BW offers a broad range of training courses, industry seminars, and life skills training to improve its factory strategies. The training courses and the industry seminars are facilitated by BW's staff or officers from IFC, ILO or UNICEF.

As of June 2019, the BW programme in Bangladesh has trained 8,848 participants in 223 training sessions and 128 industry seminars. BW's training does not only address social compliance issues but also encompasses business and productivity skills. As BW claims, research shows that its Supervisory Skills Training increases factory productivity by 22%⁴⁶.

Appendix 2: The most critical audit companies active in Bangladesh

Bureau Veritas

Bureau Veritas was founded in 1828 and has its origins in shipping safety. Since then, it has moved its operations into various sectors. During the increasing globalization, Bureau Veritas also pre-empted the supply chain management market, including the certification of factories and suppliers.

With a revenue of 5.1 billion EUR and an operating profit of more than 700 million EUR in 2019, Bureau Veritas is among the absolute top of the biggest social audit companies. However, the social certification sector is far from making the most of the company's revenue, ranked behind Agri-Food & Commodities, Industry, Building & Infrastructure and Consumer Products.

While the organization is headquartered in France, Bureau Veritas has been operating in Bangladesh since 2003 and holds offices in Dhaka and Chittagong⁴⁷.

Bureau Veritas is the accredited auditor of most of the social compliance standards covered in this report, including ISO 45001, SA 8000, WRAP, Amfori BSCI, SMETA Audit, Higg FSLM and the ETI Base Code. In addition, Bureau Veritas declares on its homepage that it is currently working on developing its social standard, making sure that *“our experts can thoroughly support companies in developing and implementing an effective social compliance program”*⁴⁸.

ELEVATE

ELEVATE was founded in 2013 in a merger of the social auditing firms Level Works and INFACCT Global Partners. Even though it represents a younger generation than many other corporate auditing firms, ELEVATE has established more than 20 offices worldwide headquartered in Hong Kong. A substantial part of ELEVATE'S activities takes place in the apparel and footwear industry. According to its homepage, ELEVATE conducted over 4500 social and environmental audits for this sector in 2016, impacting the working life of over 3 million workers⁴⁹.

When the Alliance for Bangladesh Worker Safety was founded in the aftermath of the Rana Plaza accident, ELEVATE played an integral role in the programme. The Alliance was founded by a group of North American apparel companies, retailers and brands who committed themselves to have their suppliers inspected and initiate training programs, conducting impact worker surveys and organizing OSH-related activities and events such as the annual Fire & Building Safety Expo. ELEVATE was appointed the management firm responsible for managing the inspections and developing local operations. For five years, from 2013-2018, ELEVATE was thus responsible for the remediation and support of 850 factories in Bangladesh. In this capacity, ELEVATE built a team of 65 staff, of whom 62 were in Dhaka. By mid-2017, ELEVATE had carried out 726 factory inspections⁵⁰.

ELEVATE has partnered with a broad range of organizations and industry initiatives *“to drive transparency and sustainable change throughout the value chain”*⁵¹. Partnerships include Amfori BSCI,

Sedex, The Sustainable Apparel Coalition (SAC), Fair Labor Association (FLA) and others⁵². Furthermore, ELEVATE developed its own ELEVATE Responsible Sourcing Assessment (ERSA), which is based on local and national laws and conventions of the ILO, acting as a code of conduct. ERSA⁵³ represents a one-size-fits-all standard that is benchmarked against industry protocols, including:

- Ethical Trading Initiative
- Amfori BSCI
- Sedex SMETA 6.0 framework
- Worldwide Responsible Accredited Production (WRAP)
- And other industry initiatives

SGS

SGS started its business as a grain inspection service when it was established in 1878 in France. After the first world war, in 1919, it moved its registration to Switzerland as Société Générale de Surveillance and has since expanded its core services to four categories: Inspection, Testing, Certification and Verification. Today, SGS employs more than 89,000 employees in over 2600 offices and laboratories around the world. In Bangladesh, SGS started to establish its activities in 1974. Today, it operates from its offices in Chittagong and Khulna and its head office in Dhaka, employing more than 450 people⁵⁴ both in the foods and non-foods department, where the RMG-industry is located. In Bangladesh, SGS is accredited to audit against the WRAP, SEDEX/SMETA and BSCI standards as well as customer code of conducts.

TÜV Rheinland

TÜV Rheinland was founded in 1872 as an association that initially was determined to monitor steam boilers in the adjacent neighbouring districts. In the following decades, it expanded more and more in the wake of industrial and technical development and, in 1936, the name was changed to TÜV –*Technischer Überwachungsverein* (Technical Surveillance associations). In 1970 the gradual internationalization began when TÜV Rheinland established its first foreign subsidiary. With more than 20 000 employees and an annual turnover of 2 billion €, TÜV Rheinland now represents one of the world's biggest audit companies, with almost 60 % of its employees working outside of Germany, generating about 47 % of the company's total sales ⁵⁵.

TÜV Rheinland conducts audits against standards such as Amfori BSCI, Sedex Audit, SA 8000, WRAP, and ISO 45001. According to their homepage, TÜV Rheinland's auditors average about ten years of experience in the social audit sector, making them the most experienced auditors in the industry⁵⁶.

UL

Like many other audit companies, UL emerged in the 19th century as the Underwriter Electrical Bureau, a safety inspection organisation. Before finally being named Underwriters Laboratories (UL),

the organization experienced several name changes and slowly began its international expansion to Europe and Japan in the 1950s. Step by step, UL developed into a firm with a broader approach to offer services such as auditing, certification and testing quality and safety of products.

UL has more than 20 years of social auditing experience and has conducted over 200,000 audits. UL has developed a Responsible Sourcing Workplace Assessment benchmarked against industry frameworks such as Sedex Members Ethical Trade Audit (SMETA) and ILO conventions and recommendations⁵⁷.

UL has been conducting audits in Bangladesh since 2012 and has its head office in Dhaka.

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