

Social compliance audits – past, present and future

Stakeholder workshop
20th February 2024

Bangladesh University of Health Sciences (BUHS)
&
University of Southern Denmark (SDU)

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MINISTRY OF FOREIGN AFFAIRS
OF DENMARK



The research team:

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Julie Bundgaard, PhD fellow, SDU

**Thanks to BUHS seniors and SDU
colleagues**



Purpose of today

Purpose:

- Inform stakeholders about the preliminary findings of the BASCAP project
- Get feed back om importance and validity of findings
- Develop ideas for the future of audits to the benefit of the industry and the workers

After the workshop:

- Mail slides from today
- Notes form the workshop will be included in our writing
- Distribute future publications to participants
- Write a policy paper building on suggestions from today

Why study social compliance audits

- Still considerable problems with occupational safety and health (OSH) and working conditions in the garment industry
 - In spite of improvements after Rana Plaza
- Audits the key tool to verify acceptable conditions for buyers and their customers
 - More resources used for audits than for any other measure
 - Chaotic jungle of more or less similar standards and codes of conduct
- Factories subject to many parallel audits with both overlapping and different requirements
 - Expensive and time consuming with unclear benefits
 - Criticized for being coercive looking for flaws rather than promote improvements
- Audits criticized for window dressing
 - In particular after two audits approved Rana Plaza shortly before the accident

The BASCAP audit project

Objective:

→ To provide research knowledge about audits contribution to improvement of OSH and working conditions

Research:

→ Mapping of the audit market in Bangladesh

→ Review of scientific studies of social compliance audits

→ Telephone interviews with 40 compliance managers

→ Study of audits practices in 10 case factories in the garment sector

- Collection of audit reports and other documents
- Interviews with top managers, compliance managers, OSH managers
- Interviews and workshops with workers photovoice
- Observation of conditions

Dialogue with and dissemination of results to stakeholders and the scientific community

The formal framework

→ University of Southern Denmark (SDU) & Bangladesh University of Health Sciences (BUHS)

→ Funded by the Danish Ministry of Foreign Affairs (Danida)

→ Time frame

- 2020 to 2024

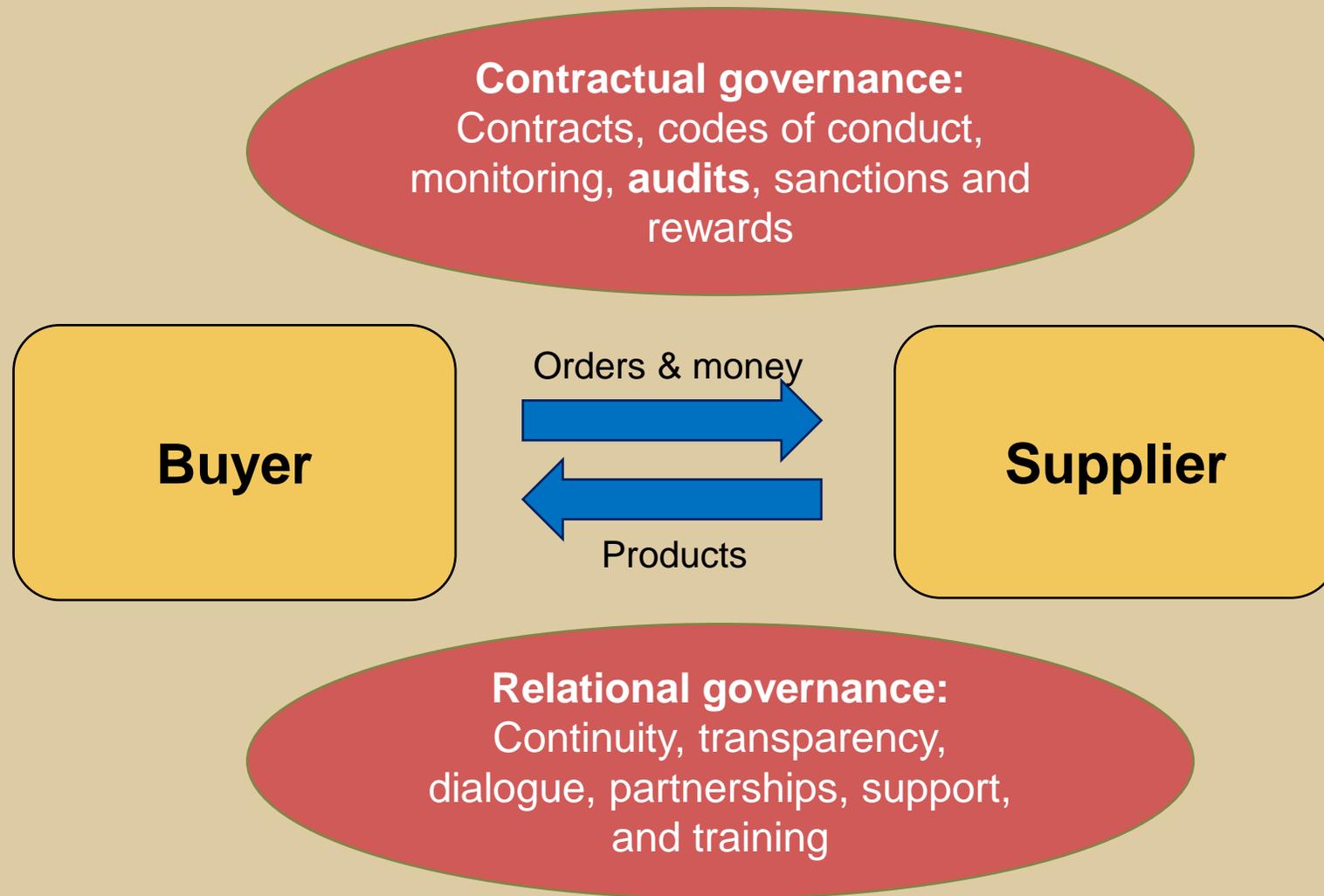
→ Project team:

- Peter Hasle, project leader (SDU)
- Saika Nizam, project leader (BUHS)
- Sarmin Sultana, lecturer BUHS and PhD-student SDU
- Julie Bundgaard, PhD-student SDU

→ Project groups in each university

→ Dialogue with stakeholders

Audits as a part of buyer – supplier governance



Impact on OSH and working conditions from buyer – supplier governance

| | | Governance | |
|--------------------------|--|---|--|
| | | Contractual | Relational |
| OSH & working conditions | Direct (aimed at OSH and working conditions) | <ul style="list-style-type: none"> • CoC • Certificates • Audits • OSH management | Supplier support <ul style="list-style-type: none"> • Training • Advice |
| | Indirect (supply chain management) | <ul style="list-style-type: none"> • Price, quality & delivery • Order giving • Fines and rewards • Duration of contracts | <ul style="list-style-type: none"> • Dialogue about expectations & needs • Social relations • Transparency • Trust |

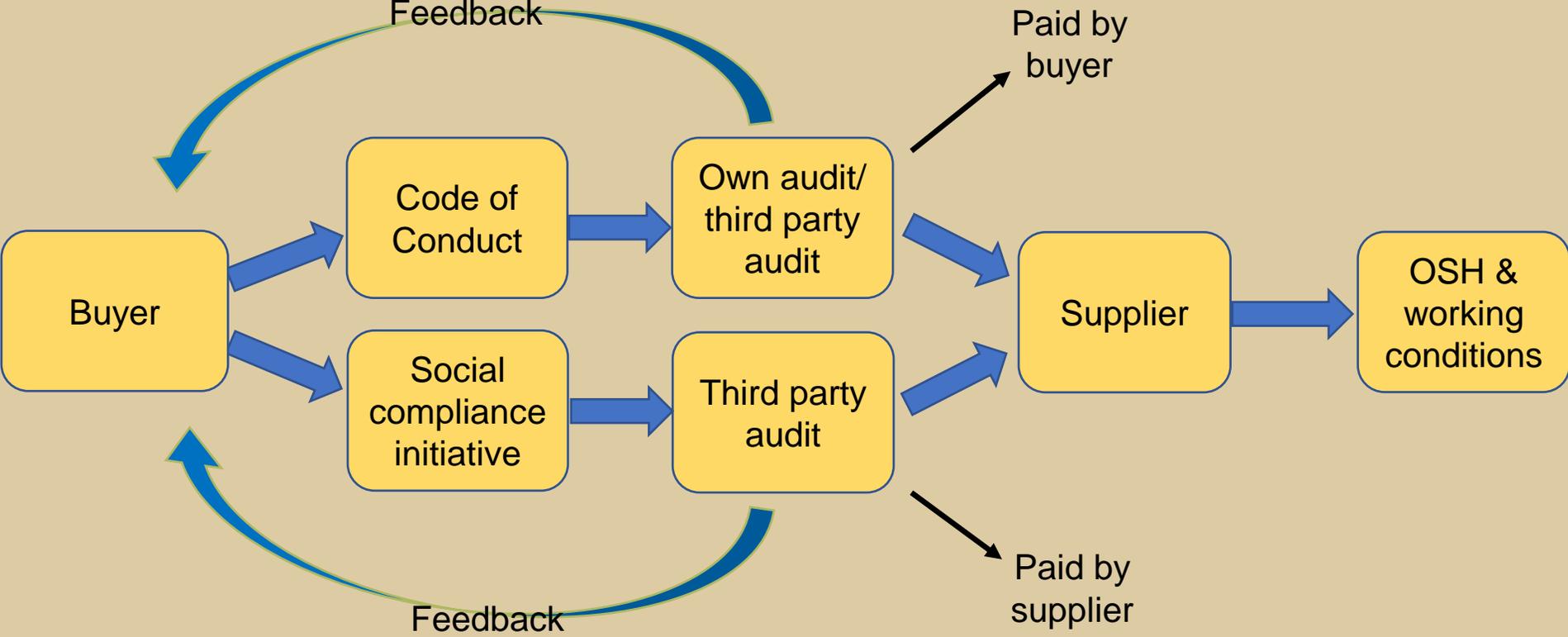
History of audits

- Expanding globalisation during 80ties and 90ties with
- Corporate social responsibility (CSR) developed in 1990ties together with triple bottom line
- In parallel public criticism of sweatshops with poor working conditions
- The standards and multistakeholder agreements from the turn of the Millenium
 - FLA (Fair Labor Association) 1999
 - WRAP (Worldwide Responsible Accredited Production) 2000
 - Amfori BSCI (Business Social Compliance Initiative) 2003
 - Sedex/Smeta (Supplier Ethical Data Exchange) 2004
 - UN Guiding Principles for business and human rights 2011
 - Better Work (ILO) 2013
 - Higgs index 2013 and with SLCP (Social & Labor Convergence Program) 2015
- Rana Plaza a turning point
 - Two audits before the accident failed
 - The Accord and the Alliance launched afterwards with positive results
 - Still more emphasis on audits after the accident

Three different principles for audits

| Checking conformity with standards | Focus on improvements | Self-assessment |
|--|---|--|
| FLA, WRAP, BSCI, Sedex | Better work | SLCP – Higgs Index |
| <ul style="list-style-type: none"> • Audit of standard requirements • Report non-conformities but also indicate notifications and possibilities for improvements • Corrective action plans (CAP) • Outcome for members | <ul style="list-style-type: none"> • Assess standards • Assist with improvements based on assessment • Corrective action plans (CAP) • Provide training • Outcome public | <ul style="list-style-type: none"> • Extensive questionnaire • Index of answers • Verification by auditor • Corrective action plans (CAP) • Outcome for members |

The audit system



The most common standards and multistakeholder initiatives – same but different

Key sources

- The UN Universal Declaration of Human Rights
- The UN Convention on the Rights of the Child
- UN Guiding principles for business and human rights
- ILO Conventions

Other standards and initiative

- After Rana Plaza
 - Accord (now RSC (RMG Sustainability Council Alliance))
- Management standards
 - ISO 9001, 14001 & 45001
- Quality and environment
 - Numerous standards
 - Oekotex

Social compliance

- Amfori BSCI (Business Social Compliance Initiative)
- Sedex / Smeta
- Wrap (Worldwide Responsible Accredited Production)
- SAC, SLCP with Higgs index
- FLA (Fair Labor Association)
- Better Work (ILO)
- ETI (Ethical Trading Initiative)
- Global Social Compliance Program (GSCP)
- ICTI Ethical Toy Program
- SA8000 standard
- ICS (Initiative for Compliance and Sustainability)
- And more!

The content of social compliance audits

The 13 Social Performance Areas we measure



1. Social Management System and Cascade Effect



2. Workers Involvement and Protection



3. The Rights of Freedom of Association and Collective Bargaining



4. No Discrimination, Violence or Harassment



5. Fair Remuneration



6. Decent Working Hours



7. Occupational Health and Safety



8. No Child Labour



9. Special Protection for Young Workers



10. No Precarious Employment



11. No Bonded, Forced Labour or Human Trafficking



12. Protection of the Environment

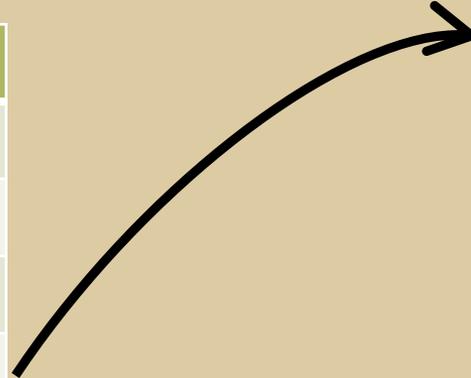


13. Ethical Business Behaviour

<https://www.amfori.org/en/solutions/social/about-bsci>

The international scientific research on social compliance audits

| | Number |
|-----------------|--------|
| No effects | 7 |
| Positive effect | 5 |
| Negative | 2 |
| Mixed effects | 15 |
| Total studies | 29 |



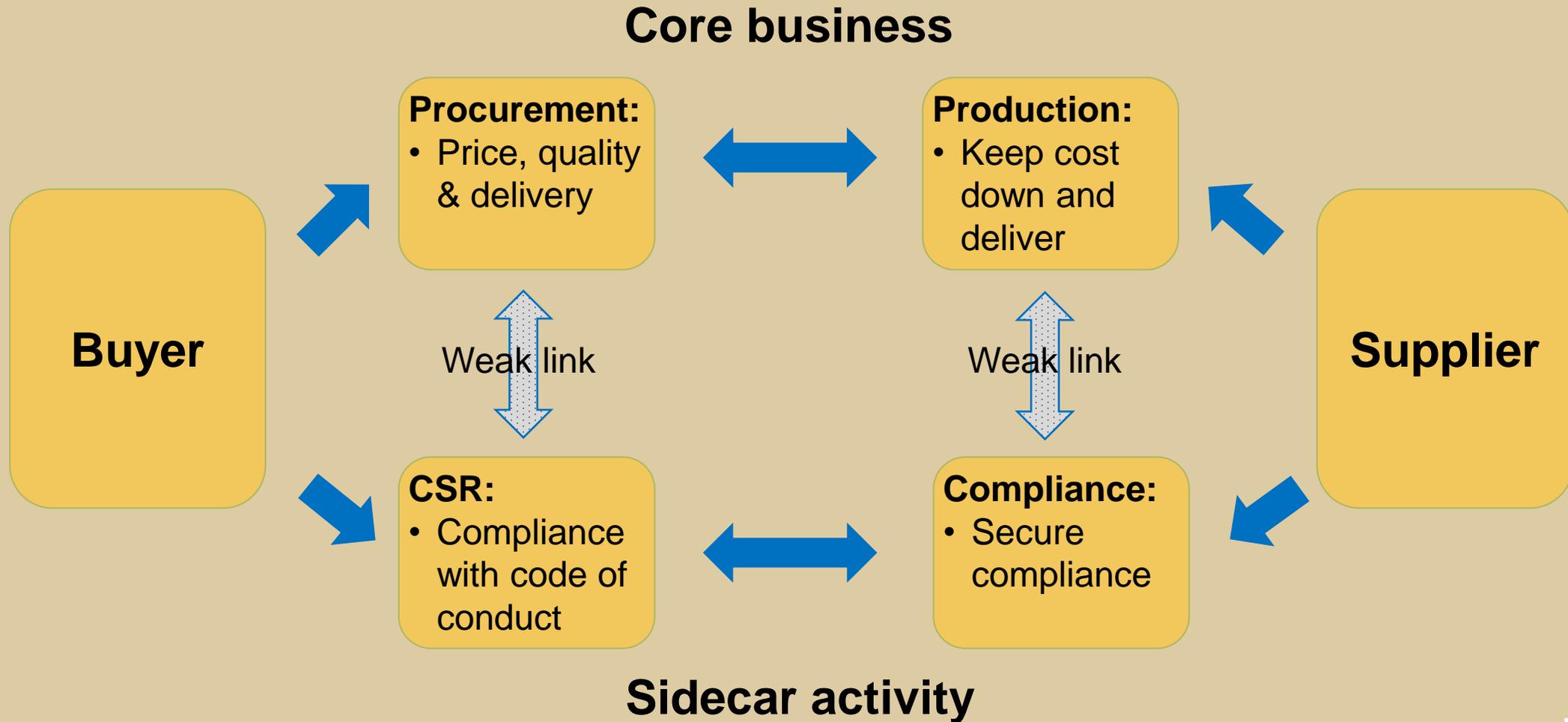
Conditions for effect

- Continued audits
- Buyer engagement
- Auditor qualifications
 - Both technical and communicative knowledge
- Payment by buyer
- Combination of rewards and penalties
- Combination with legal pressure

Challenges pointed out

- Customers relations supplier – auditor
 - Time pressure and benevolence
- Consultancies to cheat audits (China)
- To announce or not announce
- Auditor qualifications
- Window dressing
- Decoupling

Decoupling of social compliance



Main findings from the BASCAP project

Would the industry be better off without audits?

→No!

- Audits secure a basic attention to a number of working conditions and OSH issues
- Awareness have increased
- The accord has secured substantial improvements of building, fire and electrical safety

Do audits secure further improvements?

→To a very limited extent!

- Further improvements give no additional benefits
- Factories are exhausted from audits – just get it done and keep cost down
- Ergonomics, worker health and voice, living wage and freedom of association neglected



Two basic audit strategies in the factories

Management understanding and decisions

→The low road

- Be competitive by keeping labour cost down
- Buyer demands unfair
- Window dressing acceptable
- Only do what strictly necessary when pointed out
- Pressure on auditors for low cost
- Does not involve workers

→The high road

- Competitive by continuous improvements and committed workers
- Audits an opportunity to learn from external eyes
- Management system to be proactive and integrate working conditions and OSH in operations
- Train and involve workers

The responsibility of buyers

→The buyer low road:

- Shopping around to save the last Taka
- Short term orders with cancelations
- Penalise delivery problems
- Rely entirely on audits for social compliance and pay no attention to non-conformities

→The buyer high road

- Long term contracts
- Transparent exchange with fair prices and living wage
- Support and cooperation about improvements regarding productivity, quality and working conditions
- Use audits but ask questions about working conditions during visits

A road to better buyer practice

→ Better Buying

- Ask suppliers to rate buyers

→ Better Buying five principles:

1. Visibility

- Provide enough information about your planned business for suppliers to act

2. Stability

- Give your suppliers steady and predictable business across the year

3. Time

- Provide enough time for suppliers to complete all processes

4. Financials

- Use fair financial practices with suppliers

5. Shared responsibility

- Play your part in improving supply chain social and environment sustainability

<https://betterbuying.org/research-tools/five-principles-of-responsible-purchasing-practice/>

Audits in the future

→ How to initiate improvements through learning audits ?

- SLCP and Higgs
- ILO Better Work
- Merge audits from standards and multistakeholder initiatives
- Other possibilities?

→ How to secure the quality of audits?

- How to remedy bias from the business relationship?
- Higher quality of audits – technical and communicative skills
- Identifying the most important problems for workers

→ How to utilise the possibilities of EU Green deal?

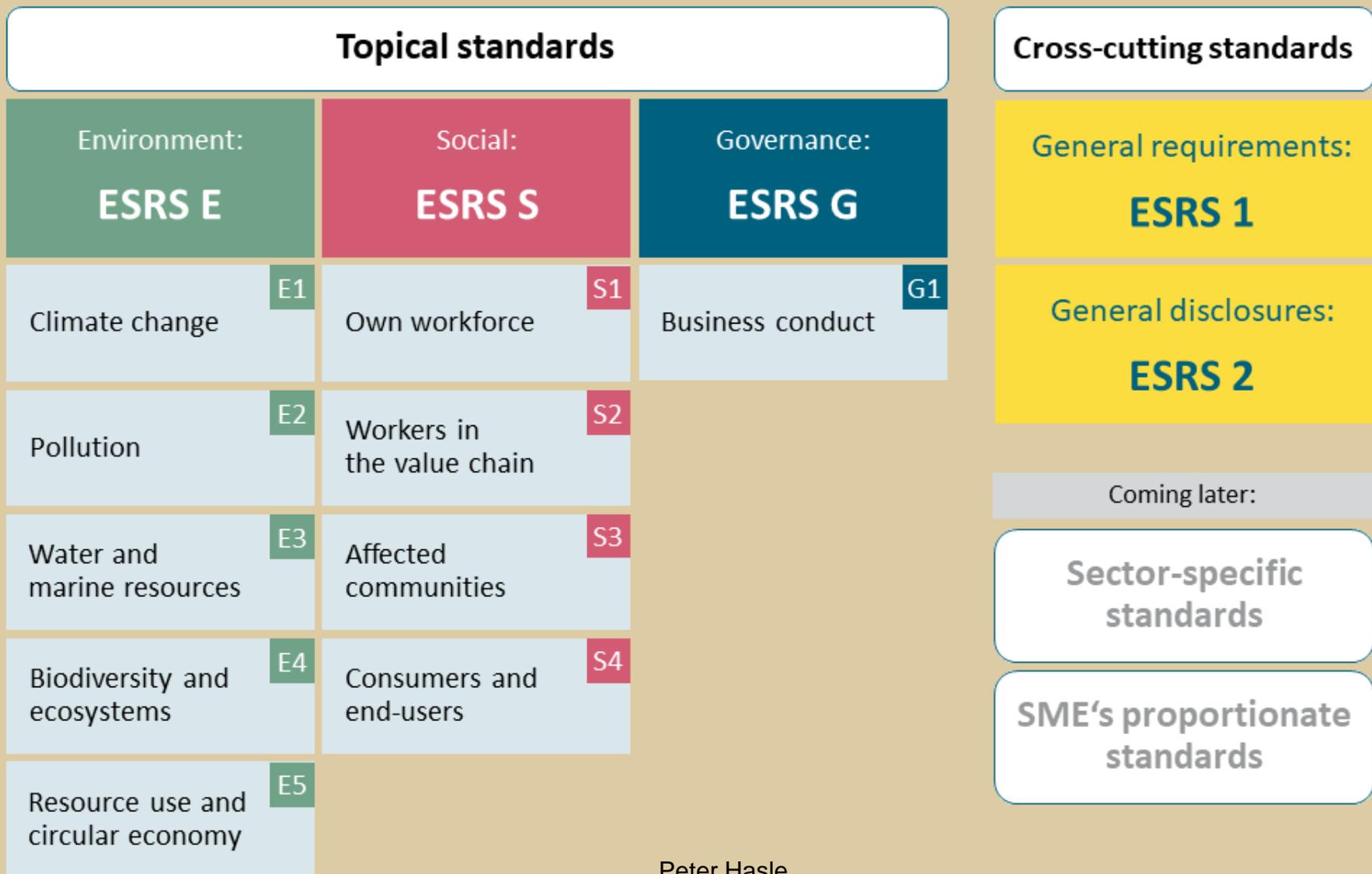
- Sustainability reporting
- Due diligence
- More audits or audits getting obsolete?

EU Green deal

- Corporate Sustainability Reporting directive (CSRD)
 - Reporting Environmental, Social and Governance (ESG) indicators
 - Include own data as well as supplier data
- Sustainable Finance Disclosures Regulation (SFDR)
 - Sustainability risks
 - Principal adverse impacts
- Due diligence
 - Consider social sustainability and other risks of suppliers and their suppliers
 - Directive awaits final approval



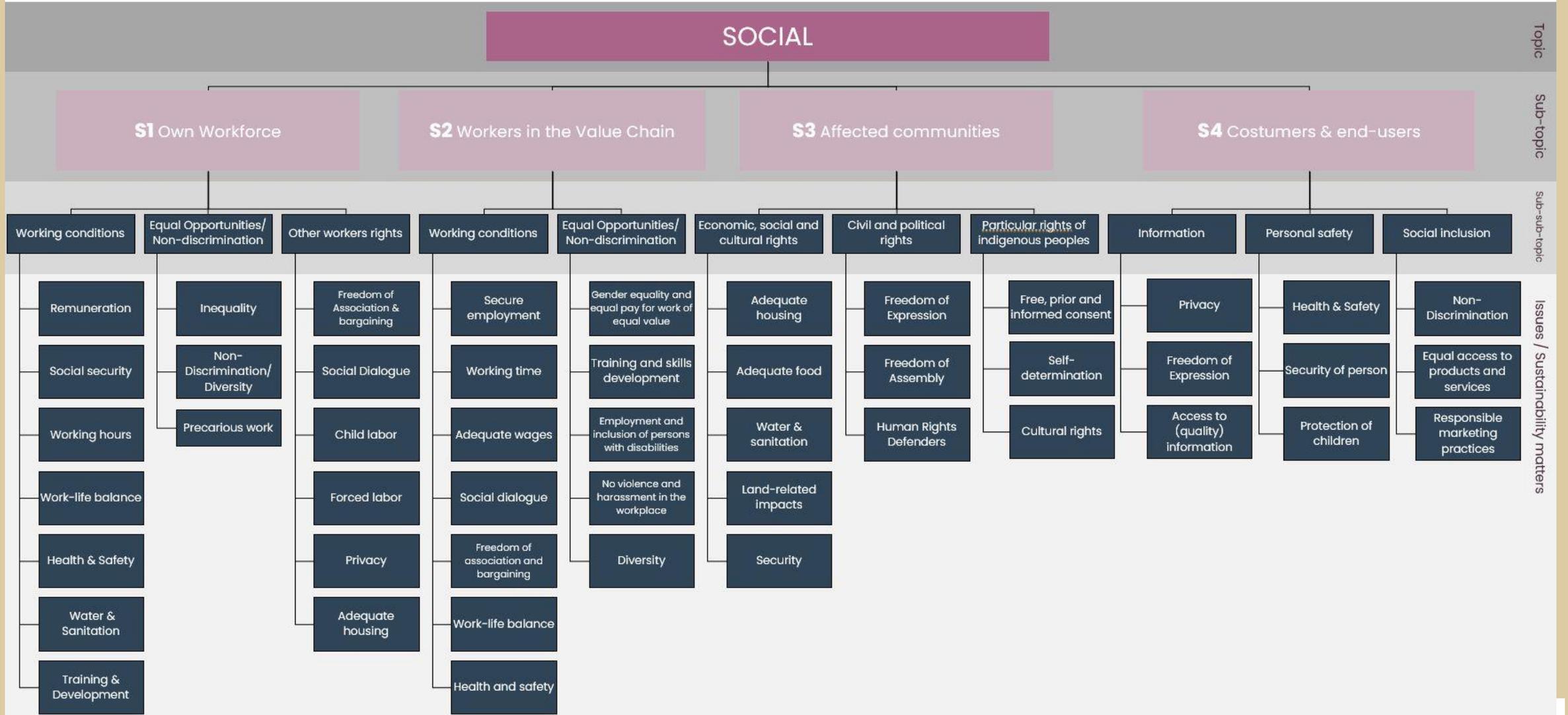
Reporting of Environment, Social and Governance (ESG) indicators



The social pillar



ESRS S1-4 Structure of the social pillars



Topic

Sub-topic

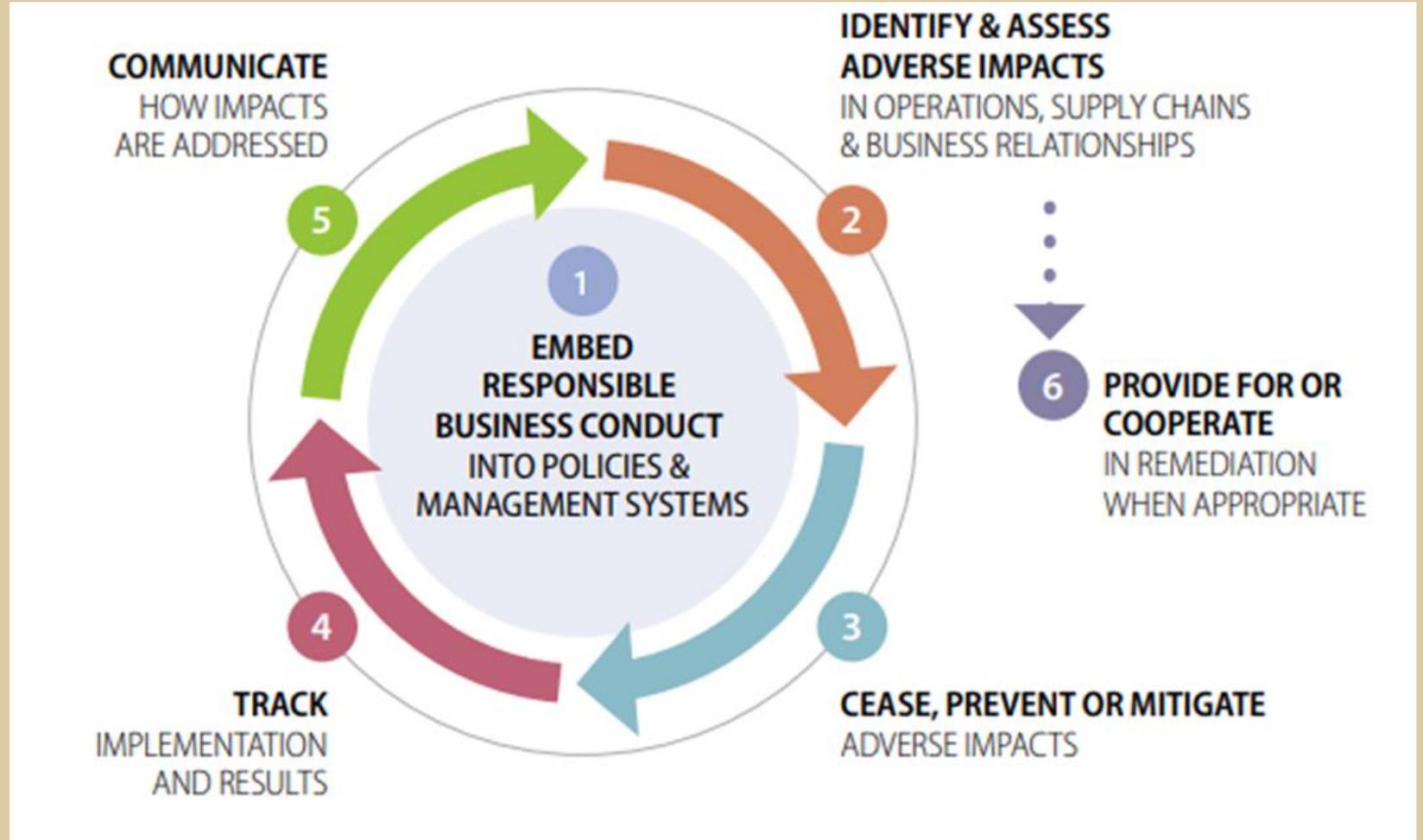
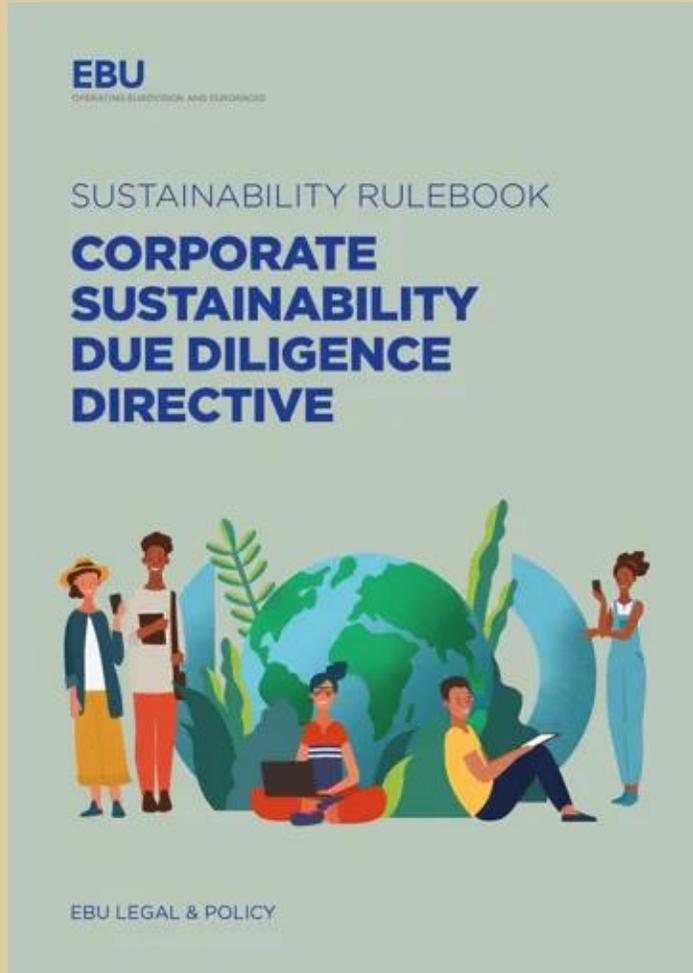
Sub-sub-topic

Issues / Sustainability matters

S2 Workers in the value chain



Eu due diligence directive



Questions and comments?

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Slides will be mailed to all participants after the workshop



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Group discussion at the table

Questions:

→ How to make audits more learning to improve conditions?

→ How to improve the quality of audits?

→ How to utilise the new possibilities in the EU ESG reporting and due diligence?