Abstract
Customers, companies and society increasingly rely upon assurances concerning the standards which are applied in the supply chains of goods. There is, however, a growing anxiety about those standards as well as about the reliability of the assurances expressed about them. This paper seeks to explore these matters. In particular, we seek to explore what is known about the audits which are undertaken to assess supply chain practices and to what extent the outcomes of such audits might be considered reliable. The literature is fairly sparse but its message is clear: it is unlikely that any reliance should be placed upon the surveillance offered by such audits. In order to add to this emerging literature, we undertake a case study on a Sri Lankan garment manufacturer, exploring the views of both the company managers and those of the auditors. The results confirm that only in the most extreme sense might current surveillance practices offer any basis for reassurance about standards of behaviour in garment manufacturing. This has major implications for those who work in the manufacturing companies, for the purchasing companies, for the customers who rely upon the assurances and, inevitably, for government and NGOs.

Keywords: Supply Chain, Audit, Audit Process, Certification, Protection of Labour, Consumer Assurances

Introduction
As unacceptable labour practices continue to be exposed, and more so in the last decade, the credibility of multinationals’ surveillance has become a major issue in public debate (Hunter & Urminsky, 2003). Evidence about inconsistent practices, poor implementation of the codes and the quality of surveillance raises questions about buyers’ commitment towards ethical sourcing. This has led to a questioning of the audit methods employed (ibid.). Such doubt, exacerbated by evidence of companies seeking to mislead auditors (Welford & Frost, 2006), provides no sufficient basis for assurance. Not only does this situation render the results of audits inaccurate and inconsistent, but it also questions the possibility of any meaningful improvements in labour conditions.

As if this were not enough, the competence of the auditors has been called into question. For example, O’Rourke (2000) found that PricewaterhouseCoopers (PwC) auditors missed violations of labour practices, failed to notice serious health and safety problems, disregarded barriers to freedom of association, and ignored violations of working hours and wage laws. A similar study conducted on surveillance in Asia challenges the assumption that information about factory working conditions obtained through audits and surveillance mechanisms is the best way to create a ‘credible commitment’ for global buyers in the enforcement of their own codes (Locke, Amen, Mangla 2009). Elliott and Freeman (as quoted in Locke et al., 2009) argue that there exists a ‘market for standards’, in which informed customers respond with their wallets when the global brands take responsibility for labour conditions in their supply chains. Locke et al. (2009), however, argue that this guarantee cannot be taken at face value due to the many deficiencies in the auditing process.
But the issue is ultimately more complex than this. Not only does monitoring not ensure compliance (see for example, Esbenshade, 1999), it transpires that some multinationals maintain business relationships with factories that have never passed their audits to the point where, in extremis, surveillance is a ‘farce’ (Locke et al., 2009). The story that is beginning to emerge is that despite a range of activities and assurances from business and business-related bodies, there is no sign that the evidence of unacceptable conditions in the supply chain is diminishing. The codes, their implementation, and their audits all fare badly despite their critical importance in maintaining any lingering vestiges of legitimacy in international supply chains. However, there is surprisingly little empirical research on the implementation of the codes and the operation of monitoring schemes (Rodriguez-Garavito, 2005). It is in this particular context that the current study is located. We seek the modest goal of adding a little more evidence and insight to the slowly growing body of evidence that there are some deeply serious flaws in capitalism’s maintenance of international supply chains. Our study focuses on the apparel industry in Sri Lanka, and seeks to explore if (as we are lead to believe) surveillance is the only tool that can verify the implementation of labour standards and proper workplace conditions, then surveillance is the only protection that workers have against exploitation. But given the evidence, surveillance is actually failing hundreds of thousands of people in the developing countries, and this has atrocious implications for the future of labour conditions and workplace practices in the global apparel industry. We introduce the context and our method in the next section. We then report on our findings. Finally, we offer some conclusions and discuss implications.

**Research Approach and Method**

Our approach for this research was influenced by both the delicacy of the issues we were hoping to explore and the (related) issue of gaining access. It was perfectly apparent (from both personal experience and the prior literature) that it was only through face-to-face contact that we would gain any substantial insights into the experiences in the value chain. The research is based on a case study of a single garment manufacturer in Sri Lanka and although the research is broadened out somewhat from that narrow focus, this single manufacturer is our primary focus. The case company employs around 1,000 workers and supplies to Adidas, M&S and Next. The company was known to one of the authors who already had contact with it, so the case chose itself.

The principal method of gathering data was interviews. Figure 1 lists the titles of the six officers of the company and the four auditors who agreed to be interviewed. The interviews were conducted around an interview guide based on those elements of ILO labour conventions identified by the apparel industry: child labour; wages; health & safety; discrimination; working hours; and freedom of association (Emmelhainz & Adams, 1999). While management was interviewed on the practice and compliance in the factory of those themes, the auditors were interviewed about how they monitored the themes. By selecting personnel from both the factory management and auditors we expected to get an understanding of the surveillance procedure from two sides: the factory and the multinationals. It also allowed for cross-comparisons of responses, encouraging different perspectives of similar audit issues to emerge. This was useful in synthesizing and triangulating the findings by using different sources of data. The interviews were transcribed (where appropriate) and written up as notes otherwise. These transcripts were then carefully analysed around 6 themes and all the material on surveillance and audit separated out. The interviews were augmented by reviewing news media in order to get an indication of the reports of incidences regarding sweatshop labour in the garment industry. A broad review of government websites was conducted in order to understand the local labour standards.

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<th>Management of the factory</th>
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<td>General Manager (GM)</td>
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<td>Production Manager (PM)</td>
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<td>Quality Manager (QM)</td>
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<td>Human Resources Manager 1 (HRM1)</td>
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<td>Human Resources Manager 2 (HRM2)</td>
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<td>Safety and Compliance Officer (SO)</td>
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**Key: Auditors**

Third Party Auditor commissioned:
- by Adidas TPA(Adidas)
- by M&S TPA(M&S1)
- by M&S TPA(M&S2)

Buyer Auditor employed by
- Next MNCA(Next)

Figure 1. Interviewees
**Findings**

There was either some violation of or some level of substantive doubt concerning each of the six areas of code that we were investigating. This briefly confirms what prior research lead us to expect: regardless of codes, standards and audits, supply chain manufacturers’ activities cannot be expected to be in compliance with the desired level of performance. Our principle focus, however, was on the details of how the ultimate (typically Western) buyers made a judgement about the standards under which the products they bought were being manufactured. Typically, the Western consumer is fed reassurance that the product falls within acceptable standards. However, it seems a great deal more likely that the buyer and ultimate customer should really be receiving information about the extent to which acceptable standards are not being met. The interviews were carefully scrutinised to identify themes relating to the audit process. Broadly, comments of relevance seemed to relate to each stage of an audit: its establishment, the competence of the auditors, the conduct and construct of the audit, the central issues raised by matters of power and independence and, finally, penalties for non-compliance. We will briefly report our findings under these sub-headings.

Inevitably, it is in the set up and establishment of the audit that many of the strengths and weaknesses will be initiated. Two critical factors emerged during the research which must have a significant impact on the quality of the audit and its outcomes. First, in this case study, auditors are either being paid by the multinational or by the factory. And, the final report is also intended for the party who pays for the audits. The auditor is not, therefore, in any sensible way, “independent” and there is every reason to believe that auditors will be influenced – or anticipate such influence – in the conduct of the audit. “Auditors do not want to jeopardise their earnings, and because of that we can negotiate some things” (HRM2). Second, the terms under which the auditors are employed provide for very little time indeed in which to conduct the audit – often only one working day as far as we could assess. This is quite simply not enough time to establish any full sort of picture of activity and certainly not enough time to overcome any attempts by management to mislead the auditor. Whilst it was not part of our brief (or indeed our ability) to judge the actual competence of the auditors, concerns about the intrinsic abilities of the auditors to undertake these audits did surface. It was no great surprise to find different groups of auditors expressing scepticism about the abilities and professionalism of other groups but we were surprised by how the third party auditors appeared to miss evidence or show the least understanding and/or appeared to be the least forthcoming in interview. There seemed to be some substance, therefore, to the buyer’s auditor’s claim that:

> “Third party auditors treat it as a business. They do not delve deeply into the issues and they do not bother about transparency. They have no consciousness to improve the factory conditions, but only their business. When comparing our audit and their audit reports, we found that while our audits had about 10 – 15 non conformities, their audits did not have any non-conformity on the same issue. Some third party audits have passed the factories who do not even pay Employee Provident Fund and operate under bad health and safety conditions and who produce fake records. There have also been child labour 14 – 15, but those have not been captured by third party auditors” (MNCA/Next).

The interviews and observation, while not conducted in an ethnographic manner, were nevertheless illuminating on a range of issues regarding the conduct and construction of the audit. Perhaps the first issue was one of attitude. Two of the auditors expressed a very relaxed attitude to matters of substance. Minor (and not so minor) injuries from needles and needle breakages are widely recognised as an important health and safety matter for employees but the auditors seemed not to be exercised by this “normal occurrence” and certainly seemed surprisingly cavalier to the concerns of the staff:

> “…. [Y]ou can’t stitch without a needle. And the needle breaks all the time. So it is normal. It is the nature of business and you cannot avoid it 100%”. But if the occurrence is high, then there is a problem for the factory and the factory should address it. Because, it means a loss for them as the cost of needles can be high and the lost time of the workers in the factory operations” (TPA/M&S1).

Equally, the auditors themselves expressed a level of cynicism about the efficacy of the audit: “We pick only a sample during the audit. And that audit will only last for 9 hours. So the findings and audit report we produce is valid only for that 9 hours. We don’t know
what happens during any other time and we are not answerable for any other time. The audits happen once a year as a convenience for the factory. If the buyer wants they can do an audit themselves or increase the frequency” (TPA/Adidas). Clearly, this auditor - at a minimum - did not see the audits as intending to provide any kind of systemic assurance about overall standards of activity. One other auditor was a little more reassuring in that they expressed their commitment to reviewing three months’ worth of data, but even here confessed that they were involved in “erratic monitoring practices”. The second major issue that emerged from the interviews was that the audits were, themselves, pre-planned. The factories know well ahead that an audit is planned and have ample opportunity to “set the scene”. This is by no means unique to this case: The Independent (2012) quoted a factory worker as saying “They're always announced beforehand, so we have to clean, we have to sweep. The first-aid box is filled, and we're told what to say if the inspector speaks to us. We have to tell them we're paid the minimum wage, and we mustn't tell them we work overtime at weekends” (Jamiatun, a union leader at PT Golden Continental).

This awareness of the pre-planned nature of the audit seemed to be tied up with the attempts by management to mislead the auditor. We have already noted that the management might keep separate books for different auditors but we also found that different auditors might have a very different understanding of practices. One of the most striking differences is related to the need to gain approval for overtime, where TPA/M&S1&2 said that the factory gets the approval from workers every time they do overtime as per the requirements of the code. This was contradicted by both MNCA/Next and the factory itself, who said that they didn’t need the approval of the workers because they have a standing approval for every six months from the Labour Department to do overtime. Whether or not that is a matter of being misled, competence or memory is perhaps moot but the selection of employees to be interviewed by the auditors was much clearer. All the auditors and management claimed that auditors select workers for interviews on a random basis but the PM revealed that at times, the management select the workers on behalf of auditors. Furthermore: “For one thing, although we select workers for interviews, we feel that they are being coached by the management. And some workers are afraid to talk. And our biggest issue is lack of awareness and knowledge of the issue of discrimination” (MNCA/Next).

The elephant in the room in any audit situation is always likely to be how matters of power, influence and independence are managed. We have already mentioned that the set up and payment for the audit does not necessarily encourage an independence of mind but there were other issues that might well compound any anxieties in this regard. For example, auditors are reluctant to report data they find – and for many reasons. Particularly interesting was the observation that the auditors had suspected but not reported on discrimination: “It can be detected, especially in salary increments and performance evaluation, but we cannot find enough evidence to support it, we can only comment on that. We need to have 100% evidence to include it in the report” (TPA/Adidas). And yet, it is quite apparent from the conduct and timing of the audit that there can be very few issues on which an auditor is 100% satisfied. Equally, there may be matters on which the auditor chooses to remain silent. One such example was the factory’s violation of safety standards by employing a junior person as the safety officer. The auditors’ excuse for choosing to be silent on the issues is because “there have not been major incidents so far”; a major incident being defined as one in which “people will die”. It comes as no surprise to realise that these incidents were part of a wider issue: “Although clients demand many standards, they know that some of them are not adhered to and they understand it. Even in health and safety, clients are aware of minor accidents but accept them. For example even though they ask to restrict over time, their orders are very big. And they demand big shipments so, obviously, the factories have to do overtime. How else are they going to send the shipments otherwise? So, they have to do overtime to meet those demands. And buyers know about it and they do not pay much attention” (TPA/M&S1). It was evident from the results in this study that auditors seem to be making their own choices about what to report and what not to report. For example, one auditor openly admitted that they are more concerned about the continuing existence of the business. “We don't have it in our concept to drop a factory. So we try as much as possible to bring the factory up and help them to sort their issues. There are
instances we have accepted the dropped factories again after they have begged with us having rectified the non-conformities. Next buyer is not tough. We are the only buyer who works for the mutual benefit of both parties” (MNCA/Next).

Finally, and as we have already seen, there is a more than a hint that bribery can be a part of the audit “negotiations”. “To get something done by the labour department, you have to give something. Whenever I go to the labour department they ask me what I have brought. They even ask the cloths etc. that we are making. Buyer audits are very tough while audits conducted by independent audits are not so tough” (HRM1). Whilst one might not be surprised by the facts that issues of power influence the audit, its depth, reliability and communication, that so many issues emerge in a short study of a single factory is somewhat arresting. It is made all the more piquant by the inference that the penalties for non-compliance seem to be all or nothing; “all” in the sense that the factory loses its work and employees lose their jobs; “nothing” in the sense that the auditors and the buyers really turn a blind eye. In this context, the death in 2013 of around 1,130 garment factory workers in the collapse of a Bangladesh factory building, and the deaths in garment factory fires seem even more tragic but much less surprising. (BBC, 2014; Yardley, 2013; Burke, 2012; Thomas, 2013).

Conclusions and Implications

As per Gray (2000, pp.247-268), “when auditors do not appear to be bringing the skills, expertise and habits of independence that are so crucial to the profession to bear upon the attestation function in social and environmental reports then that points to a very serious and fundamental malaise in the ultimate outcome of the audits”. This fact was amply illustrated in the findings of this study. So, would this mean then that while Adidas, M&S and Next confidently assure their customers that their suppliers do not violate labour standards, their suppliers in fact do so? One example is where all three multinationals under study have been exposed in news media for using child labour and low wages, where they maintained ignorance (The Guardian, 2010; The Independent, 2012; The Independent, 1996). The Independent’s exposure of M&S in 1996 and then again 16 years later, shows that the firm’s surveillance has not improved with the passage of time despite the ‘importance’ given to ethical sourcing. We got the impression that there might be some collusion between the management, the auditors and the multinationals about the violation of certain codes, which questions the integrity and purpose of the audits. The irony of this system is that those who profit from abusing the labour rights within the system are seem to be the same ones that are in control of regulating, implementing and monitoring. Esbenshade (1999) is probably right when he refers to surveillance as the “fox guarding the chicken coop”. This resonates well with Ruwanpura’s (2013) argument that the codes are not merely implemented but are constantly negotiated, contested and re-interpreted in novel ways as they transmit across actors placed at distinct scales on the global production system due to asymmetrical power relationships. So, when the auditors are caught in the middle of these ‘power games’, it is invariable that the audit outcome is influenced by these ‘power dynamics’.

References


