

Social Audit in the Supply Chains Sector

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1 Introduction

Effecting the ethos of social auditing in an organisation expects that the organisation in question will take a structured approach in evaluating how well it is doing in its quest to be socially responsible Andersen and Skjoett-Larsen (2009) and Awaysheh and Klassen (2010). The approach expects that the entity will set out a plan of the actions it wants to take and ensure that it follows them through. Carrying out a social audit exercise either in the supply chains sector or in any other sector is similar to carrying out a financial accounting audit of a limited liability company. A financial accounting audit process requires an independent examination of the financial records of assets and liabilities of a company as at a point in time; usually towards the end of its accounting year (or at any point in time by the company's internal auditors) in order to establish whether or not the financial records are accurate and reflect the true state of events as depicted in the company's financial statements which a company wants to put in the public domain for readers and users. A financial accounting audit exercise would also try to identify if there are weaknesses in the internal control systems and record keeping exercise in place within the company which could encourage dishonest and fraudulent employees or others to defraud the company. A social audit is not too dissimilar to this, it is also about establishing the accuracy of the details contained in the social records and activities put in place by the entity being audited, it ensures that the organisation is in control of the social aspects of its operations. The audit exercise could either be carried out by the organisation's internal or external social auditors. The objective

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is to ensure that the organisation is in control of this non-financial aspect of its activities to prevent things going wrong.

There are many differences between a financial accounting audit and a social audit. The main difference being that a social audit is generally voluntary in most countries of the world, just like CSR reporting is still voluntary in many parts of the world (except in a few countries which have in place what is often referred to as “Mandatory CSR (MCSR) reporting” namely: Sweden, Denmark, Norway, The Netherlands, France, Australia, Mauritius, Indonesia and India). In these aforementioned countries, reporting on CSR is now mandatory and social auditing of CSR activities and consequently social auditing is also mandatory. It follows then that carrying out of social auditing of CSR activities in most nations of the world is still voluntary. But conducting a financial audit is a mandatory requirement for all listed companies worldwide. There are International Financial Reporting Standards (IFRS) for carrying out this reporting function. Another difference between the two is that many of the issues involved in social auditing might not be tangible but rather qualitative when compared with those issues involved in financial accounting audit which in most cases will be in terms of assets, liabilities and other monetary transactions of the company in question. This difference makes things a bit more challenging for everyone. Despite this, it is a desirable exercise which should help to give credence to CSR reporting and increase users’ confidence in the information provided by the CSR report. Undertaking a social audit and coming out of the exercise satisfactorily is tantamount to a motor vehicle being taken by its owner for a MOT (Ministry of Transport) road worthiness test. Passing the test and being certified by the MOT examiner as fit to be used on the road. The MOT test certificate confirms that all being well, the vehicle will pose no danger to other road users if driven carefully and responsibly by a qualified driver. A company which has been honestly audited by a team qualified social auditors and being certified as fit for purpose by this team of social auditors poses no danger to all stakeholders and the environment as at the point of the audit and hopefully shortly after that. Companies are expected to be regularly audited to prevent laxities from setting in.

2 Problems in the Supply Chain Sector

The supply chains sector has been besieged by a series of unpleasant events and scandals since corporate social responsibility has become a ‘near mainstreamed’ event on the corporate scene around the world. Many irresponsible practices have been unveiled by the media and research studies in the supply chains sector of the global economy; see for example Wood (1996), Amaeshi, Osuji, and Nnodim (2008). Most of these problems have been identified in developing countries around the world, for example in Indonesia, Bangladesh, India, Pakistan, Cambodia, and China, to name but a few. See for example Locke and Romis (2012) who note that over the course of the 1990s, Nike was criticised for sourcing its products in

factories and countries where low wages, poor working conditions and human rights problems were rampant. Locke and Romis (2012) argue that these problems were evident in their factories in Indonesia, Cambodia, Pakistan, China and Vietnam. A similar version of these social problems are also evident in the farming and mining sectors in Africa—in the farming of cocoa, coffee, tea, banana and other farm produce sold by popular retailers in Europe and North America and in the mining of many high value natural resources in many countries in Eastern, Western and Southern Africa. The FairTrade Foundation came into being to address some of the social ills which had besieged workers and farmers who operate in the farm produce sector around the world. In terms of problems in the mining sector, the Extractive Industries Transparency Initiative (EITI) was set up to bring about improvements in different areas of the sector including CSR issues.

To ignore some big economic differences the sourcing of supplies by large Western retailers and brand names from emerging economies are making to peoples' lives in these communities and countries, and dwell only on some unacceptable practices by some factory owners in these countries is to present a one sided picture of events, which certainly is not the objective of this paper. One should also not overlook the economic mysteries and deprivations that could be created in the communities and countries where supplies were originally sourced before being diffused to these emerging economies, perhaps for cost reduction/saving reasons but packaged and publicised by the diffuser in the name of corporate social responsibility. Unfortunately, the economic problems created or solved as a result of abandoning or diffusing supplies from one community/country to another are not the main concern of this Chapter, but suffice it to note that some social problems solved by sourcing supplies from one emerging nation in terms of job creation and other economic benefits, would also create many social problems in another nation or nations where those jobs were taken away. The chapter seeks to explore some of the actions taken by different organisations from around the globe to improve the effectiveness of social auditing and reporting in the global supply chains sector in developing nations and examine how the process could add value to the field of corporate social responsibility and genuinely make a big difference in people's lives.

3 Historical Review of Social Auditing in the Supply Chains Sector

In this section, we look at the history of social auditing; how it commenced in general terms, how it has permeated into different sectors including the supply chains sector, how things have moved on since its origins and where we are today.

A search of the literature has revealed that discussions on 'social audit' emanated in the 1950s in the United States of America about the same time the American Economist *Howard R Bowen* posited in his book on "Social

Responsibilities of Businessman” in 1953 which notes that business owes a responsibility to society and business people should pursue strategies which are desirable in meeting societal objectives and values Idowu (2010, 2014). This perhaps suggests that social audit is as old as ‘the modern version of CSR’ itself since scholars have noted the existence of CSR in societies around the world well before the 1950s Carroll (1999), Lee (2008), Idowu (2008) and Carroll (2008).

The term ‘social audit’ was said to have been coined and used for the very first time by George Goyder in the 1950s, (by an American, who felt that financial auditing without social auditing provides an incomplete one sided story of events in corporate activities) as noted on the website of the *Social Audit Network* (SAN, Pearce, 2005). According to the SAN which notes that “the need of social audit in the 1950s was to make business more accountable to the community and to ensure that the impacts of business—both beneficial and adverse are understood by society”. This suggests that the expectations from social audits around the world today have not changed drastically from that of the 1950s when the term was first coined. Social auditing is still about enabling businesses to be accountable and ensuring that stakeholders understand both the adverse and beneficial impacts of business actions on them and the environment. Goyder’s idea, was to enable society to exert some control and influence over corporate activities from the local level where most companies often start to flourish before they expand and some of them transform to becoming multinationals and global corporations. The idea behind the practice of social auditing was originally to make companies more accountable and encourage transparency for their actions in and around the community where they operate in order to enable local stakeholders to understand both the beneficial and not so beneficial impacts of corporate actions on them and also to understand what these companies are doing or intend to do in order to reduce the incidence of the adverse impacts of their operations on their stakeholders and the environment.

That said, the globalisation of the world economy has meant that being accountable for a business impacts (both adverse and beneficial) on society cannot now only be about accountability and transparency to the local community but to the global community. As local accountability was the case during its beginnings, this paper contends that social auditing must now be considered and addressed by corporations taking a more inclusive and global approach in the twenty-first century. This became more so because of some of the reasons noted by Locke and Romis (2012) when they argue that in many of these developing countries from where some notable brands are sourcing supplies of their merchandise, there are many compelling reasons why these Western retailers and household names must employ the use and practice of social auditing in order to take ‘the bull by the horn’. Locke and Romis (2012) note the limited capacity of many developing country governments to deal with the salient issues affecting the sector for example these governments’ inability to enforce and police even their own labour and health and safety laws. These outsourcers’ failure to act in this regard would have resulted in even more serious scandals and embarrassments relating to child labour, sweatshops, human rights abuses etc. for these corporations. Being actively involved in the use and practice of social audit became inevitable. Apart from that, we now live

a more civilised world which makes it our concern to fight for the rights and welfare of people who live thousands of miles away from us, even when the social or environmental problems in question have nothing to do with us either directly or indirectly. See for example the activities of the Anti-Apartheid Movement of the 1970s and beyond during black struggle for equality in South Africa and several other examples in the past.

The recent vogue by some companies in the more advanced parts of the world to engage in outsourcing some of their business functions and activities to some developing parts of the globe has heightened the need for social audits to be taken more seriously than ever before in the supply chains and other sectors. Mullins (1996) notes that outsourcing did not formally become identified as a business strategy until 1989 but then, Mullins notes “it was all about cost cutting, landing the big deal and making a big splash with little or no regard for the subsequent inadequacies which have not been carefully thought through before landing the deal”. Outsourcing became a business strategy for two reasons, first, organisations were and still not totally self sufficient in meeting their functional needs; hence the need to outsource some of the functions which they had little or no competence in arose Handfield (2006) and secondly for competitive advantage and cost saving reasons. It became apparent later on that issues surrounding outsourcing were not carefully thought through, because as far back as the 1990s, shortly after it became popular there had been various scandals and unacceptable practices which had besieged the sector and resulted in untold reputational damage to many of these Western outsourcers, retailers and brand owners. It became important that the use of social audits as required by CSR would permeate and filter through to the supply chains sector since the need to repair damaged reputations arose and the need to guide against future reputational damage became even more important. It is therefore no surprise to see the rapid growth in the field of social auditing.

4 International Standards in the Field of Social Audit

It also became inevitable that we would see the emergence of international standards and guidelines designed to regulate and ensure effectiveness in the use of social auditing in both the supply chains and other sectors. There are a few international standards which actors in the sector have to take cognisance of; we shall look at three of them in this section of the Chapter.

4.1 Social Accountability 8000 (SA8000)

The SA8000 was issued by Social Accountability International (SAI)—a non-governmental organisation (NGO), multi-stakeholder entity with a mission to advance the integrity and rights of workers irrespective of the industry or sector

they work in around the world. The SAI notes on its website that its SA8000 which was launched in 1997 is the world's first auditable social certification standards for decent workplaces across all industrial sectors including those sectors that work in the supply chains. The standard is based on international conventions of the International Labour Organisation (ILO) and the United Nations (UN) and it covers nine important employment and work based issues under the following headings since many of the atrocities committed by irresponsible third world suppliers happen during the course of employment. SAI reviews the standard every five years to ensure its currency and usability.

- Child Labour—forbids any support and use of children in factories and other places of employment.
- Forced and Compulsory Labour—makes it glaringly clear that the practice of forced or compulsory labour should not be used in any industry anywhere in the world. Employees must choose out of their own freewill to want to work for an employer and freely choose to end the association when they want to.
- Health and Safety—this element provides some guide with regard to employers' responsibility for safe and healthy workplaces.
- Freedom of association and right to collective bargaining—it specifies that employees should freely choose to organise themselves into trade unions and collectively bargain with their employers for employment related issues such as pay, working conditions etc.
- Discrimination—this aspect of the guideline bans all forms of employment related discrimination.
- Disciplinary Practices—this part of the guide forbids any form of inhumane treatments of employees.
- Working Hours—this part of the standard specifically notes that the working hours per week should not exceed 48 h.
- Remuneration—this notes that a worker must be paid a 'living wage' which it defines as one which enables the worker to support half the basic needs of an average sized family based on prices in the locality of the worker.
- Management Systems—this requires top management of an entity to explain in writing in workers own language its policy for social accountability and labour conditions and display it in an easily viewable position in the company premises.

Basically, the nine areas covered in the standard are designed to ensure that employers of labour worldwide adopting the standard behave responsibly and comply with international standards on the employment of labour. Addressing all these nine points connotes that the entity has covered areas that could lead to unacceptable employment related practices. The entity will then be required to regularly bring in trained social auditors to inspect and certify whether or not the entity has satisfactorily dealt with all the nine issues without infringing or compromising the position of all its employees, that is simply what the social auditing entails. It is normal for the social auditors to write a report of their findings during the process of carrying out the exercise and suggest where things need to improve if they were to believe that should happen. If generally the auditors are

happy with the standards put in place by an organisation in the nine aforementioned areas they might issue a certificate to the entity for a specific period of time valid until the next social auditing of the entity's premises and activities as required by SA8000.

4.2 AA1000: The AA Series of Standards

The AA1000 is a series of standards issued by AccountAbility an organisation set up in 1995 which prides itself as providing innovative solutions to the most critical CSR and Sustainable Development challenges facing global corporate entities. The AccountAbility standards cover different areas of interest to modern stakeholders. They are designed to help organisations to become more accountable, transparent, responsible and sustainable covering the following issues which are of interest to the global community:

- AA1000(APS)—Accountability Principles Standard
- AA1000(AAS)—Accountability Assurance Standard
- AA1000(SES)—Stakeholder Engagement Standard

Again, like the SA8000 we considered above, the AA1000 series issued by AccountAbility organisation provides a set of guidelines to companies in three different areas of interest to CSR and society in general. The aim is that any corporate entity regardless of their sector that embeds the requirements of the three areas in its operational practices would come out of any social audit with a clean certificate of compliance with the ethos of corporate social responsibility advocate.

4.3 The Ethical Trading Initiative

The Ethical Trading Initiative (ETI) was established in 1998 with the objective “to improve the lives of workers in global supply chains”. This objective suggests that the ETI is about helping workers in the supply chains to carry out their operational functions under acceptable working conditions and environments. The ETI notes that to them, ethical trade means all employers of labour in the supply chain must ensure that they improve the working conditions and lives of all those people responsible for making the products they sell. The ETI operates under what it calls ‘a base code’ similar to the nine SA8000 areas discussed above. The ETI's nine areas are bullet pointed below:

- Employment must be freely chosen
- Freedom of association and the right to collective bargaining must be respected
- Working conditions must be safe and hygienic

- Child labour shall not be used
- Living wages must be paid to workers
- Hours of work must not be excessive
- No form of discrimination should be practiced
- Regular employment must be provided to workers
- No harsh or inhumane treatment is allowed

Source: ETI website

The ETI notes that the above are the minimum requirements not the maximum and adopters of the code are expected to do more in other areas relevant to employment in the supply chains sector not specifically mentioned nine rules as their base code.

In addition to the above mentioned ETI's base code, the organisation notes the following as its strategy for helping all its members in what it describes as its intention to focus activities on five critical areas

- Promoting good workplaces
- Payment of living wages
- Integrating ethics in to core business practices
- Tacking discrimination in the workplace
- Improve audit practice

Source: ETI website

4.4 Voluntary Sector Based Standards

In addition to general global standards available which deal with CSR and Sustainability issues, there are also some voluntary sector based codes and guidelines which companies operating in certain sectors have put together to direct their operations with regards to social, economic and environmental activities. One of such is the code of conduct put together by those companies working in the Electronic industry which they have called the "Electronic Industry Citizenship Coalition (EICC)" code of conduct. These industry based codes are offshoots of many of the international standards and guidelines available to corporate entities internationally, three of them we have mentioned in the preceding sections above. The EICC code of conduct covers five areas, namely:

- Labour
- Health & Safety
- Environment
- Ethics
- Management Systems

These are areas covered by three of the standards explored under international standards in social audits. A cursory look at the five areas covered by the EICC

codes demonstrates the specificity of their code to the electronic industry which can only improve their effectiveness in addressing some of the issues that could result in scandals and bad practices for companies operating in the sectors.

5 What Does a Social Auditing Entail?

It would have perhaps been unhelpful to readers who are unfamiliar with what social auditing is all about and what it entails if we left this section out of the chapter. Let us now describe what social auditing is and what it entails. Social auditing is “a process by which an entity accounts for its social performance to its stakeholders and seeks to improve its future social performance”. Originally it was wrongly assumed that only governmental organisations, charitable organisations and non-governmental organisations (NGOs) that should carry out social duties. CSR has put an end to that assumption since it has become glaringly clear to everyone that private sector organisations that are socially inactive and irresponsible are unlikely to survive beyond the immediate future. It is generally understood that their operational activities would make them create either intentionally or unintentionally some social and environmental problems which will affect everyone, they therefore need to account for what they are doing or going to do about these problems. This would involve them in undertaking their own social audit of all the events that impact on their stakeholders and the environment.

It is therefore expected that an organisation that is carrying out an audit of its social activities should do the following about its social data:

- Record
- Process
- Summarise
- Report

Going through the four stages mentioned above should allow everyone—stakeholders and the community to be aware of what is going on in the organisation with respect to this area of its activities. Any information derived from this method of accountability to all stakeholders, regardless of whether they are internal or external could be used in planning, control and decision-making. Not only that, it should also provide a sort of yardstick against which organisations either in the same or different sector could be compared. Managers of one organisation could use the information derived from the social report of another company to benchmark and plan their own future activities in the field.

Social auditing requires that an organisation will establish a department which will consist of a team of experts in the different areas to be socially audited. The number of people in the department and whether all that they will specialise in will mainly be social auditing will depend of many factors including the size and complexity of the organisation. For instance a small company venturing into social auditing might not have the resources to employ several people in the social

auditing department or make the few people in the department specialise solely on social issues. That a company or business has set up a social audit department should at least be a good start which should hopefully ensure that all those social problems we have been identified above as having been responsible for scandals and reputational damage to some big retailers in many Western countries would have been spotted well in advance and dealt with by management before resulting into what stakeholders and the media would find unpalatable. Another issue that a company embedding social auditing into its activities should not overlook is training and development of its social auditors. As a result of the dynamic nature of our world, things change all the time these social auditors must therefore continuously update their knowledge about the industry and sector they work in. This can only be good for the social auditor, their organisation and stakeholders. The field of social auditing is indeed a dynamic field.

6 Making the Current Social Auditing More Effective

We were unable to see any company's social auditing report on the internet having Google searched a number of companies we are aware source their merchandise from suppliers in third world countries. The absence of these reports on the internet might be for confidentiality reasons. We saw their CSR reports with pictures of workers in many third world countries at work that should perhaps be enough evidence that all is well in regard to social auditing, perhaps not. We were there unable to provide evidence of what companies are reporting in their social audit reports.

We will therefore devote the remainder of this section to actions we believe would improve the effectiveness of social auditing in both the supply chains and other sectors of an economy in order to help identify quickly areas where things are not working well in social auditing for corrective actions to be taken before things get out of hand.

- Sectorial Inspectors—It is proposed that despite all the actions being taken by operators in the supply chains sector with regard to social auditing, it is suggested that each sector or industry should set up a team or body of independent inspectors to police social responsibility activities for each sector. These inspectors should have bases in different continents of the world and be totally independent of companies in the sector or industry.
- Non-Governmental Organisations (NGOs)—Some NGOs have actively worked well over the years to police some of these issues and draw attention to inadequacies and bad practices which effective social auditing would have picked up. The chapter contends that more NGOs are still needed to help in identifying irresponsible practices.

- Legislation—Government regulations might also be a useful tool to ensure responsible practices in the field. Regulations will be necessary in both the advanced country of the diffuser and emerging country supplier.
- Awards for excellent practices—We suggest that some charitable organisation could spring up to award annual prizes to companies with excellent practices in the field of social auditing.

7 The Future of Social Auditing and Concluding Remarks

Let us at this stage of the chapter considers what the future holds for the social audit reporting aspect of an organisation's impact on society. Like many things in general, the future is never certain but there are a few things that this author personally believes will happen in the field of social auditing not just in the supply chains sector but in social auditing generally.

Many countries are going to have to reassess their stance in regard to CSR in general terms take the route of properly regulating social responsibility reporting. Bangladesh and Pakistan like their India neighbour will likely make CSR mandatory and social auditing mandatory, this is because of the May 2013 incident in Bangladesh noted about. Indonesia which has already gone the route of mandatory CSR would strengthen its legislation in the field of social auditing to cover any remaining loopholes.

In the developed world, companies would be required to mandatorily to follow international standards on social reporting similar to that which they follow in International Financial Accounting Reporting. This will be necessary to improve the reliability of the information they publish to the world at large in this area. Many trained specialists are going to set themselves up in practice to provide external social auditing duties to organisations. In terms of International standards on social reporting, a note of warning is necessary here. All the currently available international standards e.g. SA8000, AA1000 etc have need to be codified into one set of standards dealing with different areas of social responsibility reporting. To continue to have several standards dealing with the same or similar areas will cause confusion and connotes a wrong impression that the field needs not be taken seriously. Having said all this, I personal believe that the future looks promising for corporate social responsibility globally. The room to continue to research and innovate in the area is extensive and can only benefit the current and future generations of people wherever they are on planet Earth.

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