

Social Auditing in the Global Apparel Supply Chain: Challenges from an emerging economy perspective.

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In recent years, global sourcing of textile and apparel (T&A) from developing countries is topical. Although global trade has contributed to the growth of developing economies, the situation of low wages, worker exploitation, and sub-standard working conditions prevails (Terwindt & Saage-Maass, 2016). International retailers often receive criticism for gaps to monitor and manage social working conditions of their suppliers (Blewett & O’Keeffe, 2011). To address emerging concerns on social issues, these retailers began implementing voluntary code of conduct policies requiring suppliers to commit to minimum standards, conduct social audits, get accreditation, adopt public standards as a precondition to the commercial relationship (Sanders, Cope, & Pulsipher, 2018; Jaiswal & Brookshire, 2020). Consequently, social auditing, defined as a workplace assessment and a way of measuring, understanding, reporting, and ultimately improving an organization’s social and ethical performance (Hussain, 2015), emerged as a major retailer’s mandatory requirement to manage supplier’s social performance.

Due to multiple stakeholders’ involvement and differences in their organizational structures, discrepancies exist on audit processes and outcomes. Moreover, the conflicting interest influences the decision-making process of the individual stakeholders. Audit issues such as budget constraints, time pressure, management control, leadership style, national, and ethical culture, etc. were reported (Ringov & Zolo, 2007; Savenberg & Ohman, 2013; He *et al.*, 2017) while little has been done to understand dynamics and challenges of social audit process from multiple stakeholder’s perspective. This study investigates those challenges supplier’s cope with while implementing social audits. It is anticipated that an understanding of barriers will help buyers as well as suppliers to overcome challenges that weakens social audit performance.

To explore the complexities of social audits, the study involved semi-structured interviews. The study was conducted in Fall 2020. The participants from the Indian apparel industry were selected. The study included twelve apparel manufacturing and export houses (including three sub-contractors), three social auditors, and two buying agents. The data collected were transcribed and interpreted using the six-step thematic analysis technique developed by Braun & Clarke (2004).

The study utilized two research frameworks, *agency theory*, which states that one party (buyers in this study) delegates work to another party (the agent, Tier-1 suppliers), who performs the work (Eisenhardt, 1989); and *collective action theory* (Olson, 1965), which argues that any group of individuals attempting to provide a public good has difficulty doing so as individuals in a group have incentives to free-ride. Findings reveal three themes across all interviews reflecting on auditing barriers supplier’s face in their daily operations: (1) *Multi-tier supply chain structure*; (2) *Collective action problem*; and (3) *Behavioral uncertainty of supply chain members*. Figure 1 represents the conceptual model developed as an outcome of this research.

The first *multi-tier supply chain structure* theme suggested that violations of social standards are often caused by sub-contractors (sub-suppliers, Tier-2, and lower-level suppliers) than Tier-1 suppliers who work directly with international retailers. For instance, Social Auditor (SA03) expressed “*conflict between supplier and sub-contractors occur frequently as they interpret laws/code of conduct differently and care less about implementation*”. In addition, Apparel Export House (AE7): “*buyers do not directly interact with lower tier suppliers, while they rely on us to source from lower tier suppliers*”. Wilhelm, *et al.*, 2016 supported that lower tier suppliers are often less exposed to institutional pressures and have less interaction with buyers. Thus, the first theme suggested that violations occur mainly at sub-contractors’ level as they are being “indirectly” managed by international retailers.

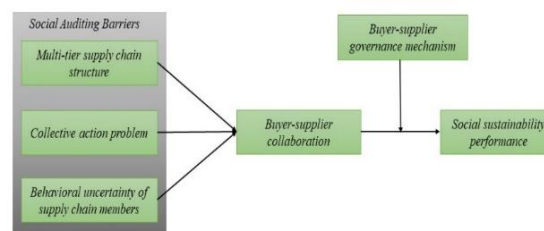


Figure 1: Barriers to Social auditing impacting suppliers' social performance

The next challenge is *the collective action problem*. Study showed that buyers impose their audit expectations without understanding the ground-level reality and procedures. For example, participant AE03 indicated “*even though we have adopted Social Labor and Convergence Program (SLCP), we conduct around 150 to 180 audits in our 45+ factories every year*” and AE05 recommended “*single certification*” to avoid audit fatigue. In addition, AE09: revealed that “*buyers/auditing agencies need to take a more practical view of the entire situation considering local culture*”. This theme revealed that cultural/language differences, practicality, diverse motivations, distribution of unequal resources, and non-uniformity of standards, presents barriers in social auditing. Hence, this highlights the need to view audit issues collectively than isolating them from the reality (Jaiswal & Venkatesh, 2020; Pelenc, 2015).

The third theme emerged is *behavioral uncertainty or opportunism of supply chain members*. The study attributes it to the supply chain preferences such as delivery, product quality, and other infrastructure limitations. For instance, Buying House/Agent (BA01) informed that “*subcontractors have less resources than Tier-1, and they try alternative ways to meet compliance requirements*”; AE01 expressed that “*there is excessive pressure to reduce cost, otherwise you lose contract*”; and social auditor (SA03) indicated “*motivations for compliance varies, most care about finances/business and profit, while few care about improving social performance*”. The third theme highlighted that differences in social performance regulatory systems, cost of social certifications, fear of losing business contracts, and difference in financial status of suppliers, leads to suppliers opportunistic behavior and presents challenges in managing suppliers’ social performance.

In conclusion, this research highlights the need of highly coordinated course of action to minimize the tension between individual (supplier) and collective (buyer, different tier suppliers, auditor, and buying agents) levels to improve social performance of suppliers in emerging economies. This study contributes to gain a deeper insight of social auditing complexities and identifying barriers of social audit. Future empirical research is recommended where this conceptual model can be utilized to test propositions through a quantitative survey.

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