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# CSR auditors at work

Practice and effects

Bachelor's essay in Management  
Authors: Kauser Kader 900531  
Michelle Qin 890709  
Supervisor: Björn Trägårdh

## Contributors

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Kauser Kader & Michelle Qin

# Abstract

**Bachelor thesis – Business administration: Management  
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**Authors: Kauser Kader and Michelle Qin  
Supervisor: Björn Trägårdh**

**Title: CSR auditors at work – practice and effects**

**Purpose:** To illustrate different perspectives of the usefulness and results of auditing.

**Delimitation:** We will narrow down our research to a few Western textile companies which use suppliers from South East Asia. These suppliers are entirely clothing manufacturers except for three. The suppliers are not owned by the western textile companies.

**Method:** Three interviews have been conducted with auditors from various companies, two clothing companies and one independent organization. We compared the respondent's answers to a report from MIT - Massachusetts Institute of Technology, which investigated the labour conditions in over 800 factories.

**Conclusion:** Our findings show that the auditors we interviewed and the researchers from Massachusetts Institute of Technology which conducted the report showed different opinions about the results concerning improved labour conditions derived from auditing. The auditors claimed that there were improvements related to their efforts but the researchers at MIT showed data which contradicted this.

**Keywords:** auditing, CSR, labour conditions, code of conduct, new institutional theory, NIKE

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# 1. INTRODUCTION

## 1.1 Problem Background

Over the past decade corporate social responsibility has become increasingly emphasized and today you can rarely find any companies that have not included CSR in their operations.

The pressure on companies that has been created primarily derives from society, governments, NGOs, as well as from you and me. Companies are to take more responsibility on issues concerning consumer welfare along with working stages within their production and their impact on the environment.

Your accomplishments should furthermore be presented in a report where different areas of CSR are accessible and where detailed descriptions on what has to be done and what has been done are included. Most of the time, to promote and to assure the sustainability of what the reports say the majority of companies uses certain auditors or controllers. These are hired particularly to oversee and examine each stage of the production line and make sure that things are in line with the international standards of CSR.

However, it has lately been showing that this auditing function is not always producing the intended transparency. While outsourcing has become increasingly widespread, auditing and CSR operations have become more difficult, since outsourcing often means moving one or several operations to a country where producing the good is cheaper and where workers' rights and environmental concerns may be less established (Lehman 1999).

It is for us as consumers impossible to know exactly what is going on in the factories far away in e g China. We can only read what is printed in the sustainability reports that companies provide to us. We may read through their code of conduct and their goals and ambitions in corporate social responsibility, but we cannot be one hundred percent sure that all the things that are said also have been done. Hence, we may want to ask the question if what happens practically is actually true to what is being reported.

## 1.2 Purpose and Questions

When it came to our attention during the course “*Internationellt företagande*” (International business) that for instance in the confection industry, companies in some cases intentionally reported misleading information to the auditors, we wanted to find out how this could be possible and hence, if auditors embellish the misleading information or seek “the truth”. The purpose of this study is to illustrate different perspectives of the usefulness and results of auditing. We want to examine the reports and find out if the auditors work differs from the company's reports to the public. Furthermore, the aim is to identify the dilemma that might occur for an auditor when it comes to making choices that maintains the organizations reputation, and making a choice that meets the high goals of CSR. This report seeks answers to the following questions:

How does a CSR auditor work?

How do companies report on CSR?

What differences are there between the practical work of the auditors and the reports that are produced?

Is there strong evidence that shows that companies’ code of conduct and monitoring improves workers conditions?

## 1.2 Delimitations

We will narrow down our research to a few Western textile companies which use suppliers from South East Asia. These suppliers are entirely clothing manufacturers except for three. The suppliers are not owned by the western textile companies.

## 1.3 Clarification and definition

### 1.3.1 Corporate Social Responsibility

The European Commission puts forward a new definition of CSR as “the responsibility of enterprises for their impacts on society. Respect for applicable legislation, and for collective agreements between social partners, is a prerequisite for meeting that responsibility. To fully meet their corporate social responsibility, enterprises should have in place a process to

integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of:

- Maximising the creation of shared value for their owners/shareholders and for their other stakeholders and society at large;
- Identifying, preventing and mitigating their possible adverse impacts.”

(European Commission, 2011:11)

Above is the latest definition of the meaning of CSR according to The European Commission. CSR may sometimes be hard to define and hard to measure. The idea of CSR started to evolve during the early 1920 when capitalism blossomed. During that period, the gap between rich and poor was constantly increasing and had become larger than ever. Alongside, the conflict between workers and their employers derived. (Li & Liu 2003)

Later on came the great depression in 1930 and that was the starting point when people began to take notice and developed awareness of CSR. Carroll summarizes the earliest definitions of CSR and suggests that production and economy should enhance and engage in total socio-economic-welfare (Carroll, 1999).

Regarding the concept of CSR there are many guidelines and standards in order to make it easier to understand the essence of CSR. Global Reporting Initiative's Sustainability Reporting Guidelines is one of them along with ISO 26000, OECD:s and UN report Global Compact. The Swedish researchers Löhman and Steinholtz defines a simplified explanation of CSR within three areas:

*Sustainability*; its primary goal is to make sure that the future generations necessities should not be jeopardized when companies are meeting today's needs.

*Corporate Accountability*; the company should be accountable for its reports on CSR and sustainability

*Corporate Governance*; the company should be governed with transparency and openness towards stakeholders which in the long run will enhance their accountability of CSR reporting. (Löhman & Steinholtz, 2004)

The most common and acknowledged definition of CSR is the "Pyramid of Corporate Social Responsibility" by Archie Carroll. The levels describes four different dimensions within CSR and Carroll recommends that the company are not to work through the dimensions level by level but to deal with all the dimensions at the same time. (Carroll & Buchholz, 2006)



#### **Model 1 Pyramid of Corporate Social responsibility by A. Carroll**

Beside the guidelines from Carroll and Buchholz there are other existing literature on how the issue of CSR should be reported and how important it is for a company's societal accountability and external communication. The existing guidelines are implementable but are constantly criticized by different groups of stakeholders and shareholders. Hence, they are continuously developed, improved and new models and frameworks on reporting are unceasingly renewed. Some leading examples at the moment are:

- EMAS (European, particularly German environmental management and audit)
- ISO 14001 (Internationally recognized environmental management certification)
- SA 8000 (Social Accountability International labor standard).
- AA1000 (International accountability assurance reporting standard).
- Copenhagen Charter (International standard involving stakeholder communications).
- GRI (Global Reporting Initiative) 2000 (International sustainability report).

(Reynolds & Yuthas, 2007)



### 1.3.2 Auditor

There are many misunderstandings concerning the role of the social auditor. “The role of the social auditor in an assurance engagement is similar to that of a financial auditor - to perform sufficient work to express an opinion on the reliability of the information contained in the report”. The social auditors assignment is not to evaluate the effectiveness of an organization’s corporate social responsibility or sustainability activities. This is another similarity to the financial auditor, which does not evaluate the adequacy of a company’s level of earnings. The social auditor’s assignment is to “verify data and gather evidence for all significant assertions in the report”. Furthermore the auditor makes recommendations to the organization that is being reviewed (Interpraxis).

## 2. METHODOLOGY

The method aims to give the reader an idea of how the essay has been achieved. This chapter also gives an estimation of the essays reliability.

### 2.1 Data Collection

We started this essay by conducting a broad article research in order to find articles within our area, CSR. This procedure helped us gain a deeper understanding of our focused area.

Our supervisor Björn Trägårdh, professor at Handelshögskolan Göteborg, who has great amount of knowledge on the subject organization and society questions, helped us find a suitable framework and literature.

When we searched for literature and articles we used the search engine *Summon supersök* available at [www.ub.gu.se](http://www.ub.gu.se). The literature provided us with a broad understanding of our framework, new institutionalism, and the articles provided a more scientific perspective.

#### 2.1.1 Primary data

Our primary data consists of three qualitative interviews and supplements via email. Our interviews have been conducted at one of the respondent's office and the others via telephone conferences (with the programme *Skype*). The reason for choosing to conduct interviews is due to different reasons: first, we could not find written material that showed what we were looking for and secondly interviews are a suitable way to help us understand how auditors work and their opinion concerning different matters.

Before conducting the interviews we prepared a template (see appendix A) with questions and follow-up questions. By preparing the questions beforehand, we decreased the chance of guiding the respondent's answers. After we had phrased our questions we let our supervisor examine them. We did this to ensure that the questions were suitable and not intimidating, since our respondents wanted to review a sample of the questions before agreeing on doing the interviews. Before every interview we decided who would conduct them. This was a precaution we took to ensure that the interviewer would not deliberately affect each interview.

### 2.1.2 Choosing respondents

As respondents we chose three auditors from different companies as a precaution since the same company most likely goes about in the same way during audits. The three auditors also have various degrees of experience and ethnicity, this we feel would help us see if conclusions could be made e.g. about how they work despite the various variables.

The respondents work for companies of different sizes. One of the respondents works for a global independent third party company, one works as a CSR executive in a medium sized clothing company and the third respondent does not work as an auditor any longer but used to work for one of the biggest clothing companies in Sweden.

### 2.1.3 Secondary data

The secondary data, which we have collected and used in our essay mainly consists of reliable reports: they come from universities, scientist, companies and independent organizations. We have supplemented our data with literature from management theory, which has been used, in our theoretical framework.

We have chosen new institutional theory as our theoretical framework to help us analyze the information, due to its ability to explain various variables within CSR such as similarities in templates and the wide spread use of auditors.

## 2.2 Reliability

Due to the fact that most of our empirical data has been collected through oral interviews, the information might be affected by our own opinion. Since we have only interviewed a limited number of respondents there might be a risk that a similar research with other auditors could discover results that somewhat deviates from ours.

Throughout this essay we have worked to ensure that the investigation would be conducted with high reliability. During all interviews - except for one - both authors of the essay have been present, and all - except for one interview - were recorded with a microphone. The interviews were transcribed at the latest two days after they were conducted. These are actions we have taken in order to make sure that the data correctly reflects the respondent's opinions.

## 2.3 Criticism

Our respondents requested to remain anonymous. There is an advantage with this. We believe that this allows them to answer from a personal opinion and not according to their company's point of view. Despite the fact that one of the respondents does not work for his former employer, he still did not dare to answer several questions. One that is "free" and one that is tied to a company answers differently. This may depend on how loyal they are to their company and this in turn affects their answers.

One of the interviews is less reliable compared to the others regarding own opinions and lack of courage or will to express himself. This might have to do with the fact that the respondents have different years of experiences. Also one of the auditors is no longer active and even though he has not worked as an auditor for approximately two years, questions can be raised concerning this information's reliability

Since we do not have two different audit reports which investigate the same factory, one could argue that the five audit reports which we have analyzed in our empirical section might contain some embellishments. One cannot ignore the possibility of workers being bribed by the management to give false information to the auditor.

## 2.4 Analyses of data

When we had decided which data would be included in the essay we divided it amongst the two of us. We then individually wrote drafts which we sent to each other for feedback, supplements and adjustments. After that we worked together in order to agree on content and expressions. In the analysis we sorted through our data in order to find what we consider was the most important on the basis of our questions. For instance when we reviewed the audit reports we chose to focus on a few questions, such as whether or not child labour or forced labour occurred.

### 3. THEORY

In this chapter we present our main framework, new institutional theory, along with previous researchers' studies on the matter of how CSR auditing works and if it does make a difference. Richard Locke, Fei Qin, and Alberto Brauses (2006) bring up the issue in their article "Does monitoring improve labor standards?" and mean that brands and suppliers sometimes hide labor violations rather than reporting them. The level of trustworthiness that the auditors possess and the effects of the monitoring methods are points that are questioned in this section.

In the last section we explain the use of Global Reporting Index, a framework used by many clothing companies around the world in their CSR operations. Since there are various alterations in reporting along with the methods used by auditors we finish this chapter by examining the differences between reporting in the East and the Western world.

#### 3.1 Auditing, CSR and New Institutional Theory

New institutional theory studies how society and organizational fields affect the individual organization. The theory maintains that organizations seek to be stable, for instance by mimicking each other.

Within organization theory, institutions are the result of human activities, which do not have to be intentional. Organization theorists mean that institutionalizing is a process through which social relationships and actions become taken for granted. In this perspective CSR and auditing can be seen as two areas which are becoming more and more institutionalized. The new institutional theory focuses on organizational structures and processes within an organizational field. Examples of organizational fields include universities or hospitals, which can be reviewed from an international level. The textile industry has also undergone a globalization and can be compared to an organizational field. This theory tries to understand why for example schools, governments and the textile industry are so homogeneous in their organizing. According to Eriksson-Zetterquist, Kalling and Styhre (2005, p. 270-284) to be able to answer this question you have to investigate what it is that makes these practices so powerful. Eriksson-Zetterquist, Kalling and Styhre (2005) explain that these practices seem to have a "taken for granted" quality which even reproduces structures that makes them self-enforcing.

### 3.1.1 Meyer and Rowan

To help us in explaining this theory we will refer to Meyer and Rowan's famous article *Institutionalized Organizations: Formal Structure as Myth and Ceremony* from 1977. According to Meyer and Rowan, organizing is about adapting to institutionalized rules rather than to coordinate and control different activities. Meyer and Rowan's approach from 1977 opposed all organizational theories' assumption that a rational formal structure is the most effective way to coordinate and control companies and public organizations. A rational formal structure constitutes the different plans on how to do things within an organization, for example: work plans and organization schedules. The plans show how companies fulfill goals and then how these goals are accomplished in a rational way. With these assumptions, coordination becomes a routine, where different rules and procedures which have been established are followed and activities are adjusted to what is being said in the formal structure. Meyer and Rowan means that this is what we think is going on in organizations.

Eriksson-Zetterquist, Kalling and Styhre (2005) mean that formal structure differs from what actually happens during weekdays. Formal structure can be a guide plan for how to ensure the quality of a company's products, but it does not necessarily mean that it is how companies actually work. Nils Brunsson (2003) explains that the difference between formal structure and what is actually being done in an organization is talk, decision making and action. Brunsson believes that what members of an organization say that they will do does not necessarily mean that it will lead to a decision, and if it leads to a decision the decision might not lead to action. Is this also valid for CSR and auditing? An interesting question is if CSR in different organizations have a formal structure that differs from its actions. We will debate this further in our discussion.

In formal organizations, plans and activities, which are actually executed, are not always coherent and the same thing. In organizations, rules are broken, decisions are left with unforeseen consequences. Sometimes the methods that are used to evaluate and inspect an organization are insufficient to aid the direction of the company. Meyer and Rowan points out that the reason to why this occurs is because of the norm of rationality in our modern society. Members of organizations believe that rationality exists and works and they often use it as a means to understand and explain our actions. This is what Meyer and Rowan describe as an institutionalized myth, which is seen as legitimate. If CSR and auditing only are tools which

can help to reinforce a company's legitimacy then they can be seen as institutionalized myths. This is according to Meyer and Rowan vital to all organizations.

Myths constitute parts of the formal structure and have an enormous influence on organizations. This influence will spread and eventually demand that the organizations in society embrace them.

Meyer and Rowan suggests a reason as to how safety measures and the environment has become a part of the formal structure:

*“As the issues of safety and environmental pollution arise, and as relevant professions and programs become institutionalized laws, union ideologies, and public opinion, organizations incorporate these programs and professions.”*

If organizations are to appear rational and legitimate they need to embrace the myths. This might be a possible explanation as to why CSR has become so profoundly popular during the last decades. As these myths become more and more popular and widespread, eventually new branches will develop. When the environment got regulated by law and the public became more aware of the need of sustainability, more branches developed within this area. Two examples of this is CSR auditors which are a relatively new profession and CSR departments within huge companies.

These myths provide organizations with legitimacy, stability and resources. Zetterquist et al. state that by institutionalizing the practices and procedures that are prevalent in the ambient society, the organization gains legitimacy and therefor is more likely to survive. Zetterquist et al. come to the conclusion that an organization's chance of survivability does not have to depend on its effectiveness e.g of producing clothes. It rather depends on how it uses the myths which can contribute with arguments for being an effective organization. Even though the myths contribute to the organizations survival it does not need to have a direct effect on how the organizations' members work. Organizations can sign up for example safety regulations on a ceremonial level but they will not affect the company but rather just have a symbolic meaning.

Brunsson and Olsen (1990) point out that the formal structure can be separated from what actually happens in practice. They mean that in practice you have two different organizational

structures; the formal structure can easily adapt when norms, laws and fashion changes. The other organizational structure becomes the one which coordinates the members. This setup makes both insiders (members) and outsiders (the public) think that everything is as it should be: That the employees and executives are fulfilling their assignments and following the organizational schedule of the formal structure – and this is why the organization can perform their daily routines separated from the institutionalized demands according to Zetterquist et al. CSR is part of the formal structure, but how does the members of the organizations execute these tasks?

Within new institutional theory, the concept “organizational fields” is used to define organizations surroundings. Changes that occur in the organizational field affect other organizations, not changes to individual organizations. Paul DiMaggio (1983 p. 3) defines organizational fields as: *“By organizational field, we mean those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products.”* This perspective moves the focus from the individual organization to the organizational field. The textile industry can be seen as such an organizational field and is thereby more dependent of other members in their field, than by changes in their own organization.

### 3.1.2 Institutional Isomorphism

The fact that all organizations belong to a field leads to the conclusion that they are starting to become more like each other. DiMaggio and Powell (1991) explain this phenomenon with the concept isomorphism. The authors distinguish three different types of isomorphism; coercive isomorphism, mimetic isomorphism and normative isomorphism.

**Coercive isomorphism** stems from political influence. Stronger organizations demand that weaker organizations within the organization field should adapt to formal and informal demands. The government is the strongest organization and affects the field through for example legislation. An example of coercive isomorphism is when the government demands that companies adjust to new safety measures for the benefit of the workers’ health.

**Mimetic isomorphism** is another type of institutional isomorphism. Meyer and Rowan describe when it is appropriate with mimetic isomorphism: *“Uncertainty is also a powerful*



*force that encourages imitation. When organizational technologies are poorly understood (March & Olsen 1976 see Meyer & Rowan 1977, p. 6), when goals are ambiguous, or when the environment creates symbolic uncertainty, organizations may model themselves on other organizations.*” Instead of trying to solve problems on their own, less successful companies can imitate successful companies. By solving their problems through this mimetic approach they might get as successful as the successful companies, and if they do not succeed with that they will still end up with the same legitimacy as the company they are mimicking. They can for instance mimic the more successful companies’ way of designing stores, their personnel policies or the implementation of CSR. A company can stand as a model to other companies without having any knowledge about it.

**Normative isomorphism** is the last form of isomorphism and stems mainly from professionalization. It is becoming more usual to hire personnel with a professional background. This is another way of making organizations look more alike since these individuals have common educational backgrounds and networks. Zetterquist et al. state that through these networks they maintain their knowledge and similarities and can also spread new thoughts within the group. These new thoughts will be realized in the organizations which they work for.

As we will show in the analysis it is mostly mimetic isomorphism which dominates in the textile industry.

Meyer and Rowan (1977) point out that institutional isomorphism results in organizations becoming more successful and also more likely to survive. One of the most important parts of isomorphism is that organizations develop a common language according to the authors. They continue and describe this as myths which give organizations well thought, rational and legitimate stories of what they are doing. Meyer and Rowan (1977 p. 349) say that:

*“...the myths of doctors, of accountants, or of the assembly line explain organizational activities. Thus, some can say that the engineers will solve a specific problem or that the secretaries will perform certain tasks, without knowing who these engineers or secretaries will be or exactly what they will do. Both the speaker and the listeners understand such statements to describe how certain responsibilities will be carried out.”*

By using a common vocabulary members gain some knowledge of what is actually happening in the organization. Organizations that do not follow institutional rules they are according to Meyer and Rowan: *“more vulnerable to claims that they are negligent, irrational, or unnecessary.”* Zetterquist et al. claims that isomorphism does not have to do with effectiveness, it instead rewards organizations that are similar to each other.

## 3.2 Previous Research

In the earlier days sweatshops existed all over the world. However, they started to become less and less common in the beginning of the 20th century. That was the time when workers started to take action and fight for their rights in order to achieve better conditions and more stable working agreements. (Esbenshade, 2004)

Trade union and working councils were established and sweatshops were shut down. Collective bargaining had become more common along with strikes, which emerged into social contracts being created that benefited the workers in terms of social welfare.

As the number of sweatshops and manufacturers in the western society started to decline as a result of the social contracts, companies started to look for areas and countries where the same kind of control and policies did not exist. Companies started to seek lower wages and non-unionized workers. Companies within the clothing industry often ended up in Asia and hence by 2001, approximately 70-80 percent of all clothes and garments sold in the US were made elsewhere. (Esbenshade, 2004)

Many companies have today started to realize that even if the new manufacturers are not placed in the home countries of the company, it is still important that good working conditions along with social responsibility are practiced there as well. Many scandals such as child-labor, bad working conditions, excessive working hours etc. have led to society and consumers demanding control and measurements of the accountability of western clothing companies. Therefore auditors are sent out, often by the company or third party auditors to the manufacturers often far away from the home country of the clothing company. Whether the auditor's reports comply with the code of conduct and the policies of the company are an issue that lately has been investigated by a number of different scholars.

Richard Locke, Fei Qin, and Alberto Brause bring up the issue in their article “Does monitoring improve labor standards?” (2006) They argue about the fact that brands and

suppliers may sometimes hide labor violations rather than reporting them and hence the authors ask the question about the level of trustworthiness the auditors possess and if this monitoring method at all has an effect on labor and its improvement. (Locke, Qin & Brause, 2006)

### 3.3 THE NIKE CASE

#### 3.3.1 The Reason

The article *Does Monitoring Improve Labor Standards? Lessons from Nike*, wants to “*explore whether or not monitoring for compliance with corporate codes of conduct - ... - actually leads to remediation in terms of improved working conditions and enforced labor rights*”. The authors of the article mean that globalization does not only hold mixed economic opportunities but also social disruption. Locke, Qin and Brause (2006) point out that today there are many debates discussing working conditions and labor rights in developing countries. On one hand FDI – foreign direct investment – “*have provided developing countries much-needed capital, employment, technology and access to international markets*”. On the other hand global corporations exploit and take advantage of developing countries’ “*low wages and weak social and environmental regulation to produce low cost goods at the expense of the local workers’ welfare*”. It is with this in mind they investigated this matter with the help of Nike’s data.

The authors used data based on factory audits of working conditions from over 800 suppliers in 51 countries. Their goal was to examine how effective these monitoring systems were and if monitoring improved labor conditions.

#### 3.3.2 Nike’s Audit Systems

The research that Locke et al (2006) have conducted derives on data from the international sportswear company Nike. In the following section we are going to explain how Nike has gathered their data and what sort of information it contains.

All potential suppliers of Nike must, beside from an initial new source approval process, undergo three different types of audits: SHAPE audit - a basic environmental safety and health audit, M-audit – a more in depth management and working conditions audit and periodic inspections by FLA - Fair Labor Association.

Nike's field-based production and sourcing staff primarily conducts the SHAPE audits. The purpose of this audit is *"to provide a very general picture of the factory's compliance with labor, environment, and safety and health standards"*.

Nike's most rigorous audit is the M-audits (management audit) and it is considered to be the core of Nike's compliance program. *"The M-Audit provides in-depth assessment of the labor-management practices and working conditions at the factories"*. This particular audit is performed by Nike's in-house compliance specialists and every inspection is announced beforehand. M-audits are rated with a numeric score ranging from 0-100 and represent a percentage against a perfect compliance score. If a factory scores 100 it means that it is in full compliance with Nike's code of conduct. This particular audit covers approximately 80 different variables such as; compensation, worker treatment and the factories hiring-process. Each variable is given a certain weight.

FLA performs unannounced independent inspections on approximately 5% of Nike suppliers every single year. FLA publishes all their reports on their web site, though covering each factories identity. According to Locke et al the FLA is *"a multi-stakeholder initiative that brings together companies, universities and NGOs and supervises independent monitors to perform unannounced inspections of supplier factories"*.

### 3.3.3 Data and methods

Nike provided the articles authors with data from all three described audits and in addition data from their Compliance Rating program. In 2001 Nike launched a grading system (A-D) of all their suppliers. The letter grading-system *"reflects all the information about a factory collected from the SHAPE inspections, M-Audits, FLA audits, and factory visits and is assigned by the local compliance manager"*. This compliance rating system provides Nike's sourcing and production managers with information and helps them in their decisions. Locke et al (2006) wrote that since the SHAPE audits vary in their quality and there are only a limited number of FLA audits, they focused their analyses on data derived from the M-audits and the Compliance Rating program.

### 3.3.4 Result

Locke et al (2006) come to the conclusion that despite Nike's efforts and investments over the last decade to improve working conditions among its suppliers, monitoring appears to produce

limited and perhaps only mixed results. During this decade the company has developed more comprehensive monitoring tools, hired a large number of internal compliance specialists, conducted hundreds and hundreds of factory audits and worked with external consultants and NGOs. Analyses of these efforts and Nike's data suggest that conditions in some of its suppliers have improved somewhat but in many of them the conditions have either remained the same or deteriorated. Locke et al (2006) say that *"monitoring alone is not producing the large and sustained improvements in workplace conditions that many had hoped it would"*. If you are interested in a more thorough analysis and understanding of their methodology, please read their article.

The article introduces another finding: the data showed that suppliers which were collaborating with Nike personnel on introducing new quality improvement programs and/or lean manufacturing system received higher scores on their M-audits.

*"As these particular suppliers improved the efficiency and quality of their own operations, they were better able to schedule their workload (hence, avoid excessive overtime) and increase their workers' wages (sharing the efficiencies gains). Moreover, having invested tremendously in training aimed at enabling their workers to effectively operate their new production and quality improvement programs, managers at these factories were wary of mistreating these highly skilled workers for fear that they would leave and work for a competitor. Likewise, workers who have been trained to "stop the line" when they see a possible defect and/or work in more autonomous production cells are also more likely to resist management abuses on the shop floor"*.

### 3.3.5 Monitoring the debate

According to Locke et al. companies try to stop bribery and the discrepancy between multinational companies and their suppliers in developing countries by introducing codes of conduct. By doing that, better "transparency" was reached.

However, the authors also mean that there are many critics to this issue that states the fact that the current way of monitoring are not designed *"to protect labor rights or improve working conditions but instead to limit the legal liability of global brands and prevent damage to their reputation."* (Locke, Qin & Brause, 2006)

The scandal of the Nike case where Ernst & Young were to audit the sport brands supplier and do a so-called “independent audit” led to speculations of the dilemma that these auditors face regarding bias reporting.

Even though a lot of critique against independent auditors exists the authors argue that in response many policies and laws were recognized and hence, greater transparency has been reached.

Another problem that Locke et al. bring up is the diversity of codes of conduct among companies in the clothing industry. *“Whereas some codes emphasize freedom of association and anti-discrimination policies, others instead focus on “living” (as opposed to minimum) wages, “excessive” work hours, and health and safety issues.”* Hence, this may cause problems where the supplier as well as consumers becomes confused. According to the authors there are factories who complain about the amounts of audits they have to endure. The suppliers are monitored multiple times a year on behalf of each of the global brands they work for.

Furthermore, the auditors also come from different backgrounds with different education and experience and hence, this may cause great diversification in the quality of the monitoring. An example of this are auditors with much professional training against recent “college graduates” with great passion for labor rights and have good knowledge in foreign languages. (Locke, Qin & Brause, 2006)

### 3.3.6 Explaining variations in monitoring processes

This section examines the collected data. The authors explain the variation of the scores that auditors give during their monitoring process.

**Factory characteristics** are one explanation. According to the authors the size of the plant, the type of goods that are produced and the ownership may all be factors that can divide factories and their labor conditions. They argue that factories that are owned by foreigners are better managed where the employees are better treated than if the company and its suppliers had the same nationality. Another argument is that the bigger the supplier, the factory is the more efforts are put on bureaucracy and hence they will have a more modern way of managing. (Locke, Qin & Brause, 2006)

**The relationships are a second explanation.** The relationship with Nike can be dependent

on the time that they have been contracting with them and whether or not the suppliers are seen as “strategic partners” and thus are expected to have a long-time-relationship with each other and therefore better labor standards are performed among this kind of suppliers. This also determines how often Nike auditors visit and interact with the supplier. If they are in a so-called “long-time-relationship” with Nike then they could expect to receive more visits.

**The country and industry effect** is also an explanation that the authors present. They mean that the auditors more often than not “have confidence in and abide by the rules of a given country”. This means that the divergence when it comes to auditing in many cases derives from the different laws and traditions in different countries.

### **The examination of the data**

The authors use the OLS Model to determine if the theories above do occur in the reality according to the data collected from the auditors of Nike.

$$\begin{aligned} M\text{-Audit} = & a_0 + a_1 \text{ Log total employees} + a_2 * \text{ownership} + a_3 * \text{number of visit by Nike} + \\ & a_4 * \text{strategic partnership} + a_5 * \text{duration of relationship with Nike} + a_6 * \text{percentage for} \\ & \text{Nike} + a_7 * \text{rule of law} + a_8 * \text{aprl} + a_9 * \text{ftwr} + \varepsilon \quad (1.1) \end{aligned}$$

Their conclusion first of all includes the fact that factories that are based in countries where they have better regulations and laws do have higher scores and hence better labor standards. The authors also see the connection of smaller factories treating their workers better than large factories since they are much easier to control than large facilities.

However, the authors mean that it is not always the case that foreign-owned factories treat their workers better or worse than factories with an owner with the same nationality.

The last statement that Locke et al argues for is that “*frequency of visit by production and sourcing staff (but not compliance managers) leads to greater trust and a better working relationship between the brand and its suppliers*” (Locke, Qin & Brause, 2006)

The authors Peter Kok, Ton van der Wiele, Richard McKenna and Alan Brown also strengthen the same argument in their article “A Corporate Social Responsibility Audit within a Quality Management Framework”. According to them developing a “healthy ethical

climate” within the organization and their suppliers is managed by training and good communication. The relation that companies have with their suppliers is essential when it comes to quality control. The authors use Porter’s (1980) competitive strategy model to illustrate how it all works. They argue that when supplier power is weak, the company hiring them is responsible for applying ethical rules and codes when it comes to specifications, price, wages etc. Hence, the authors mean that in order to apply these ethical rules the individuals, in this case the auditors have to act with ethical awareness in order to avoid any kind of abuse. The auditors, according to the authors are also affected by the ethical climate that exists within the company and by the already concrete rules (such as Code of Conduct). It may determine how they act in terms of monitoring. On the other hand their own personal moral and ethics, according to the authors are also meaningful aspects to corporate social responsibility and hence, in what way does it affect their behavior when dealing with CSR?

The different aspects of social responsibility play an important role when analyzing the auditing and these are presented by the authors in the table.

TABLE II  
Aspects of social responsibility

<i>External environment:</i>	
1. Social responsibility and new opportunities:	Contributing to solving or reducing social problems
2. Community relations:	Extent of openness and support to people around the organisation and to (local or national) government, stakeholder groups, action groups, churches, educational institutes, health care institutes, and others.
3. Consumer relations:	Extent of openness towards consumers; recognition of rights of consumers: safety, information, free choice, and to be listened.
4. Supplier relations:	Extent of openness towards suppliers; recognition of rights of suppliers: information, participation in design.
5. Natural environment (e.g. pollution and packaging) and future generations:	Execution of legal requirements, research into current and future technical and environmental developments, environmental issues regarding packaging (recycling). Respect for biodiversity and needs of future generations.
6. Shareholders relations:	Extent of openness regarding social effects of the activities of the organisation (especially with regard to investment decisions).
<i>Internal environment:</i>	
7. Physical environment:	Safety, health, ergonomic aspects, structure and culture.
8. Working conditions:	Demands in relation to recruitment, selection, promotion, part-time work, working on Sundays, medical aspects, retirement aspects.
9. Minorities/diversity:	Extent to which attention is given to minorities, diversity, multiculturalism.
10. Organisational structure and management style:	Empowerment, involvement.
11. Communication and transparency:	Top down and bottom up communication, use of information technology, review of information flows: relevance, timeliness, detail, accuracy.
12. Industrial relations:	Extent to which communication takes place about expectations, needs, values and norms in society.
13. Education and training:	Needs of employees, current and future knowledge and skills, review of training budget, personal development, quality assurance of training process, evaluation of training results.

**Table 1 Aspects of social responsibility by Kok, Peter., Van der Wiele, Ton., McKenna, Richard., & Brown Alan.(2001)**



## 3.4 Reporting

There are many ways companies can report their CSR work. The many ways of reporting differs among companies, depending on factors such as their size or they are from. One framework that can be used, and is being used by many textile companies around the world is one from The Global Reporting Initiative (GRI).

### 3.4.1 GRI

The Global Reporting Initiative, more known as GRI is a NGO that ”promotes economic sustainability”. The ecological footprint might be known to some and is one of many standards that GRI has created. Other reporting guidelines they provide are for instance [Corporate Social Responsibility](#) (CSR) Environmental Social Governance (ESG) reporting and [Triple Bottom Line](#) (TBL) reporting.

”The Global Reporting Initiative is the steward of the most widely used reporting framework for performance on human rights, labor, environmental, anti-corruption, and other corporate citizenship issues. The GRI framework is the most widely used standardized sustainability reporting framework in the world.” (GRI, 2011)

On their website it is also said that the goal of sustainable development is to “meet the needs of the present without compromising the ability of future generations to meet their own needs.”

In order to compare the differences between the CSR reports of companies the themes and guidelines from GRI may be used. These are for instance “Human rights”, “Environment” and “Community Impacts/Labor”.

### 3.4.2 Human rights

In ”A Resource Guide to Corporate Human Rights Reporting” by GRI companies can find guidelines on how to begin and develop a process of human rights issues in their functions. The guide is divided into 3 sections. The first section gives an overview of human rights. The second section describes what needs to be done in this area and the key challenges that might emerge. The third, and last section presents what can be done, guidelines on how to work practically with human rights reporting and what approach individual companies should have.

The first section includes the Universal Declaration of Human Rights (UDHR) and guidelines on how to implement these rights through the International Covenant on Civil and Political Rights (ICCPR) and the International Covenant on Economic, Social and Cultural Rights (ICESCR)

*“Civil and political rights encompass rights to enjoy physical and spiritual freedom, fair treatment, and to participate meaningfully in the political process. They include the right to life, freedom from torture, freedom from slavery, the right to privacy, freedom from arbitrary detention, the right to a fair trial, freedom of religion, freedom of expression and assembly, as well as the rights of minorities and freedom from discrimination.”- ICCPR*

Furthermore the ICESCR declares the rights of an employee, his or her rights to a fair wage, to be able to join a trade union and work under healthy working conditions.

### 3.4.3 Environment

The part about environmental standards in GRI starts by specifying a few indicators companies are suggested to consider.

*“The Aspects in the Environment Indicator set are structured to reflect the inputs, outputs, and modes of impact an organization has on the environment. Energy, water, and materials represent three standard types of inputs used by most organizations. These inputs result in outputs of environmental significance, which are captured under the Aspects of Emissions, Effluents, and Waste”*

### 3.4.4 Labor

When it comes to labor providing good working environment is essential and in addition to that good ventilation, temperature and other qualities in the working area should be satisfactory according to GRI.

*“Working hours are to be in line with local legal requirements, or ILO standards, whichever is higher, and fully agreed between employer and employee. Wages paid for regular working hours and overtime shall meet or exceed legal minimums and/or industry standards, whichever is higher.*

*All employees should have the right of freedom of association and the right to collective bargaining, or in areas where these rights are restricted by law all employees should have the*

*right to independently organizing themselves and to bargaining”(GRI, 2011)*

### 3.5 Differences in CSR Reporting Between Countries

There is clearly a difference when it comes to CSR reporting between the East and the West. However, there are also diverse levels of CSR reporting between America and Europe. According to Matten and Moon and their research study from 2007 there are different ways of communicating CSR to stakeholders and to the society.

“A comparative study of corporate self-presentations on the internet by Maignan and Ralston (2002) found that while 53% of US companies mention CSR explicitly on their websites only 29% of French and 25% of Dutch companies do the same.” (Matten and Moon, 2007)

Additionally the American companies are more explicit in their presentation of CSR. This means that the Americans tend to work more with policies and practical executions and in Europe, companies are more implicit in their presentation, meaning that there are certain limits when it comes to practical execution of CSR. According to Matten and Moon this has an historical background. Traditionally, companies in The US have not been much controlled by the government as the European companies have. This has led to American companies taking more responsibility of their actions, while in Europe the same kind of responsibility has been given to the government.

The difference in the financial system has also been affecting this issue. In USA the shareholders are and have always been the main capital source of American companies. In one way this has also been the case in Europe. However, the shareholders in Europe mostly banks or smaller closed groups of investors that do not require the same transparency as shareholders in USA. This might be the main difference since transparency is an essential part in CSR activity.

Internal differences also exist. In Europe 50 percent of all French companies have policies for staff training/education and in Germany the percentage is 100. The conclusion is that countries in Northern Europe are traditionally more involved in CSR activities than Southern Europe. (Matten and Moon, 2007)

Even if we can see some differences in CSR reporting in the West there are slightly bigger differences if a comparison between the East Asian countries and the West are made. For

instance China and the majority of developing countries the reporting lies between 2 and 7 percent.

## 4. EMPIRICAL MATERIAL

### 4.1 Description of Audit Reports

We have examined five auditing reports to try and gain some insight to what audit reports look like and how auditors work. After a thorough review of these reports we found both similarities and differences. We reviewed two reports investigating garment factories and three reports investigating various manufacturing companies e.g. one of them makes smoking sets.

All the reports start with the name of the client, which factory is being audited, contact details, who the auditor is and the audit date. The five reports contain different kinds of information depending on the client. Four of the audit reports focus primarily on production capacity, research and development, quality control and the production process. These reports also contain a social aspect – e.g. salaries, hygiene, safety and environment etc. - but are not the main focus of the reports. The fifth audit report is a social audit which investigates a garment factory's conditions concerning safety, health and hygiene, child labour and forced labour, associations, discrimination and coercion and summary of major facts and problems found etc.



Two of the five reports use a scoring system to help the client review the company's various departments. It lists different criteria consisting of the parts making up the report and then they weigh the results. Picture 1 is an example taken from the social audit report. The other report which also uses a scoring system uses both some social criteria but also aspects such as the factory's production process, machinery conditions and quality control.

SCORING SUMMARY				
CRITERIA	Actual Score	Score /10	WEIGHT (%)	WEIGHTED SCORE
SAFETY – Fire Equipment	9/30	3	5%	0.15
SAFETY – Toxic Products	N/A	N/A	10%	N/A
SAFETY – Machinery & heavy equipment	9/25	3.6	10%	0.36
SAFETY – Electrical Installation	37/40	9.25	5%	0.4625
HEALTH & HYGIENE – Medical Care	7/25	2.8	10%	0.28
HEALTH & HYGIENE – Commodities	21/30	7	5%	0.35
CHILD LABOUR	50/60	8.3	15%	1.245
EMPLOYEES INTERVIEW	0/45	0	15%	0
ASSOCIATION	6/10	0.6	5%	0.03
DISCRIMINATION	50/50	10	5%	0.5
COERCION	25/25	10	5%	0.5
WORKING HOURS & WAGES – Work time	5/20	2.5	5%	0.125
WORKING HOURS & WAGE – Wages	15/30	5	5%	0.25
<b>Theoretical Max</b>	390	10	100 %	10
<b>Final Score</b>	<b>234</b>	<b>6.2</b>	<b>90%</b>	<b>4.25/10</b>

**Picture 4.1 Scoring summary. Social audit report**

Despite the fact that one of the reports is a social audit and the others are audit reports investigating various industries, the reports resemble each other in many ways. After the general information about the factories or suppliers, the reports combine the different sections making up the report with many pictures. These pictures help to explain and show how things are and look like inside the company. For instance if the auditors are reporting about safety and finds a malfunctioning fire hose, they supplement the comments and score with a picture of it, e i the malfunctioning fire hose. Also all the reports are filled with pictures showing the exterior of the factories, offices, production lines, equipment, bathrooms, workers, canteens, dormitories and warehouses etc. Pictures are also shown as evidence of licenses, certificates, wage records and in some cases labour contracts and social insurance.

The other three reports which do not use scoring systems to review the factories instead use questionnaires or simple comments. For instance if the quality control records meet the requirements or no child labour is found a simple “OK” is written under the comment section. This way of reporting is similar to the audits containing a scoring system minus the score. View picture 2. The reports may use different ways to conduct the actual audit, i e through either questionnaires or questions, they still resemble each other in the way that they have a standardized template which they follow during their audits.

10	Canteen facility		OK  Clean and sanitary
11	Kitchen facility		OK  Clean and sanitary

**Picture 4.2 Example from report. Factory audit report #3**

Two of the reports, one of which concerns a garment factory, supplement their investigation with interviews. These two reports also compare the managements view to the workers view. Depending on how well the two answers correlate, the higher the score is. One of the reports does a more thorough review and even conducts a “visual check”.

Most of the auditors collect an organization structure chart from respective management, presenting the organization in the report. They also add a graph illustrating the work flow, from input to output, and combine it with photos of workers working at the different stages.

At the end of every report is a summary containing the biggest problems found and the social audit report also suggest solutions to every problem found. The social audit report also makes a conclusion which states whether or not the factory is adequate or not.

Even though the audit reports which we have reviewed were conducted in two different industries there were only minor differences and sometimes only in the same industry. The differences depend more on who the client is and what type of audit they want done. A simple factory audit contains general information about the company, photos of the building & equipment, reviews key documents and basic check on the factories social policy. There are also more extensive factory audits which takes longer to conduct but are also more thorough,

and contain information about e.g. discrimination, working hours, wages and compensation, quality control, and other detailed facts concerning the production.

## 4.2 Interview A – “Jane”

Corporate Social Responsibility is a sensitive subject for many companies, especially in the clothing and textile industry. It is not easy for researchers and particularly media to get much information of what has not already been reported to the society by the companies. At points where companies are not perfect most of them would like to keep internally. It is the same with all human beings, we all try to cover up our flaws, but once they leak out it might cause concerns.

Our first interview was with the head of CSR of company A. In a very relaxed atmosphere she started to tell us about how it all started, why she had ended up in the position she is currently holding. After she received a master's degree in international business, she moved back to her hometown and not long after this she ended up as a buyer within the textile industry. The relation between the buyer and the supplier has always been one of her interests. During this period CSR became more and more important and when she saw an opportunity to be able to work even closer to the suppliers she took it. She explains that even though she might not know much about fashion, she is very familiar when it comes to building up strong relations to the suppliers. She has been the company's CSR executive for approximately three years now.

The company was founded in the late 90s and ever since it started CSR has been one of the keynotes. During the interview she tells us that one of the company mottos can be translated from Swedish to English, it follows: “we should stand on the good side” (vi ska stå på de godas sida). 2008 was a milestone for the company and their CSR activity. During that year they joined BSCI and dropped their old code of conduct for a new more structured code. In total they are about three persons in the company that are working fulltime with CSR.

The company is members of BSCI – Business Social Compliance Initiative- and through this organization they are obliged to use their auditors. Company A uses third party auditors according to the BSCI conditions. However, they also send out people from their own company to check on suppliers. According to her company A began with auditing, because of



both internal and external pressure. Internally the company wanted to improve the suppliers, improve the relations between them and help them evolve. External pressure comes from customers and “green groups”, such as Fair Trade Center and Clean Clothes. The factories they visit are mostly the biggest ones.

The company’s own audit controls usually only take place in one particular geographical area. It could be a province in China or just one city where they have several suppliers. These visits are always arranged before departure, i.e. the visits are planned after what type of visit they are; depending on whether it is a first time visit or they have experienced trouble with the supplier before they go about in different ways. The supplier knows that they are coming and may prepare for a warmer welcome. She also explains that if she were to do an unannounced control, the people that she had the intention to meet might not be there. Another reason for announcing her arrival is so that the management can prepare and hire an interpreter, since the management rarely speaks English. The goal for such a visit is mainly, she says to explain who they are (Company A), what they represent as well as why they have joined BSCI and what BSCI do. Other companies’ auditor reports are also interesting during these kinds of visits. Sometimes they are allowed to show Company A other reports made by auditors that are not part of BSCI. She points out on the other hand, that it is important that the suppliers may have time to improve and not be audited and controlled all the time.

Other areas which they look at during the visits are the working environment, workers’ wages, security and documents, for example to check on overtime. Due to language difficulties it is sometimes hard for her to investigate things thoroughly. If problems are discovered, the problems are later reported to BSCI which gives the factory a certain amount of time to improve the inadequate area. One of the difficulties during audits is, according to her, to be able to tell if an employee is telling the truth or not about his or her wage or working environment.

The most common problem she encounters during the audits is overtime. She explains that in some cases workers in China work more days or hours in a row than is allowed because workers want to get home quicker. Her opinion is that this is bad but it has to do with their culture. She asks herself what they, the company, can do for such behavior. She does not believe that Company A can do much about it but BSCI may discuss the issue in their so called “round tables” where they meet with work councils, suppliers and agencies. Constantly

she explains that they are very small and are not able to affect their suppliers on this kind of issue. When improvements are made, they are not always reported either, which is important to point out according to her.

So called BSCI audits are made by companies that have been accredited by BSCI and the clothing company itself is not able to control them or approach them directly. However, she explains that these are all certificated auditors and the difference between BSCI and other similar groups is rather small. BSCI has also grown in the last couple of years. When small companies around the world become more pressured internally and externally on the issue of CSR many have chosen to join BSCI in order to receive more legitimacy in their CSR activities.

The process, she explains is constructed as a three year cycle. 75% of the suppliers fail their first time audits but BSCI continuously do follow-up audits. Once the supplier are able to live up to the code of conduct it will not be audited or controlled, three years from that date. The reports that are made by the auditors hired by BSCI are not made open to the public. And we asked her if their reports always are trustworthy. The answer we got is that BSCI sometimes surveillance their auditors to make sure that they act right and follow protocol correctly, in order to increase their credibility. But company A have also been criticized for the fact that BSCI is a more business oriented organization, and is not cooperating a lot with trade unions which many “green groups” would like to see. But she still points out that it is the relations that they build up that counts and the trust that are created between the auditors and the suppliers.

Furthermore, we asked her the question if CSR was an important factor when choosing a supplier and how important CSR is in that case. The answer we got was that it is not crucial; it does not determine the choice. But she can see connections between factories with many customers and good CSR standards.

The final question we asked her was if she has examples of improvements from her auditing as well as joining BSCI. She has seen improvements and is certain that more have been made, but it is difficult for her to point out what has led to which improvements. Examples of improvements include no more blocked exits and cleaner bathrooms.

### 4.3 Interview B – “David”

Our second interview is with a former auditor of one of the biggest clothing companies in Sweden. The company, company B, which he worked for owns many different labels and has stores all over the world. Even though he no longer works for the company he cannot answer all of our questions because of legal obligations. He wants to be anonymous and we will refer to him as David. Unlike the others David did not have much experience before working with auditing. He worked as an auditor in Shanghai for about two years.

David will on occasion throughout this interview refer to his company’s sustainability report, CSR report and code of conduct instead of answering them himself. According to the company’s report they launched a code of conduct, because they wanted to act responsibly towards the suppliers and their employees since they contributed to the company’s success. Company B:s Code of Conduct is aimed to help their suppliers. The Code of Conduct is from 1997 and is based on the conventions of ILO - International Labour Organization- and on the manufacturing countries national laws. Even though only a few suppliers satisfy every requirement written in the Code of Conduct, all suppliers must fulfill a number of minimum requirements otherwise they cannot work with the company. Furthermore these codes are identified with the help of the indicators of GRI in order to give a clear overview of the problems and what has been done to overcome them.

David would not or could not say why the company had started with auditing and instead referred us to the company’s code of conduct. In the company’s code of conduct it does not reveal why they started with auditing, but it specified the focus of the audits and that is to examine the working conditions of the workers and their rights.

The company has internal auditors that monitor the suppliers which they work with. The company’s internal auditing workforce consists of approximately 90 employees divided in 15 production offices around the world. Since the company is members of the FLA – Fair Labor Association - and are accredited members they supplement their auditing with independent audits led by the FLA. They use the results from the independent audits to ensure the quality of their own internal monitoring program.

David says that the auditors work in accordance with FAP – Full Audit Programme, which is

a tool that helps them monitor their supplier's compliance with their Code of Conduct. If needed, they supplement their head audits with follow up audits - FUP.

During a head audit the audit process involves an inspection of management, interviews with the workers, the factory site, examining a selection of timesheets, wage records and employment contracts in order to determine if this is consistent with what was reported in the FAP questionnaire. A head audit might take up to six days and according to David the questionnaire, which is the auditor's main tool during the audit process, consists of around 90 questions. David says that during the interview all you have to do is follow the questionnaire, write down the results and use this in the report, it is not that difficult he says. The auditors discuss the end results with the factory management and if corrections are needed they draft a correction plan. The purpose of follow-up audits is to see if the remarks have been corrected.

The auditors make the final decision whether or not a supplier or factory fulfill the minimum requirements and are approved or not. The minimum requirements for example consists of: no forced labour, no child labour, no detectable breach of freedom of association, minimum wages, safe environment, no use of banned chemicals, cleansing of waste water (for factories with wet processes), full transparency and access to all relevant factory areas.

David says that when he worked there, a week consisted of: reporting to the others at the office about last week, sharing experiences, attending workshops and having meetings with suppliers etc. The rest of the week he conducted FAP or FUP. A FAP usually takes 1-1,5 days and a FUP 0,5-1 days.

David did not answer a question concerning improvements from auditing. He did refer us to the company's CSR report which contains improvements, but it was insufficient information to be able to tell whether or not it was directly correlated with auditing. When David is asked what the most common problems are, he replies that he does not have a good answer.

David did not answer our question concerning how the company reports and which measures are used when something deviates from their code of conduct.

When we ask David if he feels like he is making a difference, he says definitely and emphasizes that this is his own opinion. David stresses that one has to keep in mind that this

is a long and slow process. It is not possible to achieve results over night. One of the cornerstones in all CSR operations is trust and transparency and that takes time to build.

Due to the extensive reporting of the company's activities, David thinks that the reports are mainly aimed for the public and not for internal usage. The company wants to show that it takes responsibility.

#### 4.4 Interview C – “Michael”

Our third interview was with a third party auditor which works in many different locations around the world. The auditor is based in London, but mostly travels since most of the factories which need to be examined are spread over multiple continents. He is an experienced social auditor and has visited over 450 manufacturing facilities. The auditor wishes to be anonymous and therefore we will refer to him by a fake name, Michael.

According to Michael his company uses different kinds of auditors, but like many organizations they follow the Global Social Compliance Program's “Auditor Competency” requirements when it comes to auditor training and “level” management. In the programme auditors are mostly divided into those who can lead an audit, or do an audit by themselves, meaning that they do not need extra supervision, “Lead” auditors and auditors that are not senior enough to lead an audit, “Team Auditors”. Company A is members of BSCI, which has strict requirements for who can do an audit. They need to use auditors which are qualified according to the SA8000 Standard.

Michael tells us about how a regular day at work looks like. After having arranged transportation to the site he gathers the management at the factory and notifies the management what will need to be done as part of the audit. The auditor explains the integrity policy to the factory management, clarifying “*that the management should not attempt to bribe the auditors or give them a free lunch, samples or cover their transportation expenses.*”

After the precautionary methods he continues his work and reviews different kinds of documentation. He examines payrolls, time records, labour contracts and if something where to be unclear he asks for clarification. After reviewing the documentation he conducts private interviews with the employees and asks them about their wages, working hours, etc. Michael

says that another part of the audit is to do a health and safety tour of the facilities; production buildings, warehouses, dormitories, canteens etc.

At the end of the audit he conducts a closing meeting with the management, during which one explains if any and if so which areas need improvement. The management is asked to sign the Corrective Action Plan, or Recap, which is a written document that explains all areas that need improvement. After the signing of the document the audit is over. Not every day consists of visiting factories. Other days consist of writing an audit report from the audits which have been conducted and sending them to the company for internal review and clarification. When all these procedures have been completed the report can be issued to the client.

We asked Michael if he had any examples of where auditing had improved CSR, he replied: *“There are two main ways that I can see”*. He points out that this is his personal opinion and not an official view by means – that auditing has helped with improving the working conditions in factories. The first example concerns factories: the workers in factories are healthier and the working environments are safer than before. He points out that this is not something you can falsify. He says that *“by having lots of audits, management now know that they need to keep exits unlocked, that they need to keep aisles unblocked, that they need to have first aid kits, that they need to have exit signs installed over exits.”* He recalls how it were when he started auditing in 2003 and remembers that many factories did not even know about the most basic of requirements, this is how he knows it has changed. The second example has to do with improvements in China. Michael explains that factories in China usually, after having one audit, *“teach employees to lie to the auditors to cover up real issues.”* He mentions that

*“if employees are not paid any extra pay for working overtime on a Saturday or Sunday, the factory may tell the workers to lie to the auditors during an interview to say that they receive more pay than they actually do. This is because the law requires that workers are paid more for working on a rest day. However, the factory actually usually only pays the same wage for overtime as for regular time, or maybe a little bit more. In cases like this, it is often the case that the workers learn that the law actually is there to protect them, and they are very aware of what they **should be getting** because the management keeps telling them to tell the auditors that they are getting this.”*

Michaels says that the end result is that they now know what the law requires so they themselves start asking for it.

The London based auditor explains that auditing is important, regardless of what some might say about “teaching” before “testing”, i.e. notifying the factory about the requirements before going to check on their actual situation. If you do not conduct audits you will not find out what is going on at a factory. Michael emphasizes that this is a bad thing from a risk perspective, because factories might be exposing their employees to poor health and safety practices, or they may be using child labour, and he points out that without auditing you would not be able to know what the situation is at factories. If it comes to the auditor’s attention during a visit that they are performing well and complying with the local law, *“then you can be confident in your cooperation with them and then spend the money and time you would have spent working on helping them to improve somewhere else where it might be more needed.”*

Michael faces many difficult situations as an auditor. Factories attempt to hide the truth by making fake timecards, train employees to lie to auditors during interviews, hide documents or by making fake documents. Michaels company trains their auditors to be able to look for clues that this is occurring and try and uncover the real situation. Although this is a problem for auditors, Michael thinks that it makes his work more interesting since *“you have to think like a detective in order to figure out the puzzle.”*

When Michael is asked if he feels like he is making a difference for CSR he replies *“yes, without a doubt”*. He explains that if retailers and brands did not start to audit their supply chains, the improvements that have happened over the last 10-15 years in China and in other countries would not have happened.

## 4.5 Summary of the Interviews

We will now summarize the three interviews we have conducted to help you, the reader, in order for you to get a clearer view of what has been said. Despite the fact that we have interviewed three different people with various backgrounds, positions and origin, there are similarities to be found in their answers.

Company A explained that the reason for starting to conduct audits comes from wanting to improve the working conditions of their suppliers, improving their relations with them and wanting them to evolve. Other reasons for starting with audits came from both internal and external pressures. We could not get an answer from Company H&M to why they started with audits but their code of conduct stated that the focus of the audits were the workers and their rights.

Company B uses internal auditors because *“By doing audits ourselves we immediately get a comprehensive picture of how well our suppliers comply with our social and environmental requirements.”* The company also supplements their internal auditing workforce with FLA which is a non-profit organization, to ensure the quality of their internal monitoring programme. The other company mainly uses a third party auditing firm but on occasion conducts audits on its own, mostly to bigger factories according to Jane. Michael’s company mostly uses auditors that can lead or do an audit by themselves.

The two auditors and the CSR executive work in similar ways during an inspection. They might not use a questionnaire all of them, but they still speak with the management of the factories, examine different sorts of documentation, interview the workers and check on the safety situation from a workers perspective. Jane does not interview workers due to the fact that she does not speak the language, but BSCI does. After the audit is over and there are some remarks which need to be attained they all conduct a follow-up audit, after a period. The people we interviewed said the same thing about discrepancies from the code of conduct, if the minimum requirements are not achieved or the code of conduct broken, they will have the opportunity to repair the damages and then there will be a follow-up audit to make sure that it has been solved.

Jane and Michael both stated that they announce their arrivals. They had different reasons for doing that; Jane said that for example if the factory’s management does not know they are coming they might not be there and assist them in the auditing and provide her with certain information, Michael meant that by notifying the management about the requirements he will save time and help to improve those factories that need it the most. We do not know how Company B does since David did not answer the question.



When we asked Michael, David and Jane if they felt like they were doing a difference, they all answered yes and were convinced of it. They also made it clear that this is their own opinions. Michael said that he can see improvements in mainly two ways; the first is that the working conditions have improved in factories and that the workers are healthier. The other improvement he explained to us was that the workers in China are getting more educated with the laws explaining their rights to e g getting better paid when working overtime. Jane explained that she has also seen improvements and are certain that more has been accomplished, but feels that it is hard to explain which actions has led to which improvements.

When the auditors were asked of difficult situations that arise during audits, Michael and Jane both thought of a similar problem, e i being able to tell whether or not they are given correct information. Michael said that factories attempt to hide the truth by e g falsifying documents or bribe employees to lie during interviews etc.

In this chapter we have examined five auditing reports and presented our three interviews. The audit reports gives a brief insight into what auditors investigate during an audit, what the paying companies are interested in during audits and how auditors rate various sections in the audit reports. Our respondents revealed the difficulties associated with their line of work, what a typical day at work looks like and their personal opinions of improvements related to auditing.

## 5. ANALYSIS

Our goal with this report is to gain knowledge about how auditors work and if they have a chance of spotting false information or if they just trust every management's word. If they find something that violates a company's code of conduct do they include this in the reports or not? We want to find out: how CSR auditors work, how companies report on CSR, if any differences can be found in CSR reports produced by the auditors compared to their actual work during the controls.

When it first came to the consumer's attention that the working conditions at the factories producing the products they purchase were poor in many ways, there were strong reactions and companies responded by implementing CSR. Through the work with audits and codes of conduct it has become more or less institutionalized. It means that we, the consumers, sometimes take it for granted that the companies work sincerely with these questions.

### 5.1 Our Findings on CSR Auditors Work

We have conducted three interviews with CSR auditors and reviewed five audit reports to help us understand how a CSR audit actually works. Even though the auditors have different backgrounds, work for different companies and have different years of experience, we can see that their methods seem to be similar since the answers are so alike. We have come to comparable assumptions concerning the reports that were conducted by different audit companies, that were demanded by different clients and had various focuses. However, we could still find multiple differences when cross-examining them.

We have found that audits can be led by a single person or by a team. This depends on what type of organization the client is part of. Organizations, which conduct audits, have different requirements concerning who is qualified to lead audits. This means that if a clothing company e.g. Company A is a member of the organization, BSCI, they have to follow their requirements to determine if they are qualified or not.

According to our data, a regular day at work for an auditor consists of: The person in charge of the audit notifies the management of their arrival. Upon arrival the factory's management is

gathered and briefed about who they – the auditor and client- are, the purpose and what needs to be done. We received different answers why to announce their arrival. According to the auditors this is not to hide problems at the factories, but rather to make sure that right personnel is on site – e g the management team, or to make the visits faster so that time is spent where it is needed the most, e g where the auditors can help to improve the conditions in the factories.

In order to make sure that they received correct information from the factory management team, the auditors compared information from workers to key documents, e g concerning safety issues or wages. In one report the auditors compared the answers they received from the management team with the workers and did a “visual check”. To try to avoid bribed workers the auditors notified the factory management about the integrity policy or picked random workers during the tour of the factory.

All auditors follow either a questionnaire or a template during their audits, which according to David is their main tool. These questionnaires or templates contain all the necessary items and questions that need to be investigated and asked. They also take photos to use in the reports, to prove their findings or simply to show what the equipment or environment looks like. After the auditors have examined key documents such as payrolls, time records, licenses and labour contracts, they take a tour of the factory. During this tour they examine the environment using their template and take notes of their findings which they include in their report.

Our data suggests that all audits end with some sort of closing meeting with the management, during which they show problems which needs to be taken care of. The management needs to sign a document that explains that they are aware of the problems and that they will solve them. The purpose of follow-up audits is to see if these problems have been dealt with. The other days of the week which are not spent conducting audits, are spent writing reports, sharing experiences, attending workshops and having meetings with suppliers.

To build a good relationship with the suppliers is a matter constantly mentioned in interview A as well in Interview B where the auditor mean that one of the cornerstones in all CSR operations are trust and transparency and that takes time to build, and hence, a good relationship is essential. Furthermore this issue is also brought up in the article by Locke et al.

that point out the importance of building up a good relationship with the supplier in the Nike case in order to improve CSR and keep a long time relationship and become strategic partners.

Auditing can be seen as a way to create the institutionalized myth which provides the companies with legitimacy, stability and resources. Zetterquist et al. came to the conclusion that an organizations chance of survivability depends on how well it uses myths which can contribute with arguments for being an effective organization instead of depending on its production. The companies want to appear as ethically and sustainably conscious and succeed by institutionalizing the practices and procedures that are predominant in the organizational field.

Our findings between how companies conduct audits, what the reports contain and how they are designed can be explained by mimetic isomorphism. Meyer and Rowan (1977) explained that less successful companies can imitate successful companies in order to gain their success otherwise at least their legitimacy. We mean that this largely explains why the audits are so similar.

## 5.2 Creating Reports

The many ways of reporting on CSR differs among companies. In our research studies we have acknowledged this fact and recognized the diverse methods.

Company A is as mentioned in the interview a member of BSCI (Business Social Compliance Initiative). This means that they indirectly use the auditors of BSCI and their reports without creating any greater reports themselves. However, they do support BSCI from time to time, by sending out their own personnel to their suppliers. As a consumer we may look at the reports and guidelines from BSCI in order to create a better understanding of the CSR work of company A. This means that if company A were to use suppliers that are not approved by BSCI or fail on the codes of BSCI, company A would no longer be a member of BSCI.

Company B has a slightly different approach, much because of the size of the company. Instead of depending so much on third party auditors and their reports they have their own auditors. Their auditors primarily use the framework of GRI when reporting their work. By identifying the different indicators they provide to the public a clear report that includes the

GRI index. In this report the problems are mentioned along with what has been done within the process of improvement.

According to Locke et al. the diversity of codes of conduct among companies in the clothing industry may sometimes be a problem. We mean this is due to difficulties to compare reports and find what needs to be adjusted.

These reports can also, according to Matten and Moon, be different depending on where the auditing company comes from. Even if the report is from a European auditing company it can also be quite different depending on which country their company stems from. According to Matten and Moon Northern Europe are traditionally more involved in CSR activities than Southern Europe and hence, the reports that company A uses might not be consistent with their own CSR approach. (Matten and Moon, 2007)

### 5.3 Practical Controls and Producing Reports

Code of conduct exists among all the companies that we have examined, although in different size and form. According to Locke et al. companies introduced these codes in order to stop bribery and the discrepancy between multinational companies and their suppliers in developing countries. Michael particularly brings up this fact in the interview where he explains “that the management should not attempt to bribe the auditors or give them a free lunch, samples or cover their transportation expenses.”

Auditor of company B also brings up the issue and points out that *“It is not possible to achieve results over night. One of the cornerstones in all CSR operations is trust and transparency and that takes time to build.”*

Company A does not bring up this issue at any time during the interview. However, they do mention that when the supplier knows that they are coming, they may prepare for a warmer welcome.

On the issue of what differences there are between the practical work of the auditors and the reports that are produced it is mentioned in interview A that because of the cultural differences, workers in some factories may work overtime. This is however not reported, neither by the company or BSCI. According to BSCI overtime is not allowed and the amounts of time workers in the Chinese factories stay at work are exceeding the time limit.

Furthermore this issue may be connected to what Locke et al. writes about “the country and industry effect”. They mean that the auditors more often than not “have confidence in and abide by the rules of a given country” and hence the divergence when it comes to auditing in many cases derives from the different laws and traditions in different countries.

In interview C the auditor indicates that a very common problem while auditing and monitoring is that suppliers may sometimes

*“make fake timecards, train the employees to lie to auditors during interviews, hide documents or make fake documents. Factories in China usually – after having one audit – teach employees to lie to the auditors to cover up real issues. For instance, if employees are not paid any extra pay for working overtime on a Saturday or Sunday, the factory may tell the workers to lie to the auditors during an interview to say that they receive more pay than they actually do”.*

In comparison to Company A this auditor mean that they try to investigate this issue and act like detectives while Company A accepts the problem and mean that it is an issue of cultural difference.

The ethical aspect of the person working within CSR is another issue. In both interview A and interview B the persons being interviewed explain that the work of auditors are not problem free and that all codes are not always being followed thoroughly. In interview A Jane explains that it sometimes is hard to know whether a factory worker is telling the truth about his or her wage or working environment. The case is therefore left to BSCI to examine and investigate. The company itself does not act upon the issue. However, on this particular matter Locke et al argues that the company hiring the supplier is also responsible for applying ethical rules and the auditors have to act with ethical awareness in order to avoid any kind of abuse.

The final question that is asked to all the persons that we interviewed were if they felt like they made a difference, if they had improved the working conditions for the workers of their suppliers. In the long run they all believe that they do make a difference. Even if their work is often affected and pressured by external power such as fair trade unions etc. at least company A points out that they stand on the good side. And that this should be a spirit that is spread out among the company. This “good spirit”-thinking do cohere with what Kok et al writes about in their article regarding the auditors, that are affected by the ethical climate that exists within the company and by the already concrete rules (such as Code of Conduct).

## 5.4 A Comparison of the Various Results of Auditing

In our theory we presented an article from 2006 – Does monitoring improve labor standards? Lessons from Nike - which was conducted by professors from highly renowned universities, such as Harvard and MIT. Locke et al (2006) wanted to find out whether monitoring for compliance with corporate codes of conduct, achieved improved working conditions and labor rights. They showed that despite substantial efforts and investments by Nike to improve working conditions among its suppliers, monitoring alone only presents limited results. This articles research showed that if monitoring is to improve working conditions, it has to be combined with measures which focus on the root causes of poor working conditions, primarily by educating suppliers to better schedule their work and to improve quality and efficiency.

Our self-conducted interviews with three different auditors tell another story which contradicts the above paragraph. All of the respondents felt that they saw improvements which were related to monitoring alone. One of the auditors brought up the example with China, which explained that managements in China “*teach employees to lie to the auditors to cover up real issues.*” An unforeseen effect has spawned from this procedure. The workers in this example had become aware of their rights due to the managements repetitive orders to lie about for example overtime and wages. The other two auditors pointed out that it is difficult to show which improvements have come from their work, but still reinsured us that improvements were accomplished.

The fact that the auditors cannot guarantee that the improvements are due to them -can depend on a variety of reasons- could be an indication of that monitoring alone does not improve workers conditions. Since the auditors have not conducted researches themselves it is hard to argue against the conclusions made in Locke et al article from 2006.

## 6. CONCLUSION

In the introduction we stated the fact that corporate social responsibility is an important matter among companies and you can rarely see any companies today not including this in their organization. This matter has even become clearer to us after this research study.

Through our interviews with three different persons working with CSR in three different companies within the clothing and textile industry we managed to answer all of our four questions.

Regarding the work of an auditor and our first question we are able to see the differences between their working methods depending on what kind of company they work for, where the company has its origin, the size of the company, if they are an auditor of the clothing company itself or a so called third party auditor etc.

The auditors of those companies that have more CSR activity tend to visit their suppliers more often. They normally have their own code of conduct that their suppliers must attend to and are more flexible than the auditors of smaller companies that are normally bound to follow frameworks of CSR organizations that they are members of.

As for our second question where we take a closer look at the issue of the auditors work and how they report we found out that codes of conduct differs among the auditors and hence their reports will vary. Some companies may use internationally acknowledged frameworks such as GRI and some might have their own framework. Furthermore, the size and the transparency of the reports differ from company to company. Bigger companies have a tendency to put more effort by creating their own report, while some others are more dependent on the CSR organization they are members of to create reports. For those larger companies the reports may be a way of achieving better legitimacy from consumer and for the smaller companies, being a member of a known CSR organization gives them legitimacy enough on the issue of CSR.

For our third question we examined the first and the second question all together to see if the practical work of the auditors is consistent with what is later being reported. In some cases



we found out that on issues such as overtime work it is not always being reported as it should. This depends on factors such as for instance country and industry effect or cultural differences. Auditors do claim that problems exist when it comes to working with CSR. Not only is bribery a problem, another one is also that suppliers in some cases tend to create fake time cards. This can often complicate the work of an auditor and result in a situation where reports do not cohere with the real condition in these factories. It seems to be a dilemma that these auditor face in their daily work. How this can be changed is still a question left to examine.

Regarding the fourth question which has to do with the fact whether or not evidence has been found which can prove that monitoring improves workers conditions, we cannot find evidence which shows significant improvements. Even though the respondents spoke of specific improvements it is hard to prove that those improvements are a direct effect of auditing. In our theory we presented an article that came to the conclusion that monitoring only creates small improvements or none. This article from MIT written, by Locke et al, showed that monitoring does not address the root cause of the problem. If improvements are to be made concerning workers conditions the emphasis should be on introducing new quality improvement programs and/or lean manufacturing systems. Thereby achieving better efficiency and quality for the factory and a “side effect” of this is better conditions for the workers, since they are more skilled and thereby considered to be valuable assets by the management.

## 7. DISCUSSION

We are rather content with our choice to conduct interviews with auditors and not surveys. Even though we only conducted a few interviews, we believe that these revealed much more than surveys would have.

Concerning the answers from our respondents which we base our conclusions on, we are aware of that their answers are subjective and we cannot verify their statements. Despite this we believe that it is interesting to hear their point of view. This also gives the essay a broader of the matter. We think that even though the auditors work could become better, they conduct a reasonably good job. It is difficult for the audits to unveil the whole truth but at least they uncover a part of it.

Aside from providing information about working conditions in factories, does monitoring actually improve labor standards? Depending on the perspective you take the answers will vary. On one side you have an article which has been conducted on a high academic level and on the other side three auditors which have inspected hundreds of factories. We do not think that today's system of monitoring for compliance with corporate codes of conduct has been successful. There are too many variables involved to make a definite conclusion whether or not it leads to positive effects. A possible reason to why companies still use the system of monitoring, despite the lack of strong proof of significant improvements, can be explained by the organizational theories within new institutional theory.

New institutional theory suggests possible explanations as to why CSR has exploded, and is commonly practiced by many companies. Normative isomorphism states that companies choose to employ or hire the services of third party audit organizations, because it allows them to be perceived as if they behave in a rightful manner by using professional auditors and codes of conduct. This isomorphism claims that it is becoming more common to hire personnel with a particular professional background and we mean that reality shows it. Furthermore can it be said that mimetic isomorphism states that organizations copy successful companies in order to become as successful as the role model within the organizational field. Or at least receive the same legitimacy. This might also explain why smaller companies in the confection industry copy the use of auditors because they want to appear equivalent to leading organizations in their field.

We think that auditors continue with their work since their company present a formal structure for their tasks which appears to solve the problems at hand. Brunsson and Olsen stated that the formal structure makes insiders and outsiders think that the organization is addressing the problem effectively, but what actually happens in reality might be insignificant. Thereby might the auditors' work lead to small or no improvements even though they experience the opposite.

In the beginning we thought that auditors faced a dilemma between making choices that maintained the organizations reputation, and making a choice that met the high goals of CSR. In our research was revealed that auditors try to report the true conditions of the factories they visit. We think that a dilemma never occurs for auditors. Since they announce their arrival the worst flaws are hidden. The companies paying for the audit decides after reviewing the reports if they should continue to place orders or refrain from extending their contract with the supplier.

We believe that monitoring is not a quick solution to improving working conditions in factories located in poor countries. A more ethically and morally committed way of addressing this important issue would be to organize their own factories, and implement their own experience from western countries. We realize that this is a highly unlikely scenario but if companies are sincere about their codes of conduct and wants to address the root cause of the problem, they should consider this possibility.

There is no simple answer. The only way for us to be certain about the results from auditing, would mean that we ourselves conducts audits and see first-hand what it looks like and if there are any progressions.

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## Appendix A – Interview Template

### Frågor till granskare:

När började ni med auditing och varför?  
Vilken del är viktigast i CSR?  
Hur ser en vanlig dag ut?  
Hur går det till att göra en audit?  
Har ni konkreta mål som auditor?  
Hur rapporterar och åtgärdar ni brott mot reglerna?  
Har ni exempel där det har skett förbättringar tack vare auditing?  
Vad är vanliga situationer?  
Har ni fall där auditing är svårt respektive enkelt?  
Vilken typ och erfarenhet har du?  
Är det lika viktigt att kommunicera ert arbete till allmänheten som till er uppdragsgivare?  
Känner ni att ni gör någon skillnad?

Dessutom vill vi gärna ställa följdfrågor till era svar!

### Frågor till CSR chef:

Vilken typ av utbildning och erfarenhet har du?  
När började koncernen med CSR samt auditing och varför?  
Har koncernen konkreta mål för arbetet med CSR?  
Vilka är de största förbättringarna sedan ni började med CSR?  
Är CSR en viktig faktor vid val av underleverantörer? Vilken del är viktigast inom CSR?  
Hur kontrollerar ni att er code of conduct följs av era underleverantörer?  
Vilka är de vanligaste problemen som kan uppstå? Hur rapporterar och åtgärdar ni avvikelser från er code of conduct?  
Hur pålitlig är informationen?  
Kan ni ge några exempel där auditing har haft god effekt?  
Vilken är den största utmaningen för dig?  
Vilka vänder sig era rapporter främst till?  
Anlitar ni externa auditors, t ex Third Party Auditors, Management Auditors eller använder ni enbart egna?  
Hur arbetar era auditors?  
Känner ni att ni gör någon skillnad?

Dessutom vill vi gärna ställa följdfrågor till dina svar!