

Audit Fatigue, facts, challenges and a call for action

Audit Fatigue - a key discussion topic in almost every industry forum nowadays – is a **present and serious challenge** to social responsibility. Current practices are costly, inefficient and result in **fragile working conditions** for suppliers and workers by association. We, the STAR network of industrialists, are embarking on an effort to work with stakeholders to **reduce and eventually eliminate Audit Fatigue**.

Our commitment is to provide a **safe and dignified environment for all workers** in the fashion, textile, and apparel industry across the entire value chain. This is and will remain a driving principle of our network of industrialists and manufacturers across our respective value chains. We stand firmly behind the conviction that **social responsibility is not an arena for competition** but a space for collaboration and continuous progress. Our industry from the fiber to the consumer and beyond consumption should work together towards building responsible practices and **socially sustainable supply chains**. This objective should transcend our individual differences and commercial competitiveness. We also believe that these principles are shared by all stakeholders in our eco-system.

However, despite this unanimous agreement, **efforts to protect workers' rights** by various stakeholders have been **independent, isolated and individualized** leading to a complex web of practices that devour funds, efforts and time. Those practices often **favor policing over collaborative approaches** that aim at working together to continuously elevate industry standards and working environments. In the process, **resources are consumed in performing repetitive and redundant monitoring** practices instead of spending those very efforts on the betterment of working conditions and labor practices.

In this paper, STAR network explains **Audit and Standard Fatigue**, their impact on the industry, the arguments for reducing them and a **call for action** to stakeholders across the value chain. The objective of this effort is to present a **way forward** for the Fashion, Textile and Apparel industries to **work together** to optimize efforts and resources dedicated to promoting responsible production and to **eliminate Audit and Standard Fatigue**.

The STAR Network

The STAR Network is the first inter-Asian network of producer associations. It was set up in 2016 with the support of the GIZ FABRIC Project to bring together nine associations from Bangladesh, Cambodia, China, Myanmar, Pakistan, and Viet Nam. Its members represent 9 associations, over 35,000 members and around \$400 billion in export value.

As a platform for dialogue and trust building, the network helps members find solutions to the challenges they all face, particularly related to sustainability.

The globally agreed Sustainable Development Goals (SDGs) are setting the framework for producers and workers, for buyers and consumers and for political players alike: Ensure sustainable production and consumption patterns (Goal 12). In this regard, the platform is a response to the ongoing globalization and complexity of textile and garment supply chains. It supports a better understanding of the mechanisms within the industry with the aim of jointly shaping its future towards sustainability and long-term growth.

There are currently 9 STAR members from 6 countries.

- Bangladesh:
 - BGMEA: Bangladesh Garment Manufacturers and Exporters Association
 - BKMEA: Bangladesh Knitwear Manufacturers and Exporters Association
- Cambodia:
 - TAFTAC: Textile, Apparel, Footwear & Travel Goods Association in Cambodia
- China:
 - CNTAC: China National Textile and Apparel Council
- Myanmar:
 - MGMA: Myanmar Garment Manufacturers Association
- Pakistan:
 - PHMA: Pakistan Hosiery Manufacturers & Exporters Association
 - PTEA: Pakistan Textile Exporters Association
 - TMA: Towel Manufacturers Association of Pakistan
- Vietnam:
 - VITAS: Vietnam Textile and Apparel Association

What is Audit Fatigue and why is it a challenge to social compliance?

Audit Fatigue

Is a term used to describe the **repeated and redundant efforts and resources** spent by textile and apparel manufacturers to meet the **frequent audits** performed by each one of their clients, governments or 3rd party certification bodies and standard holders. Suppliers are required to, not only provide information about their operations, but are also asked to **spend time, money and disrupt their productions to be audited as means of verification** of the data they have provided. Audits are repeated several times during a year and often by the same auditors, collecting the same exact data to be provided to different customers. **The process is redundant and inefficient** as it repeatedly **collects and verifies data that has been previously collected and verified** by other parties; consuming time, effort and resources that are born by suppliers. In addition to their direct costs, **audits also disrupt production, inconvenience workers, and create additional and redundant administrative complexities** and reporting requirements. The process is **counterproductive** and focuses on **data collection rather than on collaborating** with suppliers to elevate working conditions.

A study by the SLCP in 2018 estimates that – in the apparel and footwear industry – 92'084 audits / year consuming an average of 2.7 person-day / audit at an average cost of USD 500 / day, totaling **USD 124.3 Million, could be made redundant** if data were shared. There is little justification for this waste of resources that could otherwise be **directed towards improving working conditions**, which is the real issue such practices were put in place to address in the first place.

Audit fatigue could be reduced if **stakeholders are able to trust and recognize audits performed by others** and stop requiring the collection and verification of data that has already been compiled and audited by a trusted party.

Standard Fatigue

Is a term often included in the definition of Audit Fatigue and refers to the fact that every stakeholder (customer, government or standard holder) has developed a different set of standards. Suppliers are asked to meet the standards of each of their clients with requirements that are overlapping with the standards of other stakeholders but are almost never the same.

Over the years and due to the **fragmentation in the industry**, various brands, retailers, buyers, certification bodies, and standard holders (including governments) have

developed their own social responsibility guidelines and requirements that stem from their individual learning experiences. Those **standards are almost always similar but not identical**. Despite those differences - between standards - being small and largely immaterial, suppliers are asked to satisfy each one of those requirements to a great level of detail. This requires manufacturing companies to **put in place redundant parallel processes and accommodations** to satisfy the - **similar but never identical** - requirements of their customers.

Examples of these accommodations are numerous: such as the positioning of firefighting equipment which can vary a few centimeters (inches) from one client to another, several medical kits with almost identical supplies, differing colors of emergency routes to maintaining several redundant sets of reports just to adhere to their clients' formats. The presence of such a myriad of proprietary standards that address the same exact concerns is cumbersome, creating complexity and wasting valuable resources. Moreover, due to the fragmentation and lack of collaboration between stakeholders, an opportunity is wasted to learn from one another and to achieve global best practices for the benefit of workers.

Standard fatigue could be eliminated - or at least drastically reduced - by **collaborations between stakeholders to harmonize** minimum basic standards as well as the **exchange of learning experiences** with the objective of elevating working conditions. **Standard harmonization** will not only reduce cost, but it will also **facilitate the inclusion of SME's** as well as make it easier to **trace products** through value chains by including **Tier 2, 3 and 4** suppliers.

Standard Fatigue exists because of the lack of collaboration between brands and retailers. It is time to recognize that **social responsibility is not an area of competition** between various players but an opportunity to share knowledge and collectively improve practices in the fashion, apparel, and textiles value chains for the **benefit of the industry's workers** and possibly all workers in the industrial sector.

Buying Practices

Is a term that describes the way customers in the fashion, apparel and textile sector manage the **relationship with their suppliers**. Those practices are especially relevant when discussing Social Compliance since there is - often - a conflict between the social standards customers ask their suppliers to meet and the manner with which they manage their purchasing.

Examples include delays in placing orders that result in putting suppliers under time pressure requiring factories to work overtime. This conflicts with the same customers' requirements to limit overtime. Similarly, delays in paying their financial obligations while requiring factories to settle wages on a timely manner. Another example is customers requiring suppliers to give lower prices while demanding higher wages for labor.

Audit and Standard Fatigue cannot be separated from Buying Practices. When looked at from a bird's eye view, customers are on one hand asking manufacturers to meet **strict social requirements**, demanding that suppliers are audited - while not recognizing previously conducted audits -, insisting on using their own proprietary standards; and at the same time conducting business in ways that are conflicting with the very principals they advocate in their social requirements.

Why is reducing audit fatigue a challenge and why it shouldn't be?

There are a number of arguments that have repeatedly been **used to justify why there has been little or no progress in the reduction of Audit Fatigue**. These explanations have often been presented as givens and have become part of the industry's conventional wisdom and its rhetoric. **We – the STAR network - unequivocally disagree** with these arguments and are wholeheartedly convinced that - to a large extent - those **viewpoints ultimately work against labor welfare** and impede the development of responsible practices by continuously diluting the attention given to the real issues.

As part of our commitment to continuously elevate working conditions for labor across the Fashion, Apparel and Textiles industry, it is **our duty to controvert** some of the key arguments that continue to perpetuate Audit and Standard Fatigue. Furthermore, it is **our duty to present alternate viewpoints** that will contribute to our shared objectives of a more responsible industry and invite all stakeholders to **adopt these modern ways of seeing, understanding and addressing** the issue:

Social audits are a means of differentiation between brands:

The argument: Brands, retailers and other stakeholders insist on maintaining their proprietary standards and social auditing practices as means of competing in the market.

The counter-argument(s): The welfare of workers should not be a point of competition between brands and retailers but rather a space of collaboration and cooperation to elevate industry practices globally for the sake of the workers and the sector. Sharing learned lessons will lead to a faster and more comprehensive development of best practices that will be beneficial to both the workers and to the reputation of our industry.

Audits do not cost buyers / brands anything:

The argument: The costs of audits are born by the suppliers and therefore they represent no burden to buyers as well as no motivation to reduce the number of audits.

The counter-argument(s): Costs are ultimately born by the buyer in the overheads charged to the price of the product. Moreover, buyers need to establish and maintain costly and large compliance departments that could otherwise be

made more effective by working with suppliers to improve working conditions rather than spend redundant efforts to police them.

Buyers are not willing to take any risks:

The argument: The cost of the reputational damage from any mistake is significantly higher than the cost of the audits to the extent that brands and retailers are not willing to trust a process that they have not managed themselves.

The counter-argument(s): By collaborating with other stakeholders (including their competitors), brands and retailers will be contributing to the development of global best practices that will deliver better protection to all players in the sector. Moreover, mutual recognition of previously conducted audits by trusted 3rd parties, reduces onboarding time for new suppliers as well as allows for easier and faster expansion of due diligence to 2nd, 3rd and 4th tier suppliers. Finally, collaborating with reputed organizations such as the ILO – Better Work program, provides additional assurance and security to brands as well as spreads responsibility.

Audit companies have an interest to maintain a high number of audits:

The argument: Auditing companies will stand against any effort to reduce audit fatigue in fear of losing business.

The counter argument(s): Collaborations across the industry and mutual recognition of audits, will create opportunities for audit firms to expand due-diligence efforts to 2nd, 3rd and 4th tier suppliers as well as will open doors for new services to be delivered in remediations and working with suppliers to improve manufacturing practices.

Manufacturers have no say in what happens:

The argument: Suppliers have no influence on how social compliance is managed and they only have to do what their customers and governments impose on them.

The counter argument(s): Manufacturers are the ones working closest with labor on daily basis and are the most capable to provide insights and solutions. However, the manufacturing community is fragmented and does not work together enough to develop alternatives that satisfy the needs of their customers for assurance and transparency. Collaborative efforts and a shared vision by the global industrial sector can change the narrative and provide alternative solutions. Moreover, the

manufacturing community has a duty to communicate and explain the challenges and to promote to customers viable global solutions rather than individual efforts.

The way forward: a call for collaboration

With this document, the STAR network is calling on all stakeholders in the Fashion, Apparel and Textiles sector to collaborate to reduce Audit Fatigue. Our efforts start with a call to all players to adopt **two key principles**:

- The **wellbeing of labor** in our industry is unequivocally our first and foremost priority.
- The welfare of labor is **not an individual responsibility** and is **not an arena for competition**. We have a collective obligation towards our sector to collaborate and to put in place global best practices with the objective of elevating our entire value chain.

We, also call on all stakeholders in our industry to recognize that the **current approach to social compliance, is redundant and counterproductive**. It focuses on policing rather than collaboration, leading to a **waste in resources that should be otherwise directed towards improving** manufacturing conditions. **The social compliance ecosystem needs to be re-evaluated and current practices abolished or – at the minimum – revamped** in favor of a modern and collaborative approach.

Call to the manufacturing community

We recognize that we – as **manufacturers and industrialists** – **have a need to unite** and to work together. **Our voices are fragmented, and our efforts are diluted**. It is time for us as a community to put our individual differences aside and to **collaborate for the betterment of our industry**. We have a duty to **develop solutions** for our customers that give them the **assurances** they need and are simultaneously **beneficial for our businesses**. We call for our industry to **take an active role in improving working conditions** and voicing what we believe are the best solutions to achieve that, rather than passively following paths that have been drawn for and imposed on us.

In doing so, the STAR network is **committed to working with other like-minded organizations** to create and present **alternative solutions** to current social compliance practices in ways that optimize resources for the benefit of the labor in our industry. Our group is determined to **collaborate with other industry bodies** (such as the IAF, ITMF and other national or regional manufacturers associations), to **avoid duplication of efforts** and to **refrain from introducing new initiatives** but rather to support, steer and grow existing efforts. We pledge to take an active role in endorsing and supporting solutions that promise to help reduce Audit and Standard Fatigue and to be proactive in giving them guidance to ensure that they meet our ambitions and resolve our challenges and concerns.

Furthermore, we pledge – in collaboration with others - to **actively participate in international forums** (such as the OECD yearly conference) that are concerned with social compliance to represent the views of the industry and engage in constructive conversations designed to elevate working conditions for labor in our industry.

Call to brands, retailers, governments, standard holders and certifying bodies

We recognize the need for auditing to ensure dignified, safe, and healthy working conditions for all labor. Our efforts are **not to eliminate audits but to remove redundancy, to streamline requirements** and to work together as partners to elevate practices in our shared industry.

The STAR network calls on all entities that are currently auditing suppliers to join initiatives that promote the **mutual recognition** and sharing of performed audits, to **endorse globally trusted certificates and initiatives** (such as ILO - Better Work Data Accountability), and to **replace their compliance requirements with internationally recognized standards** such as the OECD Due Diligence guidelines and the ILO – Better Work programs to reduce audit and standard fatigue.

Furthermore, we call on stakeholders to **replace policing with collaboration** by endorsing and working with initiatives such as the ILO – Better Work program that adopt an approach of long term and sustainable development in cooperation with manufacturers.

Call to our customers

It is important to recognize that improving **working conditions cannot be separated from fair purchasing practices**. Buyers cannot demand of their suppliers to bear all the costs and risks of an ever-shorter production cycle and a fast-changing market. The pressures that are being shifted from brands and retailers to manufacturers will almost always translate into **a more vulnerable supplier and more fragile working conditions**. Without **equitable trade conditions, supplier compliance with buyers' codes of conduct becomes only protection to a buyer's reputation rather than a true commitment to social sustainability**.

We call on our **customers to take responsibility** and to actively work to **understand the challenges and pressures** that their buying practices are casting upon their suppliers. We ask brands and retailers to take an active role to **improve their buying**

practices and to join initiatives that are working to create **more just commercial relationships** that ensure the **economic and social sustainability** of their suppliers. The Sustainable Terms of Trade Initiative (STTI) and Better Buying are two such efforts that we encourage buyers to join for the sake of transparency and equitable commercial relationships.

Finally, we call on our customers to not respond to the **growing number of Due Diligence legislation** in their home countries by increasing the number and complexity of their audits and further complicating the matter. The changing environment is an opportunity to update your approach. It is time to harmonize standards, recognize previous audits and focus on collaborating with suppliers rather than policing them.

A call to consumers

Audit Fatigue is real, and it **impacts the workers** that manufacture the products that you purchase. While it appears to be a measure to protect those workers, it is in fact a practice that renders **suppliers more vulnerable and working conditions more fragile**. It also affects **small and medium suppliers** that are often incapable of bearing the costs of repeated audits. **Your choice of product matters** and you can **empower those brands** that are choosing to do right by their suppliers and the workers that deliver your goods. Although, this choice might translate into a slightly higher price, it ultimately ensures that the products you purchase and use have been produced responsibly and that brands are sharing the costs with their suppliers.

An equitable eco-system is the only way forward

We recognize that many of the practices that are being criticized in this document have been put in place with the **best intentions** and have been designed to **benefit the workers in our sector**. We also recognize that these standards were introduced in answer to practices in the industry that have often come at the expense of workers' health, safety and dignity. However, we are also seeing that the sector has come a long way in the past 30 years and that there is a **critical mass of suppliers that are aware, capable and willing** to work for the benefit of their labor. Moreover, several **governments** (if not most) have **introduced serious social responsibility** initiatives and legislation such as Pakistan's National Compliance Center and Cambodia's association with the ILO (Better Factories Cambodia).

The **narratives have changed, and practices must follow**. There are – today – partners in the **manufacturing community that are driving change** and are looking to work with other stakeholders to ensure **a more equitable eco-system** that promotes long term **social and economic sustainability** while continuing to deliver goods and services that allow for their customers to be competitive, efficient, and timely. Establishing a new order can only be a collaborative effort by all parties in the industry.