

# Monitoring the Monitors: How Social Factors Influence Supply Chain Auditors

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## Have you ever...

- Conducted a social audit of your suppliers or subsidiaries?
- Conducted a social audit on behalf of a client?
- Hired a social auditor to audit your company's suppliers?
- Hired a social auditor to audit your own facilities?
- Managed a social audit team?

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# What influences social auditors?

- Companies hire supply chain auditors to learn about working conditions at their suppliers because knowing these facts on the ground is key to managing brand risk.
- But do auditors really find and document all the problems at these factories?

Our research investigates what influences auditors' ability to identify and report dangerous, illegal, and unethical behavior at factories.

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## What do you think are the most important influences on a social auditor's ability to identify and report issues?

- Auditors' education
- Auditors' on-the-job experience
- Auditors' skills training
- Audit team's gender composition
- Whether an audit was paid by the factory or brand

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## Widespread evidence that economic conflicts of interest influence monitors

### Prior Research in Other Domains

- Bond issuers pay → Higher bond ratings
- Auditors earn consultancy fees → Lax financial auditing
- Factory pays → Lax environmental inspection

We find: Factory pays → Lax social auditing



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## Data

Code-of-conduct audits from one anonymous major social auditor (100s of employees)

16,795 audits of 5,819 factories in 66 countries conducted in 2004 -2009

- ✓ Factory identifier & country
- ✓ Audit date (thus sequence), number of auditors, who paid
- ✓ Auditors' average age, training, tenure, gender mix
- ✓ Labor violations recorded

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## Number of code of conduct violations

Coded by the social auditor

- Child labor (8 items)
- Forced or compulsory labor (5 items)
- Working hours (7 items)
- Occupational health & safety (31 items)
- Minimum wage (15 items)
- Disciplinary practices (6 items)
- Treatment of foreign workers and subcontractors (4 items)
- Subcontracting (3 items)

*We exclude: canteen, dorms, freedom of association*

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## Audits by industry

Industry	Audits	
	Number	Percent
Garments	6,188	37%
Accessories	1,740	10%
Electronics	590	4%
Toys	463	3%
Furniture	383	2%
Footwear	356	2%
Building materials	260	2%
Paper, printing, publishing	183	1%
Metal products	156	1%
Food, agriculture, beverage	138	1%
Chemicals and plastics	97	1%
Services	50	0%
Other/unknown	6,191	37%
Total	16,795	100

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# Audits by geography

	Number of audits	Percent
Africa	100	1%
Americas	1,509	9%
United States	949	
Mexico	172	
Brazil	84	
Elsewhere in Americas	304	
Asia and Australia	14,773	88%
China (incl. Macao and Hong Kong)	11,746	
India	708	
Vietnam	424	
Indonesia	377	
Bangladesh	321	
Philippines	270	
Pakistan	184	
Sri Lanka	159	
Taiwan	131	
Korea	120	
Elsewhere in Asia & Australia	333	
Europe	413	2%
Turkey	186	
Italy	88	
Elsewhere in Europe	139	
Total	16,795	100%

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Our analysis controls for many other aspects that might influence the number of code-of-conduct violations

- Factory vintage
- Factory industry
- Factory size
- Factory country attributes
- Factory's distance to capital
- Year audit conducted
- Audit paid for by factory or agent (vs. brand)
- Unannounced audit
- Full audit or re-audit
- Number of auditors
- Audit team's average age
- Factory's 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>... audit
- Buyer's country

# H1: Ongoing relationships

*Will auditors who return to the same factory cite fewer violations?*

1. Socialization: sympathetic to company's perspective ("go native")
2. Cognitive: bounded rationality vs. fresh eyes
3. Corruption: side payments?

✓ **Finding:** Audits yield fewer violations when conducted by an audit team containing a member of the factory's previous audit team.

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# H2: Auditor experience

*Are more experienced auditors are better able to identify violations?*

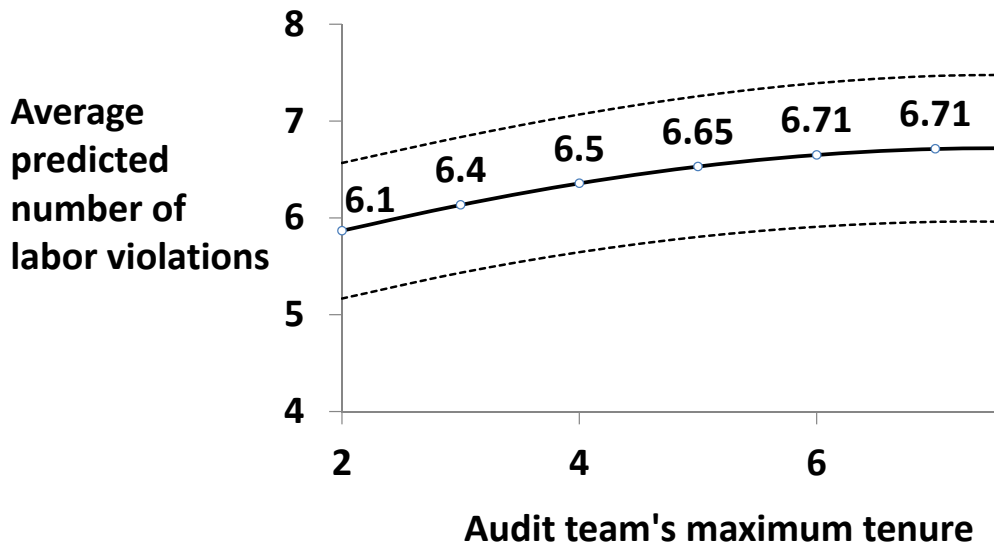
- Individual experience curve:
  - Learn "tricks of the trade"
  - Identify more violations
- Marginal gains decline over time
  - Only so many tricks
  - Battle fatigue

✓ **Finding:** Audits conducted by audit teams containing auditors with more experience yield more violations but at a decreasing rate.

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## Graph of Auditor Experience Results

As the audit team's maximum tenure increases, labor violations recorded increase at a decreasing rate.



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## H3: Professionalization

Will professionalism constrain auditor discretion and deter temptations to succumb to conflicts of interest?

- Education inculcates ethics and norms of the profession
- Professionalism an “island of virtue”
- Professionalism improves efficacy of government labor inspections

- ✓ **Finding A:** Audits conducted by auditors with more **in-house audit skills** training yield more violations but at a decreasing rate.
- ✗ **Finding B:** Audits conducted by auditors with a **graduate degree** yield no more violations than audits conducted by auditors with less formal education.

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## H4: Gender

Prior literature on female (vs. male) work style & cognitive approach:

- ♀ more persistent at pursuing assigned tasks → diligence
- ♀ more perceptive of emotional content in expressions → detection
- ♀ more likely to be strict rule-followers → recording

Interpersonal dynamics of gender-diverse teams:

- Access more information from team members
- Consider a broader range of issues
- Studies show mix of male and female operating, decision-making and leadership styles led to better performance

Information access:

- ♀ better able to access information from female workers
- ♂ better able to access information from male factory managers

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## Gender Findings: The Importance of Women on Audit Teams

- ✓ **All-Female Teams:** Audits conducted by all-female teams yield more violations than those conducted by all-male teams.
- ✓ **Gender-Diverse Teams:** Audits conducted by gender-diverse audit teams yield more violations than audits conducted by all-male teams (but not more than all-female teams).

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# Monitoring the Monitors

## Summary of our results

Audits yield more violations when conducted by audit teams...

1. new to the factory
2. with more auditing experience
3. with more in-house audit skills training
4. that include at least one female

Chime-in via chat window

### Questions for you

- a. Which findings resonate with you?
- b. Which findings surprise you?
- c. What else do you think leads to more accurate auditing?

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## Study #2: How can audits improve working conditions?

What audit features lead to fewer violations in the future?

Controlling for factors associated with auditor bias, our preliminary results suggest more rapid improvement occurs when:

- ✓ The prior audit team had more audit skills training (quality)
- ✓ The prior audit team was onsite longer (quantity)
- ✓ The prior audit was announced (vs. unannounced)

Chime-in via chat window

### Question for you

- What other audit or auditor attributes do you think lead to improved working conditions?

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# Future directions

Please help us orient our future research to the most relevant managerial questions:

- What are the most important questions and issues surrounding supplier codes-of-conduct that you think should be researched?
- In other words: What questions do you want answered?

Chime-in via chat window

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For more information...

Jodi L. Short, Michael W. Toffel, and Andrea R. Hugill. "Monitoring the Monitors: How Social Factors Influence Supply Chain Auditors." Harvard Business School Working Paper 14-032, February 2014. <http://ssrn.com/abstract=2343802>

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