The Evolving Role of On-site Audits
Transitioning to an Integrated and Focused Approach to Sustainability Performance
The Evolving Role of On-site Audits:
Transitioning to an Integrated and Focused Approach to Sustainability Performance

In the 1990s, Nike’s brand suffered immensely when the media revealed claims of child labour and underpaid workers in multiple countries throughout Asia. Nike’s first response was to take a compliance approach, relying heavily on audits. And it was one amongst many: As scores of companies faced similar challenges, the practice of on-site auditing grew quickly. While the gamut of sustainability risks across increasingly globalized supply chains continues to grow, laws on supply chain due diligence are proliferating. In 2018, following in the footsteps of the U.K.’s Modern Slavery Act, Australia passed legislation requiring companies to report on their efforts to prevent slavery in their supply chains. Next were the Netherlands’ child labor law and Canada’s newly drafted Transparency in Supply Chains Act in 2019. In the face of these changes, many companies found that their supply chain due diligence approaches – particularly with regard to on-site audits – were outdated or ineffective.

Despite the 2020 QIMA (Quality Inspection Management) barometer confirmed increase in audit demands for U.S. brands, experts are concerned about their limitations. Geneviève LeBaron, from the University of Sheffield, and Jane Lister’s study demonstrated the difficulty in verifying the suppliers’ true state of compliance. Their study also shed light on the inefficiency of audit campaigns in terms of improving the audited companies’ sustainability performance. As the study proclaims, “...the audit regime is ‘working for corporations, but failing workers and the planet. Audits are ineffective tools for detecting, reporting, or correcting environmental and labour problems in supply chains.”

This paper articulates the limitations of traditional on-site auditing and suggests a new, more holistic approach: By integrating audits into a broader framework with a wider range of monitoring tools, organizations can engage suppliers in more enduring results that go beyond compliance, while strengthening their performance and ROI.
The Four Limitations of On-Site Auditing

Limit 1 : Genericized Audit Content
Strong demand has encouraged “simplified” audits that often fail to assess material problems specific to the activity of the audited site. Most companies have developed simplified, one-day inspections according to a standardized “checklist.” Conducting audits in such a short period of time prevents auditors from going into detail on certain points and makes inspections imperfect. Observing working conditions only at the site level, without investigating beyond “visible” operations, does not allow, for instance, the identification of unauthorized subcontracting. These audits do not include external stakeholders – NGOs, trade unions and territories – an important source of impartial information on violations and impacts on local communities.

Furthermore, on-site audits are not useful for those suppliers in most indirect categories, including outsourced services, such as IT, marketing, cleaning and consulting.

Limit 2 : The Cost to the Buyer and the Supplier
On-site audits require a large budget. The daily price of an auditor is anywhere from €500 to €700 or more, depending on the geographical region and the scope of the audit. On the suppliers’ side, each intervention requires available staff to accompany the auditors throughout the process, which can last several days for each client, leading to fatigue and disengagement. Also, while some client companies bear the cost of the audit, most suppliers are required to contribute. Sixty-six percent of buyers surveyed in our study, “The contract and CSR clauses, essential levers of vigilance,” place the financial burden of audits on the supplier. Only about 30 percent share costs amongst the supplier and customer.

Repeated audits can thus undermine the financial viability of smaller enterprises, the UNIDO report “CSR, Implications for Small and Medium Enterprises in Developing Countries” concludes.
Limit 3 : Audit Fraud
Fear of losing business contracts can lead suppliers to submit fraudulent documents, such as employee timesheets, payroll and health & safety incidents. An intensive audit practice modelling, carried out by American researchers, Plambeck & Taylor, mathematically demonstrates its limitations and suppliers’ propensity to hide information. It even shows some investment in “showcase” work sites, used specifically for audits - with the main production taking place elsewhere. For each visit by a third party, minimal preparation is required, as these showcase sites meet the requirements of the various audit standards deployed. NGOs and trade unions, such as the AFL-CIO, also report practices that are not in line with the standards, such as the “briefing” of employees, directed selection of interviewed workers that make it difficult to detect cases of harassment, discriminatory hiring or working hours. The use of systems such as “workers’ voice” should make it possible to put an end to these practices in the long term.

Cases of corruption are sometimes noted. The loss of a business contract in the case of non-compliance is a sufficiently important issue to try to raise to the auditor - and vice versa. The auditor, however, is often employed locally and therefore has little incentive to raise concerns. Using foreign auditors to reduce opportunities for corruption is impractical because of the cost, but also because of the linguistic and cultural competence that local listeners bring to the process. Professionals have all implemented policies and means to prevent corruption and identify and remedy cases of fraud. The key term here is reasonable assurance: The audit never achieves absolute assurance because it is unrealistic.

Limit 4 : A Focus on Avoiding Penalties Rather Than Enhancing Performance
Repeated audits cause resentment amongst site managers. In addition to the cost and time taken by each visit, the audit is perceived as a punishment. The buyer-supplier relationship is played out on a master-student scheme, where the master seeks to eliminate the “bad pupils” using a purely risk-oriented approach. The contractor at the other end of the chain gets nothing out of these inspections, except the “reward” of keeping his customer. NGOs and journalists deplore the fact that the results of audits are used to eliminate the plants most at risk and not to recognize and promote compliant sites who made the investments for them.

This type of relationship does not facilitate remediation either. In order to effectively fight against forced labour and child labour, for example, Martine Combemale - Founder of Human Resources Without Borders association - advocates for a pragmatic approach with a more balanced relationship. To act effectively, it is necessary to reconcile the legitimate expectations of the two extreme links in the sub-contracting chain, the company placing the order and the worker at the end of the world.
The New Approach: Fitting Audits into a Broader Framework

Given the limitations of traditional on-site audits, a new approach involves fitting audits into a broader framework. A more efficient system can leverage information gathered from predictive risk mapping, sustainability ratings and corrective action plan progress to determine which organizations need auditing. This way, costs are reduced, time-consuming audits are used in a more precise way and the supplier’s focus shifts from penalty-avoidance to performance-enhancement. As Rachel Wilshaw, Ethical Trade Manager at Oxfam GB says, “integrating ethics into business practices by using a ‘balanced scorecard’ and rewarding better workplaces with more business is [a] reliable approach. Instead of playing cat and mouse, these companies [can] get to the root causes of problems and deliver more sustainable supply chains.”

Document Audit and On-site Audit, Examples of Customer Practices

Our customers tell us that increasing the number of on-site audits to try to control risks is counterproductive. Considerable financial resources are devoted to audit campaigns and the identification of risks of “poor performers” among suppliers—with no lasting impact on improving social and environmental performance. Only a more holistic risk approach, including a multi-level assessment and engagement program, will promote transparency and initiate a significant improvement in the sustainability practices of business partners. Audits are effective when they are integrated into a comprehensive process alongside other supplier assessment and engagement tools.
An End-To-End Integrated Approach

Analytics

1° Step: Overall Risk Analysis

**EcoVadis IQ**
Predictive risk profiles include the inherent category & country sustainability. This informs Rating priorities.

2° Step: Detailed Due Diligence

**EcoVadis Ratings & CAP**
Engage suppliers at scale with performance monitoring & benchmarks. This defines improvement priorities.

3° Step: On-site Verification

**EcoVadis Spotlight**
This monitors on-site audits of a limited number of companies with severe risk or specific needs.

---

**Process & Software Integration (sourcing, RFX, SRM, contracting, etc.)**

~ 50,000 companies

~ 5,000 companies

~ 500 companies

~ 50-100 companies
With more than 10,000 on-site audits carried out on its Tier 1 suppliers, Nestlé noted their ineffectiveness with indirect categories, such as marketing services, IT and computing, HR, communications, events, general services, studies, travel, etc. Thus, the company decided to invite these Indirect, Marketing & Service (IM&S) suppliers to be rated by EcoVadis.

This combined approach proved necessary since, in some of its purchasing categories, Nestlé suppliers were small companies for whom on-site audits would not be appropriate. Thus, the EcoVadis Rating, which measures the quality of the management system for sustainability through a “document audit,” has been an important step in the process. The assessment process is tailored to the size, purchasing category and geographic location of each supplier.

With this differentiated “IM&S” supplier approach, Nestlé was the recipient of a 2018 Sustainable Procurement Leadership Award for achieving the Best Supplier Portfolio CSR Performance Improvement (BPSI) rates in 2017. This award recognizes the company’s portfolio which showed the highest percentage of suppliers improving their sustainability performance and average EcoVadis score.
Orange Shares the Results of Its Audits With 12 of Its Competitors Through EcoVadis Spotlight

Founded by Orange (France Telecom), Deutsche Telekom and Telecom Italia in 2010, the Joint Audit Cooperation (JAC) is an association that brings together 13 operators. Membership has grown to include AT&T, Belgacom, KPN, Proximus, Rogers, Swisscom, Telenor, Telia Sonera, Verizon and Vodafone. Of these, Orange, Deutsche Telekom, KPN, Rogers, and Swisscom are all using the EcoVadis Spotlight offering. EcoVadis Spotlight is a secure online audit management platform: Buyer organizations can plan audits jointly with suppliers and auditors, capture data output from audits and enable sharing of these results across a common network. It also centralizes and automates corrective action plans so that there’s visibility into suppliers responses and actions resulting from audits.

Since 2010, the JAC has conducted 112 audits in 15 countries on five continents with tier one to three suppliers. Their mission is to ensure compliance with contractual requirements, to better integrate the protection of human rights among suppliers and subcontractors, and to pool CSR audits of suppliers according to a common methodology. Corrective actions are now planned, in agreement with suppliers, and controlled by the members of the association.

After winning an award from the World Forum for a Responsible Economy, Orange was named a finalist in the “external collaboration” category of the prestigious 2018 World Procurement Awards.
Sanofi is Sharing Assessment and Audit Results with Competitors to Optimize Costs

Founded in 2011 by six major chemical companies worldwide, the sector initiative, Together for Sustainability (TfS) now counts 22 multinationals, capitalizing on six years of experience. TfS allows its members to share their EcoVadis assessments and to pool the results of on-site audits. Each member is thus responsible for the audit by an independent third party of a number of suppliers. Audit reports and sustainability assessments of suppliers are shared among TfS members according to a defined data sharing protocol.

Depending on the results, corrective action plans are put in place and managed on behalf of the initiative on the platform. By avoiding duplication of efforts, this helps to save suppliers’ time, money, and resources, allowing them more time to concentrate on their proper job.

Driving Change Requires Going Beyond Audits and Taking a Holistic Approach

The integration of on-site audits into a wider range of sustainability performance assessment tools allows for a better return on investment. This way, resources are better distributed and used more efficiently to achieve targeted and meaningful results. Creating real transparency and driving improvement requires a holistic approach, including a multi-layered assessment and engagement program. This results in resources being better prioritized; only those suppliers who actually benefit from an on-site audit receive one. EcoVadis IQ provides an instant predictive risk mapping across the entire supply base. EcoVadis Ratings engages suppliers to assess performance, and it provides benchmarks against a global database of over 65,000 supplier scorecards, building awareness and showing suppliers where they stand in comparison to their peers. Suppliers can also share the scorecards with other customers, thus increasing efficiency through mutual recognition, minimizing costs, and reducing “survey fatigue.” With EcoVadis Spotlight, data output from audits can be shared across a common network, and visibility into suppliers’ responses and actions is provided. By bringing audits into a broader ongoing monitoring process, they can be used more effectively in improving supply chain sustainability.
About EcoVadis

EcoVadis is the world’s most trusted provider of business sustainability ratings, intelligence and collaborative performance improvement tools for global supply chains. Backed by a powerful technology platform and a global team of domain experts, EcoVadis’ easy-to-use and actionable sustainability scorecards provide detailed insight into environmental, social and ethical risks across hundreds of purchasing categories and countries. Industry leaders such as Johnson & Johnson, Verizon, L’Oréal, Subway, Nestlé, Salesforce, Michelin and BASF are among the thousands of businesses on the EcoVadis network, all working with a single methodology to evaluate, collaborate and improve sustainability performance in order to protect their brands, foster transparency and innovation, and accelerate growth. Learn more on ecovadis.com, Twitter or LinkedIn.