

NAVIGATING THE REGULATORY LANDSCAPE:
Audit fatigue in the garment
and textile industry



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and textile industry

About the paper

This report explores the role of garment and apparel facility ownership of their social and labour assessment data, which can empower them to improve their practices, save valuable resources and comply with emerging regulatory requirements such as human rights due diligence.

The research looks at the Social & Labor Convergence Program as an example of how data alignment and reducing audit fatigue can contribute to industry-wide transformational change. It explains how the International Trade Centre facilitates this work through its Standards Map, which helps align efforts between sustainability initiatives and enhance transparency and social data sharing through textile supply chains.

Publisher: International Trade Centre

Title: Navigating the Regulatory Landscape: Audit fatigue in the garment and textile industry

Publication date and place: Geneva, July 2024

Page count: 48

Language(s): English

ITC Document Number: GIVC-24-173.E

Citation: International Trade Centre and Social & Labor Convergence Program (2024). *Navigating the Regulatory Landscape: Audit fatigue in the garment and textile industry*. ITC, Geneva.

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Foreword

Small businesses in the garment and footwear industry today face an increasingly challenging landscape. They must overcome supply-chain disruptions, the growing impacts of our climate crisis and the sea change wrought by the COVID-19 pandemic – all while altering the way they work so they can continue to access markets and expand their reach.

Moving towards a more environmentally and socially responsible industry is essential. It's not only the right thing to do, but it's also what many governments, buyers, consumers and producers themselves now demand. The challenge for smaller businesses, however, is that they must now prove compliance with an ever-growing number of regulations and requirements, and the resulting 'audit fatigue' that comes from navigating these all at once.

These developments are changing how supply chains work: proving due diligence under emerging environmental and social regulations effectively serves as a 'licence to operate' for small businesses. Those that cannot fulfil these due diligence requirements may find themselves locked out of supply chains, even when they actually do comply with these regulations in practice.

Throughout its history, the International Trade Centre (ITC) has seen how small businesses are extraordinary innovators that often teach us what a more inclusive, sustainable world can look like. We have also witnessed the power of partnerships firsthand, and we have learned why simplicity and coherence in the regulatory arena matter for small firms to grow, compete and trade.

These lessons prompted ITC to join forces with the Social & Labor Convergence Program (SLCP), which has an impressive history in driving collaboration among the major apparel brands, manufacturers, industry associations, standards bodies and other key industry players. This has led us to identify a remarkable opportunity: the ability to use the wealth of verified data in the SLCP's Gateway, drawn from thousands of factories, and combine these insights with those from ITC's own trade and market intelligence tools.

Our two institutions are now working together to make sustainable value chains in the garment and footwear industry more transparent, and to make traceability easier in practice. What we learned along the way inspired the creation of this report, which was made possible through the generous support of the European Commission, Directorate-General for International Partnerships.

Together, we can help companies be better placed to make informed decisions, identify and anticipate the social and environmental risks resulting from their activities and sourcing decisions, and respond accordingly. We can also identify social and labour gaps for policymakers and help them redirect the money saved to where it's needed most: greater protection of workers' rights and livelihoods in all regions where garments and footwear are made.

This report presents tested and scalable solutions to contribute to more transparency, fairness and justice in textile supply chains – and, in turn, a better future for everyone involved.



Pamela Coke-Hamilton
Executive Director
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Acknowledgements

This report was jointly drafted by Joseph Wozniak (ITC Head of Trade for Sustainable Development), Shemina Amarsy (Senior Adviser on Sustainability Standards and Value Chains), Ann Wilkings (ITC senior consultant) and Duc Dang (ITC Associate Market Analyst), together with Alejandra Barajas (SLCP, Data Insights Manager), Tom Mason (SLCP, Senior Policy and Stakeholder Engagement Manager) and Silvana Rebagliati Castro (SLCP, Policy Coordinator).

We would like to thank Anne Griffin (ITC) for her support in the editorial and production process, Jennifer Freedman, who edited the paper, Design Plus d.o.o. for graphic support and Serge Adeagbo (ITC) for printing support.

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Acronyms

Unless otherwise specified, all references to dollars (\$) are to United States dollars.

CAF	Converged Assessment Framework
EU	European Union
ITC	International Trade Centre
HRDD	human rights due diligence
MSIs	multistakeholder initiatives
OECD	Organisation for Economic Co-operation and Development
SLCP	Social & Labor Convergence Program
SMEs	small and medium-sized enterprises
UNGPs	United Nations Guiding Principles on Business and Human Rights

Executive summary

The globalization of the textile and apparel industry has led to a complex supply-chain network spanning multiple countries and continents. This expansion, driven largely by the desire to reduce costs and boost efficiency, has exposed challenges regarding labour conditions in supplier facilities.

Growing concerns about worker welfare and corporate sustainability have motivated brands and stakeholders to adopt measures such as social audits and certifications to ensure compliance with labour standards and to meet consumer, investor and regulatory demands for ethically produced goods.

Despite these efforts, the proliferation of social audits has inadvertently created a phenomenon known as 'audit fatigue' among suppliers. The burden of undergoing numerous audits, often duplicative in nature, has strained resources and diverted attention from initiatives aimed at improving working conditions. This poses a major obstacle to the industry's goal of achieving sustainable and ethical production practices.

Recognizing the need for a more streamlined and efficient approach to social compliance, stakeholders have turned to multistakeholder initiatives such as the Social & Labor Convergence Program. Founded on the principle of developing a common framework for social and labour data collection, SLCP aims to reduce audit fatigue by harmonizing assessment processes and unlocking resources for targeted improvement programmes. The

fashion industry has shown considerable support for SLCP, with many global brands adopting its tools and incorporating its data into their reporting mechanisms.

As the industry moves into a new phase marked by growing regulatory scrutiny – particularly with the introduction of legislation such as the European Union's Corporate Sustainability Due Diligence Directive – it is essential to examine the efficacy of initiatives such as SLCP in mitigating audit fatigue and ensuring compliance with evolving standards.

Social auditing and human rights due diligence are and will remain interconnected. However, the limits of the audit exercise and the phenomenon of audit fatigue need to be understood and addressed, so audits can be efficient and companies can conduct meaningful due diligence.

This report explores the extent to which the SLCP Converged Assessment Framework (CAF) contributes to this, enhances the buyer–supplier relationship and unlocks resources to improve working conditions. It examines trends and social auditing data and shows that the CAF indeed helps to reduce the number of duplicative audits – though further convergence between standards is still needed.

The analysis presented in the report also shows that it takes two to three years for small and medium-sized enterprises (SMEs) that have adopted SLCP to save on audit costs. Data suggest that setting up effective management systems is key for SMEs to monitor and improve working conditions.



Although results are encouraging, further convergence is needed across multistakeholder initiatives and brands. The diversity and proliferation of standards typically run counter to the notion of convergence and, consequently, standards can be less proactive towards mutual recognition and alignment.

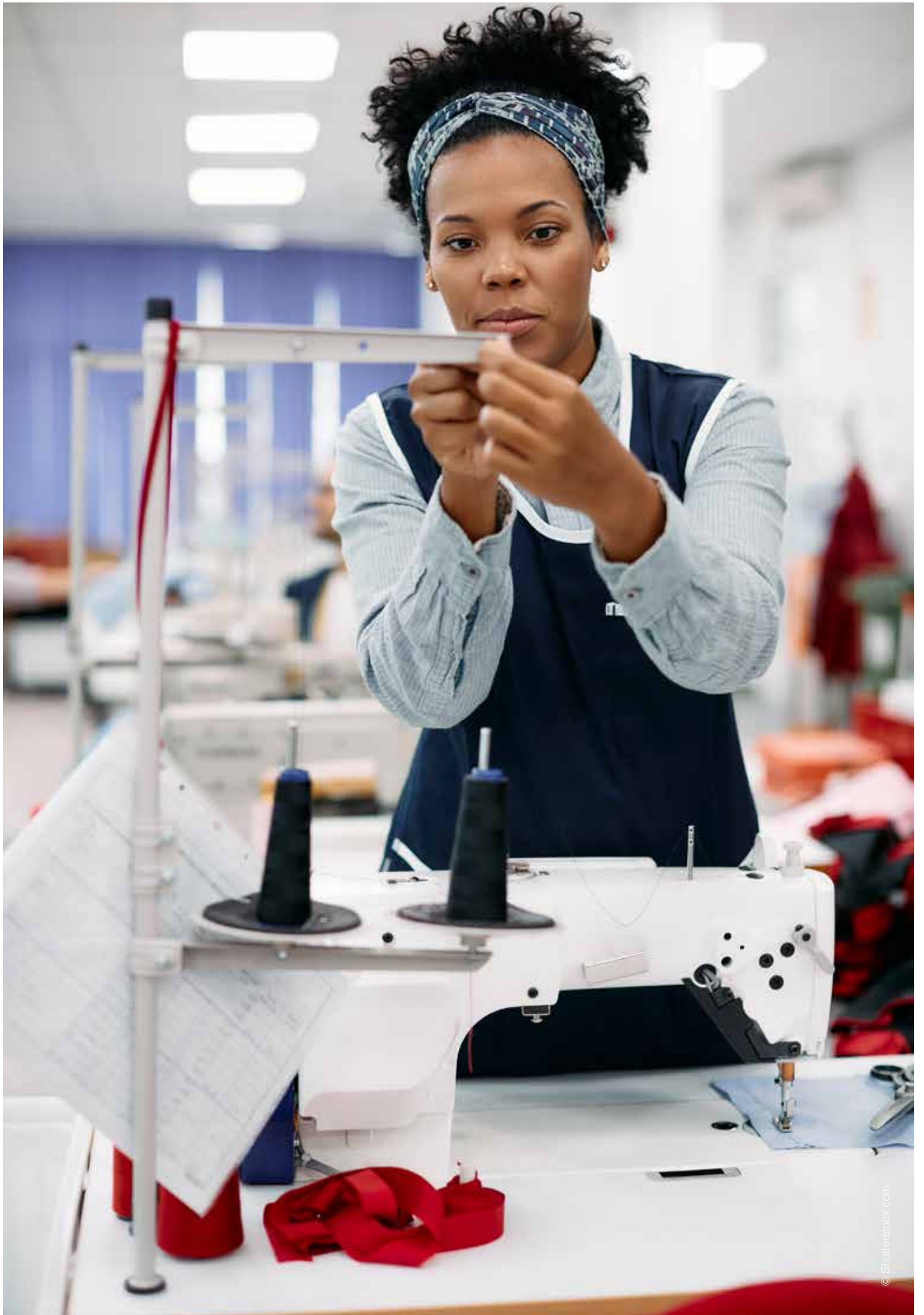
ITC is well positioned to provide insights into the status quo and identify opportunities and challenges that lie ahead, particularly for SMEs in the garment and textile sector. These firms, which have fewer resources and higher transaction costs than large companies, face a complex regulatory environment, considerable economic pressure and supply-chain disruptions.

The report therefore focuses on the effects of audit fatigue on SMEs, which have a higher resource burden than large facilities in navigating due diligence requirements by brands.

Using the ITC Standards Map and leveraging it to identify synergies and convergences opportunities between standards and audit systems makes it easier to understand the compatibility of SLCP with existing certification schemes and multistakeholder initiatives. It shows that with a common desire for alternative and more streamlined methods to traditional social auditing, sustainability initiatives can help reduce duplicative efforts.

Through a comprehensive examination of these issues, this report provides valuable insights into the effectiveness of current efforts and identifies strategies to address challenges associated with mandatory regulations.





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CHAPTER 1

Assessments and due diligence

Both human rights due diligence (HRDD) and social auditing are widely recognized as processes that help ensure that businesses operate ethically and responsibly.

HRDD emerged in response to growing concerns about the human rights impacts of companies in global supply chains.¹ HRDD has gained considerable attention and prominence in recent decades as a key framework for practically addressing the sustainability impacts of a company. Central to the HRDD process is the measurement of risk and impacts.

Social auditing in supply chains is used to identify labour and human rights risks and ensure that suppliers satisfy global, regional or company standards of ethical labour and supply-chain practices. By understanding the role of social assessments in the HRDD framework both conceptually and in practice, the need for social audits (as well as their limitations) in conducting meaningful HRDD becomes increasingly clear.

The rise of the social audit

Growing awareness and demand for corporate accountability and transparency preceded the creation of HRDD frameworks. With increasingly globalized supply chains, companies faced opportunities as well as challenges in understanding their supply chain and its impacts.

Corporate social responsibility in the late 20th century placed greater emphasis on the importance of company performance beyond financial matters and the need for its accountability. Social audits became normal practices for firms looking to understand and improve their social and environmental performance.

The garment and textile industry started to conduct supply-chain audits before other sectors.² These audits, more

resource-intensive than self-assessments, delve deeply into supplier operations from an external perspective, identifying areas of non-compliance and guiding improvements. Despite the considerable investments required, the essential role of social audits in verifying adherence to ethical standards justified these efforts.³

As companies unilaterally began developing their audit tools, systems and processes, private compliance initiatives and standards were developed to allow companies to outsource efforts and receive guidance and support on achieving their corporate social responsibility goals. Industry-specific standards and multistakeholder initiatives (MSIs) were designed to make it easier to collect social and labour information from the supply chain and apply it to a company's standards or code of conduct.

It became clear as social auditing systems became well established that there was a need to go beyond measurement of conditions to achieve the broader objective of ensuring business is conducted responsibly throughout the supply chain. With added stakeholder pressure, both from customers and non-governmental organizations, governments and investors, there was a need to standardize at an international level how businesses should approach responsible business conduct.

Normalizing human rights due diligence

Since 2011, the United Nations *Guiding Principles on Business and Human Rights* (UNGPs)⁴ and the Organisation for Economic Co-operation and Development's (OECD) *OECD Guidelines for Multinational Enterprises on Responsible Business Conduct*⁵ have provided useful frameworks for governments and companies seeking to address human rights challenges.

The principles place primary responsibility on governments to protect human rights, but also establish that private firms have a corollary duty to respect human rights. The UNGPs also describe HRDD as a broad risk-management process that requires companies to identify and assess actual and potential human rights impacts, integrate and act on the findings, track responses and communicate how impacts are addressed.⁶

While the concept of HRDD continues to evolve, its foundational principles of identifying, preventing and mitigating human rights risks associated with business activities have become widely accepted as essential components of responsible business conduct. However, the voluntary nature of HRDD under the UNGPs and *OECD Guidelines* have not led to sufficient progress.⁷

Box 1 Case study: OECD due diligence guidance and social assessments/audits

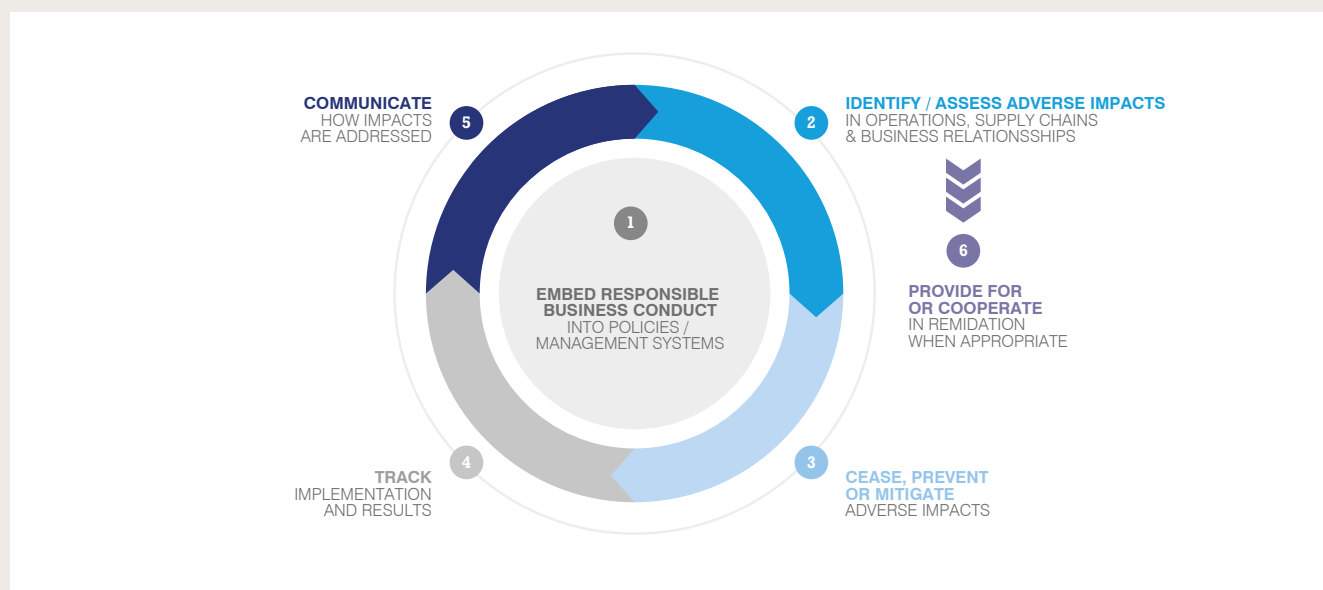
Social assessments, carried out punctually and following the correct guidance, are key for Steps 2 and 4 of the due diligence process (Figure 1). They provide a credible and actionable baseline dataset for companies to identify human rights risks in supply chains (Step 2) and to track the effectiveness of addressing these adverse risks through follow-up social assessments (Step 4).

In this line, it is worth noting that *OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector* mentions the role of social auditing, particularly for the two mentioned steps in the due diligence process.

Regarding Step 2, the OECD says collaborative efforts are needed that focus on harmonizing (and recognizing) social assessments and their methodology to reduce audit fatigue for suppliers, which would also improve the quality of assessments. It also says collaboration through industry initiatives or MSIs are especially important for SMEs and their engagement.

Regarding Step 4, the OECD guidance urges companies to support each other and work together to achieve high standards in (social) verifications, monitoring and validations. Additionally, it says that while conducting due diligence through an MSI, for example, the multistakeholder initiative should ensure alignment with the OECD guidance.

Figure 1 OECD guidelines on the HRDD process have six steps



Source: OECD (2018). *Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector*, p. 29 and 59.

Recognizing that many companies fail to embrace their responsibilities under the UNGPs and the *OECD Guidelines*, some governments have begun to assert greater regulatory control over the global operations of companies. On 24 April 2024, the European Parliament approved the Corporate Sustainability Due Diligence Directive, which European Union (EU) member states will have to adopt in the next two years.⁸

The directive lays down rules on ‘obligations for companies regarding actual and potential human rights adverse impacts and environmental adverse impacts, with respect to their own operations, the operations of their subsidiaries, and the operations carried out by their business partners in companies’ chains of activities’, as well as liability for violations of those obligations.⁹ In parallel, France, Germany, the Netherlands and Norway have established national legislation mandating HRDD, and other countries in Europe and elsewhere are working to enshrine similar legislation.

While this is a key step forward, the EU regulation and national laws on mandatory HRDD leave regulators and courts with the daunting challenge of determining what constitutes compliance.¹⁰ Because the provisions do not yet define substantive, industry-specific standards, government regulators (and soon, courts) will need to determine what actions could constitute compliance and non-compliance for a given industry.

This will include determining the role of a social audit in HRDD. This determination promises to be especially challenging given the fundamental complexity inherent in human rights standards themselves and the constraints in existing practices such as social auditing.

Limitations of social audits

Social auditing, while serving as a crucial mechanism for conducting HRDD, is not without its limitations.^{11 12}

One significant shortcoming is the inherent subjectivity and potential for bias in the assessment process. Social audits often rely on the interpretation of standards by auditors, which can introduce inconsistencies and variations in evaluation outcomes between auditors. This subjectivity may lead to disparities across audits of the same conditions in the same facility.

Transparency issues also plague social auditing, as the process and evaluation criteria are not always fully disclosed to stakeholders. This lack of transparency can undermine the credibility of audit findings and raise doubts about the independence and rigour of the auditing process.

Additionally, social audits typically have a limited scope, focusing on specific aspects of corporate social responsibility such as labour practices or environmental impacts. Consequently, they may fail to capture broader systemic issues or root causes underlying social and environmental challenges within a company’s operations or supply chain.

Conducting social audits can be resource-intensive, demanding considerable time, expertise and financial investment. SMEs or companies in developing countries may lack the necessary resources or capacity to undertake comprehensive social audits, hindering their ability to assess and improve corporate social responsibility practices.

Furthermore, social audits often prioritize compliance with corporate social responsibility standards and regulations over driving genuine improvements in social and environmental performance. This compliance orientation may lead companies to focus on meeting minimum requirements rather than addressing systemic issues or pursuing continuous improvement.

Stakeholder engagement, a cornerstone of HRDD, is limited in the traditional social auditing process. Meaningful participation from those in affected communities, workers and other stakeholders is essential to identify and address social and environmental problems. However, social audits may not always actively involve rightsholders. This can limit the ability of the audit to truly capture the perspective and experiences of those directly affected.

Even when social audits identify areas for improvement, they typically do not offer remediation. Addressing systemic issues related to labour rights, environmental sustainability or human rights often requires long-term commitments, dialogue, investments and changes in business practices. As such, while social auditing can provide valuable insights, it is essential to recognize its limitations and complement it with other HRDD tools to drive meaningful improvements in corporate social and environmental responsibility.

Excessive auditing creates fatigue and inefficiencies in supply chains

The impacts of relying on social auditing to conduct HRDD has become clear. One by-product is the emergence of 'audit fatigue' throughout the supply chain. Audit fatigue refers to the weariness and frustration experienced by suppliers who are subjected to repeated and often duplicative audits, assessments or evaluations, as well as the drain on their resources. This concept can occur in a variety of contexts, including social audits.

Audit fatigue may not only distract organizations from the primary goals of audits – self-improvement, transparency and compliance – but may also push them towards viewing audits as routine tasks to be completed as expediently as possible, sometimes resorting to fraudulent means.

Explorations into audit fatigue have highlighted its potential impact on audit outcomes, suggesting a complex

relationship between audit frequency and outcomes that warrants further research. This relationship underscores the need for innovative strategies to manage audit fatigue effectively, enhancing the reliability of audit outcomes and achieving true sustainability in supply chains.¹³

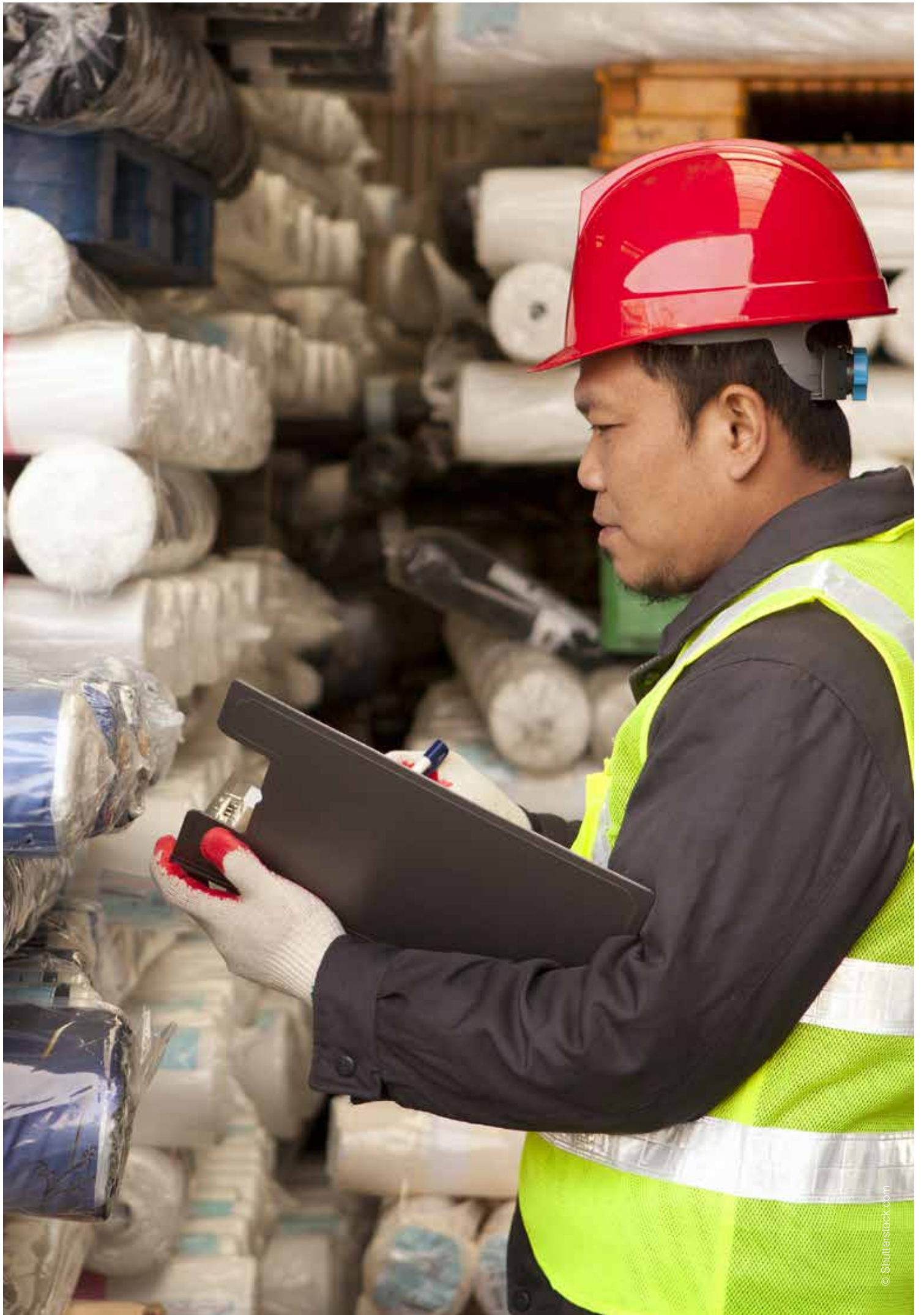
The problem of audit fatigue stems from the demand of companies, that often share the same suppliers, to conduct a specific audit based on their code of conduct. The garment industry, in particular, has faced significant audit fatigue due to the frequency of duplicate assessments and the focus on measurements to conduct HRDD.

As a result, suppliers face an increased drain on resources in understanding social assessments for export to global markets. The need for repetitive audits is a duplication of efforts that creates an administrative burden, especially for smaller suppliers with limited capacity or expertise to undertake multiple assessments. The impacts of audit fatigue are counter to the objectives of HRDD with a shifted focus from improvement to measurement and compliance.

CONCLUSION

The shared aims of conducting HRDD and social auditing remain highly interconnected; however, the shift from voluntary to mandatory HRDD regulations means there is greater attention on and scepticism about the role of the social audit.

With critics suggesting companies are relying too heavily on social audits, the expectation from regulators, investors and customers is that firms must go further than a social audit to do meaningful due diligence. The problem of audit fatigue, a key issue resulting from the overreliance on auditing, needs to be understood and then addressed so the focus of HRDD becomes improvement rather than measurement.



CHAPTER 2

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CHAPTER 2

SLCP as a solution to reduce audit fatigue

The textile industry has long grappled with audit fatigue. This condition not only exhausts resources, but also hampers meaningful advancements in workplace conditions. With the increase of mandatory HRDD laws, the need to tackle audit fatigue in the context of responsible purchasing practices has been sharply brought back to the fore.

SLCP and audit fatigue

The Social & Labor Convergence Program was created to improve social and labour conditions and to mitigate the redundancy of duplicative social and labour audits in the apparel and footwear industries. The initiative sought to prompt a paradigm shift by harmonizing audit processes through a unified tool, the CAF. The tool was designed to eliminate the inefficiencies of proprietary audits, foster greater transparency and empower manufacturers by granting them ownership of the data pertaining to their facilities.

SLCP has made major strides mitigating audit fatigue in the apparel sector. In eight years, the programme has amassed upwards of 250 signatories and has been implemented in more than 60 countries.

A testament to its efficacy, 14,000 facilities have completed an SLCP assessment, highlighting the widespread industry acceptance of the initiative. The programme's impact was further solidified by its endorsement by more than 85 brands and retailers who publicly committed to accepting SLCP data. Moreover, several standard initiatives – such as the Higg Facility Social & Labor Module – now accept or have integrated SLCP's CAF into their systems. This alignment extends to collaborations with organizations such as the Fair Wear Foundation, amplifying the programme's impact on HRDD approaches.

Journey towards easing audit fatigue

Despite these promising and tangible improvements, the journey to reduce audit fatigue is far from complete. There are many benefits, but the pace at which brands, retailers and MSIs are embracing the tools and methodologies advocated by SLCP and others is less than optimal. To diminish the audit burden on suppliers and manufacturers effectively, a broader industry-wide adoption of SLCP's principles and tools is imperative.

Reducing the frequency of audits could redirect attention and resources towards major workplace improvements, including the wage raises, the introduction of new services for workers and contributions that have a positive ripple effect on the wider community. The SLCP's *Impact Report 2023* reiterates the need for greater industry convergence to ease the audit load on suppliers and manufacturers. With 27% more facilities completing an SLCP assessment in 2023 compared to the previous year, the potential for industry-wide impact is substantial.

The CAF as a possible solution

The CAF empowers manufacturers, ensures data integrity and opens the door to more transparent and resilient supply chains. This model of convergence not only enhances buyer–supplier relationships, but also fosters an environment where investments in the workplace lead to systemic improvements in labour conditions.

The more brands a facility supplies, the more social and labour audits it can face. This can leave little resources to address the issues these tools were designed to detect.

With the CAF, one annual verification can replace multiple annual audits. The facilities can thus free up resources by reducing assessments and verification days and by sharing the data with multiple brands and other stakeholders.

Unlocked resources can then be used to address the social and labour issues identified through the data collection and verification processes.

Box 2 Steps of the Converged Assessment Framework

The Converged Assessment Framework is the common framework that encompasses SLCP assessments. Facilities can decide how deeply to go in their assessments by selecting which Step of the tool they want to complete.

What is included in each Step of the CAF?

■ Step 1: Essential

Focuses on key social and labour compliance questions, mostly connected to international labour standards and national labour laws.

■ Step 2: Progressive

Focuses on management systems and questions that are additional to and/or supportive of social and labour compliance questions, but less critical. These questions are often found in social industry/certification/brand standards

■ Step 3: Advanced

Questions that go above and beyond social responsibility industry standards, are not required by national or international law, and seek to elevate workplace well-being and community impact.

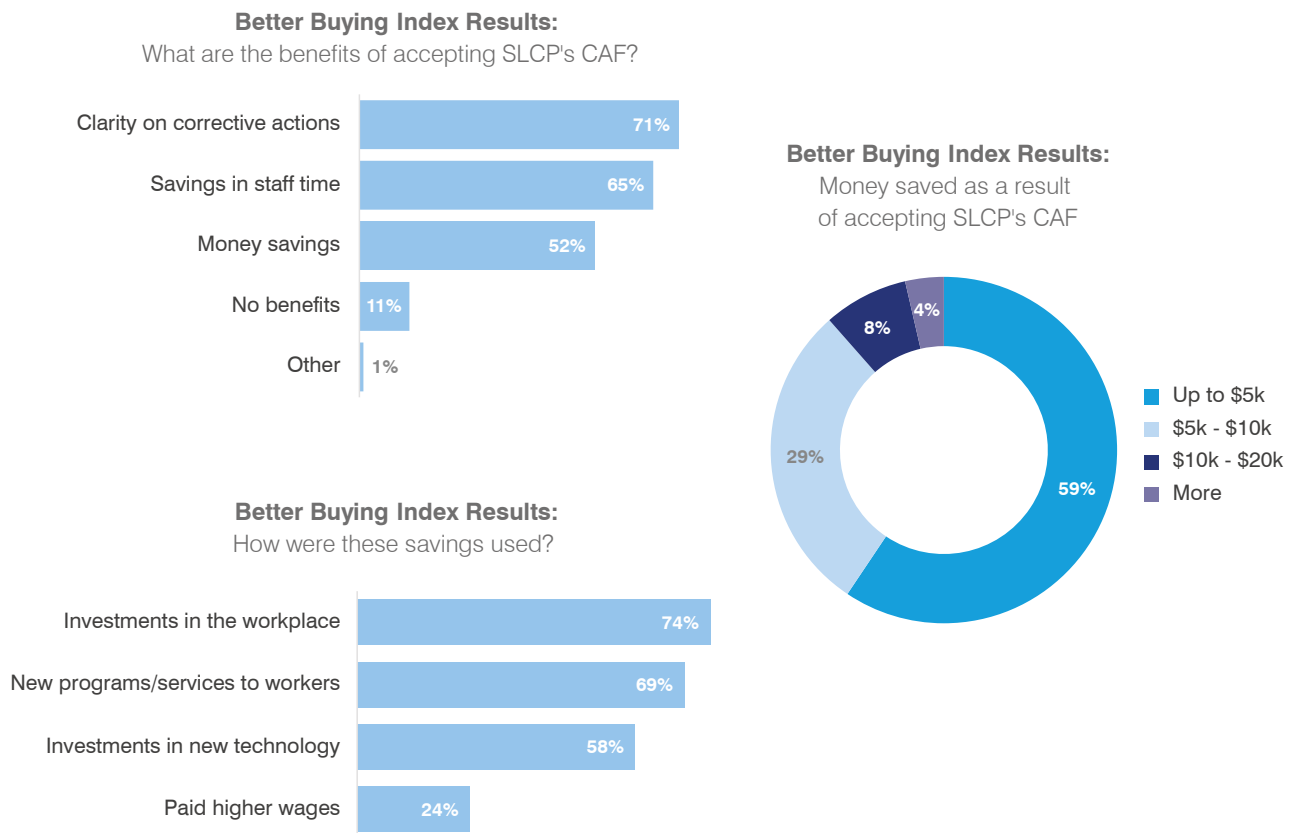
Savings are reinvested to improve the workplace

SLCP is advancing from its initial stage equipped with the knowledge that reporting impacts is critical to maintain the industry momentum evident since its inception. Aware that reporting impacts takes time, SLCP developed a methodology to calculate the degree to which the CAF unlocks resources to improve working conditions.

Using this methodology, SLCP estimated the potential annual cost savings for CAF users at \$10 million to \$25 million in 2019–2021. The methodology was reviewed in 2023 and the calculation was updated to capture the costs and benefits of implementing the CAF more accurately.¹⁴ Based on this updated methodology, an estimated \$26 million was unlocked for CAF users in 2023.¹⁵

Growing evidence suggests that SLCP is beginning to achieve its mission of shifting resources from auditing to improving working conditions. Findings show that 65% of SLCP signatories reduced staff time devoted to auditing and 52% of signatories saved money in auditing expenses. Many signatories reported saving thousands (up to \$20,000) due to their buyers accepting SLCP data. Even more positive is that these savings are reportedly being reinvested in workplace improvements, new programmes for workers and better compensation.¹⁶

As SLCP continues to grow, the data collected are becoming increasingly meaningful. According to research from the Better Buying Institute, 74% of these savings are reinvested into the workplace, with 24% going towards higher wages. This reinvestment underscores the potential of SLCP's approach to bring about substantive improvements in working conditions and foster a culture of respect and security in the global supply chain.

Figure 2 CAF bring a range of benefits to the workplace

Note: Data are from 2023.

Source: Better Buying Purchasing Practices Index (2023). See <https://betterbuying.org/download/bbppi-2023-audit-harmonization/?wpdmdl=2557&refresh=65c3420b9ba411707295243>

CONCLUSION

Audit fatigue is an obstacle to rising demand for transparency and traceability in social and labour conditions in the apparel and textiles manufacturing industry. SLCP's CAF can decrease audit fatigue by using convergence to enhance buyer-supplier relationships and fostering better working conditions by unlocking resources that were originally focused on duplicative social audits.





CHAPTER 3

Audit fatigue in the context of SLCP assessments

Social and labour audits at facilities using SLCP have declined 16

Facilities of all sizes using SLCP conduct fewer social audits 17

Repeat SLCP users 18

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CHAPTER 3

Audit fatigue in the context of SLCP assessments

In 2023, SLCP reached a milestone in adoption: 22,900 assessments had been conducted since the launch of light operations in 2018, with over 13,000 registered facilities as current and potential users. This number of assessments, coupled with the comprehensive questions found in the CAF, provide a considerable sample to confirm the reduction of duplicative social audits in facilities that conduct SLCP assessments.

SLCP has reached a maturity point. As of June 2024, over 90 brands accepted the CAF for their due diligence monitoring requirements and 12,955 facilities were registered on the SLCP Gateway. This increase in adoption builds confidence and trust in SLCP's efforts to provide a comprehensive set of data for monitoring the state of working conditions in textile and apparel supply chains worldwide.

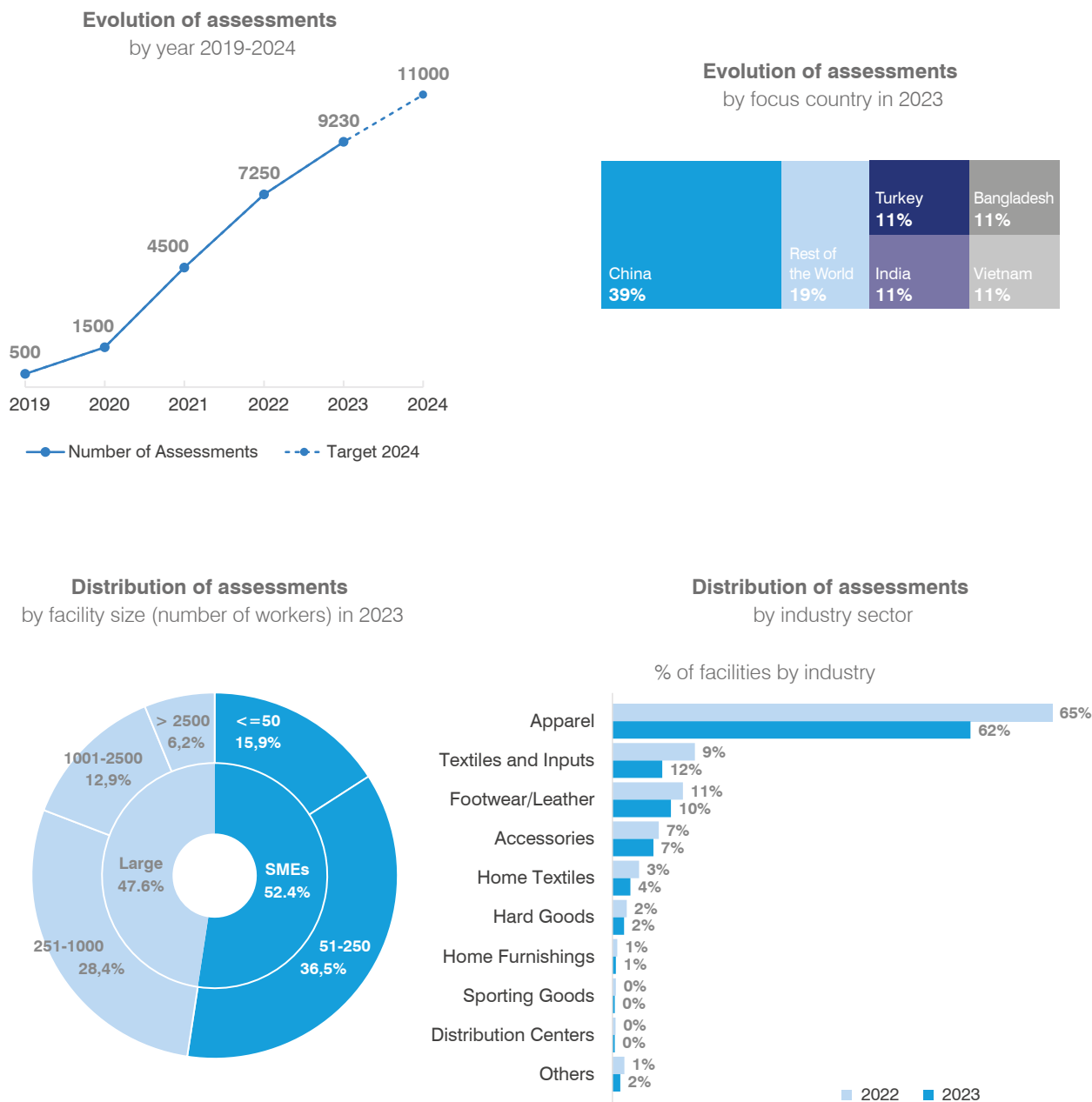
In this chapter, we analyse CAF data to offer insights on audits and certifications conducted by facilities in parallel to SLCP assessments.

The number of assessments conducted has grown steadily since light operations began in 2018. Adoption grew by 27% in 2023 over 2022 and the year ended at 9,230 assessments. SLCP is on track to reach the 2024 target of 11,000 assessments. As Figure 3 shows, 52% of assessed facilities are SMEs, showing that the CAF can serve any facility irrespective of size.

The CAF provides data points to deliver insights on how facilities conduct other social audits and carry different certifications.¹⁷ This analysis used data in 2021–2023, including 15,000 assessments, accounting for 73%¹⁸ of the total number of assessments available. These data were cross-checked with the results of different surveys conducted among SLCP users – manufacturers mainly – to ascertain the level of duplicative audits in the facilities in where SLCP operates.

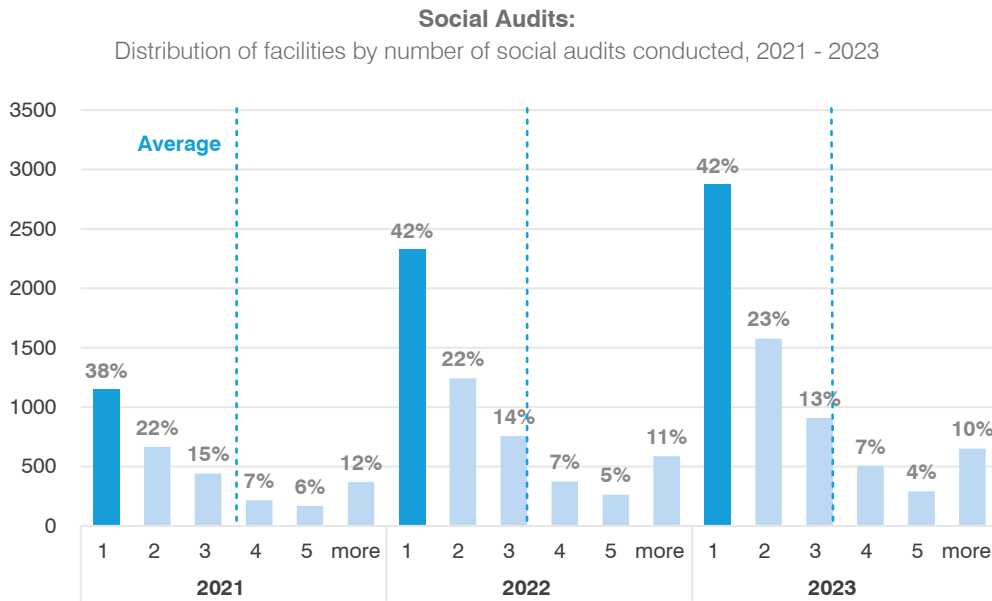


Figure 3 SLCP adoption at a glance



Source: Own calculations based on SLCP assessments in 2023.

Figure 4 Distribution of facilities by number of social audits conducted



Source: Own calculations based on SLCP assessments, 2021–2023.

Social and labour audits at facilities using SLCP have declined

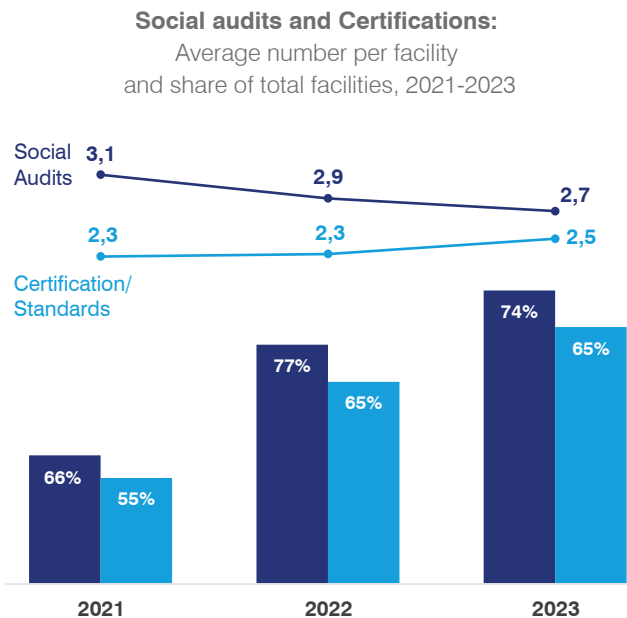
The number of social audits varies across facilities. More than half of the facilities conduct one or two social audits per year, with only 10% conducting six or more. The distribution across the years has shifted from three audits (15% to 13% between 2021 and 2023) to one audit (38% to 42% between 2021 and 2023) (Figure 4).

The average number of social audits across facilities using the CAF has decreased by 13% in the past three years, falling from 3.1 in 2021 to 2.7 in 2023. Conversely, certifications and standards among facilities using the CAF have increased by almost 9%, raising the average from 2.3 to 2.5 in 2023, even though adoption has advanced in the past three years.

The decrease in social audits is also visible in the countries where SLCP operates. While adoption rose, the average number of social audits declined in all countries except Bangladesh, which also has the highest average number of social audits across all SLCP countries.

Facilities also recognize the impact of SLCP and the CAF in reducing social audits. A 2023 Manaus survey of 439 respondents found that the number of social audits at 33% of facilities decreased since they started using SLCP.

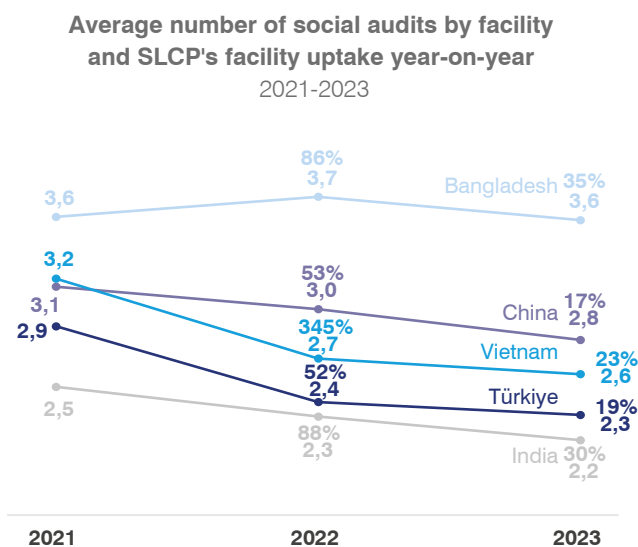
Figure 5 Distribution of facilities by number of social audits conducted



Note: The bars signify the percentages of facilities that responded to questions about social audits (dark blue) and certifications and standards (light blue).

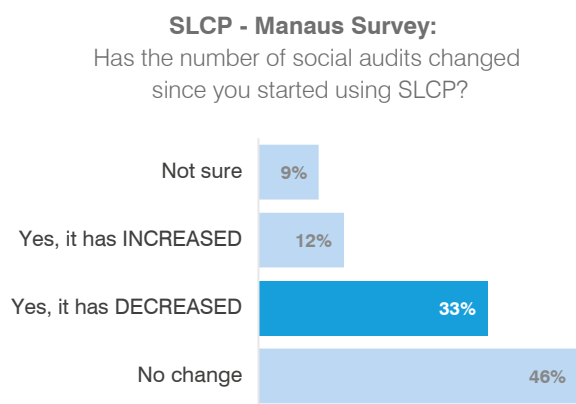
Source: Own calculations based on SLCP assessments, 2021–2023.

Figure 6 Social audits in SLCP focus countries



Source: Own calculations based on SLCP assessments, 2021–2023.

Figure 7 Audits fell at 33% of facilities using SLCP and rose at 12%

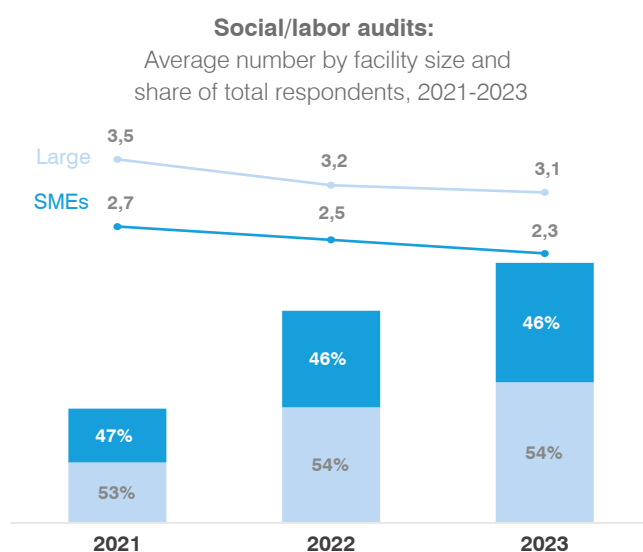


Source: SLCP-Manaus survey, 2023.

Facilities of all sizes using SLCP conduct fewer social audits

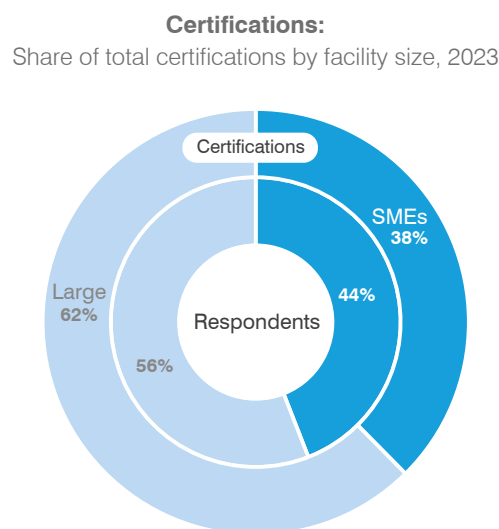
Social audits dropped at both large facilities and SMEs¹⁹ in 2021–2023, according to the assessment data. However, larger facilities tended to conduct more social audits and have more certifications: on average, they have 3.1 assessments a year, with the number of audits down 11% since 2021. In contrast, the number of assessments

Figure 8 Social/labour audits



Source: Own calculations based on SLCP assessments, 2021–2023.

Figure 9 Certifications



Source: Own calculations based on SLCP assessments, 2021–2023

among SMEs fell almost 15% between 2021 and 2023 to 2.3 a year (Figure 8).

Large facilities held 62% of total certifications active and available in 2023 (Figure 9) – the same as in 2021. SMEs face more technical constraints than their larger counterparts and lack the capacity to fulfill the requirements needed to conduct more audits and assessments. See Chapter 4 for more insights on SMEs and the impact of audit fatigue.

Repeat SLCP users

Individual brand audits have decreased among repeat CAF users. However, the rise of social compliance certifications calls for more convergence across MSIs and other standards.

Repeat users are facilities that have previously conducted an SLCP assessment. In the context of this publication, repeat users are facilities that have completed assessments for three consecutive years. In 2023, they represented 31% of total SLCP facilities.

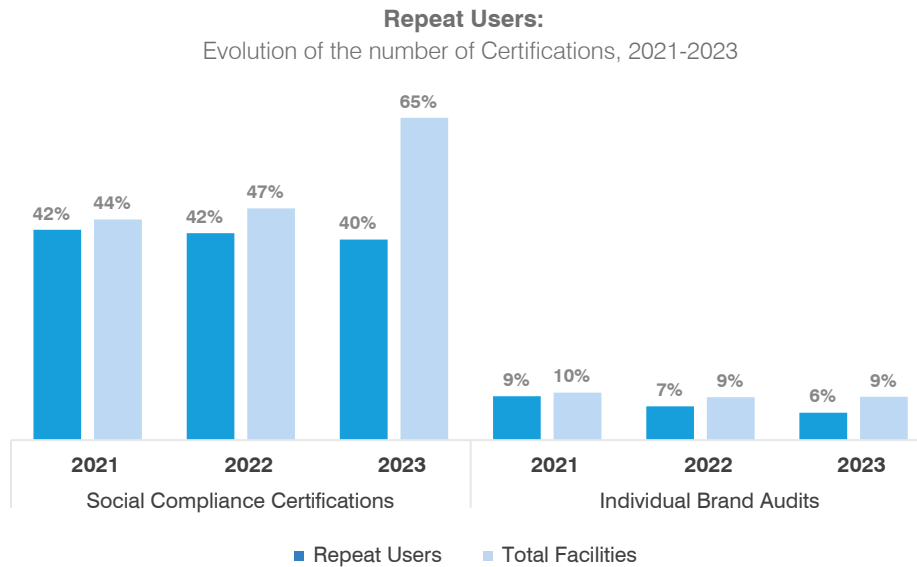
When analysing the types of certifications and social audits conducted by facilities, the number of social compliance certifications²⁰ among repeat users declined by 5%, amounting to 40% of all certifications carried and held by facilities in 2023 (Figure 10). Facilities generally increased their total certifications on social audit programmes by 46%

(39%), reaching 65% of the total number of certifications held by facilities in 2023.

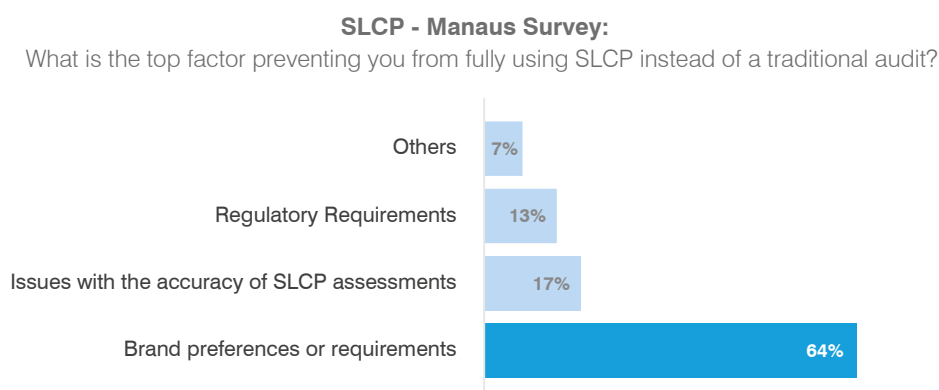
Alignment and convergence with other MSIs can help facilities benefit from an all-in-one tool that provides a robust dataset in social and labour conditions that can be mapped against different standards and certifications, offering savings in time and resources. This theme will be discussed in more detail in Chapter 5.

Repeat users are also less likely to declare individual proprietary brand audits than new facilities. One reason this can occur is that more brands accept SLCP than previously. According to the SLCP-Manaus survey on resources unlocked, 64% of respondents said brand preferences prevented them from fully using SLCP (Figure 11). SLCP is working to onboard more brands to replace proprietary brand audits, further reducing duplicative audits.

Figure 10 Repeat users



Source: Own calculations based on SLCP assessments, 2021–2023.

Figure 11 Prevention factors

Source: SLCP-Manaus survey, 2023.

CONCLUSION

With increased facility uptake and brand onboarding, SLCP helps reduce duplicative audits by providing a robust tool that can be mapped against codes of conduct and scoring needs of different stakeholders. However, further convergence is needed across other MSIs and brands to reduce repetitive audits, use the benefits for proper remediation and eventually improve working conditions in the value chains.



CHAPTER 4

SLCP and resources unlocked in the context of SMEs

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Challenges for SMEs	24
SLCP as a tool to boost SMEs' knowledge and technical skills.....	25
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CHAPTER 4

SLCP and resources unlocked in the context of SMEs

The SLCP tool is clearly relevant for SMEs, which completed more than half of all assessments in 2023. Repeat users of the tool benefit through the progression of steps that can result in the creation of effective management systems. This benefits SMEs in particular, as they often lack support²¹ to implement these systems, without which they cannot effectively monitor progress and improve processes to achieve long-term objectives.

Management systems are also linked to a reduction in legal non-compliance, which is promising in light of the need for SMEs to navigate newly introduced due diligence regulations. Some SLCP signatories already report fewer audits conducted annually, less staff time allocated for auditing and lower auditing expenses. Most promising are reports of these savings being reinvested into workplace improvements, new programmes for workers and higher wages.

Findings to date thus show that SLCP can help all facilities – regardless of size – unlock resources and reinvest those resources to improve working conditions, especially if the right systems are in place.

SLCP and SMEs

In 2023, 9,230 facilities used the SLCP CAF tool and SMEs completed 52% of all SLCP assessments.²² These figures show the broad applicability of the tool, but does SLCP offer the same benefits for SMEs as it does for larger organizations?

Unlocking resources that would otherwise be used for multiple audits can lead to better working conditions, but there are, of course, other factors to consider – especially for SMEs. Improving working conditions requires not only resources, but technical know-how alongside sound management systems to monitor implementation and continuously enhance processes to reach long-term goals.

While SMEs often lack the same degree of resources, skills and technical capacity as larger firms, their significance should not be understated. SMEs play a predominant role in the garment and footwear sector and contribute to economic growth by creating jobs and promoting innovation and economic diversification.

SMEs also provide employment opportunities for vulnerable groups including migrants, women, youths and older workers.²³ The Asia-Pacific Economic Cooperation reported that at least 80% of the 13–15 million workers in China's textile and garment SMEs were migrant workers from rural areas.²⁴

Furthermore, SMEs contribute to the entire production chain. If quality requirements are met, they provide supplementary production capacity by supporting orders given to large enterprises through contracting and subcontracting. SMEs are also better placed for specialization (e.g. accessories, design, parts supply), providing a competitive edge to the industry.

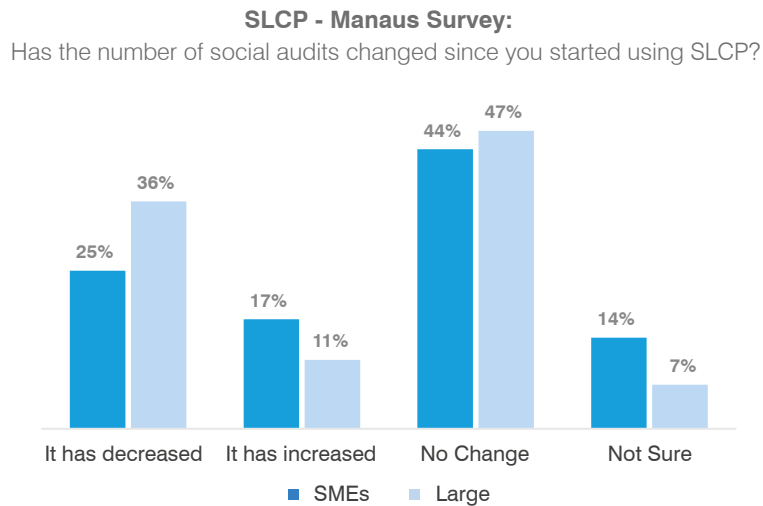
Long-term benefits

While the SLCP assessment process may be perceived as time consuming and costly, the longer-term benefits must be considered. Given the significance and uptake of SLCP, SMEs are a vital component in achieving its long-term objective. As an MSI, SLCP regularly conducts signatory surveys that loop back into its continuous improvement model.

Almost a quarter of the 439 facilities,²⁵ that responded to the SLCP-Manaus survey on resources unlocked were SMEs.²⁶ Chapter 3 already noted a positive result in terms of reducing the number of social audits. When disaggregating this by size, 25% of SMEs employing up to 250 people and 36% of large facilities employing more than 250 people perceive that the number of audits has declined (Figure 12).

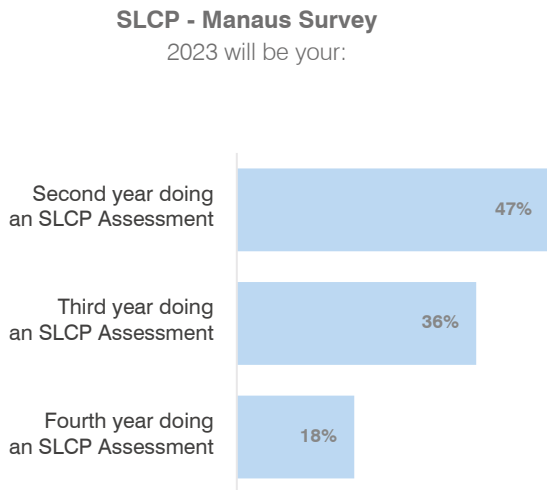
These findings show that the number of social audits fell by 33% among respondents and illustrate the need for increased brand uptake of SLCP.

Figure 12 Number of social audits by facility size



Source: SLCP-Manaus survey, 2023.

Figure 13 Repeat users among SMEs

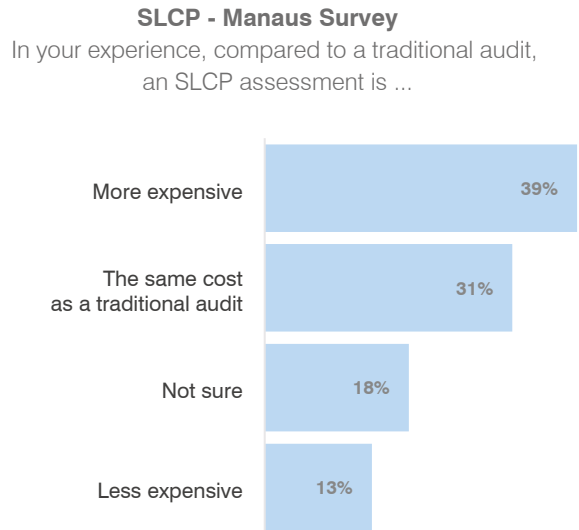


Source: SLCP-Manaus survey, 2023.

Almost half of the respondents reported being in their second year of conducting an SLCP self-assessment, with 36% in their third year and about 18% in their fourth year (Figure 13). These numbers are indicative of SLCP's growth.

While nearly 31% of respondents said the cost of SLCP was on par with a traditional social audit, 39% said it was more

Figure 14 Cost perception of SMEs



Source: SLCP-Manaus survey, 2023.

expensive than a traditional audit (Figure 14). This may be because SLCP is more resource intensive in the first year or two as facilities adapt to the process. As systems and processes become more established, facilities are likely to start saving resources. In any case, if the number of annual social audits at a facility declines, the facility will inarguably free up resources.

Challenges for SMEs

SMEs often have fewer resources (e.g. finance, skilled labour, access to markets and market information, technology) than larger companies as well as higher transaction costs and inadequate access to networks for information sharing.²⁷ They are also more susceptible to challenging economic conditions brought about by, *inter alia*, the increase in geopolitical tensions, stricter monetary and fiscal policy, and supply-chain disruptions (e.g. delays in receipt of supplies and higher shipping costs).²⁸

While such factors are beyond the direct control of a facility, sound management systems can help a facility to assess, identify and mitigate risk, monitor progress and track improvements.

SMEs may struggle to navigate the legal environment and to operationalize regulatory frameworks, which are a critical component in Step 1 of the CAF tool. Reflecting this, SLCP reports a high degree of legal non-compliance identified in assessments conducted by SMEs. In 2023, 95% of SMEs that completed an SLCP assessment had at least one legal non-compliance²⁹.

The *SLCP Impact Report 2023* found an average gap of 1.3 legal non-compliances between SMEs and larger facilities. This suggests that navigating regulatory frameworks can be challenging for all facilities if the

right systems are not adopted. Interestingly, facilities that complete Step 2 of the CAF (which focuses on management systems) show less legal non-compliance in Step 1, which suggests a correlation between established management systems and compliance with regulatory requirements.³⁰

In 2020, the OECD published the findings of a survey about the nature of SMEs, their sourcing models and due diligence practices. The survey was carried out over six months in multiple languages across primarily Tier 1 suppliers in the supply chain. The primary business activity of most respondents was manufacturing (60%).³¹

A third of respondents said they had no responsible business conduct policy or tool in place. Rather, many SMEs draw on supplier self-assessments, certification and contract terms and requirements to guide their business practices. Very few collect responsible business conduct information or even basic information about their supplier production sites. The information they obtain typically comes from partnerships and information from peer companies and business associations.³²

The absence of established management systems could be a factor contributing to these findings. Management systems are integral to achieve good business practices as they help to establish, implement and oversee an organization's policies, procedures and processes.



SLCP as a tool to boost SMEs' knowledge and technical skills

SLCP can increase the knowledge and technical skills of SMEs through training, use of the tool and then establishment of effective management systems as users progress from Step 1 to Step 2 and on to Step 3. A wide range of support is available for facilities undergoing an SLCP assessment through regular training, FAQs on the SLCP website, protocols, guidance documents and surveys for continuous improvement.

Survey findings show that the support offered by SLCP is widely used. Of the 439 respondents who participated in the SLCP-Manaus survey, 68% reported that the resources most used to complete the self-assessment were the online FAQs, which are available in English, Turkish, Chinese and Vietnamese. This reveals a high degree of accessibility to

and usability of the guidance, training and support offered by SLCP for all facilities completing an assessment.

SLCP also contributes to the creation of effective management systems, which enable organizations to identify specific risks to their operations, monitor procedures and processes, and promote continuous improvement. As previously noted, findings from *SLCP Impact Report 2023* suggest a correlation between management systems and greater compliance with regulatory requirements.³³ Findings also show that repeat users of the CAF are more committed to the SLCP process, with 86% moving to Step 2 (management systems) or Step 3 (above and beyond), while only 14% remain at Step 1.

This suggests that the CAF helps increase facilities' capacity to strengthen management systems. In this sense, the CAF can function as a capacity-building tool for SMEs to improve continuously.

CONCLUSION

SMEs that adopt SLCP will probably not realize its true benefits for two or three years. Resources will unlock as the firm becomes more familiar with the assessment and verification processes. Once the facility learns more about the process and new regulatory frameworks are introduced (e.g. HRDD), it is more likely to complete a more extensive assessment, moving from Step 1 to Step 2 or 3, which promote the creation and adoption of effective management systems.

Having the right systems in place increases the capacity of SMEs to identify and mitigate risk, monitor and track progress, and improve. As SMEs begin to see real savings from freed-up resources that were previously spent on duplicative and repetitive audits, those with sound management systems in place will be able to effectively allocate these savings to improve working conditions.



CHAPTER 5

Compatibility with MSIs and sustainability standards

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- Challenges ahead for sustainability standards 28
 - The need for evolution 28
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CHAPTER 5

Compatibility with MSIs and sustainability standards

A limited number of multistakeholder initiatives and voluntary sustainability standards accept SLCP data. This is probably due to the diversity of MSIs and certification design, the context-specific nature of MSIs and sustainability standards, and established quality assurance processes and mechanisms.

Yet, evidence of the on-the-ground impacts of standards and MSIs is often inconclusive. Convergence with SLCP would benefit sustainability standards by freeing up resources that could then be directed towards improved performance, data transparency and sustainability outcomes.

SLCP and voluntary initiatives today

As of May 2024, SLCP had 268 signatories, including 30 MSIs, standard holders and civil society organizations. The only standards that accept SLCP data are Fair Trade USA and Higg Facility Social & Labor Module, though negotiations with other standard holders are advancing. Alignment efforts are underway with amfori Business Social Compliance Initiative and the Fair Wear Foundation.

SLCP's vision is to be an open source of data for an unlimited number of sustainability standards and for these organizations to use SLCP's verified data as part of their HRDD approach.³⁴

'Our partnership with SLCP and integration of audits data will enable brands to identify risks and drive effective solutions for addressing human rights issues in their supply chains.'

Hester Janssens, Stakeholder Engagement and Partnership Manager, Fair Wear Foundation

Challenges ahead for sustainability standards

The need for evolution

Sustainability standards will need to evolve to meet the challenging demands of a post-pandemic world. COVID-19 was a harsh reminder of the interconnectivity between humanity and the Earth's ecosystems. The pandemic reversed 20 years of sustainability efforts and progress, with some regions, for example, experiencing substantial increases in child labour. The number of children working globally escalated by 8.4 million from 2016 to 2020³⁵ as families prioritized meeting basic needs over education. The world's most vulnerable are increasingly exposed to modern slavery and poor working conditions as they struggle to survive and gender inequality rises.³⁶

Another factor in the aftermath of the pandemic is what has been coined the Fourth Industrial Revolution – a digitalization of supply chains aimed at mitigating future supply-chain disruptions. However, advancements in technology typically benefit those able to navigate a digital industry landscape.

More vulnerable regions and actors lacking the necessary skills and technology face increased exclusion. This means sustainability standards will need to identify ways they can effectively support these important supply-chain actors. The objective of these new technologies must be to collect timely, accurate, complete and reliable data.³⁷

Another reason sustainability standards must evolve and adapt is that evidence showing their sustainability impacts on the ground is inconclusive, primarily due to the significant variation in standards' design as well as their context-specific nature.³⁸

Regulatory frameworks

New regulatory frameworks have emerged against this backdrop, such as mandatory due diligence requirements alongside evolving national and local laws and regulations. As a result, sustainability standards must not only meet growing demands on sustainability, value-chain transparency and SME inclusion, but also calls for a more targeted response to the rising importance of crisis management (e.g. climate change adaptation).³⁹ In response, these adaptive elements are typically integrated into a certification scheme's processes and methodologies, creating even more variations in the design of sustainability standards.

Compliance

A 2022 study by the Leuven Centre for Global Governance found that compliance is an important link between the design of sustainability standards and their impacts on the ground.⁴⁰ The three pathways identified for the design of standards to foster compliance are enforcement, market-based incentives (rewarding compliance) and capacity building.

From an analysis of 13 sustainability standards, the study⁴¹ identified considerable diversity in the methods used to ensure compliance. It therefore stands to reason that the emphasis on compliance in standards achieving positive impacts, and the degree of diversity identified in standards' design, compliance methodologies and actual impacts on the ground, feed into hesitation among sustainability

standards to leave their proprietary tools behind⁴² and adopt SLCP. The diversity in design and assurance methodologies inherent in sustainability standards stands in stark contrast to the notion of convergence.

Data quality and integrity

Proprietary compliance methodologies unique to any particular standard could feed concerns that other compliance methods may not be as rigorous. Uptake of SLCP first requires a rigorous investigation into alignment of not only the sustainability requirements, but also quality-assurance mechanisms and technology systems. This helps to identify gaps and highlights areas that need updating to ensure compatibility.

Investigating alignment

Another challenge is the need for a detailed mapping of data points/requirements, quality-assurance mechanisms and technology systems between SLCP and sustainability standards. The CAF has an extensive pool of data points that typically align with more than one standard requirement. This makes mapping sustainability standards to SLCP a complex process that requires a thorough understanding of both systems.

In addition to mapping, clear communication and support materials for users of the tools are necessary to drive successful convergence. Both factors require considerable time and resources.



Opportunities

Convergence and alignment

SLCP's 2024–2028 Strategic Plan prioritizes, among other things, greater convergence and alignment with sustainability standards to further develop SLCP's ecosystem of partners and service providers.⁴³ As an MSI, SLCP draws on signatories and other stakeholders for feedback and suggestions for improvement. Advancements in technology will enable SLCP to incorporate features into its platforms such as bulk uploading of supply-chain data, mapping tools to support compatibility of the CAF with existing standards and decision frameworks (including HRDD).

Regulatory frameworks

Sustainability standards play a role in achieving successful implementation and enforcement of due diligence legislation through implementation of sustainability requirements focused on issues related to human rights, the provision of data to inform risk assessments related to HRDD and by promoting existing infrastructure such as grievance mechanisms to support due diligence accountability.⁴⁴

SLCP also fills this role by collecting an extensive amount of social and labour data (including on compliance with national labour laws and international labour standards) and by providing a platform to share these data among multiple users to help inform risk. To help users understand the link between HRDD and the CAF, SLCP has developed an HRDD toolkit for companies to better understand how SLCP assessments can support implementation of HRDD in their supply chains.⁴⁵

Many sustainability standards – including Fairtrade International, the Fair Wear Foundation and the Initiative for Social Compliance – are also developing toolkits and guidance for companies to understand and implement HRDD in their supply chains.

Multistakeholder initiatives

Differences in the design of sustainability standards mean consultation mechanisms can exclude certain stakeholders while overrepresenting others. This creates an opportunity for greater equitable stakeholder input in standard development/improvements and accountability in processes.⁴⁶ Initiatives such as SLCP are premised on stakeholder involvement, whereby all signatories are given a voice and seat at the table.

Data quality and integrity

More convergence with sustainability standards would strengthen existing quality processes, thereby making the integrity of the data collected even more robust.

Supplier data alignment

Given the regulatory changes discussed above, brands increasingly advocate a move towards one standard dataset for social and labour compliance data. Today, brands use data from SLCP as well as other MSIs and sustainability standards. These diverse datasets lead to challenges and higher costs for both the brands and the facilities. By aligning with and accepting SLCP data, sustainability standards can focus on providing more capacity building and incentives, while reducing the costs of compliance.

CONCLUSION

Until recently, social auditing in supply chains has been the common method for understanding labour and human rights risks. However, overreliance on social auditing has led to inconsistent findings, a lack of transparency, resource drain and audit fatigue, as organizations find themselves undergoing multiple annual audits, conducted by different auditing companies, to meet the requirements of multiple customers.

Sustainability standards have taken centre stage in social auditing with the aim of reaching higher than – and sometimes compensating for – inadequate national regulation. The diversity and proliferation of standards can run counter to the notion of convergence and, consequently, standards can be reluctant to leave their proprietary tools behind and move towards mutual recognition and alignment.

Despite this lack of alignment, the landscape is evolving. Measuring conditions at an organization has morphed into the broader objective of supply-chain responsibility and transparency. With this shift comes the introduction of regulatory frameworks and international guidelines, such as HRDD, aimed at requiring companies to identify and assess actual and potential human rights impacts, integrate and act on the findings, track responses and communicate how impacts are addressed – not only in their own operations, but across their supply chains.

Navigating regulatory frameworks, coupled with the already burdensome nature of social audits, poses an even more exacting experience for more vulnerable actors such as SMEs. As such, this changing regulatory landscape and environment of increasing requirements for small businesses will likely raise pressure on sustainability standards to align and reduce system redundancies.

At the same time, demand for open, reliable and harmonized social compliance data will probably rise in response to these regulatory requirements. To this end, ITC can play an instrumental role in leveraging its Standards Map database to support alignment efforts with multistakeholder initiatives and sustainability standards in a neutral, transparent and inclusive manner.

The Standards Map provides the world's largest database on sustainability standards, gathering a pool of thousands of data on sustainability. It underpins inter alia the work of SLCP on CAF, but also helps facilitate many comparisons as well as convergence and benchmarking efforts of sustainability standards in different industries. This increases the transparency of and accessibility to sustainability standards, which enables important collaborations and technical synergies in key sustainability aspects.

Through greater data alignment, the industry can be a true catalyst for greater savings of resources and the redirection of those resources towards achieving real change. Better aligning data and pooling resources would shift the onus from sustainability standards and MSIs to enhance SME inclusion, improve value-chain transparency and meet growing demands for sustainability.

Sustainability standards' processes would automatically be more transparent and they, along with MSIs, would be able to provide valuable input into SLCP data-collection processes, compliance methodologies and quality-assurance systems. Collaborating would underpin efforts to implement and enforce human rights due diligence legislation through the extensive collection of social and labour data, and by providing the platform to share these data among multiple users to help inform risk.



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