

Social Accountability Audits: Challenging or Defending Democratic Governance?*

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Current criticisms of the role of audit in society have painted a bleak picture about its use as a regulatory tool, highlighting negative consequences for democratic governance. This paper examines social accountability audits in light of these concerns. Two case studies of social certification systems are examined in detail: Fairtrade Labelling Organizations International (FLO) and Social Accountability International (SAI). These systems are evaluated using the lenses of accountability, ownership, trust, and reflexivity before concluding that social auditing processes, if done well and situated within stakeholder-based institutions such as FLO and SAI, can aid democratic and legitimate governance processes.

I. INTRODUCTION

With the rise of corporate social responsibility, a dazzling array of initiatives to integrate social justice issues into business practices have been established, ranging from self-regulatory approaches with company self-declarations to sophisticated private regulatory systems based on independent third-party certification. The latter category includes international initiatives such as the Fairtrade Labelling Organisations International (FLO), with its certification

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and labeling program allowing consumers to identify fairly traded products such as coffee, tea, cocoa, honey, sugar, and bananas; and Social Accountability International's (SAI) accreditation system for certification bodies evaluating facility-based compliance to the SA8000 standard, based on core International Labour Organisation (ILO) conventions.

Given recent developments in social auditing methodologies and the creation of new organizational structures responsible for standard-setting and certification processes, social auditing systems have much to contribute to the wider debate about the role of "audit" as a tool of regulation and accountability in today's society. This paper asserts that social auditing processes, if done well and situated within a stakeholder-based institution, can aid democratic processes.

I begin with an overview of the landscape of social auditing within the broader framework of corporate social responsibility. Unique aspects considered are the voluntary and market-based characteristics of social auditing systems. In order to allow a detailed understanding of social auditing in practice, the second section explores two examples of social auditing and certification systems. This section provides a brief overview of the history, organizational structures, and standards of these initiatives. The third section of the paper examines social auditing in the context of the FLO and SAI systems through the lenses of accountability, ownership, trust, and the reflexivity of the process. I conclude with an assessment that, with respect to these parameters, FLO and SAI systems do provide an important contribution to democratic and other forms of legitimate governance at the national and especially at the international level. These systems offer models of how the organizational structures and operational procedures in which audit activity is embedded can be designed to encourage positive regulatory outcomes for all stakeholders involved.

This paper draws largely on primary research conducted over many years, including a joint research project of FLO, SAI, and two other verification initiatives, coordinated by the author. The Social Accountability in Sustainable Agriculture (SASA) project aims to improve social auditing standards and methods as they are applied to a wide range of agriculture systems around the world and to facilitate convergence between the four systems. This is accomplished through in-depth analysis of the four systems on issues ranging from standards, constituencies, accreditation, certification, and audit processes to cost structures, field exercises that examine auditing methodologies in audit-like conditions, interactive discussions between the four initiatives, and workshops with stakeholder groups. The author has had extensive access to documents, decision-making processes, staff and board member discussions, meetings, training courses, and other internal and external activities of these initiatives. This article is based on information collected through these processes complemented by e-mail interviews conducted with senior SAI and FLO staff specifically for the development of this article.

II. THE RISE OF SOCIAL AUDITING

A. THE LANDSCAPE OF SOCIAL AUDITING IN CORPORATE SOCIAL RESPONSIBILITY

Social auditing is a new area of auditing arising from the growth of the corporate social responsibility phenomenon of the past few years. “Corporate Social Responsibility” (CSR) is an expression used to describe the incorporation of social issues such as human and labor rights or community relations into business practices. Given that the term is sometimes used to encompass environmental issues, an alternative term, “Corporate Responsibility,” is now being used by some (Consumer Protection in the Global Market Working Group 2002).

Under the banner of CSR lies a vast array of initiatives and coalitions of actors, from mission-driven Nongovernmental Organizations (NGOs) to multinational corporations. These actors are mainly private, nonstate bodies working to address social justice and social accountability issues – issues that are generally seen to be in the public good – within the context of the private sector. The rise of CSR is linked to a shift in the power to integrate social and environmental objectives into economic activities, moving out of the realm of the nation-state and into new spheres through increasing globalization (Gereffi, Garcia-Johnson & Sasser 2001). The implications of such a shift are significant for how we conceptualize democratic governance. While the democratic nation-state has been upheld as the overwhelming legitimate vehicle for governance, nation-states are increasingly unable to enforce their own labor and environmental laws or the international conventions that they have ratified, nor are they able to move toward more stringent ones. The reasons include fears that this will affect their economic competitiveness in the global economy and the high costs of ensuring compliance (Braithwaite & Drahos 2000).

Frustrated by this lack of government enforcement on environmental, and later social justice, issues from the 1980s onwards, a number of NGOs, trade unions, and other civil society actors raised questions about the performance of high profile corporations using media and Internet campaigns (Bell 2002; Karliner & Bruno 2002). In response, many targeted companies set to work to create a responsible corporate image by signing up to corporate codes of conduct or by establishing environmental management systems, among other activities. Motivations for these responses ranged from a desire for a green image upgrade, an interest in implementing risk-reduction strategies, and a need to address shareholder concerns and improve employee relations to a genuine concern for social and environmental improvement within senior management (Houlder 2001; Bell 2002).

While some companies significantly improved their practices, concerns were raised about the credibility of many social and environmental claims of corporate self-regulation. With a number of “green wash” scandals uncovered, organized consumers and their NGO counterparts had reason to

be suspicious. The results of a 1999 Consumers International study found inadequate or false environmental claims on products in all ten countries in the study. In Australia, only eleven of fifty-two environmental product claims surveyed were found to be valid (Consumers International 1999). In order to address these concerns, new mechanisms were developed ranging from bilateral relationships between individual NGOs and corporations to broad, multi-stakeholder coalitions underpinned by widely accepted standards and codes of ethics such as conventions of the International Labour Organisation (ILO) and Multilateral Environmental Agreements (Pearson & Seyfang 2001).

Some initiatives are particular to a company, while others are whole-of-industry initiatives developed at the national or international level, such as the World Business Council for Sustainable Development's (WBCSD) cement industry initiative (WBCSD 2002:6). Some initiatives focus on social and environmental certification of products such as computers, services such as ecotourism, and facilities such as apparel factories. Other "softer" approaches such as the Ethical Trading Initiative of the United Kingdom or the United Nations Global Compact claim to be learning initiatives with the aim of learning how social and environmental performance of companies can be improved and evaluated (Ethical Trading Initiative 2001; United Nations 2003).

B. SOCIAL AUDITING AS A TOOL WITHIN CSR INITIATIVES

Social auditing is one tool used within the wider framework of those corporate social responsibility initiatives focusing on verification of information. The information that is the focus of verification can take a systems-based approach (used in environmental or social accountability management systems) whereby the focus is placed on the process for addressing social justice and social accountability issues, or it can take the form of a performance assessment to a particular set of standards and/or indicators. A few corporate social responsibility initiatives integrate both process and performance benchmarks into their audit processes.

Another way of understanding the range of corporate social responsibility initiatives that focus on verification is by core function and structure. Some are based on the function of reporting. These include systems such as the Global Reporting Initiative with its suggested reporting framework and indicators across a range of stakeholder issues of interest and individual company social or sustainability reports such as those of the Body Shop, Shell, or even McDonald's. The role of social auditing in this context is to verify the validity of the information in the report. This information may be performance information or it may be process-based information, depending on how the company structures its report. This information may be verified by the company itself (first party) or by a second party such as a hired consultant, an independent expert, or participating NGO representative. As companies are the decision makers with respect to what information is provided in their report, and given the lack of widely accepted standards and auditing

methodologies in this category, there are very few reporting systems that involve independent third-party verification.

A second type of corporate social responsibility initiative focusing on verification of information is the social certification system. Social certification systems use social auditing as one component of their activity. Unlike reporting systems, social certification systems have definitive standards, usually based on widely accepted sets of principles and standards (such as ILO conventions) and through some form of member discussion or stakeholder consultation. To date, the standards of most social certification systems, while incorporating aspects of the management system process-based approach, include concrete performance benchmarks. In order to ensure independence of verification and to avoid conflicts of interest, standard-setting activities of social certification systems tend to be separated from the implementation component of audit and certification processes. This can be accomplished through the establishment of institutional structures with two legally distinct entities or through “farming out” certification services through accreditation activities.

Companies wishing to demonstrate to stakeholders (be they end consumers, supply chain partners, or investment institutions) that they comply with high standards of social accountability can submit themselves to verification. The social audit component checks for compliance of the company or facility to the set of standards using a mix of methodological approaches including documentation review, interviews, and site visits for visual verification, among others. If successful, certification is granted. Once certified, a company has an independent third-party guarantee to its stakeholders that it complies with the standards of the certification system. This is used as a communication and marketing tool in a number of ways, depending on how the certification is structured. Product-based certifications generally allow for a label to be placed on the end product or its packaging as a communication tool to end consumers. Facility-based certification systems may allow for the certification logo to be placed on company letterhead, Web sites, hang tags, or packaging. Certification systems are also involved in raising awareness of the social accountability or social justice issues covered in their standards and help to promote their certified companies through their own Web sites, publicity, campaigns, and events.

A third category of social corporate responsibility verification initiative is learning initiatives. These initiatives can be situated between the reporting system approach and the certification system approach as their main purpose is to improve how social accountability and social justice issues are implemented, audited, and reported on. While they may have well-developed standards, these initiatives create opportunities for different approaches to verification, requiring a significant amount of flexibility. These initiatives set up pilot audit exercises between different stakeholders to trial different models of verification. For example, the Ethical Trading Initiative of the U.K. has experimented with a number of auditing approaches, including using independent social auditing experts from audit firms as well as more

participatory community or stakeholder-led audits and approaches that lie somewhere in between. While these activities can be extremely important in learning more about how social auditing can be conducted, the danger is that companies can sign up to such systems, benefiting from the good corporate citizen image gained through participation without actually needing to demonstrate compliance to any concrete performance benchmarks.

Socially responsible investment (SRI) or ethical investment is another type of verification activity. It relies on information provided by the other initiatives, such as reporting systems and certification systems, as well as information collected through questionnaires administered by SRI research organizations. Questions generally focus on compliance with national legislation or on management system outcomes, but may include performance information provided by companies, though this is rarely independently verified. From this database, information is organized in a number of ways through positive screens, negative screens, and best-of-sector approaches to create specific ethical portfolios.

While the types of CSR initiatives that focus on verification of information listed above are not exhaustive, the above discussion has outlined a number of ways that social auditing can be used. The rest of this paper is concerned primarily with the CSR verification initiative type where social auditing is most advanced: social certification initiatives.

C. WHAT ARE SOCIAL AUDITING ISSUES?

What differentiates social auditing from other areas of auditing is the type of issues under assessment. The core focus for social auditing is the area of worker rights, based on the issues referenced in the ILO Declaration of Fundamental Principles and Rights at Work including freedom of association and right to collective bargaining (conventions #87, #98), child labor (#138, #182), forced labor (#29 and #105), and discrimination in the workplace (#100 and #101). Initiatives that focus on these issues tend to use the terms *social accountability* or *social responsibility* to represent the issues they address, and include Social Accountability International (SAI) and its SA8000 standard and the Clean Clothes Campaign and its model code.¹

Other initiatives, such as the fair trade movement, have broadened the scope of social auditing to include issues of trade and fairer pricing mechanisms to support smallholder producers in their trading relationships with international buyers. Certain initiatives² include a focus on the relationship between the company (or producer organization) and the local community, with the key goal being to ensure that the community benefits from, or is at least not negatively affected by, the activities of the company. Wider social issues beyond the employer-employee relationship are sometimes presented as social justice issues.

It should also be noted that a number of corporate social verification initiatives include within their scope both social and environmental issues.

However, most initiatives that address both tend to cover one much more thoroughly than the other. While most corporate social responsibility supporters would support coverage of social and environmental issues with the end goal being social and environmental sustainability, this does not necessarily need to be integrated within the same initiative. Instead, initiatives with significant expertise in one area could work together with initiatives specializing in another area in innovative and complementary ways so that complete packages may be offered to the private sector companies.³

D. WHO CARRIES OUT SOCIAL AUDITS?

The question of who actually undertakes the social audit is a controversial topic in the field and in recent literature. The key question is whether social auditing can be appropriately done by trained auditors with backgrounds in other auditing fields or whether different skills are needed for social auditing.

There are two main types of private social auditors and organizations: for profit and not for profit. For-profit social auditors are generally based within large accounting and quality assurance firms. These include PricewaterhouseCoopers, KPMG, SGS, and BVQI among others. An argument in favor of for-profit social auditing as one service offered among many others within the same firm is significant experience in financial and management systems auditing (Burnett & Mahon 2001). There may also be a higher degree of regulatory oversight through accreditation of large certification firms such as those that undertake management systems auditing and certification services to assure compliance with customs regulations as opposed to not-for-profit NGOs. In addition, such certification firms are valued by clients sourcing internationally as they provide consistency in audit and certification services across a wide range of countries (Tepper Marlin 2003a). However, whether this type of auditing is fundamentally different from social auditing is not addressed. A further concern is that audit firms may develop long-standing financial relationships with companies and then take on social auditing as yet another service to be provided (O'Rourke forthcoming 2002). While there is a trust relationship based on years of experience in interaction, this could weaken auditor independence.

In his damning assessment of one of the world's largest labor and environment auditing firms, PricewaterhouseCoopers (PwC), Dara O'Rourke (*ibid.*) found significant problems with PwC's social auditing methods. One of the biggest problems was the management bias in the audit process. Most information was gathered from managers, with significant failures in effectively gathering information from workers. In addition, there was no attempt to systematically triangulate information from different sources – one of social audit's most critical methodological tools (SASA 2002b:11).

The weaknesses outlined by O'Rourke in the case of PwC may be due to a belief that social auditing is essentially similar to other forms of auditing

rather than a unique form of evaluation. Alternatively, it could be an issue of resources. The experience required for an auditor to undertake a high quality and credible social audit is significant. In addition, a high quality social audit can take a great deal of time as it requires not only a review of the management system and documentation but also a number of interviews with management, workers, worker representatives, and health and safety officers and could also include interviews with other relevant stakeholders. The way that social audits are carried out may necessitate a longer field visit; for example, a number of workers prefer to be interviewed off-site, requiring more organization and time (Prieto & Bendell 2002). While some of the best social auditors in the world have worked for large generic auditing firms, they are in high demand and are expensive.

Given the underlying moral and value-laden basis for social auditing (and also environmental auditing), a number of civil society actors have criticized the for-profit approach to auditing and have raised concerns about the financial accessibility of certification for developing country and small-scale producers. The not-for-profit auditing sector is driven by nongovernmental organizations (NGOs) with human rights, social justice, or environmental backgrounds. The most sophisticated of these have set up new organizational structures dedicated to providing auditing and certification services linked in some way to mission-driven NGOs. These certification bodies tend to provide a comprehensive audit and certification service for much lower fees given the commitment to social change of the management and auditors from these organizations. These organizations also tend to operate within a local context rather than operating at the international level. The local base can also help to reduce costs and improve trust and credibility relationships with stakeholders. However, while NGOs may be able to provide lower cost services at high levels of quality because of in depth regional knowledge and experience, it must also be recognized that NGOs are political players with specific normative motivations that could conflict with the methods and motivations of key stakeholders in the audit and certification process, such as trade unions (Braun & Gearhart 2004). While the NGOs' normative focus yields certain advantages, it can also be detrimental to the perceived "neutrality" of the audit and certification function. Given this, the separation of the audit and certification function from other NGO functions, as well as clearly defined, transparent, reproducible, and accessible audit and certification procedures, are absolutely critical to the legitimacy of these systems.

One of the most consistent concerns raised by companies operating in developing countries that participate in international social and environmental certification systems is the lack of sensitivity to the local cultural, environmental and social context of foreign auditors. In the past, Mexican coffee producers involved in fair trade and organic certification systems used to be occasionally confronted with foreign auditors who did not speak Spanish and required a translator for communication. One producer explained that, during a previous organic inspection, a foreign auditor who heard rumors

that there was malaria in the region of production cut the inspection visit short and did not even go to visit any of the coffee farms, a critical component in any organic inspection (Courville 2001).

If social auditing is understood by certification bodies as a critical service function in helping to shape social change in the private sector, as opposed to a tool for companies to demonstrate compliance to market or civil society regulatory demands, then social certification becomes less of a business and more of a mission-driven activity that can be effectively carried out by NGOs. For example, the Forest Stewardship Council (FSC) is a sustainable forestry initiative that sets sustainable forest management principles or general standards and accredits certification bodies. Of the accredited certification bodies, there are very few that take community forestry operations as clients as opposed to company-owned operations. Smartwood, a not-for-profit FSC-accredited certification body, has the vast majority of the community forestry FSC global certification market. The reason for this is that for-profit firms are not interested in these clients as there is no money in it.

III. FLO AND SAI CASE STUDIES

Given the novelty of social auditing and certification and the lack of widely accepted frameworks and approaches, it is difficult to discuss social auditing as a general concept removed from the organizational and structural context within which it operates. In order to fully analyze social auditing processes and tease out the critical issues of the audit function, two case studies are introduced in this section to provide the necessary context for more detailed analysis in the third and final section.

The two case studies presented are two of the oldest and most developed corporate social responsibility verification initiatives operating at an international level. However, they differ significantly in their target clients, missions, and in their organizational structures. The two initiatives are Social Accountability International (SAI) with its SA8000 standard for certification, generally regarded to be the classic social auditing tool, and the Fairtrade Labelling Organizations International (FLO), focusing on fair prices and long-term trading relationships for smallholder producers in developing countries. First, the history, mission, and the scope of SAI and FLO will be presented followed by an overview of their organizational and decision-making structures as well as their standards content.

A. HISTORY MISSION AND SCOPE

SAI and FLO were both established in 1997. FLO was founded as an umbrella organization for preexisting national initiatives in consumer countries that regulated the use of a national "Fairtrade" label⁴ to be placed on products from participating producer groups such as tea and coffee. With this

move, the producer-monitoring functions were centralized through the FLO office in Bonn while each national initiative maintained responsibility for monitoring the supply chain and licensing companies to use the "Fairtrade" labels. The fair trade movement, of which FLO is a part, was started by church organizations and international solidarity NGOs, among others. The difference between FLO and the rest of the fair trade movement is that FLO targets mainstream consumers through the use of a label rather than through alternative shops and community networks. FLO's aim is to "improve the position of the poor and marginalized producers in the developing world, by setting the 'Fairtrade' standards and by creating a framework that enables trade to take place at conditions respecting their interest" (FLO 2003). "Fairtrade" labeled products can be currently found in Europe, the United States, Canada, and Japan, and include coffee, tea, sugar, honey, cocoa, orange juice, bananas, other tropical fruits, and stitched soccer balls. Products come from Latin America, Africa, and Asia with Latin America having the strongest representation of producer groups. In terms of its size, FLO comprises seventeen national initiatives in consumer countries, 320 certified producers, and 443 licensed retailers worldwide.

SAI was established by the Council on Economic Priorities (CEP), a pioneering corporate social responsibility research institute that operated from 1969 through 2001. SAI was created as a separate entity, with its mission being to enable organizations to be socially accountable through the implementation of the SA8000 standards. As an accreditation body, SAI sets its Social Accountability 8000 (SA8000) standard and accredits qualified certification bodies to verify compliance. SAI convened an international multi-stakeholder Advisory Board to develop the SA8000 standard, a voluntary standard based on ILO conventions and other international declarations. Stakeholders involved include trade unions, businesses including multinational corporations, and human rights NGOs. The SA8000 standard was developed to be applicable worldwide, with the greatest number of certifications in the manufacturing sector to date. It was explicitly not designed for extractive industries, such as mining, and it is now currently moving into the agricultural sector. With 258 certified facilities in thirty-six countries covering 154,325 workers, SA8000 certification is most prominent in China first and Italy second (SAI 2003). Apart from standard-setting activities and accreditation services, SAI is also involved in auditor and supplier training as well as educational and promotional events.

B. STRUCTURE AND DECISION MAKING

Since its creation in 1997, FLO has undergone a long and rather painful process of harmonization in the midst of continued growth in demand for "fairtrade" labeled products. However, the outcomes of this structural change are largely positive, with stronger producer representation and decision-making power in the initiative, a more consistent approach to standard

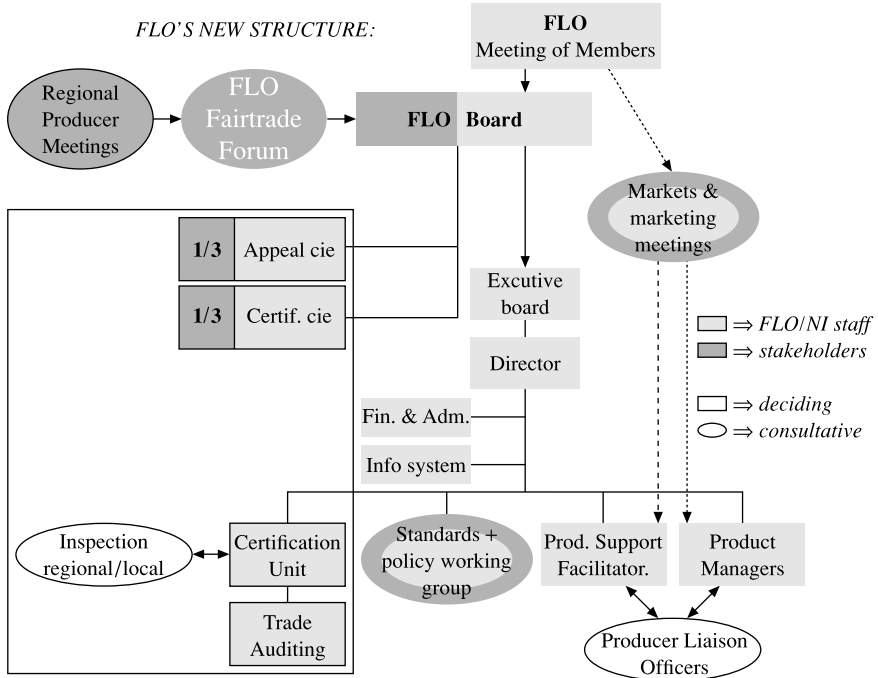


Figure 1. New FLO Organizational Structure

setting and a new independent certification unit responsible for verifying that producer groups meet the “Fairtrade” standards.

FLO’s highest decision-making body is the FLO board which is made up of a number of the seventeen National Initiatives (NIs) that administer licenses for the FLO label and promote “Fairtrade” in the consumer countries, producer representatives elected at the FLO Fairtrade Forum (the largest meeting of FLO with all producer groups invited), and trader representatives (FLO 2002c:20). The organigram in Figure 1 above illustrates the new FLO structure.

The box in the bottom lefthand side represents the independent certification unit of FLO. This is now a different legal entity as required by ISO Guide 65 for certification bodies. As seen in the diagram, besides standards setting and certification, FLO is also involved in providing producer and “Fairtrade” marketing support. This makes FLO fundamentally different from most other certification systems, including SA8000, as it has an explicit development function within its organizational structure, given that its target client base is disadvantaged in the marketplace and generally requires such support to access markets and develop trading relationships.

SAI’s organizational structure is much simpler as it does not carry out certification functions. In SAI, the highest policymaking body is the Advisory Board, made up of to twenty-five stakeholder representatives. The SAI Advisory Board provides advice and counsel regarding the setting of standards

and the operation of the accreditation services offered by SAI. Current members of the SAI Advisory Board include representatives from Amnesty International, two international trade unions, and CARE International as well as Dole, Chiquita, Toys “R” Us, Eileen Fisher, Coop Italia, and BVQI, among others. There is also a Board of Directors consisting of at least three people that is responsible for the fiscal and legal decisions of SAI and for the evaluation of management performance. There is considerable overlap and joint work between these two boards. The SAI secretariat is located in New York and is responsible for administering the accreditation program and the various supplier and auditor training programs.

C. STANDARDS CONTENT

Standards are at the heart of both FLO and SAI initiatives, outlining what social accountability or fair trade means in practice. Through its harmonization process, FLO has streamlined the structure of its standards. First, there are two sets of generic standards, one for smallholder producer organizations and one for organizations structurally dependent on hired labor, such as plantations. Depending on whether the producer group is a smallholder cocoa producer in Ghana or a banana plantation in Ecuador, one of these two standards will be applied. In addition, there are supplementary product-specific standards such as for cocoa, honey, coffee, and fresh fruit.

Given FLO’s developmental focus, a unique aspect of their standards is the presence of two different categories of criteria: minimum criteria and progress criteria. Compliance with minimum criteria is required for producer certification, while progress criteria are to be met incrementally over time. FLO’s standards for smallholder producer organizations are focused on the democratic functioning of the producer organization and the use of the “Fairtrade” premium for social, economic, and environmental development activities. The focus on democracy is to ensure that all producer members in a given cooperative or association benefit from “Fairtrade.” FLO’s standards for hired labor are based on core ILO conventions and are intended to ensure worker rights and benefits, including an additional progress requirement for a living wage for workers. FLO also requires a “joint body” structure made up of management and worker representatives that decides on the use of the “Fairtrade” premium (FLO 2002a, 2002b).

SA8000’s standards are based on core ILO conventions, other UN conventions and declarations, and ISO management systems; SA8000 includes coverage of issues such as child labor, forced labor, occupational health and safety, freedom of association, and right to collective bargaining, discrimination, disciplinary practices, working hours, and compensation (including the right to a living wage). The last principle deals with implementation of the standard and includes a requirement for a management system to implement the SA8000 standard in the facility. The management system criterion requires, among other things, the appointment of a senior management official

to take responsibility for implementing the standard and a control of suppliers requirement, ensuring that suppliers to the facility also comply with the SA8000 standard. The SA8000 standard, while based in terms of implementation on ISO 9000, also stipulates strict performance benchmarks for each of the principles addressed (SAI 1998).

Unlike FLO, the SA8000 standard focuses only on social justice issues relating to workers' rights and conditions. FLO standards, while focusing on the social and economic aspects, also deal with environmental issues, to a greater or lesser extent, depending on the product category. FLO hired-labor standards are similar in the issues addressed to the SA8000 standard, though the required benchmark of compliance for certification is lower. The economic aspect of FLO standards, including the "Fairtrade" premium and FLO's pricing structure, is a unique tool among social responsibility initiatives, allowing producers to cover their costs of production and providing a degree of financial security necessary for long-term planning and development. While the pricing mechanism provides a much-needed vehicle for producers to improve their social and environmental performance and begins to address fundamental inequities in the international trade system, this feature makes the FLO system unpopular among companies interested in minimal financial expenditure for corporate social responsibility benefits. It has been criticized for distorting markets and for encouraging smallholder producers to produce an oversupply of low quality products.

IV. SOCIAL AUDITING THROUGH THE LENSES OF TRUST, ACCOUNTABILITY, OWNERSHIP, AND REFLEXIVITY

The previous section has provided an overview of the organizational and operational context in which social auditing is carried out in two specific social certification systems. Using FLO and SAI as points of reference, this next section examines the phenomenon of social auditing to determine whether social auditing systems can play a role in defending or challenging democratic governance.

Power has argued that the practice of audit limits public dialogue and debate, creating a dead end in the chain of accountability where audits are seen as "a substitute for democracy rather than its aid" (Power 1997: 127). However, within the context of increasing globalization and criticisms of a "democratic deficit" waged against traditional democratic governance structures such as the nation-state and international governmental organizations, a key question is what is meant by "democratic governance" (Durant 1995; Dahl 1999; Papadopoulos 2003; Steffek 2003).

Governance refers to "sustaining co-ordination and coherence among a wide variety of actors with different purposes and objectives such as political actors and institutions, corporate interests, civil society and transnational governments" (Pierre 2000, cited in Papadopoulos 2003:3–4).

Democratic governance, particularly in its representative mode, is a form of governance that includes rulers who are selected through elections by citizens or constituents (Przeworski, Stokes & Manin 1999). Elections are the primary accountability mechanism acting as a check on the power of the rulers. The origins of democratic governance structures are rooted in the concept of a national community. Given this, expectations of effective democratic governance structures at the international level may be problematic given fundamental differences in how the international level and the nation-state are constituted.

Arguing that a focus on democratic governance at the international level is misplaced, Steffek (2003) outlines requirements for legitimate governance including the need for gaining popular assent through justifying goals, principles, and actions. While the relationship between citizens and the nation-state is mandatory, there is a strong voluntary element in rule creation and rule at the international level. International organizations are based around common purposes, not common identities as in nation-states. Furthermore, given the strong voluntary nature of governance at the international level, legitimacy comes from constituencies consenting to processes and procedures based on shared values and principles. As such, "legitimacy can only be generated through a public discourse" (Steffek 2003).

The term *democratic governance* is indeed problematic at the international level. Even at the national level, democratic governance structures alone are not sufficient to ensure effective or "good" governance. Given that social auditing systems operate both at the international and national level, determining whether they act as a substitute or aid to democracy requires an understanding of the governance context in which they are operating and may require a broader conceptualization of democratic processes.

Michael Power's critique of the impact of the audit explosion on society delves into a range of specific issues that are related either directly or indirectly to the health of a democratic governance system. Power claims that the audit explosion has led to an increase in certain tendencies, including a decrease in trust of auditee companies, increases in the costs and bureaucratization borne by the auditee, a lack of accountability in the audit process, increased acceptance of the role of auditor as an independent expert linked with an emphasis on control rather than on learning, and an absence of attempts to reflexively identify and respond to unintended side effects of the audit process itself (Power 1997, 2003). If such impacts were found to be pervasive in social auditing systems such as FLO and SAI, then the claim that social auditing systems challenge and even endanger democratic governance would be strengthened.

A. ACCOUNTABILITY

The audit explosion hypothesis was developed largely from the worlds of financial and public sector auditing. The question is whether it is applicable

to a wider range of arenas of audit practice, including social auditing systems. Audits do not simply exist in time and space on their own; they need to be grounded within a specific regulatory regime and effected for a specific purpose. In order to evaluate the accountability of auditing activities, we must look into the institutional context in which the audit activity is embedded.

To whom are social auditors and social certification systems accountable? Are they accountable to the auditee, to the end users of certification or to wider society? FLO and SAI are NGO-based social verification initiatives operating across international trade. Given this, traditional forms of legal and democratic accountability based on the construct of nation-states are not completely appropriate or useful (Courville 2003). However, this does not mean that social auditing systems are bereft of accountability mechanisms. To the extent that accountability mechanisms are structural, the above questions need to be answered by examining the specific organizational structures of these initiatives on a case-by-case basis. Structural accountability refers to checks and balances of various processes to avoid conflict of interest, clearly established rules that ensure transparency, and formal mechanisms for reporting on progress toward explicitly stated objectives. These include policy and auditor independence, as well as the transparency of processes including clear auditor guidelines, assessment of conformance, sanctions, and appeals mechanisms.

In terms of policy independence from auditing activities, both SAI and FLO have clear rules for standard-setting procedures. As mentioned previously, SAI is an accreditation body, accrediting qualified certification bodies to undertake SA8000 certifications. Accreditation ensures that standard-setting and verification of standards are conducted by two completely separate bodies. In order to be eligible for SA8000 accreditation, the certification body must meet SAI's Criteria for accreditation as well as demonstrating adherence to ISO/IEX Guide 62. SAI currently has nine accredited certification bodies based in Europe, Hong Kong, Thailand, and the United States, most with licenses to operate internationally or regionally.

In its restructuring phase, FLO decided not to move toward an accreditation structure; instead it moved toward a more rigorous and independent certification system. While accreditation structures are generally seen by international verification initiatives (such as the ISEAL alliance, of which FLO and SAI are both members) to be the most credible and accountable form of initiative structure given the separation of standard-setting and certification functions, FLO decided against this due to its unique client base. It was felt that it was best to keep the audit and certification functions "in house" given the unique minimum and process requirements and the producer-support element in the FLO structure. A further aspect of the restructuring was to move away from a system of sending Bonn-based auditors to conduct monitoring visits of producer groups to contracting local consultants in areas where FLO is active. This has increased the confidence

of producer groups, since language and cultural differences are now much less likely to cause misunderstanding and create tensions. An interesting point to note is that, in the process of making the FLO monitoring process much more rigorous, consistent, and standards-based, FLO lost a number of its local consultants who were more interested in the relationship-building and developmental aspects of fair trade. It is currently rebuilding and retraining its auditor force.

At the auditor level, there are also a number of checks and balances to ensure accountability and transparency of the social auditing activities. Accountability requires that people report on their activities with respect to stated objectives (Beu & Buckley 2001; Stiglitz 2003). There are two main types of reporting activities that FLO auditors and SA8000 auditors, working for SA8000-accredited certification bodies, undertake: reporting to the audited producer group/company about the audit result observations and reporting to the certification body for follow-up. For the former, in both FLO and SA8000 systems, the closing meeting between the audited company and the auditors is a space to review audit findings and note any confirmation, disagreement, or new explanation or evidence with respect to any non-conformities found. Another point in common is the prohibition on auditors giving technical advice, though guidance on complying with each system's criteria may be given. For example, in an SA8000 audit, certified auditors cannot make recommendations, as this is regarded as consulting. However, auditors can confirm that a company has developed a realistic plan and that the plan is being followed on schedule. This is a critical issue for avoiding conflicts of interests. Both SAI (and SA8000-accredited certification bodies) and FLO address the issue by fostering a strong culture of awareness of the importance of the auditor independence and by encouraging the development and use of alternative sources of information and feedback for the auditee.

In terms of reporting to the certification body, in the FLO system, the auditor's report goes to the certification committee. Generally, these findings should not differ from those given to the producer at the end meeting. It is the certification committee that makes the final decisions with respect to certification, ensuring a separation of auditor and decision-maker roles. The SA8000 audit report includes all nonconformances found and mutually agreed upon dates by which such matters are to be corrected and by which corrective and preventative plans are to be in place. That the required corrections and time frames for action are agreed between the certification body auditor and the auditee lends mutual accountability to the SA8000 certification process.

A critical part of the audit process is the interpretation of what the auditors find through the document review, interviews, and site observations into the assessment process. This is made more transparent where there are clear guidelines for auditors about how to translate the audit results into observations regarding compliance and conditions for certification. Such frameworks

are also helpful in communicating results to the audited company. Both SAI and FLO have defined graduated degrees of nonconformances to their respective standards as well as commensurate sanctions, depending on the seriousness of the noncompliance. In the SA8000 system, there are two levels of nonconformances corresponding to minor and major corrective action requests; failing this, other options include noncertification or de-certification in the case of severe nonconformance. For SA8000, a major breach is a major Corrective Action Request (CAR) defined as a breakdown in a procedure critical to social accountability or the operation of the facility's management system and may be life-threatening or in some way dangerous for workers. According to SAI procedures documentation, if a facility has any outstanding major CARs, it cannot be certified for compliance with SA8000. Ultimately, all outstanding CARs are time bound in order to tie them to a second/surveillance audit. For example, minor CARs found during a previous audit must be addressed prior to a subsequent surveillance audit or they will become major (Courville, Spoor & Beekman 2001).

FLO defines a Major Infringement as deliberately and secretly using a prohibited material or practice. An irregularity is considered a contravention to one of the FLO rules. Such a contravention may be intentional or through ignorance but is done openly and declared to the inspector without any attempt to deceive. Examples include the misuse of the premium or no participation of the producers. The minimum penalty imposed will be the condition that the noncompliance is corrected immediately or within a specified time period. Where a noncompliance is repeated, more severe sanctions must be imposed. Sanctions and the levels of escalation should be covered in the contract to ensure transparency. Sanctions are defined as a maximum fine charge for a breach of contract. Producer activities that would warrant a fine as a consequence of noncompliance with criteria are deficiencies in reporting, lack of cooperation with monitoring person, and buying from third parties without permission (Courville, Spoor & Beekman 2001). These examples highlight the highly developed structures and detailed methodologies of FLO and SA8000 audit systems compared with some other recently developed audit systems including the corporate compliance audits described by Parker (2003) as having "no defined form and no agreed methodology."

A further structural aspect of accountability involves complaints and appeals mechanisms in place for all the key stakeholders affected by the certification system including the auditee, internal subgroups of the auditee such as workers, trading companies, end consumers, and society in general. With SA8000, there are three levels of appeals or complaints where there are reasons to believe that a certified facility has breached the requirements of the standard. The first is a complaint to the certified facility itself. It is a requirement that certified facilities publicly announce their certification; this is also posted on the SAI Web site. If the response from the facility itself is not satisfactory, the next step is to take the issue to the body that certified the facility. If the issue is not adequately addressed at this level, the final step

is a complaint to SAI about the certification body's failure to resolve the complaint.

One example of the SA8000 appeals mechanism in action is a complaint against a supplier of Coop Italia, a leading supermarket chain in Italy with SA8000-certified facilities. A Delmonte Royal pineapple plantation and canning factory was carrying out a number of human rights abuses, including paying workers lower than minimum wages and prohibiting workers to organize. While workers tried to pressure the Human Rights Commissioner in Kenya for help, it was through Italian NGOs that change came. They made a written complaint to Coop Italia through the control of suppliers requirement of SA8000, that this supplier of a Coop brand canned pineapple product was not complying with the SA8000 standard. Coop Italia immediately became involved in an investigative process resulting in confirmation that a number of nonconformities were occurring. Instead of replacing the supplier, Coop Italia decided to work with the plantation to improve its human rights performance. A number of rounds of corrective action plans were put in place, and, by the end of the process (with a change in management), workers were able to organize through trade unions, decent wages were being paid, decent housing was provided to 5,000 workers and all other nonconformities were corrected. In a dramatic turnaround, the plantation achieved certification to SA8000 in December 2002 (Tepper Marlin 2003a). While the example is based on an external complaint, if a company had a complaint about the audit and certification process, it, too, could take this to SAI as the accreditation body.

In FLO, the appeals mechanism is not oriented towards external stakeholders but internally for the handling of producer complaints about auditors and certification decisions. In the first instance, such complaints would be addressed by the FLO appeals committee, comprised of representatives of all FLO stakeholders. Given that there is no accreditation in place for FLO's certification system, there is no external place for complaints regarding FLO auditing operations and procedures. In terms of external stakeholders, if a consumer or other stakeholder had a concern or complaint about any given FLO labeled product in terms of its authenticity or compliance with "Fairtrade" criteria, this would be tabled at a certification committee meeting for investigation (Paulsen 2003). As FLO has significant chain of custody controls through the supply chain for "Fairtrade" products, this would be relatively easy to do. However, there is no formal widely publicized mechanism for such consumer action, unlike in the SA8000 system where the public appeals mechanism is explicitly used as an accountability loop to ensure that companies maintain compliance with the SA8000 standard through public awareness and monitoring.

B. OWNERSHIP

For FLO and SAI, the social standards and certification framework in which auditing is a tool is understood as an explicit change agent rather

than simply functioning as a verifier. As such, the question of ownership is a critical one. The need for ownership by stakeholders needs to be balanced with the value of auditor independence.

Standards are at the heart of any social certification initiative. Standards development and revision is one area that requires broad participation from all interested stakeholders. If companies and consumers are to use social certification systems, their values must be aligned with the relevant social standards. This is facilitated if they are able to participate in standards development and standards revision processes. The revision process is particularly important to ensure that social certification is dynamic rather than static.

In both SAI and FLO, there are internal processes for standards development and standards revision to ensure that all standards are acceptable to their respective constituencies. FLO has a standards and policy working group comprising trader, producer, and trade union representatives, among others, that is commissioned to develop and revise standards, though final ratification must go through the FLO board (Paulsen 2003). In SAI, the Advisory Board is responsible for standard-setting activities. Proposed revisions are then widely circulated to interested parties for comment before finalizing revisions. To facilitate this, a large committee with over fifty members is charged with soliciting and considering comments from external interested parties at various stages. Both FLO and SAI participate in periodic standard revision processes, allowing for changes based on learning and experience in the field. These standards development and revision processes provide a critical way in which interested stakeholders can participate in the system and share in a sense of ownership. A key difference is the internal focus on key stakeholders within FLO while SAI has a greater outward focus to external actors. This is partly due to the organizational arrangements of the two systems. FLO brings its key stakeholders inside the system, through spaces such as the Fairtrade Forum. As for SAI, while there are representative stakeholders placed inside SAI's Advisory Board, the vast majority of stakeholders are external to its actual structures given the lack of a membership space. As discussed earlier, in both systems, the standards-setting function is completely separated from the verification function, effectively addressing the tension between ownership and independence of certification.

A second area where the balance is not so easily maintained is during the audit process itself. Michael Power identifies the tension in relational distance between inspectors and auditees. He suggests that, with greater relational distance, the behavioral dysfunctions associated with the audit explosion hypothesis will be amplified (Power 2003). Factors that affect relational distance include the relative scope of ambiguity or negotiability within the "target domain" of the audit and the degree to which an auditor's interpretation of a given situation is based on objective and reproducible forms of assessment (*ibid.*). If audit systems were understood as a change agent for a wider social goal, then auditors might be more inclined to take on advisory, as opposed to verification, roles, thereby decreasing the relational distance;

at the same time, this could impact on the transparency, consistency, and independence of the audit activity.

The issue of relational distance is directly relevant to the field of social auditing, given the nature of social justice issues and the need to situate the interpretation of social standards within local contexts. While there is an explicit normative goal in social auditing requiring a learning process over time, social certification systems such as FLO and SAI are based on independent third-party verification, requiring increased relational distance. How can these two positions be balanced?

The audit process and the subsequent certification need to be meaningful to the audited company or producer group itself, not just external stakeholders, or the company will not continue with the certification. One way for the audit and certification process to be useful to the audited company is through a focus on continual improvement via a management-system approach. If the focus is on continual improvement, then companies can play a greater role in implementation and monitoring of their performance over time. However, for external stakeholders, this needs to be balanced with compliance to concrete performance benchmarks. Otherwise, social certification systems will be plagued with the same credibility problems and lack of clarity about performance outcomes as environmental auditing systems overwhelmed by the ISO 14001 management system certification approach (Rondinelli & Vastag 2000; McDonach & Yaneske 2002).

Both FLO and SAI include management systems in their standards to different extents. In the case of FLO, the management system required is at a very low level, encouraging the producer group to plan, implement, and monitor its own activities. In the SA8000 standard, the method of implementation of the performance criteria is strongly linked to the management-system requirements. As audits can serve both for diagnosis and as a verification tool, the management system plays a critical role in identifying problems and in building capacity for implementing needed changes. In both cases, there is a move to a meta-regulatory approach, albeit in varying degrees, whereby the producer creates the first level of activity in routine evidence-gathering to determine compliance to the standard that is subsequently checked by the external auditor. Depending on how well the internal audit system (management system or internal control system) is functioning, the external audit can be more or less comprehensive, checking on the performance of the internal control system as well as the performance of the company in terms of compliance to the standard, to a greater or lesser extent. As one of the expectation gaps in social auditing is the inability of the external auditor and certification system to constantly monitor performance of the producer company, internal control systems or management systems can provide a critical tool for more regular monitoring of performance. This is then complemented by periodic planned and surprise checks by external auditors. However, where internal auditing is used as a vehicle to reduce the external audit to less than 100 percent coverage, the difficulty is in finding the

right balance between internal and external auditing, balancing capacity building, and ownership with inspectability to a consistent interpretation of the standards.

The issue of ambiguity or negotiability in determining the meaning of compliance is perhaps more prominent in social auditing than in other auditing spheres. International social certification systems need to have global standards that are in line with consumer values; at the same time, they need to allow for some degree of interpretation to meet local producer realities. FLO and SA8000 address this issue through various layers that help to unpack and make tangible the intent of the standards in different contexts. Social certification systems such as SA8000 and FLO have generic standards supported by indicators of how compliance to the standard could be measured and interpreted as well as examples of verifiers that could be used as evidence of compliance in different contexts. While the same principles are applied universally, the way in which principles are implemented may vary. For example, SA8000 requires that a living wage be paid to workers. Given significant differences in costs of living around the world, this will certainly vary. However, the methodology used to determine a living wage would be the same regardless of region, though requiring different inputs. Both FLO and SA8000 also cover freedom of association and right to collective bargaining; however, given differences in union strength, support, and legality in different regions of the world, both systems allow for variations in terms of possible structures of worker organization. With different layers of detail from general standards down to specific verifiers, social certification systems such as FLO and SA8000 are working to maintain and improve certification systems that are auditable and systemic, while balancing local needs and realities.

The entire audit process can be understood as a process comprising different stages, some of which are more focused on learning while others are more focused in inspectability and auditor independence. The standard-setting component is one in which the relational distance is minimized as auditees are also participants in helping to set and revise standards to ensure applicability to their particular contexts. After application for certification, an initial assessment that may include a preliminary visit to the applicant is made. At this time, the focus is on helping the applicant to understand and comply with the standards. When the official audit process begins, the relational distance increases all the way through to the granting of certification and subsequent reviews. This is made possible by different entities taking on these discrete roles.

C. TRUST

Power has noted an inverse relationship between organizational trust and the audit explosion whereby audit functions to reduce trust placed in auditees while requiring an increase in trust in formalized “rituals” of auditing (Power 1997). The impact of auditing on trust can be conceptualized in terms of a

shift in whom or what we place our trust. However, relationships of trust are much more complex than simple transference processes. For example, in social auditing, consumers and supply-chain companies are asking for independent assurance that a company is complying with certain social justice values/standards. If consumers do not trust the social certification system, it breaks down. The voluntary nature of social certification is at the heart of this issue. Companies voluntarily submit to the process of opening up their books and operations to a third party for inspection and evaluation in the hopes of gaining benefits through something else: certification. Before submitting themselves to such scrutiny, companies must trust that the rules governing the audit and certification process are transparent, consistent, and fair. The accountability mechanisms discussed earlier, therefore, provide a critical basis for trust. These same accountability mechanisms also provide a basis for trust by consumers who want to buy socially and environmentally preferable products. With the increase in corporate social responsibility initiatives, it is becoming increasingly difficult for consumers to distinguish between real performance benchmarks and green imagery, providing an illusion of substantive improvements. Failing firsthand knowledge of the production process, independent third-party verification to widely accepted standards is the only guarantee currently available in the marketplace. If the trust placed in a particular social certification system by producers and by consumers is mislaid, they have one very effective option: exit (Hirschmann 1970). Given the voluntary nature of certification initiatives, exit provides a very powerful and relatively low-cost option for stakeholders. Trust in auditing and certification is thus continuously required for the system to operate, both by the auditee and by the end-users of the audit process: consumers.

Power notes that blamism and defensive strategies are some of the behavioral impacts of the audit explosion (Power 2003). Given the need to create trust in their own systems, FLO and SAI actively work against engendering a culture of blamism, both within their own systems and within their auditees. Instead, FLO and SAI provide positive incentives for companies to do the right thing. If a producer is unsuccessful in its initial application for certification, this is kept confidential. This can be understood as a critical element in facilitating a learning process. If a company is punished with negative publicity for trying to comply with social certification standards, it is unlikely to participate again. Instead, companies can learn from the feedback provided in the initial inspection exercises and improve on their performance. Only when certification is granted is this fact made public. SAI provides a list of all SA8000-certified facilities on its Web site and interested people can ask FLO for a list of all registered producers and importers. However, once certified, there is significant pressure placed on the producer to continue meeting the requirements of the relevant standard and to improve on performance. If clients of a company knew it was decertified in a subsequent audit, this would reflect negatively on the company's image and, in some cases, could rupture trading relations.

In their public campaigns to promote SA8000 and “Fairtrade,” both FLO and SAI maintain a positive approach. A former FLO National Initiative director in Denmark stated that there was an explicit policy not to talk negatively about companies that do not participate in the FLO system (Shiotz 1998). Negative campaigning burns bridges with prospective clients. As an example of its positive approach to awareness-raising, SAI holds an annual conference where the Corporate Conscience Awards are presented, rewarding companies for their efforts to address social accountability. A positive approach to promotion and marketing explicitly avoids a culture of blamism.

D. REFLEXIVITY

As one its dysfunctional characteristics, Power (2003) states that the audit explosion exhibits “very little, if any, attempt to reflexively process” side effects including issues of cost, bureaucratization of auditee activities, and awareness of the effects of audit. While this may be an accurate reflection of many areas of audit activity, is it an appropriate evaluation of social auditing as exemplified in the FLO and SAI systems?

As mentioned in the first section of this article, the issue of cost is of fundamental concern in social auditing. If costs are set too high, only a select few companies will be able to access social certification and benefit from market rewards, thereby making social certification inaccessible to the most vulnerable producers who may benefit the most from such incentives. At the same time, social auditing is an expensive undertaking, especially if it is done appropriately. The tension between accessibility through lowering costs and improving the quality of the audit is tangible in every social auditing system.

Unique in certification systems, as a general policy FLO producers do not bear the costs of their certification. This is in line with FLO’s developmental perspective, given that they work with disadvantaged and marginalized producers who would be unable to pay for certification costs. Instead, the final processing and packaging company in the supply chain who wants to put the FLO label on the product pays a license fee, part of which goes toward the producer’s auditing costs. However, given the growth of “Fairtrade” labeled products in the market and increased producer and trader interest in participating in this system, additional human and financial resources are needed if FLO is to be able to service all those who are interested and eligible to participate in the system. Given this, there have been internal discussions within FLO about whether to introduce a certification fee.

SAI’s accreditation program is open to any body that meets the accreditation requirements. However, there have been criticisms with respect to access, given perceived high costs that include an accreditation fee that ranges in price from \$2,500 for single-country operations to \$15,000 for global operations, day accreditation auditor fees, and the investment required to establish and maintain an ISO Guide 62 compliant system (Tepper Marlin 2003b). This fee structure and accreditation requirements, while set to ensure

consistency and quality of certification services, favor those organizations dedicated to providing certification services for multiple standards. At the same time, given the high costs of conducting quality SA8000 audits, SA8000 certification audits are not generally seen as a profitable activity by certification firms. Most participate because it is seen to be important to have SA8000 in their standards portfolio, and income can be generated through conducting second-party SA8000 audits. There are currently discussions within SAI on how to encourage more diversity of SA8000-accredited certification bodies while at the same time ensuring quality of certification services. Encouraging advocacy and charitable NGOs to apply for accreditation could be one solution. However, even with significant support in terms of free training through SAI's auditor courses, none have applied for accreditation. The issue of costs of accreditation and certification is an area where both FLO and SAI are constantly reviewing, looking at how to balance the competing values of quality and accessibility.

The criticism of increased bureaucratization on the part of the auditee to demonstrate compliance is also of real concern in social certification. Most social certification is document-heavy, requiring policies and procedures for a range of auditable social issues. While documentation and record reviews are generally critical components of social auditing, this alone is not sufficient, as social auditing documentation only provides evidence of planning or monitoring rather than evidence of the effectiveness of the system (SASA 2002a). In order to uncover evidence of compliance, documentation and records need to be corroborated with worker and management testimony (SASA 2002a, 2002b). While larger companies may already have sophisticated management systems in place, smaller companies, especially in developing countries, may not. FLO's minimum and progress criteria are particularly flexible as they encourage smallholder producer groups to develop management systems but do not force burdensome requirements on producers as a condition of certification. Instead, as capacity builds within the organization, the management system and documentation can also be strengthened over time. Both SAI and FLO recognize the challenge of adapting social auditing methodologies to the scale of the farm. Through participation in a joint research project, Social Accountability in Sustainable Agriculture, SAI and FLO, along with two other social and environmental certification systems in agriculture, are looking at how to improve their auditing methodologies to ensure accessibility by small scale producers, among other issues (SASA 2002c). For example, in a recent field exercise in Burkina Faso with a producer group that is both "Fairtrade" and organic certified, the audit team identified ways in which the documentation systems required by both certification systems could be streamlined, among other human resource and financial savings possibilities.

Throughout this paper, other examples of reflexivity have been provided to describe the various aspects of the FLO and SAI systems. For example, recent changes in the FLO organizational structure came about because of

a reflexive process of listening to stakeholders, identifying problems, and addressing them. In an attempt to address criticisms of a lack of transparency, FLO will be providing more information to interested parties through its Web site, including more detailed information about producer groups certified. Reflexivity plays a central role in the development of social auditing and certification systems such as FLO and SAI as they continuously struggle with the "side effects" of their systems and try to find alternatives to address them.

V. CONCLUSION

Like other forms of audit activity, social auditing can either pose a severe threat to or play a role in defending democratic and other forms of appropriate governance. The outcome depends on the formal monitoring institutions within which social audit operates. Given the need to situate a discussion of the strengths and weaknesses of any audit activity within a specific organizational context, this paper has examined in detail, using the lenses of accountability, ownership, trust and reflexivity, two specific social verification initiatives that use audit as a fundamental component of their activities: FLO and SAI.

In this analysis, FLO and SAI's systems both reflect many of the characteristics of what good auditing would look like, according to the rough framework set out by Michael Power (2003). They are both characterized by balance across a range of parameters, including equilibrium between the value of independent third-party verification to widely accepted standards with a process that encourages and facilitates learning and improvement over time. This is accomplished through breaking down the entire process into discrete parts with different roles for auditee, auditor, and external stakeholders at different stages, as well as through encouraging meta-regulatory processes of internal control. While the value of the independence of the auditor is paramount, both systems are based on positive incentives, rather than supporting a culture of blame. In the actual audit process, there are components both of routine verification such as periodic announced inspections complemented with approaches allowing for greater flexibility. These range from standards that include minimum and progress criteria as in the case of FLO, specific indicators that are located in the local context, an audit process that allows the auditor to revise the audit plan based on how the verification develops, and a rich range of sanctions in addressing noncompliance with the standards. Both systems have been shown to be responsive to the concerns of their supporters and critics alike and are continuing to improve their initiatives and the audit processes upon which they are based. Because social audit is very much a tool in which auditees voluntarily participate to demonstrate strong social performance, it will continue to operate as such as long as it continues to be responsive to their needs and to the needs of other users of

the systems, including buyers and consumers. At the global level, social certification systems and the constituencies that they represent are voicing a powerful message that workers' rights and fair international trade are important values and can be incorporated into business practices. Social auditing is fraught with profound methodological difficulties, not the least of which is the need to balance global consumer values with producer realities across vastly different regions of the world. However, the SA8000 and FLO initiatives are grounded in systems and operations that allow for meaningful participation of key stakeholders and for continued learning and improvement, enabling them to address these challenges over time. In a world where the credibility of the auditing profession has come under serious attack, perhaps other arenas of audit could learn from the structures and operations of social auditing systems such as FLO and SAI.

As for whether social audit and certification systems such as FLO and SA8000 play a role in challenging or defending democratic governance, both systems are based on international and national laws; as such they are effectively enforcing norms and rules agreed upon through democratic decision-making processes. Their existence stimulates much-needed public discourse on global environmental and social values at national and international levels, a necessary requirement for effective democracy. Furthermore, within FLO's standards for smallholder producer organizations, there is a requirement for democratic decision making, encouraging democratic governance at very local levels around the world. Finally, through their stakeholder-based structures, social audit certification systems provide a voluntary vehicle for companies, social movements, trade unions and NGOs to express and demonstrate their shared social values at the global level in the absence of other legitimate and/or democratic structures. It is acknowledged that these systems do not fit easily into traditional conceptualizations of democracy. At the same time, much can be learned from these systems about how new forms of legitimate and democratic governance might be conceptualized, given changes to how governance is effected within the context of an increasingly globalized world.

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NOTES

1. For more information, visit the SAI Web site at www.sa8000.org or the Clean Clothes Campaign Web site at www.cleanclothes.org.
2. Such as the Sustainable Agriculture Network Standards (Rainforest Alliance) and the Forest Stewardship Council. For more information see www.rainforest-alliance.org/programs/cap/index.html or www.fscoax.org.

3. For example, the Social Accountability in Sustainable Agriculture project of FLO, SAI, the International Federation of Organic Agriculture Movements and the Sustainable Agriculture Network aims to facilitate convergence between these four initiatives. For more information, visit: www.isealliance.org/sasa.
4. The spelling of the term "Fairtrade" is used specifically to differentiate products that are certified according to FLO's standards from other fairly traded initiatives.

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