THE APPLICATION OF THE SMETA AUDIT PROTOCOL ON THE MANAGEMENT OF THE CSR OF PERUVIAN COMPANIES: A CASE STUDY OF STANDARDIZATION VIA SMETA IN MANUFACTURING COMPANIES.

Jyväskylä University School Of Business and Economics

Master’s thesis

2016

Author: Alicia Marlitt Medina Rodríguez
CEM Corporate Environmental Management
Supervisor: Marjo Siltaoja
**ABSTRACT**

<table>
<thead>
<tr>
<th>Author: Alicia Marlitt Medina Rodríguez</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title of thesis: The application of the SMETA audit protocol on the management of the CSR of Peruvian companies: A Case Study of standardization via SMETA in manufacturing companies.</td>
</tr>
<tr>
<td>Discipline: CEM Corporate Environmental Management</td>
</tr>
<tr>
<td>May/2016</td>
</tr>
</tbody>
</table>

**Abstract:**
Standardization in Corporate Social Responsibility has become more popular since recent years. A wide range of standards that seek to implement and evaluate the Corporate Social Responsibility in companies, has become increasingly popular worldwide nowadays especially when companies producing goods and services are required by their international customers worldwide to obtain these standards. Most studies of this phenomenon have been done from the point of view of big companies and international brands and does not take into account the point of view of manufacturers located in the developing countries, were most goods are manufactured. This thesis investigates the influence of the Corporate Social Responsibility standardization through the SMETA audit protocol on the Corporate Social Responsibility performance of five different Peruvian manufacturing companies. In order to gain a wide insight on how the application of the SMETA is helping the Corporate Social Responsibility performance on these companies, qualitative interviews to companies’ representatives and five Corporate Social Responsibility auditors with expertise auditing the SMETA standard, were performed. Additionally the five companies’ SMETA initial audit reports were also analysed as secondary data for this research. The most important benefits, drawbacks and challenges that these companies encountered when implementing the standard, were detected.

The findings after analysing the data obtained from the interviews indicated that one of the main drivers for companies to adopt the Corporate Social Responsibility standards such as the SMETA, come from the requirements and demands of international clients and big companies. Before the appearance of these clients’ demands, the only Corporate Social Responsibility measures or initiatives practiced by these companies were closely related to mere philanthropy in most cases. Only one company was found to have a strategic long-term views of developing Corporate Social Responsibility in its organization. Other findings encountered suggest that the SMETA standard has impacted positively to the Corporate Social Responsibility performance of these companies. Auditors also expressed that Corporate Social Responsibility in the country’s companies has been started and fostered mostly due to the implementation of standards such SMETA as a requirement from international clients. In addition, this thesis also discusses some limitations in the studies that can suggest future lines of research.

**Keywords:** CSR, Standardization, CSR audits, Peruvian companies, SMETA, SEDEX

**Location** Jyväskylä University Library
CONTENTS

ABSTRACT .................................................................................................................. 2
CONTENTS .................................................................................................................. 3
LIST OF TABLES ......................................................................................................... 5
LIST OF FIGURES ....................................................................................................... 5
LIST OF ACRONYMS ................................................................................................. 5
LIST OF ANNEXES .................................................................................................... 6

1 INTRODUCTION ..................................................................................................... 7
  1.1 Background of the research ............................................................................ 8
  1.2 Motivation for the research .......................................................................... 12
  1.3 Research task and research questions .......................................................... 13
    1.3.1 General research question ..................................................................... 14
    1.3.2 Specific research questions ................................................................... 14
  1.4 Research objectives ....................................................................................... 15
  1.5 Justification and importance of the research .............................................. 15

2 THEORETICAL FRAMEWORK ............................................................................. 17
  2.1 CSR theories and concepts .......................................................................... 17
  2.2 CSR in Latin America .................................................................................. 20
    2.2.1 CSR in the Latin American context ...................................................... 20
    2.2.2 CSR in Perú ......................................................................................... 22
  2.3 Standardization .............................................................................................. 29
    2.3.1 Standardization in CSR ....................................................................... 30
    2.3.2 Impacts of standardization in CSR and CSR reporting .................. 32
  2.4 Benefits and drawbacks of standardization in CSR .................................. 36

3 AUDIT PROTOCOL IN PRACTICE ...................................................................... 41
  3.1 The grow of CSR audit practices ................................................................. 41
  3.2 CSR audit practices in Latin America .......................................................... 42
  3.3 SEDEX Members Ethical Trade Audit (SMETA) .......................................... 43
    3.3.1 SMETA elements .................................................................................. 44
    3.3.2 SMETA methodology ......................................................................... 47
    3.3.3 The Supplier Ethical Data Exchange (SEDEX) ................................... 47
    3.3.4 Differences and similarities to other audit and reporting initiatives .... 48

4 DATA AND RESEARCH METHOD ...................................................................... 54
  4.1 Research design .............................................................................................. 54
  4.2 The Case Study research method .................................................................. 54
  4.3 Sources of data collection ............................................................................ 58
    4.3.1 Primary sources .................................................................................... 58
    4.3.2 Performance of the Interviews .............................................................. 59
    4.3.3 Secondary sources ............................................................................... 61
  4.4 Data analysis .................................................................................................. 61

5 RESEARCH FINDINGS ............................................................................................. 63
5.1 General information ................................................................. 63
5.2 Findings ..................................................................................... 63
5.2.1 CSR implementation stages of the companies ................. 64
5.2.2 Motivations and Benefits of implementing CSR through SMETA ................................................................. 66
5.2.3 Reporting and CSR ............................................................... 69
5.2.4 Companies’ perceptions of CSR auditors and Audit Company X ...................................................................................... 70
5.2.5 The application of the SMETA audit protocol and CSR performance .................................................................... 74
5.2.6 Main findings or non-conformities during the SMETA audits ..................................................................................... 77
5.2.7 Drawbacks of Standardization through SMETA ............... 81
5.2.8 Standardization with certification or without? ............... 83
5.2.9 Auditors’ views on the SMETA audit protocol ............... 85
6 DISCUSSION ......................................................................................... 92
6.1 Review of the methodology employed in the research .......... 92
6.2 Why choosing SMETA for this research? ............................ 93
6.3 Reflections on the literature chosen ........................................ 95
6.4 Limitations and suggestions for future research .................. 97
6.4.1 Research Limitations ......................................................... 97
6.4.2 Suggestions for future research ....................................... 98
7 CONCLUSIONS ..................................................................................... 100
ANNEXES .............................................................................................. 102
REFERENCES ......................................................................................... 106
LIST OF TABLES

Table 1 - CSR stage models according to Martinuzzi & Krumay, (2013)
Table 2 - CSR related Peruvian Laws/Decrees
Table 3 - Reasons for Implementing CSR
Table 4 - Drawbacks of implementing CSR in Peruvian companies
Table 5 - Results after implementing CSR in Peruvian companies
Table 6 - Categories of standards
Table 7 - Comparative table of CSR auditing and reporting initiatives
Table 8 - Interview Methods used
Table 9 - Interviews Contacts (Companies)
Table 10 - Interviews Contacts (Auditors)
Table 11 - Themes for analysis
Table 12 - Classification of the five companies according to their CSR stage
Table 13 - Impressions of companies about auditors and audit company
Table 14 - Reasons that cause positive or negative consequences on relationships of auditors/audit Company and audited companies
Table 15 - SMETA Reports data

LIST OF FIGURES

Figure 1 - SEDEX model
Figure 2 - SEDEX Advance platform operating structure

LIST OF ACRONYMS

AAG: Associate Audit Group
BPG: Best Practice Guide
BSR: Business for Social Responsibility
CoC: Code of Conduct
CAP: Corrective Action Plan
CSR: Corporate Social Responsibility
ETI: Ethical Trading Initiative
EM: Emerging Economy
EU: European Union
GDP: Gross Domestic Product
GRI: Global Reporting Initiative
ILO: International Labour Organisation
JYU: University of Jyväskylä
MNE’s: Multinational Enterprises
MSME’s: Micro, Small, and Medium enterprises
NGO: Non-Governmental Organization
SCM: Supply Chain Management
SEDEX: Supplier Ethical Data Exchange
SMETA: Sedex Members Ethical Trade Audit

LIST OF ANNEXES

Annex 1 - SMETA Report Non-Compliance table
Annex 2 - Interview Guide: Companies
Annex 3 - Interview Guide: CSR Auditors
1 INTRODUCTION

In a globalized and highly competitive world, due in part to the speed of change in knowledge and increasing communications facilities, companies can be strengthened when developing strategies for Corporate Social Responsibility (CSR).

The use of CSR in Peruvian companies has started to have an strategic approach only in recent years and mostly due to the activities perform by Multinational Enterprises (MNE’s) and Big sized companies. In Perú, the CSR concept was something illusory twenty years ago and curiously the first companies that performed any type of environmental or social effort, belonged to the extractive industries such as gas, oil and mining due to their accumulation of wealth and availability of financial resources to perform these activities. Besides mining or extractive activities, which are a great part of Peruvian gross domestic product (GDP), manufacturing industries such as textiles, plastics, pulp and paper, agroindustry, fishing, hides and skins, and other food products, etc. have played a very important part on economic growth and progress in the Peruvian economic sectors (Altamirano, 2013).

Due to this globalization process that has been occurring since twenty years ago approximately for the Peruvian manufacturing industries, companies of all types and sizes that belong to this specific sector, have started to participate in the implementation of standards, codes of conduct (CoC’s) and related reporting initiatives, in order to respond to the demands of MNE’s in other parts of the world where they are viewed a potential suppliers.

Technology has made it very easy to provide sourcing from and to very distant regions. Large MNE’s often search for sourcing in developing countries mostly belonging in the global South region, where they can obtain many benefits and save a lot of costs on their production of goods. In many cases, legislation in developing countries or emergent markets (EM), gives subsidies, viability and more facilities to MNE’s to establish a factory or offices in these countries. At the same time, legal voids in legislation are often taken advantage by MNE’s in order to exploit workers and make use of other illegal activities such as the employment of child labour or forced labour, among others (Sullivan, 2014).

In order to regulate or control these matters, MNE’s are often requiring their suppliers in the EM, the implementation of a variety of CoC’s and standards in order to start business with them. Some of these standards are certifiable, some others are not, and however, this depends on the specific requirement of the suppliers’ clients. There are also some cases where the supplier or company in the EM, has already performed any type of CSR audit and implemented an own CoC or standard ahead, so, at the request of the MNE’s that belong to the international markets.

The aim of this thesis is to investigate and obtain some insight about the application of the SMETA audit protocol as a non-certifiable standard that could
benefit and give Peruvian companies in the sense that through the implementation of this standard, their CSR performance could be higher or improve in some ways. Furthermore, one of the aims of this research is also to motivate Peruvian companies to implement similar non-certifiable and guidance standards such as SMETA. The research focus on the standardization theories and the diverse benefits, drawbacks and difficulties that these companies might encounter when implementing the standard and after the audit or monitoring process is completed. CSR western theories will also be included and analyse according to the context in Latin America and Perú. This thesis will make use of the case study approach focusing on CSR standardization. Five Peruvian manufacturing companies will be the main source of primary data for the research. The five companies have provided the researcher with their SMETA initial audit reports in order to deepen the analysis of the findings encountered during the interviews, which are considered as secondary data. Interviews to companies’ representatives that have experienced the implementation of the standard closely and passed through third party audit processes, are part of the research as the main source of the primary data for the study. Interviews to auditors who have taken part in third party SMETA audit processes and who are experts on the standard are also part of the process, since for the researcher is vital to obtain the point of view of many type of actors involved in this type of audit processes, especially if these are experts that have a very deep understanding not only of the standard itself but the benefits and drawbacks of this type of standard for Peruvian companies.

Finally, the results and findings from this research could be utilized by Peruvian companies or others in similar cultural context that might want to implement a CSR standard or at least evaluate its implications as a decision making tool regarding CSR issues.

1.1 Background of the research

The transparency of information on the CSR performance of the companies is essential for those that seek to be responsible, competitive and aspire to win the trust of their stakeholders, such as MNE’s, communities, employees, etc. The increasing activities regarding CSR efforts made by companies is a competitive advantage over any other firm on the same industry category, especially in the age of globalization. This advantage helps companies to distinguish themselves from their competitors and obtain more business alliances with external clients in the developed world, where CSR performance is key for deciding on potential suppliers in their supply chains.

One way to improve CSR performance of an organization is through the implementation of social, environmental and sustainability standards, assessments and reporting initiatives. These are tools that could provide benefits and help the companies to implement and monitor their CSR activities and even build a CSR management system at their workplaces. These tools also provide oppor-
tunity to these companies to show information on the economic, social and environmental performance of an organization (Triple Bottom Line). One of the most popular reporting standards utilized by companies worldwide is the Global Reporting Initiative or GRI. The GRI is a voluntary guide for companies that want to report their activities and initiatives on economic, environmental and social aspects related to the products and services that they offer (GRI, 2015).

Although the GRI scheme is the most common, there are many methodologies and standards developed by international companies, although they are not binding to local or international laws, they function as a guide to implement certain practices and guidelines and report the development of social, economic and environmental performance in a company.

One of these standards is the SEDEX Members Ethical Trade Audit (SMETA) audit protocol, which could be classified as a non-certifiable and guideline standard, according to the literature further described in this paper. SMETA is an audit standard and protocol created by The SEDEX Associate Auditor Group (AAG). The AAG is a group of independent auditing companies organized by SEDEX in order to shape the tools, audit formats and best practice guidelines related to ethical business, responsible sourcing, environmental performance and labour issues. It is important to mention that SEDEX is a not for profit membership organisation, whose main objectives are achieving improvements in ethical and responsible business practices for their members. SEDEX owns an online platform where their members are able to share their data in four key areas: Labour Standards, Health & Safety, The Environment and Business Ethics. Despite the fact that SEDEX is a membership organization, the SMETA audit protocol and all the documents and tools regarding this standard, are free for all companies that would like to implement it (SEDEX, 2015a).

Standardization through these type of non-certifiable and guideline standards, could be beneficial for companies that want to start implementing CSR initiatives or monitor and audit their already implemented ones. Through the use of the case study approach, the standardization theories and the results of implementing standards of these types, the SMETA audit protocol will be studied and analysed.

Regarding previous research on the topic, research regarding CSR, environmental management, sustainability, sustainable development, among others related topics has increased through the years. These topics have become popular among researchers in all over the world whose research papers can be found all over the internet through academic journals, university thesis platforms and other means.

Despite all of this background, the specific topic about the implementation, auditing, monitoring and other themes related to the SMETA audit protocol have not been included into many research works or thesis papers. Practically, there is not academic literature that describes the auditing process of a SMETA audit or the benefits or drawbacks of this audit tool as a guidance and non-certifiable standard.
Furthermore, the topic of standardization and the effects and influence on the CSR performance of companies has not been studied in an extensive manner, however there are some researchers that have analysed the issue and also provided a research agenda for the following years. Most of the research has been performed taking into account global developed economies and contexts. Mostly these studies have been of descriptive nature, and usually the effects of the application of standards have been studied in the context of MNE’s and their supply chains, and not much in the context of the suppliers themselves. Moreover, the SMETA audit protocol has only been mentioned in a couple of studies and mostly as example of an audit protocol but not really analysed in any context.

Additionally, this topic seems to be new in research regarding global South countries and companies. According to Castka et al., 2008 it is recommendable to include in the research agenda the study of the relation and linkage between certifiable standards and companies’ performance (Castka et al., 2008). From this affirmation made by Castka, it can be deducted, that the same could be considered regarding non-certifiable or guidance standards as well.

Gilbert et al, 2011 also mention some interesting topics for future research on standardization such as understanding or rethinking the compliance of standards and different results according to different realities, for example in developing countries. Additionally, Gilbert et al, 2011 also state that there is a need of longitudinal studies about standards in general and the relation with performance over time (Gilbert et al., 2011).

In reviewing the relevant but scarce literature, the researcher found two thesis papers which included the study of difficulties, benefits and drawbacks of implementing different standards such as SA8000, SMETA and the Global Social Compliance Programme (GSCP). The researcher considers that these two documents are important for understanding how the topic was studied in the past. On his thesis paper “Sustainability Assessment: A Pathway for Reducing Audit Fatigue”, Jeffrey McKinnon presented two case studies and analysed the SMETA and its sharing data platform SEDEX together with the GSCP. The author analysed effectiveness of both standards on improving social and environmental performance and reducing audit fatigue through the standardization of audit processes and data sharing under a best practices framework. McKinnon addressed the issue of audit fatigue which is referred to the organizational wear and tear suffered by suppliers when they are subjected to excessive compliance monitoring and enforcement of an excessive number of audits, due to repetition or the need to involve continually the same firms’ representatives receiving the audits that have similar verification processes. This fatigue does not have to have internal audit or internal control as protagonist, but in many cases, especially in outsourced regulatory processes can cause the occurrence of external auditing companies acting on the same subjects and about the same people. All this issue is analyse by means of SEDEX data platform and GSCP. Points of view and critics obtained by interviews to a number of firms’ corporate management that worked closely to both initiatives SMETA/SEDEX and GSCP, were also obtained and an-
alysed by the author. Finally, it was concluded that both initiatives offered valuable services to the firms that applied these protocols and recognition of the audit performance since these are standardized protocols but also because their reports are possible to be shared with an amount of clients or customers. It is important to note that McKinnon’s thesis did not include cases of suppliers that have directly gone through any of these audit processes or used the online data platforms mentioned on his thesis. However members of the clients of these suppliers were interviewed as the agents that required these initiatives to perform responsible sourcing of their supply chains on their diverse suppliers all over the world. In summary SMETA/SEDEX was study for its effectiveness reducing audit fatigue and as a tool for managing a sustainable supply chain (McKinnon, 2012).

The second thesis paper that caught the attention of the researcher is referred to the implementation of the SA8000 standard in Peruvian companies in the Peruvian context. In her thesis paper “Difficulties on the implementation of the SA8000 standard in Peruvian companies”, Valdeiglesias analyses the implementation this standard, the difficulties and the negativity of Peruvian companies to implement it. The benefits are also exposed by the author (Valdeiglesias, 2012).

While Mckinnon studied standardization related to audit fatigue and responsible sourcing through the use of non-certifiable standards like GSCP and SMETA, Valdeiglesias studied the challenges of implementing the SA8000 standard in Peruvian companies. The aim of her thesis was to identify the main difficulties and drawbacks that Peruvian companies have to go through in order to obtain the SA8000 certification. In the first part of the thesis, the author analyses the Peruvian social-context related to labour issues and local laws. In order to identify and evaluate the difficulties the author performed interviews to representatives of 2 audit companies in order to obtain their opinions and experiences related to the implementation and auditing of this type of certifiable standards. Benefits, difficulties and problems to obtain this certification and furthermore, recommendations are also included on this research. The main conclusions on the study are that Peruvian companies do not see with good eyes, the policies regarding CSR, and that informality in the labour market affects the companies that have businesses with these informal companies and make it difficult for them to obtain the certification since monitoring activities become almost impossible due to this informality of doing business. The importance of taking this thesis paper into account for the present paper is due to its revision and analysis of important aspects of Peruvian social and business reality and the description of diverse characteristics of CSR practices performed in a Peruvian business context. Despite the fact that this research does not include SMETA, it is important to mention that SA8000 standard has very similar principles as the SMETA audit protocol, for which is considered worth it studying and analysing the similarities (Valdeiglesias, 2012).

As it was mentioned lines above and according to the research found related to SMETA, this audit protocol was mostly studied with cases that included
MNE’s that had implemented the protocol in their supply chains. Some standardization issues were also described and analysed and benefits and difficulties resulted from the implementation of SMETA and other standards were also described and analysed. However, the corresponding researches did not include MSME’s in their interviews or case studies and hence the point of view of the audited companies in the global South context is missing.

1.2 Motivation for the research

The researcher had the opportunity to work very closely to companies who have implemented the SMETA audit protocol and have been audited on this protocol, a couple of years ago through her work as operations coordinator in an English audit company with an subsidiary located in Lima - Perú. During her work at this audit company, the researcher could travel to many cities and towns inside Perú in order to accompany the lead auditors on their task to perform SMETA audits to diverse type of companies including agricultural, industrial and services companies. During these audits, there were always opportunities to observe more deeply the problems that these companies had to deal with when implementing this protocol and performing the audits for monitoring this implementation. Most of the times these companies were asked by their MNE’s clients to perform not only SMETA audits which were the third party auditing processes, but also other type of certifiable and non-certifiable standards as well.

These clients wanted to standardize their responsible sourcing management through the implementation of industrial CoC’s and the performance of standardized audits performed by a third party auditing company. Some other companies wanted to perform the SMETA audit on a voluntary basis due to the fact that their management wanted to implement a guidance standard in order to evaluate their CSR performance. Choosing this topic as a research thesis came very naturally to the researcher since one of the motivations stems from her personal working experience. Moreover, nowadays Peruvian economy is growing and more and more MNE’s are sourcing their working material or producing their goods with Peruvian MSME’s, SME’s and bigger companies as well. These type of initiatives are becoming more and more popular worldwide and in the country since few years ago because companies around the world are very interested in greening their supply chain and perform responsible sourcing. Big important international and national companies are requiring the implementation of their own CoC’s, policies or other industry CoC’s and audit protocols as a necessary step before they can accept a supplier into their supply chains.

Furthermore, one of the main motivations for performing this research is to raise awareness among firms’ management of their responsibility to implement, auditing and monitor their CSR performance in their companies. Companies should include on their competitive strategies the social factors, the environmental factors, the labour factors and so forth if they want to survive in this competitive world where consumers’ attitudes values are changing and a big part of
them are now part of an environmental awareness movement in the sense that consumers that care for the environment and social issues are increasing all around the world and Perú is not exception to this movement. This is obvious when one arrives in Lima and visits different restaurants to find vegetarian, vegan, organic or fair trade options of meals. Eco-fairs have taken over some quarters in Lima city during weekends and more and more regional eco-fairs are taking place in many cities in Perú.

Finally, the initiatives of private companies in Perú regarding CSR efforts, have been more focused on environmental and health and safety issues rather than labour issues and respect to employees or their benefits mandated by law. Unfortunately Peruvian labour law has voids which have not been filled in yet by the Politian or local authorities of this country, this issue and others related to it will be covered in the following chapters of this research.

1.3 Research task and research questions

Nowadays customers and public in general, want to receive real information regarding the origin of the food they consume and the clothes they wear, among other examples. One product can be manufactured in one country but might contain raw materials produced in another. At the same time, this product or good can be sold in the local markets of the country where they were manufactured or also could be exported to some other continents. Under this context, CSR practices have gained a huge importance and are taken into account during the selection process of products and services by consumers. This type of consumer is more worried about the environment and about the choices of consumption and whether the product they are buying was manufactured in a responsible manner and human resources used for this end were treated with respect and receive all benefits and so forth.

This new scenario is forcing companies to rethink the concept that they have in making business, in order to perceive more clients and gain more profits. Corporate social responsibility (CSR) in part refers to the fact that products or services have been manufactured in a way that the firms have considered the respect for the environment, respect for the rights of workers which means respect for labour laws, protection of their physical and psychological integrity and also the quality of products to ensure customer satisfaction and obtain more popularity, enhance their reputation and increase their sales.

Many companies have started to implement CSR practices in their facilities and through their supply chains. The management of the supply chain is currently one of the key aspects of business management with a CSR business focus. Integrating CSR practices along the supply chain should be part of the strategic approach of the companies nowadays. These practices seek to incorporate environmental, social aspects and ethics in the relationship with the firms’ stakeholders and in this case the suppliers are a very important part of them. The responsibility of companies no longer have geographical barriers, and famous and well-
known cases have shown that the lack of ethics, transparency and supervision in the relationship with suppliers can affect very significantly their business, seriously damaging its reputation and therefore their profits.

Aware of these issues, many companies around the world have started responsible sourcing programmes to implement CSR evaluation and monitoring activities into their supply chains, especially in those supply chains located in risk countries or developing countries. At the same time, Micro, Small and Medium enterprises (MSME’s) that produce goods and services for these MNE’s, are realising that it is an important and strategic step for them to have performed these type of protocol implementations and monitoring activities. For some big and famous companies such as Nestle or Unilever, it is important to make business with MNE’s that are able to demonstrate that they work according to CSR practices and also respecting local laws and labour international conventions such as International Labour Organization (ILO). These reasons have made many suppliers all around the world to create or adopt CoC’s, standardized audit protocols and external audit processes in order to comply with the requirements of their clients.

The use of the SMETA, which is a non-certifiable guidance standard, is one of these tools that MNE’s and MSME’s are currently using in order to evaluate CSR practices and performance of their supply chains and also of their own facilities. In this context, it is vital to understand the key problems, challenges and opportunities that companies have to go through when implementing and auditing these type of tools or standardized audit protocols and the effects that these tools have on their CSR performance and practices. By analysing five companies and five lead auditors and their experiences with the SMETA audit protocol, these tasks can be identified.

1.3.1 General research question

How the standardization process through the performance of the SMETA audits can help companies on planning their CSR management?

1.3.2 Specific research questions

In order to provide answers to the general question on this research, the following specific questions have been included:

1) How the relationship between auditors and audited company representatives influences the SMETA audit process?

2) How the perception of the SMETA audit protocol as a guidance standard influences the process of CSR implementation and continuous improvement and how does this protocol implementation influence the CSR practices in these companies?
3) What are the motifs that encourage these companies to participate in a CSR standardization process such as SMETA and what discourage them from participating?
4) What is the influence that standardization with certification and standardization without certification (guidance standards) have to the CSR performance of the companies?

1.4 Research objectives

The main aim of this thesis is to achieve a better understanding of the negative or positive impacts that the implementation of standardized audit protocols has on the CSR performances and practices of companies located in Lima, Peru. In order to achieve this, the case study of CSR standardization through the SMETA audit protocol will be studied by the researcher.

Understand the importance of the relationship between firms and auditors in order to achieve an effective process of evaluation of the SMETA audit protocol during the auditing process. At the same time provide a better understanding on how the SMETA audit protocol is structured and if this influences the enhancing of CSR performance in firms.

Provide a better understanding of the effects that this type of non-certifiable and guidance standards have on the perception of the firm that these tools can help in their continuous improvement processes regarding CSR practices. Does it really matter to the firm that these are guidance standards and not certifiable standards?

Finally, it is important to provide information and recommendations concerning the future development of the implementation of standardized audit protocols or guidance standards such as SMETA, not only for Peruvian companies but for all of those companies that want to include this type of tool in their strategies for evaluation and monitoring their own CSR performance and that might share similar cultural contexts as in the Peruvian case.

1.5 Justification and importance of the research

For the first time the implementation and monitoring of the SMETA audit protocol will be evaluated in the Peruvian context and for this end, five companies will be included in the case study, in order to understand, analyse and compare the benefits and drawbacks of standardized audit protocols or guidance standards which are non-certifiable.

The improvements or efforts made by these five companies in relation to their corporate social responsibility practices after the implementation and monitoring of the SMETA audit protocol will be analysed in this research. This will
serve to fill the theoretical void on the evaluation of CSR performance through this specific protocol and the standardization through SMETA.

This research will help to give more light and provide more understanding about audit protocols like SMETA and in this sense, give more and detailed information about the benefits and drawbacks that the implementation of these type of auditing tools have for Peruvian companies in the manufacturing industry located in Lima. This research also aims to reaffirm the training of the researcher as a professional, giving her guidelines for her future development as a responsible leader with respect to the society and as an agent of social change.

Furthermore, this research provides readers with knowledge about how these audit protocols can be of great help in order to improve their performances on CSR issues, including environmental, health and safety and labour issues and generating welfare to the community but at the same time achieving an important competitive strategy that they can benefit of when they search for more business with clients from abroad or MNE’s that are very interested in counting with supplying companies that have already implemented guidance protocols or any protocol regarding CSR issues.

The most benefited organizations from the results of this research will be the companies themselves, their clients and consumers in general. The findings of the research will serve as references for companies' managers in Peru that might be considering implementing CSR standards such as SMETA. This information is important for appropriate and timely decision-making in the process of managing CSR issues in companies. Finally, the importance of evaluating and monitoring the CSR efforts made by firms is highlighted through the recommendations and results given by the researcher.
2 THEORETICAL FRAMEWORK

2.1 CSR theories and concepts

Public and private companies, have a major role in the contemporary society, because of their ability to create wealth, work and generate knowledge and skills. Thus, they have become key pieces of the development of society. In an unequal world, such as that currently being experienced nowadays by many people around the world, ethics plays an important role in key aspects of the activities of companies and society in general. In addition, ethics is one of the key factors of Corporate Social Responsibility, which is defined by Marrewijk, (2003) as “a more humane, more ethical, more transparent way of doing business”. CSR is seen as doing the right thing and doing well to the society through donations, projects that involve communities, among other activities. Furthermore, CSR is defined as a mechanism that can prevent companies from doing wrong things to society in general. Finally, CSR can also be explained as a successful strategy to create value for companies, thus creating wealth and economic growth (Martinuzzi & Krumay, 2013).

CSR is a concept that was created in the western world. These concepts of CSR have varied over time and sometimes even have been contradictory or opposed to each other. Since 1990’s there has been an increase on research and literature about the topic. (Snider et al., 2003).

In the western business oriented texts and definitions, the meaning and concepts CSR are always given by CEO’s, managers and executives’ point of view. Most of the times, whenever there is a CSR problem, this is seen as a result of any management failure, which can be mend by companies themselves. Another problem with the western approach to CSR is that it tends not to take into account the different contexts of different countries and different cases of CSR issues. This means that the western approach of CSR directly universalizes the experience of companies in the western world to the other countries and it is supposed that social and environmental legislation are already given by the different governments (Khan & Lund-Thomsen, 2011).

In the following lines on this section, the main CSR theories related to reporting and CSR itself which were developed in the western world, will be presented for a better understanding of CSR concepts according to the developed countries who were the creators of this specific concept.

A. Theories that justify CSR reporting:

Legitimacy theory:
This is one of the most utilized theories which aim is to explain the need of companies to provide information and data about their own social and environmental behavior to their stakeholders or the public in general (Gray et al., 1995 as cited on Hooghiemstra, 2000). The theory states that very often companies must
show their actions regarding CSR in order to achieve a high level of legitimiza-
tion in the community, showing others that they are behaving like good corpo-
rate citizens and doing the right things. One of the ways of doing this is becoming
involved in CSR reporting initiatives. Furthermore, Hooghiemstra, (2000) ex-
plains that one tool that might be use by companies in order to fulfill this need is
Corporate Communication as a management tool which is aimed at improving
and enhancing firms' image, reputation and prestige. Reporting on CSR issues
might help the companies to create a visible competitive advantage (Hooghi-
emstra, 2000).

It could be also add that reporting would depend on what type of stake-
holder it’s directed to, being this shareholder or consumer, since information de-
ivered might differ. Furthermore, nowadays the internet and other tools used to
spread information from one part of the world to another in less than seconds,
have caused that information is disseminated cheaper and quicker than before
(Snider & Martin, 2003).

B. Main CSR theories and concepts

CSR studies present a wide array of theories and a proliferation of approaches.
Authors such as Martinuzzi & Krumay, (2013) present their views regarding the
classification of CSR implementation stages in an organization and one of the
aims of their research is to establish a link between CSR and competitive ad-
vantage but also analyse in which way CSR is present in organizations. These are
not theories themselves, however these are more focused on the different stages
that might be adopted by organizations that are willing to implement CSR in
their processes. Depending on the CSR stage, the impact on the environment and
society will increase, this means that in stage 1 there will be likely less impact
than in stage 4. The impact will also be higher from stage 1 all the way to stage 4
and will likely affect positively the performance and competitiveness of the com-
pany. Table 1 resumes the authors’ views on this matter.

Table 1 – CSR stage models according to Martinuzzi & Krumay, (2013)

<table>
<thead>
<tr>
<th>Stage</th>
<th>Description</th>
<th>Time</th>
<th>Critique</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project-oriented CSR</td>
<td>Firms start utilizing CSR applying it in specific projects.</td>
<td>Short-medium term</td>
<td>Usually not on the focus of company’s activities.</td>
</tr>
<tr>
<td>Quality-oriented CSR</td>
<td>Firms establish quality management systems to ensure their reputations. Preference for suppliers that have implemented standards or CoC’s.</td>
<td>Medium term</td>
<td>There is a constant need of evaluation through audits and monitoring in order to achieve valida-</td>
</tr>
<tr>
<td>Strategic oriented CSR</td>
<td>CSR is part of all strategic decisions. Investments in social aspects</td>
<td>Long term</td>
<td>Huge need of integrating all levels of the organization into CSR. There might be risks of</td>
</tr>
</tbody>
</table>
increases firms’ competitiveness.

Transformational CSR
Organizational learning and stakeholder integration are main issues.
Flexible organization.

having differences with business partners.

Long term

It is a continuous process. Not easy to achieve. Very rare successful cases. Positive changes after implementation are not easy to predict.

Source: Adapted from (Martinuzzi & Krumay, 2013)

One of the main reasons for choosing to include Martinuzzi’s & Krumay’s CSR implementation stages is for analysing companies’ corresponding stages regarding their CSR implementation, performance and mentality about performing CSR initiatives that could have an impact in the organization in a short or long-term. This classification given by these authors serves the study very well because it is notably important to consider these stages in order to understand the statements that will be presented during the interviews with the companies’ representatives that are part of this study, since topics such as how is CSR implemented, managed, maintained and fostered among employees will take part of the analysis. As stated by Martinuzzi & Krumay, these stages can represent the CSR maturity of each company analysed in the present study. To understand the status of each company regarding implementation of CSR, helps the researcher also to understand if CSR standardization processes can have any significant impact or influence in the performance of CSR programs, policies, activities and strategies in a company. In summary, the concepts presented by Martinuzzi & Krumay in the form of a conceptual map of 4 CSR implementation stages are useful to perform a firm-level examination of each company included on the study.

Most theories and models of mainstream CSR developed so far, include the ethical side of the concept. CSR cannot exist in a company which values and principles are not ethical. The ethical concept is present in almost all definitions and models of mainstream CSR (Toma et al., 2011). Snider et al., (2003) also mention 4 components of CSR which are the following: (1) economic in the sense that companies exist in order to obtain profits and that CSR activities are likely to be performed if the company receives financial benefits, (2) legal because companies have to comply with the laws and in this case CSR is seen as voluntary, (3) ethical because companies have to respect the right of others and the society in general (stakeholder management) and (4) discretionary or philanthropic in the form of social activities that benefit a wider community. These are the most important components of mainstream CSR according to Snider et al., (2003). Again the ethical and philanthropic nature of CSR is always present, and as it is observed, in
this case it is directly related to stakeholders’ management in the sense of respecting the groups’ rights that the companies impact or influence.

Finally, in order to conclude this section, it is important to mention that there are difficulties with the current definitions of CSR as they overlap each other in many cases. CSR must also be taken into account as a custom-made process that will vary according to different realities or social/cultural contexts (different companies or different regions). This being said, according to mainstream CSR theories companies have the right to increase their profit and share value but also is their responsibility to be accountable for their impacts on the environment and the society or communities (Marrewijk, 2003).

2.2 CSR in Latin America

In Latin America, CSR is usually seen as the replacement for most governments, especially in remote locations where the governments’ help and assistance does not reach most of the population. There is a paternalistic point of view of CSR which still exist in most countries in the region. However, one of the drawbacks of putting all the responsibility in the private companies is that the governments have gotten used to this and keep on ignoring these populations which happen to be the poorest in the countries. In most countries in the region, the neo liberal economic model has been implanted since more than twenty years. Due to this, the governments in the region have not been concerned about issues such as health care, education, social services, pension for elderly people and mental health, which have had an effect on increasing poverty and inequalities among the different social classes. This is one of the reasons why CSR in Latin America has been performed by companies as a matter of paternalism, philanthropy and legitimization. These philanthropy practices by companies are very likely and usually create much dependency on corporations, which has a bad result on the behaviour of the governments that continue being irresponsible and evading their duties towards their populations. However, many companies make use of CSR in order to reduce local resistance from populations, most of the time cheating on them to gain their support.

2.2.1 CSR in the Latin American context

CSR studies have focused more into western and developed economies with a small focus on Emergent Markets (EM) or developing countries. CSR characteristics and performance are usually studied in developed countries contexts such as USA or Europe but very little in EM. In order to perform this research, it is important to have a broader view of CSR in EM due to their growing in recent years, especially under the Latin American context.

Due to the characteristics described above, CSR theories mainly focus on economic, political, social integration and ethical aspects applied in western
countries. Research on theories of CSR that have been applied to EM is limited. This means that a void must be fulfilled due to the importance of EM because emergent societies are always changing very fast due to their own nature and continuous economic progress or growth. In this context, the significance of having a bigger understanding of social, economic and environmental realities in these countries is vital for MNE’s and investors. When MNE’s start planning to implement factories or offices in these countries and under a context like this, dialogue with stakeholders is important as a strategy to achieve recognition and increase legitimacy to operate in the developing world (Lopez Gaston Fornes, 2015).

It is evident that the diverse economic, political and historical conditions will lead to a different perspective regarding CSR implementation, benefits, drawbacks and potential results in general, as conditions might differ from social context to another. These conditions or context have a primordial influence on CSR strategies, actions, scope and nature (Jammulamadaka, 2013). Furthermore, as mentioned and discussed by Jammulamadaka, 2013, most studies regarding CSR have been performed from a western perspective or point of view and when there has been any study examining developing economies is always through Transnational Companies’ (TNC’s) or Multinational Enterprises’ (MNE’s) point of view.

The perspective of CSR that this paper has, it is a direct analysis from manufacturing companies in the Latin American and Peruvian context. Producers and exporters of consumer goods are part of this study. This will provide the study of a big opportunity of analysing and investigating in the specific context and in a more directly manner than analysing through agents, importers or clients such as MNE’s.

As it was previously mentioned lines above in this section, CSR in the Latin American context has not been studied as much as it has been in western contexts. Information directly collected on the opinions or notions of MNE’s corporate stakeholders in the global South and other developing countries, is rarely and not often collected by CSR and business ethics research (Myllylä, 2015). For this reason, theoretical gaps in CSR theory regarding the global South is found in CSR research. In the Latin American context, companies that decide to invest and set up factories in these areas, face great challenges in the identification and management of their stakeholders and the various differences within these stakeholders.

The term "stakeholders" is criticized by several authors when applied to the Latin American context or in general in the southern hemisphere context, as this has a top-down corporate approach or even a Eurocentric character (Myllylä, 2015).

One of the cultural elements that have characterized Latin America, has been paternalism and, in that context, the establishment of relations and dependent links between different social levels has also been characterized by this element. Probably, this has been one of the key factors that has been influential in
creating Latin America’s governments, their companies and, in general, their societies; and all of this, associated with a marked inequality in income distribution, in the concentration of political, economic and social power and the extent of poverty (Lopez Gaston Fornes, 2015).

The Latin American region has always been characterized by great social and economic differences, as well as internal incident classism and racism in their societies. Latin America usually is referred to as one of the most unequal regions in the world for these reasons. It is important to mention that religion and the acts of beneficence of family companies were the tools through which these differences have been maintained or expanded, due to the fact that both power and wealth are allocated among very few people, leaving then a great part of the population, in social abandon (Myllylä, 2015).

It is by all this, that the philanthropic gesture was the preferred strategy of medium-sized or large enterprises in the region. Redoing or modifying this paternalistic, dependant and philanthropic culture, and build a more egalitarian social responsibility is a major challenge that has not taken off yet, even though there have already been some business and social leaders who have raised their voice and have contributed in some ways. Globalization and technological innovations have made it possible to expand the new approaches related to social responsibility from the western context. Multinational companies, besides investments, have brought the need to act responsibly, which has been imposed by the global market.

Despite all this, the task of cultural and social transformation remains a great work that needs to be done. For these reasons, the practice of CSR is closely associated with philanthropy and it costs much work to modify it and above all, that companies of all sizes, large, medium, small and micro enterprises internalize CSR in their corporate strategies.

It is important to mention that philanthropic activities may have diverse and even a negative influence and effect in local communities in the region, concerning proprietary rights, equality, sustainability and transparency. For instance, MNE’s tend to increase philanthropic support in order to achieve low levels of resistance in the communities where they operate and affect with their operations, but without solving the underlying problems that generate social dissatisfaction and opposition to the company (Myllylä, 2015).

2.2.2 CSR in Perú

In order to locate the Peruvian context and the development of CSR initiatives and understand when it became important and necessary for companies to start performing CSR initiatives in Perú, it is important first to describe briefly the political and historical context of the country. For time and length restrictions on this study, the description starts with the context of the country since the year 90’s.

After a long period of internal war or terrorism lead by “The Shining Path” terrorist group in the 80’s, the early 90’s started with the so called “political sta-
bilization” in which terrorism and communist ideologies were started to be annihilated by all means necessary, as it was stated by many political actors during those times. After this dark era of the internal terrorism that affected many people especially poor ones in many regions in the country, including Lima, the Peruvian government started a long list of privatization programs which objective was attracting foreign capitals. The government made privatization of most public companies such as telephone, energy, and mining public companies since they decided to adopt the neoliberal economic model of capitalism. However, due to all these new activities, corruption, human rights violations, repression happened as well as part of these new programs. Many native communities were displaced and lands were taken from them in order to give them to foreign companies that wanted to invest in the country. The principle of consultation to communities prior any type of important decision as the concessions were, was inexistent and still is a big issue in Peruvian legislation, since the right to protest has been banned and criminalized by almost all governments since the 90’s. The Peruvian government gave out concessions for oil, gas and mining extraction to many North American companies, Australian and European companies. Most of the time, these concessions were given out to these companies with no regards on the environment or specific policies that would benefit the country and its population as a whole, meaning that the rights and welfare of the native communities were put in the last place. Since all this neoliberal practices happened in the country, many natural resources have been lost, such as lagoons and ponds that have been turned into open pits by mining companies for instance. And as it always happens, the poorest people are the ones affected the most by these economical models. Many communities which main activities were all directly or indirectly related to agriculture and which needed the water bodies to subsist, were driven to bankrupt without any help from the government (Sullivan, 2014).

Since then, many rivers have been contaminated by wastewater from mining activities. The sediments resulted from these activities have caused a high levels of acidity in many water bodies, killing animal life and affecting the provision of water to surrounding communities. Since recent years, it has become more compulsory for companies to present the corresponding EIA’s or Environmental Impact Assessments that unfortunately are used by companies as a public relations document which main goal is obtaining licenses and permits to operate, especially in the energy and mining sectors in Perú. Due to happenings like these, many and frequent social movements and protests all around the regions affected have increased since the 90’s and until now, they continue (Sullivan, 2014).

In this context, it is useful to revise and analyze the main legal structure regarding CSR in business, especially those laws or norms that were created and promoted during the 90’s and afterwards. In Peru, companies’ contributions or initiatives towards sustainable development or CSR activities depend on the willfulness of the companies and not specifically on the local regulations mandated by Peruvian laws. In Peru there is a regulatory framework for CSR implemented timidly. The Peruvian state develops under a legal structure within which companies perform their activities. In this legal structure, international and national
laws are taken into account. However, as it was previously mentioned on this paper, there is a high level of wilfulness always highlighted by these regulations and for this reason there is not a specific regulation or law that introduces CSR with a compulsory nature for companies. Naturally, there are guidelines and certain norms that promote the performance of CSR activities especially in certain industry sectors such as mining, oil, natural gas, and basically energy sectors (Casanova-Claros, 2011).

It is important to mention that for many reasons, the voluntary nature of CSR regulations in the Peruvian context could have some deficiencies and could cause the decline of the creative impulses to standardize behaviours in companies regarding CSR initiatives and activities. This voluntary nature of CSR, could have an effect and also restrict the commitment when companies perform any social activities. This means that companies may not complete their activities and could only be interested in reputation or image. Furthermore, this may decrease motivation and healthy competition of an organization in the same sector, community or society and could also cause the elimination of the support among business, state and society, among other possible negative results. Moreover, if there is a very well defined legal structure for companies concerning CSR, the standardization of concepts and criteria that describes the business actions and activities, could be achieved and this could mean that penalties or incentives might be promoted with a compulsory nature by the government (Casanova-Claros, 2011).

In order, to have a broader understanding of Peruvian legal structure regarding CSR, on Table 2, the most important and few norms, laws and decrees mandated by Peruvian law are presented.

Table 2 – CSR related Peruvian Laws/Decrees

<table>
<thead>
<tr>
<th>Law or Decree</th>
<th>What does it establish?</th>
<th>Year of creation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peruvian Constitution: Resolution No.0048-2004-PI-TC.</td>
<td>Private companies have a special responsibility to the State. Private activity, should allow to maximize the principle of solidarity and comply with social policies that seek the welfare of all citizens.</td>
<td>April 2005</td>
</tr>
<tr>
<td>General Corporation Law, Act No. 26887 (articles 114, 171, 172, 174, 175).</td>
<td>Establishes that meetings of the corporation with its shareholders must be performed at least once a year where all information regarding financial, social and economic society aspects must be deliver to shareholders.</td>
<td>December 1997</td>
</tr>
<tr>
<td>General Mining Law, Legislative Decree No. 109.</td>
<td>Specific law for the mining industry sector, which gives business owners benefits such as tax deduction for investments in public service infrastructure, housing and welfare for workers, among others.</td>
<td>June 1992</td>
</tr>
<tr>
<td>Labour Law, Act No. 27711</td>
<td>Establishes that companies must comply with national rules regarding labour laws and labour standards derived from ILO conventions.</td>
<td>April 2002</td>
</tr>
<tr>
<td>Supreme Decree 009-2007-TR.</td>
<td>Promotes a specific plan to fight against forced labour at all workplaces in the country.</td>
<td>April 2007</td>
</tr>
<tr>
<td><strong>Health and Safety at the workplace</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Law 29783.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Establishes Peruvian regulations for health and safety at the workplace and promotes raising awareness about offering good working conditions for workers.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>August 2011</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| **Law of organization and functions of the Ministry of Labour and Employment Promotion - Law No. 29381** |
| Establishes legal attributions to the Ministry of Labour and Promotion of Employment of Peru in order to promote national norms and standards of CSR in labour matters. |
| June 2009 |

| **General Environmental Law, Act No. 28611 (article 78)** |
| Establishes that the state promotes the voluntary adoption of policies, initiatives and practices or mechanisms of social responsibility towards the environment, establishing a proper working environment and relations of cooperation among the organization and its stakeholders. |
| October 2005 |

| **Supreme Decree 059–2005-EM.** |
| Establishes the regulation of mining activities regarding the remediation plans to be performed when mining activities impact the areas surrounding the companies' facilities or where mining activities were performed. |
| December 2000 |

| **Supreme Decree 018–1992-EM (article 17 item 1), modified by the Supreme Decree 042–2003-EM).** |
| Provides regulations prior to mining investments so that companies must comply with social commitments. Mining companies must deliver a report regarding their sustainable activities such as promotion of local employment, utilization of local goods and services for its activities, among others. |
| September 1992 |

| **Supreme Decree 038–98-EM** |
| Also regulates mining activities before the beginning of these activities. This decree requires mining companies to present an environmental impact assessment in order to obtain the mining concession. |
| November 1998 |

| **Supreme Decree 015-2011-TR “Responsible Perú”** |
| Establishes the creation of the program “Responsible Peru” by the Ministry of Work and has the aim of promoting CSR practices in all companies. Provides an official register of socially responsible companies in the country and promotes projects regarding CSR. |
| September 2011 |

Source: Adapted from (Casanova-Claros, 2011)

It is important to mention some legal voids that could affect the effectivity of promoting CSR in Peruvian companies, especially for labour matters. For instance, in 1945 Perú signed the No. 1 ILO Convention that established that the employees’ working hours will not exceed 8 hours per day and 48 hours per week. However, in Peru, the employer is allowed to use the limit of the working day or the working week, whenever on average this must not exceed 48 hours a week, in this sense, it can be concluded that there is not a strict limit to the working day hours. Moreover, Peruvian labour legislation does not set a limit to the amount of overtime that can be performed by employees, this is why it can be concluded that is possible to affect the fundamental labour rights of employees such as relaxation, enjoyment of leisure time and enjoyment of health, which clearly affects
the CSR practices of companies regarding their employees (Rivadeneryra Guzmán, 2015 & Gestión, 2014).

It is also important to clarify one more issue on labour legislation concerning the daily working hours. The 48 hours in average for weekly working hours, apply only to employees from lower level as labourers. The same happen to overtime hours since this only applies to lower level workers. In Peru, it is very common that companies consider workers in middle management as trustworthy employees and for this reason, the 48 hours per week do not consider these employees. For many people this is considered as a type of discrimination and exploitation, however the Peruvian legislation has not given any treatment to this matter yet (Gestión, 2014). Culturally, this is a fact that happens in most cases, as the Peruvian employees feel that they have to prove that they are able to work for more than 8 hours a day in order to show that they are faithful to the organization, resulting this in a very common practice for employees to work more than 8 hours per day an being seen as normal and positive. Employees who leave the organization premises exactly after working 8 hours are generally frowned upon by their colleagues and even their superiors. It can be concluded then that this is also a type of silent intimidation which obviously affects very much the working environment in many companies in the country, affecting at the same time, the CSR performance of the organization. Because of the context and situation in Peru, being Peru a major supplier of raw materials such as minerals, oil, gas, commodities, fruits, vegetables, etc., the present business in Peru, requires the application of longer hours of work daily, as well as applying a limit of overtime hours and that they are regulated by special law, in order to achieve enhanced productivity and competitiveness within the framework of the concept of providing people with decent work.

From the political, historical and legal context where Peru is located, it is somehow understandable that most CSR initiatives given by the government and structured in the legislation of the country, have not been clear about the position of Perú as a state towards CSR and the protection of the environment. Most regulations are not compulsory and only seem to work apparently in the mining and energy sectors. Furthermore, given that there are lobbies happening in these sectors, the laws are not really strict for these companies either. Moreover, average citizens believe that the government is not interested in pushing companies to behave more responsible and that if companies perform any activities or initiative regarding CSR is mostly voluntary or because of obtaining higher prestige for their products and services. It is noteworthy to mention, that the manufacturing sector in Perú has not been given the necessary impulse from the government in order to become more socially and environmentally responsible yet. This last point is very clear when observing the laws and regulations that are mainly created to address issues in the energy and mining sectors of the Peruvian economy.

In Perú, there are four type of business sectors or type of companies which are very well visible. The first group reunites multinational enterprises (MNE’s),
the second group comprises big enterprises, the third group has medium enterprises and the last and fourth group comprises small (must have up to 50 employees) and micro (must have up to 10 employees) enterprises (SME’s). Only small and micro enterprises together represent nearly the 98% of private companies operating in the country and generate almost 50% of the gross domestic product (GDP) in the country. These facts make SME’s, which mostly belong to the manufacturing business and not extractive businesses, a very important part of the whole industry in Peru and for these reasons CSR initiatives, legislation and programs started by the government must be also addressed to these companies (Altamirano, 2013).

In the Table 3 reasons for implementing CSR in SME’S and Medium, Big and MNE’S in Latin America according to Altamirano, (2013) and Lopez Gaston Fornes, (2015) are presented.

Table 3 – Reasons for Implementing CSR

<table>
<thead>
<tr>
<th>Reasons for Implementing CSR initiatives in Peruvian companies</th>
<th>In SME’S</th>
<th>In Medium, Big and MNE’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intention of lowering costs</td>
<td>Increase customer satisfaction</td>
<td></td>
</tr>
<tr>
<td>Motivation of financial results</td>
<td>Increase legitimacy</td>
<td></td>
</tr>
<tr>
<td>Reputation and Image</td>
<td>Increase value for shareholders</td>
<td></td>
</tr>
<tr>
<td>Ethical and religious motives</td>
<td>Increase differentiation</td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from (Altamirano, 2013 & Lopez Gaston Fornes, 2015)

The same study offers some insight about the problematic of implementing CSR in Latin American countries, including Perú, as follows (Altamirano, 2013):

1) Most SME’s in the region believe that CSR is most important to consumers and clients than to suppliers or even employees.
2) Most SME’s performed CSR initiatives without knowing the theoretical concepts or the meaning of CSR.
3) SME’s in the Latin America region are owned by families or have originated from family businesses and for this reason owners motivations regarding CSR, start on their own ethical values.
4) SME’s in the region have very limited resources and for this reason, CSR should be done through terms such as investments and not expenses.

According to Altamirano, (2013) some of the strengths of SME’s for implementing CSR in the Peruvian context are the following:

1) SME’s have small size that allows them to have a more direct relationship and involvement with their communities.
2) SME’s have a high sense of creativity and proactiveness due to their few resources.
3) SME’S size also is seen as beneficial in terms of proximity to their own employees.
4) If the SME’s management is committed to CSR or environmental initiatives, it is easier for the company’s members to follow the example and it can result in an easier implementation of the CSR management system. Altamirano, (2013) and Casanova-Claros, (2011) identified drawbacks and difficulties or factors that could condition the application and development of CSR in the Peruvian context of companies, as it’s shown in the next Table 4.

Table 4 – Drawbacks of implementing CSR in Peruvian companies

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of resources.</td>
<td>Difficulty of accessing information especially from big and MNE’s companies.</td>
</tr>
<tr>
<td>Lack of time due for employees to focus on CSR if the companies is a SME’s.</td>
<td>Labour Unions are weak and have limited resources to act. The constitution does not strengthen their influence and there is existence of mafias inside of them.</td>
</tr>
<tr>
<td>Lack of national legislation supporting CSR initiatives.</td>
<td>Education about social inequalities and environmental hazards is needed in the Peruvian educational system.</td>
</tr>
<tr>
<td>Lack of training and knowledge about CSR and other concepts related.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from (Altamirano, 2013 & Casanova-Claros, 2011)

Finally, the following Table 5 summarizes the insights given by Altamirano, (2013) regarding the most typical results that were obtained by many Peruvian companies, especially SME’s after implementing CSR initiatives and strategies.

Table 5 – Results after implementing CSR in Peruvian companies

<table>
<thead>
<tr>
<th>Most popular results obtained after CSR implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pride in belonging to the organization</td>
</tr>
<tr>
<td>CSR improves the working environment</td>
</tr>
<tr>
<td>Conflict prevention with civil society and/or environmental movements</td>
</tr>
<tr>
<td>Improve relations with the community</td>
</tr>
<tr>
<td>Increases competitiveness</td>
</tr>
<tr>
<td>Increases customer satisfaction and loyalty</td>
</tr>
<tr>
<td>Increases risk control</td>
</tr>
<tr>
<td>Identification and commitment to the organization</td>
</tr>
<tr>
<td>Improvements in rates of occupational health and safety</td>
</tr>
<tr>
<td>Reducing the consumption of materials or raw materials</td>
</tr>
<tr>
<td>Increases the chances of new socially responsible markets</td>
</tr>
<tr>
<td>Promotes economic growth</td>
</tr>
<tr>
<td>Improves public image and reputation</td>
</tr>
<tr>
<td>Promotes alliances and new businesses with MNE’s from developed countries</td>
</tr>
</tbody>
</table>

Source: Adapted from (Altamirano, 2013)

To summarize, it can be said that CSR programs in Peru, were initially thought as part of a trend to ease or calm down the "guilt" of companies regarding the activities performed and how they affected the environment or neighbouring communities. Companies had to return something received from the environment and society and invest back in society.
Nowadays, Peruvian companies have started developing social programs as part of their CSR strategies and have achieved some degree of maturity regarding their approaches and CSR long-term goals. However, not all companies in Peru have CSR projects that clearly define goals and long term goals as the raw spirit of philanthropy rather than strategy is still governing most of them. Many of these CSR projects do not meet the expectations of all stakeholders; or do not go according to the "core business" of the company, so they do not show that they are sustainable over time, something that is important and vital to implement CSR as a strategy across the company.

It is expected that in the next years, the Peruvian government takes a bigger part on the promotion of CSR in the companies so that more legislation concerning this topic can be released in order to promote good citizenship by companies in the country by means of tax incentives or the like. It is important to mention, that since recent years, there has been an increase of people and consumers that are more aware of climate change, social conflicts and the like, that are directly related to industries and their impact in society.

Finally, there is another problem with CSR initiatives and companies that want to behave socially responsible in the country. Many companies do not issue annual reports on sustainability or CSR. Most companies that are issuing these reports are big and MNE’s. MSME’s do not have the sufficient resources to do this. It is also expected that the government takes into account this type of issues and start working together with private companies in order to make them participate in the CSR debate as well, especially when these are companies that have very few resources. There is a still a long way to go regarding CSR in Peruvian companies, since start including important CSR topics on the curricula of universities to promote CSR certification and monitoring on all type of companies from MNE’s to MSME’s.

2.3 Standardization

Standardization can be understood as the institutionalization of a standard. In general when speaking of standardization in business, this refers to the set of actions by which it is guaranteed that the different processes and activities carried out are governed by specific patterns. In this way the inputs and outputs are set, specifications, standards and procedures that must be met in order to satisfy continuously the different stakeholders that an organization might have, and as a result the organization ends up obtaining a constant level of quality in various aspects of business management. For this reason, standardization is a process by which, certain criteria is unified with respect to certain matters and for the use of a common language in a concrete field of any activity. In short, standardization is embodied in a technical paper (the standard) agreement by which manufacturers, suppliers, workers, consumers, users and the government agree on the technical features that will meet a person, a product, a process, a system or a service.
Standardization is a worldwide trend that, day by day, becomes stronger to substantially modify customs and habits of people around the planet. The ideal of societies and economies, as well as MNE’s, is to have a product or service for everyone, a fact that strengthens and promotes the standardization in general.

In the field of CSR, standardization has acquired a great importance since recent years. According to Haack et al., (2012), standardization in CSR happens as a validation of practices that an organization performs, in a progressive way. By CSR standards the following terms are understood: reporting frameworks, certifications, accountability frameworks in the field of environment, social rights, human rights, health and safety, etc. Moreover, CSR standards have become a part of the daily lives of companies, once they are adopted and implemented. After implementation of any CSR standard, there is an increasing demand of inspection and evaluation in order to follow a cycle of continuous improvement. In this context, CSR standardization starts with the adoption of the standard (Haack et al., 2012).

Despite of all the benefits that standardization processes could bring to organizations, it is certainly important to consider that there is a possibility that standards can become a competitive advantage for some organizations, however after some time of implementations performed by diverse companies, it could happen that they can turn into something that is already in used by most companies in the different industries in business and in this case, standardization becomes no longer a competitive advantage but a tool that “everybody” uses, like in the case of ISO9000, for example. Nowadays, this standard is found in most organizations that are willing to have businesses with an international focus. Furthermore, there is also a risk of standardizing “wrong things”, as they can become inflexible if applied to certain socio-cultural contexts. In this case, the application of standards should always start with a dose of common sense and strategic vision always taking into account the socio-cultural differences among countries and among companies. The risk of standardizing “wrong things” does not comes only from the socio-cultural context but also it can become a risk if the government becomes involved into these practices in a rigid or inflexible way that could jeopardize innovation and adaptation on companies.

2.3.1 Standardization in CSR

Standardization is closely related to CSR, as it provides guidelines that allow companies to monitor the CSR processes carried out, documenting the accountability and transparency. For this reason, in sustainability reports, information on the degree of compliance of companies that have applied standardization in CSR, are found.

Standardization is the application of a set of technical and methodological criteria established by an organization, and it is considered necessary to follow in order to improve management in a specific scope. The aim of standardization is to establish general guidelines to carry out actions within a system to achieve an objective, such as the continuous improvement of product quality, reducing
the impact on the environment or controlling and minimizing occupational hazards.

Despite the proliferation of standards among many aspects of society and daily life such as communication standards, information standards, products and services standards, among others, research on the topic related to standards in organizational studies is not extensive and is very recent, starting approximately fifteen years ago (Brunsson et al., 2012).

Regarding the history of standardization, during the second half of the 20th century a lot of emphasis was put on the developing of standards related to companies’ internal processes such as quality. The International Organization for Standardization was created during these years and since then, it has developed international standards such as ISO9000 related to quality management, ISO14000 related to environmental management, ISO26000 related to social responsibility, among others. ISO has developed the activity of standardization and certification worldwide, and both ISO 9000 and ISO 14000 standards are the most widespread (Brunsson et al., 2012).

Furthermore, NGO’s have also appeared as standard companies such as SAI (Social Accountability International) which created the standard SA8000 that focus on business practices to ensure the effective exercise of labor rights which benefits workers, suppliers and the company and its mission is to improve the conditions of workers around the world (Social Accountability International, 2015). Another examples of a civil society companies that created a standard are FairTrade International which promotes the development of communities of producers in the global South, who get better terms of trade and market access on equal terms; and Forest Stewarship Council which focuses on verifying that forest management meets the performance standards that are recognized and accepted internationally (Brunsson et al., 2012).

Brunsson et al, 2012, describe three specific characteristics of standards as follows:

1) Specific type of rule, in terms that standards have a rule-based character which make them specific for regulating behaviors and social order.
2) Standards are also voluntary due to the fact that they are not mandated or legislated by states or authorities.
3) A rule of common use since its application could be performed by many type of companies depending on their objectives.

Regarding the types of standards and the categorization, Brunsson et al, 2012, Gilbert et al., 2011 and Castka et al., 2008 have offered the following views, which have been summarized in the next table:
Table 6 – Categories of standards

<table>
<thead>
<tr>
<th>Types of Standards</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principle Base Standards</td>
<td>UN Global Compact, OECD Guidelines for Multinational Enterprises, etc.</td>
</tr>
<tr>
<td>Certification Standards</td>
<td>SA8000, WRAP, ETI, etc.</td>
</tr>
<tr>
<td>Reporting Standards</td>
<td>GRI</td>
</tr>
<tr>
<td>Process Standards</td>
<td>AA1000, ISO26000, etc.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Types of Standards</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical / Non-Technical Standards</td>
<td>Related to technological systems / FLA, SA8000</td>
</tr>
<tr>
<td>Process / Outcome Standards</td>
<td>OHSAS 18000, ISO9001 / specific measurable outcomes</td>
</tr>
<tr>
<td>De Jure / De Facto Standards</td>
<td>ISO Standards / QWERTY layout for typewriters</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Types of Standards</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guidance Standards</td>
<td>Non certifiable: ISO26000</td>
</tr>
<tr>
<td>Certifiable Standards</td>
<td>SA8000, WRAP, BSCI, ISO9000, etc.</td>
</tr>
<tr>
<td>Holistic Standards</td>
<td>ISO26000, ISO14000, etc.</td>
</tr>
<tr>
<td>Issue Specific Standards</td>
<td>OHSAS 18000, LCA standards, GHG Emissions standards, etc</td>
</tr>
</tbody>
</table>

As it is presented on the table above, there is an overlapping on the types of standards given by the authors, in the sense that the same standards can be classified in different types according to each author. For example, SA8000 is a certification and certifiable standard but also a non-technical standard, due to the fact that SA8000 can coexist with other different types of standards as the same time.

2.3.2 Impacts of standardization in CSR and CSR reporting

CSR standardization happens when a certain standard is implanted on a company or organization and becomes institutionalized which means that the character of this new standard is seen as legal or establish as legal in order to strengthen the functioning of the practices or processes related to this certain standard (Haack et al., 2012).

In the case of CSR standardization, when a standard or standards become part of the daily life and routine of an organization, it means that an open adoption of the standard has happened and that the principles or policies given by the standard have been internalized and rehearsed many times by the organization and its members. Certainly, in order to perform a validation of these principles or the standard in general, there must be a progressive internalization of each single principle or part of the standard (Haack et al., 2012).

Both the standardization of CSR guidelines of an organization as well as the standardization of reporting formats and how to report issues related to CSR, may differ in the types of impacts that cause in companies. In regards to reporting standardization, in this document the author refers specifically to those reports...
which are prepared or issued after an evaluation or audit such as the SMETA audit and also the very famous sustainability memores or CSR annual reports such as the GRI. For this last case, nowadays there is a debate between supporters of standardizing sustainability reporting or CSR reporting and those who advocate that there should be more or a full flexibility to the organization to decide how the information should be presented and most important which information. In addition, not all companies see the need to develop sustainability or CSR reporting under certain standards approved such as the GRI (Lament, 2015).

The standardization of reporting on corporate social responsibility can be justified for two very specific reasons. The first is that the stakeholders in corporate activity and the whole society claim that the reports published by different companies are comparable, that way it is easier for people in general to understand the differences among companies and make a value judgement about their actions towards the environmental and the society. The second reason, which is one of the main impacts that the standardization in reporting has, is that the ability to compare the activity of companies in the social and environmental fields, is a demonstration of shareholder value and improved information processes within the industry. Improving the transparency of sustainability and CSR reporting and harmonizing their approaches will, in general, cause a better appreciation of the policies of corporate social responsibility (Lament, 2015).

When talking about to standardize reports regarding CSR, some impacts that can be observed or inferred from the literature used in this paper, often refer to, for example, the fact that the standardization of reporting CSR helps integrating information processes under certain standards with management processes and internal management of the organization. This is due to the fact that, after the adoption of a standard for reporting CSR, internal and external communication is impacted by this change and thus if the standard has been successfully implemented, the organization builds communication systems and more robust and consistent internal reporting procedures. Also, the internal procedures, policies, and other communications procedures become uniformed and the organization may more easily and quickly identify, certain errors which may contain as the reporting system is consistently rated in a cycle of endless continuous improvement, which is certainly a very vital part of any standard. As a result of the foregoing, the standardization of sustainability or CSR reports enhances the relevance and realism of information that companies must provide to their stakeholders. In other words, the ultimate goal of sustainability or CSR reporting is to provide the different stakeholders, of a meaningful and relevant testimony about the reality of CSR initiatives of companies and their concrete actions towards each of their stakeholders.

In Europe, the impact that standardization in CSR reporting has, has been recently strengthened by an EU directive called Directive 2014/95/EU, which is an important regulation that seeks at improving transparency, significance, cohesion and comparability of non-financial data disclosed. Obviously, non-financial data is certainly all the data that has to do directly and specifically with the environment, the social aspects of an organization and the communities, as well
as other stakeholders such as NGO’s, among others. It is important to mention that this new Directive given by the EU, must be applied and implemented during the year of 2017. Furthermore, the regulations of the Directive 2014/95/EU, according to its Article 1, apply to large entities of public interest that employ an average of more than 500 workers per year. The reports of these companies must include a statement of non-financial information which aims at understanding the evolution of their results in CSR areas or sustainability areas as well as its activities related to environmental, social, labor issues, respect for human rights and anti-corruption initiatives (Lament, 2015).

According to Lament (2015), the amount of CSR and sustainability reports that organizations around the world issue to the public rises each year and this implies that this type of reports are nowadays a major tool of organization management. Both MNC’s and MSMC’s are participating in these initiatives more than ever before and according to their own social contexts and possibilities. The companies that elaborate and issue CSR reports, mostly are using different standards for reporting, even though they do not have such an obligation since this is a voluntary practice for now in many parts of the world, which means that there is certainly a need to standardize guidelines for CSR reporting.

Referring to standardization of CSR practices and initiatives in companies, there has been a rapid increase of standards and guidelines for auditing since recent years. Some of them center their interest solely on the social and ethical portions of sustainability and CSR, while other standards have a more extensive focus that includes labor, human rights, environment, and corporate governance (Coyne, 2006).

The impact that standardization have had on organization since it became more popular, it is related to the relationships with different stakeholders. Stakeholders nowadays require an increased corporate accountability and transparency in the information received from companies, especially when these are suppliers for example. Independent assurance is vital for maintaining relations between the organization and its stakeholders. In this sense, standards help companies to build trust with several stakeholders’ communities. After a standard is implemented in an organization, it needs to be evaluated or audited in the context of the organization. On most cases, many companies prefer having an external company as the verifier. Consulting companies, third party auditing companies or certification companies are some of the external entities that take the role of the verifier and evaluator of the organization and its implementation of the CSR or sustainability standard. The impact of standardization has affected auditing companies in a very positive manner. There are more companies offering nowadays these services in any part of the world and at different costs according to the standard or guideline to be verified. The role of all of these third-party verifiers is to provide an independent, impartial evaluation of the content, veracity, and accuracy of an organization’s sustainability or CSR report, sustainability program or CSR program (Coyne, 2006).

According to Hah & Freeman (2013), standardization of CSR strategies of companies, globally would impact companies in the sense that this could direct
to a lower CSR organizing cost, because the CSR initiatives could be reproduced in different locations without incurring in higher cost of program development. However, there is still a lack of consideration of the different social contexts in both global north and global south, on this affirmation given by Hah & Freeman. Furthermore, both authors present this preoccupation on their suggestions for a future research agenda where they consider that there is a need for future studies that lead to a comparison on the CSR strategies adoption processes of MNE’s and their many foreign facilities or suppliers, located across different countries, in order to obtain more and varied empirical evidence of standardizing global CSR initiatives or strategies versus standardizing local CSR initiatives or strategies (Hah & Freeman, 2013).

Since the networks of companies at the global level are so complex, this makes necessary the existence of coherence and visibility efforts to understand what is going on, who’s who and who does what; which leads to the increasing of standardized practices and initiatives related to CSR on the one hand, and transparency of the same practices on the other hand. Everyone has finally interest in visualizing in a better manner, the landscape of the “game”: investors to reduce risks, governments to control what is being done within their borders, the society which is a user of the services or products provided by the companies, and the same competitors in the market, since they all need of common references and a minimum of fair play that can have an universal character.

These common standards will finally enable the recognition and dissemination of the universal duties of organization towards the stakeholders, to the general public and an increase of communication of their ethical mistakes, to inform and educate consumers in their necessary task of surveillance of companies. To achieve the effectiveness of this culture of reporting, assurance and initiatives based on CSR standards, there is a need of the corresponding diagnostic tools that are credible, transparent, relevant, comprehensive, effective in the decision making, communicable, able to include many partners are needed and achieve sustainable consensus among them. In this case, third-party audit processes and voluntary guidelines give the impression to work very well or at least positively for most companies. Nevertheless, there are still some uncertainties about the fact that in order to achieve a correct spreading of information coming from companies, regarding to their CSR actions, there is also the vital importance of exposing publicly their information. The issue seems to be linked to the fact that rivals or competitors might be able to visualize or have access to this internal or confidential information and maybe copy distinctive initiatives or ideas that other companies have invented concerning CSR.

Implementing a CSR standard in an organization will always have deep repercussions and impacts in the internal way of doing things, in all type of working environments that adopt it. Implementing a CSR standard means that an organizational changing process takes place. There are important aspects to take into account, such as the susceptibility of the organizational environment which could be managed through stakeholder dialogue and the use of diverse scenarios.
analysis before implementation and during the process of it. Leadership is another issue to take into account, since it is vital for achieving a correct implementation of a CSR standard. The management is impacted in this context because now there is a need to create a new vision and communicate it to the employees, be committed to it and at the same time motivate the same commitment to all members of the organization. Finally, both management and employees must be aware of the values that this standard would bring to the organization. In this case, these values must be internalized by all members of the organization in order to achieve a high level of implementation and avoid as many mistakes as possible (Were, 2003).

2.4 Benefits and drawbacks of standardization in CSR

Standardization in CSR through guidelines, norms and reporting frameworks could be very beneficial to companies. According to Doh et al., (2015) CSR standards can serve as a type of “insurance policy” to protect the organization that adopt them, from possible menaces from the government or other stakeholders such as the communities that become affected by the organization activities. In this sense, the voluntary nature of CSR standards can be perhaps welcomed by companies in a better way than if they were compulsory or mandated by laws or the governments. In most countries around the world, especially in the developing world, legislations are far away from being addressed to standardize CSR practices or principles in the different industries. In Europe, the outlook regarding the voluntary nature of standards is taking a new step towards obligation mandated by law, in this case a directive named as Directive 2014/95/EU which was previously discussed on this section is setting precedents about the necessity of standardizing the contents of non-financial reports in companies in EU.

According to Hanh, (2012), standards can help companies to achieve a high degree of order and structure in a given context, because these guidelines or norms provide rules and guidance that organization must follow. Furthermore, standards can help to develop policies and put them into effect through objectives and targets and this way, the organization can start efficiently a plan-do-check-act cycle which is the base of the continuous improvement concept. Standards make companies to become more aware of their flaws and enhance their response mechanisms to these flaws or defects and as a result of this, organization can become more effective entities and for instance reduce costs or improve their reputations and the working environment in general which can be translated into a more productive organization.

Another benefit of standardization in CSR comes from the fact that most guidelines, CoC’s given by MNE’s to their suppliers and standards in general are based in ILO conventions regarding labour issues. If companies implement these standards they also implement in most cases the ILO conventions which are developed for to be applied by organization around the world, being in most cases more exigent than the local laws in labour matters. Toffel et al., (2015) state that
there is more adherence or it is easier for suppliers or companies in general to implement and internalize labour standards if the countries where they belong are states that participate or have signed the ILO conventions. At the same time, it is also a lot easier for those companies who have businesses with clients located in wealthy and social-conscious countries. Due to globalization processes, the efforts to improve working conditions have affected MNE’s, and not only them but also NGO’S, other private institutions and specifically the suppliers because in order to sell products and services to many MNE’s, they have to comply with requirements related to labour issues, for instance. In order to demonstrate their statements, Toffel et al., (2015) performed a quantitative study where they analysed 44,383 social audits of 21,836 establishments or facilities (belonging to garments, electronics and toys industries mostly) in 12 different industries and 47 countries, on behalf of 511 buyers located in 12 countries (mostly US and Germany). Their findings indicated that less labour violations were found in supplier factories in countries that were adhered to ILO conventions or other institutions that provided guidelines to labour issues. As a results less violations were found in countries which had more stringent labour laws. Another interesting finding also supported the second statements given by Toffel et al., (2015) since smaller number of violations in suppliers whose buyers were located in wealthier countries with pro-environmental and pro-social behaviours, were found. However, the researchers suggested that more research should be done regarding this topic since they based their analysis on information obtained from one single auditing firm. Furthermore, there is a sort of auditor bias since training and experience of the audit team are also important variables for this analysis and no evidence that auditors’ experience of more years can result significant and make a difference on the results obtained. Moreover, there is a need of analysing if the payer of the audit could cause a modification of the results (Toffel et al., 2015).

When an organization decides to implement certain standard, this means that it is also expecting to demonstrate its commitment to CSR initiatives as a tool for upholding CSR performance and its own image and reputation. For these matters, standardization can bring many reputational benefits to companies since CSR audits of standards might increase the transparency and accountability to a company’s stakeholders and enhance its public image, transforming it into a competitive advantage (Rahim & Vicario, 2015).

Standardizing audit processes as a process of reporting on CSR and environmental performance through engaging stakeholders via stakeholder dialogue could be applied to build and increase trust, identify commitment and promote co-operation amongst stakeholders and the organization. Moreover, auditing processes that are based in dialogue with different stakeholders are more likely to improve companies’ sustainability or help them moving towards a sustainable performance (Gao & Zhang, 2006).

According to Adams & Zutshi, (2004) other benefits from CSR standardization and CSR reporting standardization are that a better recruitment and retention of employees systems can be sustained by the organization. This is the result of having CSR processes standardized as well as CSR information which
could collaborate immensely to promote a good working environment in the organization, leading to retain the best employees and motivate them as well. A second benefit mentioned by the author is that CSR standardization improves internal decision making and cost-savings for the organization. Furthermore, something that was already mentioned by other authors is that there could be an improvement of corporate image and reputation. Through standardization, the organization is able to show that its CSR management systems are very strong and that they are truly committed to CSR. All that was mentioned before can certainly help the organization to improve its financial returns (Adams & Zutshi, 2004).

Besides all the points presented lines above, standardization in CSR also can have some drawbacks or difficulties depending on the companies and locations where these companies exist. According to Hanh, (2012), depending on the type of standard that an organization wants to implement, the costs varies, especially for the suppliers of the organization. Sometimes standards that lead to a certification process could direct the supplier to be penalized with the cost of audit process. For poorer countries especially MSME’s in developing countries, this could be very serious since audit processes provided by third party auditing companies are usually very costly. In cases like these, in order to achieve a proper standardization in CSR activities, the buyers and the suppliers must have a very effective communication or stakeholder dialogue principles due to the fact of different contexts and realities. This dialogue must be in a circle with flow of information coming and going from buyers to suppliers and from suppliers to buyers indistinctly. It might seem that certifiable standards are more expensive than non-certifiable standards, however the cost of the audit process itself even if it does not lead to a certification might be costly as well, because there are expenses that might be required for the audited organization to cover, such as travelling expenses of auditors if the country where the audit process is taking place does not have specialized and experienced auditors, local transportation expenses, meal expenses and even insurance expenses. All of this, can mean a high cost for suppliers in case the buyers do not cover all these costs.

Costs can be a real drawback difficult to overcome when planning to make use of standardization in CSR, both in reporting and implementation of standards or guidelines. CSR reporting should not be expensive, time consuming or resource intensive to prepare, in order that more companies can make use of this tool and that CSR can be included in the organizational culture as the company would practice it very naturally. However, conducting an implementation and later on an audit process is demanding due to the subjectivity and complexity of a subject like CSR. For these matters, external and internal auditors should be able to be trained many hours and in different contexts if possible in order to perform these activities in the best manner. In order to standardize the audit procedure, auditors should be trained effectively since CSR is a subjective issue. Because of this, both experience of years and training for years might have a different effect in the quality of the audit process (Morimoto et al., 2004).
For Rahim & Vicario, (2015) the current lack of regulation of reporting methods can be also a drawback for standardization of these methods or standards in companies. There is a great need for CSR reporting and auditing regulation due to recent years’ scandals such as ENRON in early 2000’s and greenwashing issues. Since there is not a regulation that validates the use of audits after implementation of a CSR standard, these audits can be performed by the organization itself, a third party company, a NGO or the government. For these reasons, auditing a CSR standard could be very subjective. Some authors like Rahim & Vicario, (2015) state that third party auditors could be a better option for keeping the objectivity in high levels, however there are still some issues that worry companies such as the fact that the auditing company is being paid directly by the audited company which could result in bias in the final auditing report or in less findings or less observations. The only solution could be the use of a total independent auditor, but also the performance of unannounced visits, more employee involvement (for instance in anonymous interviews and group dynamics), effective monitoring after auditing or follow up processes. It is undeniable that the role of the auditor as a CSR assurance provider will continue to increase around the world. More demand for their services will continue to happen and that is why their roles need to be revised again and re-thought in a way that the best possible solution might be found and applied (Rahim & Vicario, 2015). Björkman & Wong, (2013) also agree with the previous authors in their criticism of improving auditing processes after the implementation of a standard, such as deeper interviews, unannounced visits, establish stakeholder involvement and effective follow–up processes.

It is also important not to permit that the use of a standard blinds the organization and lets it believe that it is like a magic trick and that after implementation and evaluation, the organization will automatically behave in a sustainable way or according to CSR principles. According to Grosvold et al., (2014) CoC’s, guidelines and standards alone possibly cannot address sustainability or CSR issues in the companies unless there is a strong commitment from top management. This last point is one of the most important in order to make the organization as a whole internalize the principles of CSR that are mandated by a standard.

A very important issue to take into account when mentioning CSR standards, it is that the spread and the rapid increase of standards can be a problem for companies, since some standards have a voluntary nature, others require a certification and they all are competing with each other. Companies must be very well informed in order to take a decision and choose which standard is more convenient for their purposes (Gilbert et al., 2011). However, they should take into account also the voice of their suppliers if they want to implement certain standard in their supply chains. It could be a very good idea and mostly ideal to include the context and the reality of the suppliers especially if they do not belong to the western world or a develop country, when companies analyse which standards is more convenient to implement. In many standards, ILO conventions are very clear about overtime hours and working hours in general performed by employees which must be at maximum a total of 60 hours in a seven day period.
unless the local law mandates that could be less hours or more hours with a specific-
ification of number of hours. However in many developing countries the local
laws regarding overtime hours do not set limitations and most companies make
employees work more than 60 hours each week. If an organization decides to set
a maximum for overtime hours in their suppliers, they should be able to take into
account these type of details that correspond to the reality of each different coun-
try.
3 AUDIT PROTOCOL IN PRACTICE

3.1 The grow of CSR audit practices

Despite the growing of CSR audit practices around the world, there are some issues that are still holding audit practices to become more popular and vital in the business world. For instance, MSME’s might have to defeat bigger barriers than other wealthier companies because of the lack of resources to pay for audits and to implement CSR management systems. Furthermore, time and a correct understanding of the different audit methodologies or approaches is sometimes not enough for this type of companies (Gao & Zhang, 2006).

According to the information disclosed on the GRI Combined Report 2014-2015, by June 2015, over 19000 reports have been published around the world by companies using GRI Standards. The USA, Brazil and Taiwan were the countries that reported the most. Most of the industries that reported the most until 2015 belonged to the financial, energy, and food and beverage sectors. Another figure that is used in the report to manifest that the reporters around the world have increased, it is that the rate of employees working for GRI have increased in 14.5% in comparison with the last period reported during 2013-2014. This clearly indicated that the work load has increased, which could be directed related to more reports and more companies involved in reporting (GRI Combined Report, 2015).

The used of SMETA as an audit protocol has also observed a growth in the last years. According to the SEDEX Annual Review 2013/2014, in 2014 the rate of members of the initiative has increased to 10% in comparison with the last period of 2012-2013. In the same report, it is stated that the number of SEDEX employees that work directly with the companies have increased since the work load has also grown in comparison with the previous period. Furthermore, the number of audits performed during the period considered in the report is over 97000 audits around the world, being clothing, grocery, packaging and manufacturing the biggest sectors. India, China and UK are the countries performing most SMETA audits (SEDEX, 2015).

Finally, in the case of SA8000 standard, according to the Social Accountability Accreditation Services, 2015, during 2014 there has been a grown of 7% on the number of certified organizations in comparison with the previous year 2013. In total so far, there are 3466 organizations SA8000 certified in 65 different industries. China, India, Italy, Spain and Hong Kong are the countries with more certified companies (Social Accountability Accreditation Services, 2015).
3.2 CSR audit practices in Latin America

Nowadays, it is more common to see that companies in the region have established CSR CoC’s and CSR internal audit processes. Moreover, the importance of establishing and monitoring CSR activities, policies, programs in the company, has increased due the growing amount of suppliers and manufacturing companies that produce and sell their products and services to MNE’s around the globe.

CSR audits are increasing in the whole region as a result of these new requirements imposed by MNE’s. Companies in Latin America that want to keep long term business with MNE’s are required to implement certain CoC’s, management systems or audit protocols that might assure that they are complying with all CSR requirements made by their buyers (Björkman & Wong, 2013).

Certainly, one of the main issues about auditing CSR in Latin America, is the cultural context and that these requirements that are part of CoC’s or standards, are not considering the differences in social and cultural context that most countries in the region have and which are not similar to the contexts of countries where these standards were developed. Transposing theories or in this case CSR standards and CoC’s from one culture to another does not always fits right in the context of a new cultural reality (Kwasi & Kwesi, 2011).

According to the information disclosed on the GRI Combined Report 2014-2015, there was a need of installing a new GRI office in Latin America due to the growing demand of GRI representatives to foster the importance of reporting, among other initiatives like motivating companies in the region to incorporate children’s rights in their CSR reporting efforts. The report also indicates that there have been events held in Perú, Argentina, Mexico and Brasil as part of the new focus that the organization is giving to the region (GRI Combined Report, 2015).

In the case of SA8000, 88 companies in the region are certified on this standard and most of them are found in Brasil with 68 companies certified until 2014, however the information found does not specify the increasing of this number in the region in comparison with the previous year (Social Accountability Accreditation Services, 2015).

The use of SMETA as an audit protocol has been growing in the recent years according to the information released by SEDEX in their SEDEX Annual Review 2013/2014. The organization has manifested that their need to have a broader focus in the Latin America region, has made them establish an AAG in Mexico for the Latin America region. The SMETA training programme has also been expanded to four new regions that includes Central & South America. Additionally, Brasil was included in the top ten of countries that have performed more SMETA audits in the year 2014. Finally, it is important to mention that 6.06% of members of SEDEX are located in the Latin America region (SEDEX, 2015).

It is important to mention that in order to achieve a higher level of acceptability that CSR auditing and monitoring is important for companies in the region, it is necessary that all these standards and auditing procedures developed
by western countries, find a way to make themselves adaptable to other cultural and social realities. CSR in the Latin American context tends to be like in other developing countries, less formalized, there are no codes or management systems in most of the companies and usually is practised more seriously by MNE’s and their facilities in developing countries or other companies with financial resources that aspire to have a global status or have businesses with these MNE’s (Kwasi & Kwesi, 2011).

### 3.3 SEDEX Members Ethical Trade Audit (SMETA)

SMETA is a compilation of good practices of CSR audit focused primarily on companies that aim to achieve the necessary consistency to meet the codes of good labour, environmental and business ethics practices.

SMETA measures performance of companies against a certain standard. During the SMETA audits a formal assessment to working conditions, environmental, labour and business ethics issues is performed, on behalf of the company to measure the performance and knowledge of the whole company or site audited by means of performing interviews, documentation reviews and site or facility tour. SMETA main objective is to tackle the problem of duplication of audit types through a consistent auditing report format. In order to achieve this goal ILO conventions, the ETI Base Code and local laws are included in the audit protocol (SEDEX, 2015b).

SMETA consists of an audit protocol that describes an audit procedure for evaluating ethical, environmental and health and safety performance of companies. This evaluation is based on the use of the Ethical Trading Initiative (ETI) base code which is a widely used ethics code worldwide and its principles are based on the International Labour Organization (ILO) conventions. This audit protocol was created and developed by the SEDEX Associate Auditor Group (AAG), which are working groups that reunite commercial auditing companies together with NGO’s that are involved very closely in work related to labour ethics, environment, health and safety and social issues. This group works for improving the quality of the SMETA audits.

There are two type of SMETA audits, the first one is the 2-Pillar audit which evaluates labour and health and safety issues as a priority and in addition to this and environmental issues are also evaluated. The second type of audits is the 4-Pillar audit which evaluates the same as the 2-Pillar audit and includes environmental and business ethics as independent sections which means that they can be evaluated in depth. When choosing which type to audit apply, companies are free to decide according to their needs (SEDEX, 2015b).

The latest version of this audit protocol, the SMETA 5.0 was launched on November 28th, 2014 and the documents that are included in the protocol are free to be downloaded from the SEDEX website by all companies, independent auditors or public in general who would like to be familiarized with this type of voluntary audit protocol (SEDEX, 2015b).
SMETA has been designed to facilitate the auditing of diverse and several facilities or sites due to its standardization characteristics. This way, it is easier for companies to reduce duplicity of information and use only one standardized audit protocol, which can help them save money, time and avoid audit fatigue for their suppliers and even for auditors (SEDEX, 2015b).

The SMETA methodology standardizes the following:

1. **The audit procedure**: SMETA provides a standard methodology for conducting a SMETA audit through the document called SMETA Best Practice Guidance (BPG).
2. **The audit report format**: this document is standardized for both type of SMETA audits 2 Pillars and 4 Pillars.
3. **The corrective action plan report format**: this document standardizes the way the non-compliances, observations and good practices are presented after concluding the audit day.
4. **The audit information after audit completion**: SEDEX provides an online platform where all members and members’ suppliers or facilities around the world are able to share their audit data in a standardized online platform with easy access and user friendly characteristics.
5. **Asking for an audit to be performed**: SEDEX system also standardizes the way how members and companies that want to participate in the initiative, can ask or order for a SMETA audit to be performed through the online platform.
6. **Evaluation criteria**: the evaluation criteria is standardized through the use of specific checklists before the audit, during the audit and if a follow-up is needed.

In summary, SMETA is a standard report, a good practice methodology which facilitates standardized audit information sharing, a guidance standard without a certification scheme, a not pass or fail audit due to its continuous improvement nature, and a non-exclusive protocol that does not accredit auditors.

### 3.3.1 SMETA elements

There are three types of elements that are important to be described.

**A. Documents for reporting and evaluating issues:**

1) **SMETA Best Practice Guidance (BPG)**: Latest version of this guidance was released on December 2014. This document contains guidance for both type of SMETA audits 2-Pillar audits and 4-Pillar audits (SEDEX, 2015g).
2) **SMETA Measurement Criteria**: This document takes into account the standard of the Ethical Trading Initiative or ETI Base Code (based on ILO conventions) as well as the local law. The SEDEX audit model corresponds to a continuous improvement process that the company audited must follow. The SEDEX model can be is explained by means of the Figure 1 (SEDEX, 2015f).
In the SEDEX model A or AB\(^1\) members request their suppliers and their own site in some cases to enter the SEDEX model by means of a first step that is completing a SAQ, after this is done the SEDEX risk management tool performs a risk assessment based on the answers given in the SAQ. Then the A or AB member decides if action must be taken on the site or supplier by means of a performance of an audit process (SMETA). Once the audit is performed, if non-conformities have been found then the next step is the completion of a Corrective Action Plan (CAP) and actions required to raise the findings through a desktop audit where only photos or documents are required to raise the findings or through a follow up audit. For B members, the audit performance is voluntary if they do not receive a request by their clients. Furthermore, the same process described for the other type of members is the same (SEDEX, 2015f).

3) **SMETA Report:** the SMETA audit report template for both 2-pillar and 4-pillar audits is available publicly. This template includes a non-compliance table shown in Appendix 1.

---

\(^1\) SEDEX divides their members in 3 type of memberships. “A” membership category is recommended for retailers generally or companies who wish to view and revise reports or ethical data of their suppliers. “AB” membership category is recommended for companies who wish to view and revise reports or ethical data of their suppliers but at the same time manage the information of their own facilities or production sites and share all this data with their clients. “B” membership category includes companies that are mainly production sites or factories whose main objective at being members of SEDEX is sharing their information with potential and current customers or clients (SEDEX, 2015d).
4) SMETA CAPR: The SMETA corrective action plan report template also available publicly (SEDEX, 2015b).

B. Measurement tools

ETI Base Code: The Ethical Trading Initiative (ETI) is an initiative or alliance created by private companies, NGO’s and trade unions originated in the UK, whose main goal is improving the working conditions in the supply chains around the world. This alliance has created The ETI Base Code which is a code of labour practice and reflects the most relevant ILO Conventions regarding working conditions. In total the ETI Base Code aims to implement 9 statements. During the SMETA audits this code is taken into account as the minimum requirements that a company must fulfil in order to have zero non-conformities. This is built around the following nine Principles (Ethical Trade Initiative, 2016):

1) Employment is freely chosen
2) Freedom of association and the right to collective bargaining are respected
3) Working conditions are safe and hygienic
4) Child labour shall not be used
5) Living wages are paid
6) Working hours are not excessive
7) No discrimination is practiced
8) Regular employment is provided
9) No harsh or inhumane treatment is allowed

Local laws: The company or production site is evaluated under the current local laws regarding labour issues, health and safety, environment and other topics such as non-discrimination, life insurance, subcontracting, dormitories and house workers, among others. In Peru, the legislation has not created yet a compulsory norm or law regarding CSR, however, since the year 2009 the law No. 29381 has given legal attributions to the Ministry of Labour and Promotion of Employment of Peru in order to promote national norms and standards of CSR in labour matters (Diario Oficial El Peruano, 2009).

C. Additional Documents available for all members and the general public

1) SMETA Pre-Audit Information Pack: with information available about the audit process and recommendations (SEDEX, 2015b).
2) Supplementary Guidance for Auditing Service Providers: and explanatory document about how to conduct a SMETA audit (SEDEX, 2015b).

### 3.3.2 SMETA methodology

Due to its voluntary characteristic, the methodology developed by SMETA has been established and designed to be used jointly with the auditors own systems, experience and practices. This audit methodology is available to all the auditing companies or independent auditors that are willing to use this protocol in order to assess CSR practices and performance in diverse type of companies. It is not compulsory or obligatory to be member of the SEDEX organization for being able to use this methodology. Furthermore, it is important to point out again that SEDEX does not certify or award accreditation to any auditor or auditing firm. Consequently, it is the responsibility of the audit firm or the company that will be audited, to check and verify that the qualifications, competency and experience of the auditor that will carry out the audit under this methodology are confirmed or that this auditor has been trained or certified as a CSR auditor by auditor training bodies such as the International Register of Certificated Auditors (IRCA), Compliance Practitioners Initiative (CPI), and the like (SEDEX, 2015a).

### 3.3.3 The Supplier Ethical Data Exchange (SEDEX)

SEDEX is a not for profit global membership organisation that was launched in 2001 and is dedicated to improve global supply chains of their members. SEDEX helps its members to identify, measure and capture more information about what is happening in their supply chains in order to manage risk in every tier of the supply chain regarding CSR (SEDEX, 2015a).

According to the SEDEX Annual Review 2013/2014, in 2014 the organization had an average of 38000 members from all over the world. The presence of SEDEX can be observed in different industries such as grocery, clothing, consumer goods, packaging, finance, media, luxury goods and airlines, among others. According to the same report new members that entered the organization until 2014 are very varied for instance New Sedex members included British Airways, Jacques Vert, British Heart Foundation, Coca-Cola HBC and The Net-A-Porter Group in Europe, Officeworks, Bunnings, Simplot and Lion in Australia, Clif Bars, Firmenich, SC Johnson and Ingredion in North America and leading South American retailer Cencosud (SEDEX, 2015). Of SEDEX average 38000 members, 44.4% are located in Asia and Australasia, 37.51% in Europe, 7.04% in North America, 6.06% in South and Central America and 5% in Africa and the Middle East (SEDEX, 2015).

It is important to add that SEDEX recently has created a new AAG or Associate Audit Group in Mexico in order to respond for the need of having a better revision on global practices regarding CSR and business ethics that could be more aligned to the Latin American reality and context (SEDEX, 2015).

The core product that SEDEX offers to their members is the access to an online platform called “SEDEX Advance”, which makes possible for members to
share information and reports regarding health and safety, environmental, labour and business ethics issues (SEDEX, 2015c). The SEDEX data-sharing platform can be explained through the Figure 2.

**Figure 2 - SEDEX Advance platform operating structure**
Source: Adapted from (SEDEX, 2015c)

### 3.3.4 Differences and similarities to other audit and reporting initiatives

It is undeniable that there are today many international initiatives for promoting, fixing and communicating social responsibility in companies. In line with the SMETA audits, there are several initiatives that are worth mentioning and compare to the SMETA audit protocol.

According the to the Table 7 presented lines below, GRI, ISO26000, SMETA, GSCP, BSCI, ICS are all non-certifiable initiatives. On the other hand SA8000, ICTI, AA1000 and WRAP offer certification and accreditation to auditors and auditing companies.

Another important characteristics also included on Table 7, are regarding the use of a specific CoC. BSCI, ICS, SA8000, ICTI, WRAP, GSCP have elaborated their own CoC based on the ILO conventions. GRI and ISO26000 does not use a CoC but it is up to the company to decide which to be used by them. SMETA uses the ETI Base Code which is based on ILO conventions as well.

The most important standards or guidelines utilized by companies to assess their CSR initiatives, practices and management systems were included on Table 7. Some of these standards were part of one of the previous researcher’s working experience and this is why these were also taken into account. 10 specific standards or guidelines were included along with some columns that are divided according to the following 8 items considered after an extensive reading of each of these standards/guidelines:

1. **Standard/guideline:** the name of the standard or guideline is mentioned.
2. **Context of nature of the organization:** description of the nature of the organization that provides the standard or guideline. Non for profit organization or normative organization, among others are included here.
3. **Type of organization where the standard or guideline is applied:** if it fits public, private, type of sector or industry.
4. Stakeholders involved in the process or not: examines if during the audit process, implementation of the standard or guideline or after auditing, the stakeholder involvement is included or taken into account by the standard or guideline.

5. Characteristics: main characteristics and attributes of the standard are mentioned according to the corresponding websites or literature.

6. CSR issues that are treated by the standard/guideline: the most important issues that might be included on the standard/guideline such as human rights, labour rights, social issues, environmental issues, economic issues, product or service issues.

7. Type of measurement used: indicates which type of measurement is used in the standard/guideline that could be qualitative or quantitative or both of them at the same time.

8. Use of code of conduct (CoC): indicated if the standard/guideline makes use of any specific CoC, if so which CoC.

SMETA tackles diverse issues however, the ones that are not taken into account by the tool, are economic and product/service issues. Most of the standards/guidelines presented also lack of this, however the only one that covers all issues is GRI which is a reporting standard and not an audit protocol like SMETA and others. Furthermore, SMETA offers an online platform for data sharing and the same type of data sharing platform is offered by BSCI and ICS.
<table>
<thead>
<tr>
<th>Name of Standard/Guidelines</th>
<th>Context or nature of the organization that provides the standard/guideline</th>
<th>Application of standard/guidelines depending on type of organization</th>
<th>Stakeholder involved or not?</th>
<th>Characteristics</th>
<th>CSR Issues tackled by the Standard / Guidelines</th>
<th>Type of Measurement used in the standard/guideline</th>
<th>Use of Code of Conduct</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Reporting Initiative (GRI)</td>
<td>International independent and not for profit organization, non-certifiable protocol (GRI Portal, 2015).</td>
<td>All public and private companies.</td>
<td>Yes</td>
<td>Efforts to integrate social and environmental reporting into sustainability reporting (Gao &amp; Zhang, 2006).</td>
<td>X X X X X X</td>
<td>Quantitative: use of KPI’s</td>
<td>The use of CoC’s is up to the company that participates in the initiative</td>
</tr>
<tr>
<td>ISO 26000</td>
<td>International, guidelines, standards, voluntary, non-certifiable</td>
<td>All public and private companies.</td>
<td>Yes. Includes engagement and implementation for stakeholders (Hahn, 2012).</td>
<td>Standards for CSR giving guidelines on how to implement CSR in processes (Hahn, 2012).</td>
<td>X X X X NO X</td>
<td>Quantitative: use of KPI’s</td>
<td>Includes the use of ILO conventions. The use of CoC’s is up to the company that participates in the initiative</td>
</tr>
<tr>
<td>SA 8000</td>
<td>International norm, certifiable, audit performance</td>
<td>It applies to installations of any size and geographic scope, as well as for all sectors.</td>
<td>Yes</td>
<td>Certification based on labour, human rights and CSR. Workplace conditions to be assessed and certified compliant (Garriga &amp; Melé, 2004).</td>
<td>X X X NO NO NO</td>
<td>Quantitative: use of KPI’s in some sections / Qualitative</td>
<td>Incorporate ILO conventions, Universal Declaration of Human Rights in 9 principles with requirements.</td>
</tr>
<tr>
<td>Worldwide Responsible Apparel Production (WRAP)</td>
<td>Independent social compliance certification program</td>
<td>Mainly focused on the apparel, footwear, and</td>
<td>Yes. Includes commitment that their</td>
<td>Covers basic standards that are concerned with labour and</td>
<td>X X X X</td>
<td>Qualitative / Quantitative: use of KPI’s</td>
<td>The 12 WRAP Principles are based on generally accepted international workplace standards, local laws and workplace</td>
</tr>
<tr>
<td>Initiative Clause Sociale (ICS)</td>
<td>All type of production facilities or sites.</td>
<td>Effective and reputable tools and processes for audit exchanges and data sharing. ICS offers an online platform for data exchange (ICS, 2016).</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Account Ability: The AA1000 Series of Standards</td>
<td>International certified standards developed to enhance sustainability performance of companies, covers sustainability and financial services, pharmaceuticals, energy and extractives companies, telecommunication and other industries.</td>
<td>AA1000 integrates social auditing with stakeholder engagement. Organization is effective and reputable tools and processes for audit exchanges and data sharing. ICS offers an online platform for data exchange (ICS, 2016).</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>NO</td>
<td>X</td>
</tr>
<tr>
<td><strong>Organisation</strong></td>
<td><strong>Scope</strong></td>
<td><strong>Objective</strong></td>
<td><strong>Audit Protocol</strong></td>
<td><strong>Key Features</strong></td>
<td><strong>Resources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------</td>
<td>-----------</td>
<td>---------------</td>
<td>-------------------</td>
<td>-----------------</td>
<td>--------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>International Council of Toy Industries (ICTI)</strong></td>
<td>The ICTI Care program is an international certifiable standard specialized in the toy industry.</td>
<td>Yes. The objective: to ensure consumers that their products are manufactured in humane and safe environments. His intention is to give factories a single audit program, fair, thorough and consistent (ICTI Care, 2016).</td>
<td>The ICTI Code of Business Practice containing 13 elements regarding health and safety, environment and labour issues (ICTI Care, 2016)</td>
<td>X X X X NO NO Qualitative</td>
<td>The ICTI Code of Business Practice containing 13 elements regarding health and safety, environment and labour issues (ICTI Care, 2016)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SEDEX Members Ethical Trade Audit (SMETA)</strong></td>
<td>International not for profit organization that provides and audit</td>
<td>Yes. It is a compilation of good practices of core social performance and reporting (AA1000, 2016).</td>
<td>The SMETA audit protocol evaluates companies through the use of the ETI Base Code</td>
<td>X X X X NO NO Qualitative / Quantitative: use of KPI's</td>
<td>The SMETA audit protocol evaluates companies through the use of the ETI Base Code</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
protocol and reporting methodology and templates (SEDEX, 2015b).

as well as for all sectors especially production facilities or sites (SEDEX, 2015b).

Corporate social responsibility audit focused primarily for companies or brands associated to achieve the necessary consistency to meet the codes of good labour practices. It provides a virtual platform for sharing data regarding CSR performance of member companies and their suppliers (SEDEX, 2015b).

in some sections.

which is based on ILO conventions. Environmental and Business Ethics are also part of the pillars that are evaluated during the audits (SEDEX, 2015b).

Legend:

HR – Human Rights
LR – Labour Rights
SO – Performance related to social issues
EN – Performance related to environmental issues
EC – Performance related to economic issues
PRO – Responsibility regarding the product or service
4 DATA AND RESEARCH METHOD

4.1 Research design

Given the purpose of the research, this study’s type is of qualitative nature. Qualitative research provides understanding of the problem and conclusions.

This thesis addresses the research methodology based on cases, known as Case Study or Case Study Research. In this regard, there has been a review of the main concepts, types and stages, involving this interesting subject. Semi-structures and thematic interviews which include email exchange with the participants of the research, interviews via skype or email and a pre-interview email exchange or communication in order to give the participant a clear idea of the topic and gather some more information about the companies are one of the tools used by the researcher for obtaining all the necessary information. Furthermore, a revision of five SMETA audit reports was also performed in order to understand the SMETA audit and reporting methodology of the different companies’ information, non-conformities, observations and good practices or good examples regarding CSR.

The sample of companies who participated on this study was selected out of a total of sixteen companies located in Lima - Perú that were audited under the SMETA audit protocol from 2014 to 2015. Because of the researcher’s previous job as an audit coordinator for an important consulting and third party audit company in Perú, the information of the companies that were audited through the SMETA audit protocol was then available for her, since the researcher kept a contact list of them, being stated that there was an interest in studying the SMETA audit performances for a potential Master’s thesis topic, from before. It is important to note that only the name of the companies and some contacts were known by the researcher. The SMETA reports that were analysed in this thesis, were provided directly by some of the companies that were approached for this study, after explaining them and presenting them the whole idea of the thesis work.

4.2 The Case Study research method

In the fields related to business such as management systems, environmental management, among others, the research-based on Case studies are taking on greater importance since this approach is especially useful in developing a new proposed theory to existing theories in order to solve a particular problem (Eriksson & Kovalainen, 2008).

Surveys and interviews, among other methods of data collection are part of the data gathering for case studies (Farquhar, 2014).
There are some advantages or benefits of doing research through the use of the case study approach (Yin, 2009):

- It allows a close and deep relationship with the participants.
- It can be effectively combined with other methods such as survey and observation.
- It can be set up to study specific situations.
- It builds a bridge between theory and practice.
- It allows to investigate phenomena in which the researcher seeks to answer how and why they occur.
- It allows to study one case or multiple cases of a certain topic or subject.
- It allows to study the phenomena from multiple perspectives and not only influenced by a single variable.
- It allows for deeper exploration and gain a broader understanding of each phenomenon.

Eriksson & Kovalainen, 2008 identified two ways of doing case study research:

1. **Intensive case study research**: focus on one unit or individual.
2. **Extensive case study research**: studied by using several individuals as instruments of study.

As mentioned by Yin (2009), the case study data could come from six sources: documents, log files, interviews, direct observation, participant observation, and physical objects. When all data has been collected, an analysis stage must follow. Yin (2009) mentioned that the data analysis is to examine, classify, tabulate, test, or otherwise recombine empirical evidence to draw conclusions.

According to Farquhar (2014) there are two main options for data analysis in case study research: deductive and inductive. Deductive analysis means that the researcher will test the theory that has been developed for the theoretical framework. On the other hand, inductive analysis focus on developing theoretical constructs or generate theory by means of sensitizing concepts to look for a theoretical concept that helps to describe and analyse the empirical data. The research will look into the data collected and see if there are common ideas or themes.

At this point, triangulation process is very important for the research study. As part of a case study research, triangulation involves the use of various strategies to study the same phenomenon, for example, the use of several methods (individual interviews, focus groups, research workshops, documentation review, etc.). By making use of triangulation methods, it is believed that the weaknesses of each particular strategy does not overlap with those of the other and instead join their strengths (Farquhar 2014).

This research deals with an intensive case study type about the case of standardization through the SMETA audit protocol that includes five private and manufacturing companies located in Lima – Perú. These companies belong to two type of economic sectors: foodstuff and personal care products. Besides having local business, some of these companies also export their products to other
countries. Through this case study research, the researcher aims to analyse the application of the SMETA audit protocol taking into account the Peruvian context and the specific contexts of these five companies. It was decided to choose five companies and five SMETA audit reports in order to ensure the reliability of the study since one of the objectives is also to understand the influence of this protocol into the companies’ CSR activities and efforts. Furthermore, it was also decided by the researcher that five more interviews to five freelance CSR auditors would take place as well as part of the study since this can help the researcher to increase information about standardization case of SMETA from other points of view, in this case the point of view of experts on CSR auditing and the SMETA audit protocol.

The case study method will enable the explanation of real events in a comprehensive manner, providing the characteristics of the reality of each of the companies, in other words, it contributes to the overall knowledge of the unit of analysis. More details about the five companies, the five auditors and the five SMETA audit reports will be provided in the following chapters of this research.

It is also important to note that according Stake (1995) the case study approach do not offer a good basis for generalization of the results of the study. For this reason, the researcher decided to interview five different companies and revise five different SMETA reports, in order to obtain certain quantity of generalizations in activities, issues, etc. that might appear or show more than once while analysing the data. Mostly, the unique and special features of each company regarding the standardization case study will be highlighted by the researcher. In any case, this thesis research objective is not to obtain results for generalization, however the results will be definitely useful for companies that develop their activities in socio-cultural contexts as the Peruvian context.

These companies were contacted by the researcher during June and July of the year 2015 by e-mail and were asked about their willingness to participate on this study by providing the researcher with some confidential information such as the audit document resulted from the SMETA audit process that these companies had gone through and also by participating in the interviews. Due to the fact that most representatives that were contacted have high management positions in the companies and most of them were in charge of production management, they took between five and ten days to answer the initial communications performed by e-mails. After exchanging three e-mails in average with each companies’ representatives, twelve companies out of the sixteen initially considered for the study accepted to participate for the interviews through skype (five companies), long distance calls (five companies) and email (two companies). However, only five companies out of the twelve that accepted their participation could provide the researcher with the SMETA audit reports or CAP’s (Corrective action plans). For these reasons, only the five companies that provided their reports or CAP’s were selected to be included in the primary data of this thesis. It is important to mention that initially the twelve interviews were performed but only these five companies that provided their reports at the same time are included in this thesis. The interviews were performed during January, February and March
2016 and it was only in March 2016 that it was decided to only include the data obtained from the companies that provided the reports as well. Additionally, 100% of the companies asked the researcher to not include their names or the names of the companies’ in the thesis paper due to confidentiality issues, as it was expressed by Representative A from Company A:

We have accepted to continue with the collaboration on your thesis work by providing you the interviews via Skype and email if we are not available to do them via Skype, but please we would like to ask you to not mention our names and the name of the company on your final work […]. We know, Master’s thesis are usually published online as well, so for this reason please consider this petition and confirm your understanding and acceptance so that we can continue helping you with the information needed […].

The same email coordination was made when contacting and confirming the participation in the interviews with the five CSR lead auditors. It is important to mention that convincing the auditors to participate in the research through the interviews was very easy since they always showed motivation and willingness to be included in the study despite of their busy agendas. One of the main reasons that made the auditors be willing to participate was expressed by one of them:

For me, this type of interviews or questions about my work as a CSR auditor are important, because they allow me to reflect on my work as a freelance auditor and also I believe that including my name on your thesis work is also something that I would appreciate since it would be good for me as a professional to see my name on a publication or Master’s thesis in another language that is not Spanish […].

The previous quotes from messages sent by the Company A and one of the auditors that were interviewed for this research had to be translated from Spanish to English. All interviews and communication via email were performed in Spanish language. According to Bryman & Bell (2011) the process or the task of translating data from one language to another could be a bit complicated for the researcher because the translation of data for a thesis research is not a merely technical process but should be treated more closely to an interpretation of the information and the context should be taken into account as well. Xian (2008) as cited by Bryman & Bell (2011) also states that there are some issues that the researcher could experience when treating with these type of activities such as the identification of linguistic disagreements in the form of words that do not exist in the language used in the thesis paper, social and cultural issues such as the existence of certain proverbs or phrases that are hard to translate from one language to another and methodological issues concerning the hassle of making use of a more reflexive approach when performing translations or in this case interpretations.
4.3 Sources of data collection

According to its origin, the sources of data collection for this study, these are classified as primary and secondary sources (Marshall & Rossman 2006).

4.3.1 Primary sources

Primary sources are those that are collected or gathered directly by the researcher. In other words, they are those that the researcher has obtained directly from the reality and has collected them with his/her own instruments or tools (Marshall & Rossman 2006).

In this thesis, the researcher makes use of qualitative semi-structured interviews that are performed by means of skype call sessions and long distance calls. In some cases some data was obtained also through the exchange of e-mails with the companies and auditors.

In this last case, e-mails with questionnaires were sent to some of the participants that were not able to participate via skype calls or long distance calls in the interviews. Most reasons given by participants to prefer e-mail questionnaires or questions send by e-mail were that the time difference between Perú and Finland was too hard because of their busy schedules, even though that the researcher was able to give them free options of choosing the times that were more convenient for them. Another reason was that they were always having meetings outside their offices and that they were not able to answer the questions or an interview that was on real time because of these busy activities. Some of them also stated that they were too busy during working hours and that they would prefer to answer questions via e-mail once they are already home and feel comfortable. According to the Bryman & Bell (2011) e-mails containing questions are considered asynchronous methods of interviews and could have some advantages such as generation of richer content on the answers given by the participants, preferred over real time interviews, easy to ask further questions later on to the participant via e-mail on more communications, gives a safe and comfortable feeling to the participant, among other benefits.

During the interviews process performed in January, February and March 2016, the following interviewing methods illustrated on the Table 8 were used by the researcher:

Table 8 – Interview Methods used

<table>
<thead>
<tr>
<th>Method</th>
<th>Companies</th>
<th>Auditors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skype Calls</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Long Distance Calls</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>E-mail with questionnaires</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

In the table above, it is stated that 12 interviews with 12 companies’ representatives were performed, however only five interviews were selected to be included in this thesis: 3 interviews via skype and 2 interviews via long distance
calls due to time constraints to analyse all the data. In the case of the auditors interviewed, all the five interviews were considered for this thesis work.

4.3.2 Performance of the Interviews

The interview is one of the most widely used instruments for primary data collection among researchers. Interviews can be performed face to face, over the telephone, by post or on-line by means of computer technologies such as e-mail or skype, just to name a few (Eriks-son & Kovalainen, 2008).

In the particular case of this research, the type of interview that is used is guided and semi-structured interviews with the use of primary questions and also secondary questions after the first questions are answered by the interviewees. Additionally, the use of open-ended questions is also important for the research. Open-ended questions always require more than one-word answers, in that case the answers are in the form of sentences, paragraphs or statements given by the interviewees.

Interviews for this research were performed via long distance calls, via skype or e-mail questionnaires. As it was previously mentioned, only interviews performed via skype and long distance calls are included as data from companies’ representatives in this research due to time constraints. In the case of auditors’ interviews, e-mail questionnaires and skype calls were performed. According to Bryman & Bell (2011) skype calls and long distance calls are considered a synchronous method of interviewing since they are performed in real time. Both types of interview methods were performed with no webcam. The skype calls were recorded by means of a free-use software called Amolto Call Recorder. The long distance calls on the contrary, were not able to be recorded by the researcher and in this case, written notes were taken instead. Transcripts of these skype calls performed are kept by the researcher and are part of the data analysis section of this research paper. Each interview via skype and via long distance call had a duration of 60 minutes in average and each transcription of each interview had a total of 6 pages length. The transcription process was a tedious step for the researcher since each transcript took about 5 hours to be completed.

Two sets of interview guides were elaborated: one for the companies’ representatives and one for the CSR auditors with different questions and themes each. Both interview guides can be found in the Annex section of this research paper as Annex 2 and Annex 3. All interviews were performed in Spanish language. Transcription was also performed in Spanish language and finally translated and interpreted to English language.

Three out of the five Peruvian companies that are part of the interview are considered big companies and two out of the five companies are considered MSME’s due to the quantity of employees and status shown in the Peruvian data base for registered businesses called SUNAT. A quick search was performed in the data base of this public organization in order to obtain more information

---

2 The link used for the research on SUNAT data base is the following: [http://www.sunat.gob.pe/cl-ti-itmrconsruc/jcrS00Alias](http://www.sunat.gob.pe/cl-ti-itmrconsruc/jcrS00Alias)
about each company. The representatives of the five companies have been involved directly in the implementation of the SMETA audit protocol and have participated during the monitoring audits to verify the implementation of the protocol that was performed by third party auditing companies. The CSR lead auditors that are part of the interviews have important experience working with this protocol and performing audits in companies located in Perú and other countries the South America, Central America and North America.

Table 9 and Table 10 shows the companies and auditors interview contacts. Companies’ representatives are detailed by position and industry sector, as well as a small explanation about the companies’ activities. This information was collected via the initial e-mails sent to the companies and auditors. 100% of the companies required the researcher to not mention their names or the representatives’ names and only four out of five auditors wanted to be identified by their real names as it can be observed on the tables.

Table 9 - Interviews Contacts (Companies)

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Company</th>
<th>Industry Sector</th>
<th>Clients and Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Representative A</td>
<td>Operations Manager</td>
<td>Company A</td>
<td>Foodstuff company</td>
<td>Own brands in local market and products produced for supermarkets’ own brands.</td>
</tr>
<tr>
<td>Representative B</td>
<td>Corporate Management</td>
<td>Company B</td>
<td>Personal care and cosmetics company</td>
<td>Own brands in local market/exports and products produced for supermarkets’ own brands.</td>
</tr>
<tr>
<td>Representative C</td>
<td>Quality Assurance Manager</td>
<td>Company C</td>
<td>Foodstuff company</td>
<td>Own brands in local market and products produced for supermarkets’ own brands.</td>
</tr>
<tr>
<td>Representative D</td>
<td>Production Manager</td>
<td>Company D</td>
<td>Foodstuff company</td>
<td>Own brands in local market/exports and products produced for supermarkets’ own brands.</td>
</tr>
<tr>
<td>Representative E</td>
<td>Supply Chain Manager</td>
<td>Company E</td>
<td>Foodstuff company</td>
<td>Own brands in local market and products produced for supermarkets’ own brands.</td>
</tr>
</tbody>
</table>

The auditors’ contacts list that is shown on Table 10 contain the important information about the auditors interviewed by the researcher. Two out of five auditors have performed CSR audits in other countries in Latin America. 100% of the auditors have a vast experience performing SMETA audits in different cities in Perú.

Table 10 – Interviews Contacts (Auditors)

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Company</th>
<th>Industry Sector</th>
<th>Years of experience performing CSR audits</th>
<th>Clients and Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saulo Quesquén</td>
<td>CSR Lead Auditor</td>
<td>Audit Firm X</td>
<td>CSR Audits</td>
<td>3 years</td>
<td>Freelance Auditor</td>
</tr>
<tr>
<td>Miriam Illa</td>
<td>CSR Lead Auditor – Labour specialist</td>
<td>Audit Firm X</td>
<td>CSR Audits</td>
<td>3 years</td>
<td>Freelance Auditor</td>
</tr>
</tbody>
</table>
4.3.3 Secondary sources

Secondary sources are those that started from pre-processed data. This data can be obtained from statistical yearbooks, Internet media, and audit reports, among others (Kothari, 2004).

In this thesis, the secondary data is obtained from the corresponding literature review which included books on the topic of CSR, academic articles and research documents, online interviews from websites on the internet regarding the SMETA audit protocol, the documents available in the SMETA/SEDEX platform website, five SMETA audit reports provided by the five companies that are part of this research paper, some Peruvian law was also revised for this research and Peruvian legislation regarding CSR and other social and environmental issues.

Among the physical resources where the researcher can find this secondary data, there are bibliographic resources, which were found in different books in the University of Jyväskylä’s (JYU) Library and e-journals’ databases through JYU’s JYDOK. The secondary data for this thesis research is based in depth on the subject of CSR, sustainability and standardization in CSR.

4.4 Data analysis

Data analysis involves performing operations to which the researcher will submit the data in order to achieve the objectives of the study. Thematic analysis was used in order to evaluate and analyse recurrent themes about the topic of study. Thematic analysis is often used when there is a frequency of occurrence of certain and different incidents or happenings, words, phrases that might refer to a specific theme (Bryman & Bell, 2011). The data was then thematised into meaningful themes in order to find similarities on each interview that could help answering the research questions.

In order to perform the analysis by means of this method, the researcher elaborated 2 different interview charts where all important statements from companies’ representatives and auditors were collected. The both charts reunited different themes that were meant to help to answer the general and specific research questions. The quotes per each interviewee were organized according to the different themes. On Table 11 the main themes per each type of chart are presented.

<table>
<thead>
<tr>
<th>Themes for Auditors’ Interviews</th>
<th>Themes for Companies’ Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR performance of Peruvian companies in general</td>
<td>Current CSR performance</td>
</tr>
</tbody>
</table>
Use of SMETA in the Peruvian context | Motivations and Benefits of CSR implementation through SMETA
---|---
Ethics and conflicts of interests during audit processes | Importance of CSR reporting
Auditors and Companies relationships | Auditors and Companies relationships
Main difficulties for Peruvian companies during SMETA audits (recurrent findings) | Influence of SMETA on CSR performance
Auditors’ perception of the SMETA audit process | Main findings during SMETA audits
Certifiable and non-certifiable standards | Drawbacks/Difficulties of standardization through SMETA
Certifiable and non-certifiable standards

After separating the data obtained from interviews in different themes, the statements of interviewees were collected per each theme and analysed and compared with among their own group of interviews in order to identify recurrences and differences of statements that could help to answer the research questions. All of this information properly organized can be found in the section 5 of research findings.

In the case of the analysis of the five SMETA audit reports obtained from each company interviewed, the data was also gathered and placed into an excel chart where the most important information from the five companies was organized. The most important reason to analyse the five reports was to find differences on the statements of both auditors and companies and compare them to what was already included in these reports that were issued during the first initial SMETA audits of these five companies. Differences and other important evidence gathered from the reports are also included on the research findings section. A table including the main data obtained from these reports is presented in the following section of this research paper.

Finally, in order to perform a proper triangulation of data and make the research results more reliable, it is important to compare or relate the data analysed to the existing literature which conflicts with the results, as with the literature that goes on the same line of the results. Both comparisons reinforce the validity and reliability of the research (Marshall & Rossman, 2006). According to Bryman & Bell (2011) triangulation is the use of different and diverse type of data sources, since the use of different combination of data sources make the research more reliable and understandable.
5 RESEARCH FINDINGS

In this chapter, the results of analysing the interviews and the SMETA reports provided by the companies that participated in this study are presented. These results seek to achieve the objectives, corroborating the theory with the data obtained.

5.1 General information

The findings presented in the next sub-section were gathered from interviews performed to five Peruvian companies and five CSR auditors. Furthermore, five SMETA reports obtained after the SMETA audits performed at these five companies, were also taken into account for analysis purposes in order to try to answer the general and specific research questions on this research regarding the case study of standardization on CSR through the application of the SMETA audit protocol.

Being this study of a qualitative nature, the data was first gathered in themes and then organized in excel charts for both auditors interviews’ information and companies interviews’ information. Excel charts were also utilized for organizing the information obtained from the SMETA reports. This thematic method used by the researched has been of a great use since it has helped to make comparisons and detect similarities in the statements of both auditors and also among companies, in order to achieve the objectives of the research and try to answer the research questions.

The researcher has made use of the interviewees’ quotes in order to illustrate their statements and because the use of quotes in qualitative research is of great help, since it allows the reader to understand the context the objects of research and to some extend the idiosyncrasy of the interviewees. Thereby, the results from the analysis performed by the researcher are presented in the following subsection, according to the different themes detected during the analysis of the data.

5.2 Findings

This thesis aimed at answering the general question of how the standardization process through the performance of the SMETA audit, influences the CSR practices and performance of five Peruvian companies. In order to be able to answer this question, some other specific questions related were included in the research. The main source of information that was used to answer this question was found in the interviews performed to auditors and companies’ representatives as well as in the five SMETA audit reports provided by the companies. Companies that
were part of the study had some experience being audited on their clients’ CoC’s such as Mc Donald’s or The Walt Disney Company, for this reason all five companies had certain degree of application, implementation and internal monitoring of their own CSR performance and practices. As it was mentioned by one representative from Company D during the interviews:

We have already spent many years performing audits of social responsibility for our client McDonalds based on its own code of conduct that is also based on ILO conventions and has a lot of the principles of the ETI Base Code that is evaluated during SMETA audits […] All issues of benefits and good practice have been implemented earlier, we have almost every police possible practically, because of McDonalds and their demands.

For practical purposes, the findings from the interviews and reports have been divided in different sub-headings that represent the main themes found in the data, as follows.

5.2.1 CSR implementation stages of the companies

In order to understand each company context and their own stage of CSR implementation and performance, the chart provided on page 23 on this paper was very useful for the researcher, as Martinuzzi & Krumay (2013) explains very clearly the possible CSR implementation stages that companies go through.

It is possible to locate each company according to the classification given by Martinuzzi & Krumay since there are certain characteristics in every stage that apply to the different companies. Furthermore, the short, medium and long-term nature of each stage has helped the researcher to classify the companies.

For the researcher, it is important to include the classification of each company according to this model because it will help the reader to understand the context of each company and their attitude towards CSR. Additionally, it is also of great help for the purposes of this research because it will help the researcher in the analysis of the influence of standardization on the CSR performance of each company.

The classification of each company that participated in the study is shown in the Table 12 and consist of 4 stages but only 3 stages were covered by the companies. The only stage that was not found on the companies was the fourth stage that is related to Transformational CSR and entails a high level of organizational learning and flexibility which is very rare to find nowadays in companies. In order to classify each company according to the corresponding CSR implementation stage, the statements given by each interviewee have been taken into account and these are also presented in the table.

<table>
<thead>
<tr>
<th>Company</th>
<th>Stage</th>
<th>Statement given during interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company A</td>
<td>Quality-oriented stage</td>
<td>“On the issue of CSR, we as a company have an NGO called XYZ and the XYZ Foundation and, through them, we develop programs that engage</td>
</tr>
</tbody>
</table>
children so that they can internalize a culture of harmony with the environment and then project it through their lifestyles now and in the future [...] and operating under the framework of good manufacturing practices."

<table>
<thead>
<tr>
<th>Company B</th>
<th>Strategic-oriented stage</th>
<th>“Currently we are implementing the program &quot;I am responsible to the environment&quot;. This program was designed within the framework of the Sustainable Management Strategic Plan for Company B to 2020, where the environmental issue was defined as one of the priority issues to work, responding to the current importance on the global agenda, increased regulatory demands and the same commitment we believe companies should have to reduce the negative environmental impact caused by their activities and in this case, our activities in the different business lines.”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company C</td>
<td>Project-oriented stage</td>
<td>“We have been collaborating with some &quot;moto-taxi&quot; companies and we have been given them uniforms for free. Additionally, we always perform activities at the end of the year with the churches located near to our factory”</td>
</tr>
<tr>
<td>Company D</td>
<td>Quality-oriented stage</td>
<td>“As for CSR activities, we participate with communities for example recently, we did potable water to human settlements, as well as meetings with the municipality of the district to revise topics related to pollutants, waste, noise, we always maintain contact with the authorities [...] we have our own supplier evaluation program that also includes guidelines of ETI or SMETA but not all, and also we have our own code of conduct that has adapted ETI requirements, SMETA and other codes from other customers”.</td>
</tr>
<tr>
<td>Company E</td>
<td>Project-oriented stage</td>
<td>“We perform monthly meetings and take topics regarding the protection of the environment and the correct and proper use of resources in the company. Through these meetings we want to involve our employees with company so that they feel that they also have a voice and their actions can make a difference [...]”</td>
</tr>
</tbody>
</table>

As it is observed on the Table 12 above, the five different companies included in the study present different type of stages of CSR performance or implementation. Only Company B possess a plan for CSR and sustainability that has a long-term basis, this classifies it into the stage of strategic-oriented CSR according to Martinuzzi & Krumay (2013) and as it is also observed from the extracts from the interviews, Company B has managed to integrate CSR and sustainability issues into all its business lines as a primordial issue to be taken into account in all processes.

In the stage of Project-oriented CSR, both Company C and Company E have been included because according to their statements given in the interviews, the projects that have been developed for their CSR programs are short-term and do not have anything to do related to their own business activities. In these cases, the social projects are a constant for these two companies, for example social activities in churches near the facilities (in favour of community) or teaching employees how to be more environmentally responsible through meetings (in favour of employees).

---

3 A moto-taxi is a type of transportation system often used in certain places in countries like Perú and others in Latin America. It consists of a converted motorcycle with the bench seat in the rear.
In the stage of Quality-oriented CSR, Company A and Company D are located. Both companies perform CSR activities according to CoC’s or standards given or recommended by their clients, but also perform social activities that do not have a direct relation with their business activities. Additionally, both do not possess a plan or strategy for CSR implementation as Company B and this is why they have been placed in this stage and not in the Strategic-oriented CSR stage.

These findings regarding the CSR stage of implementation where these companies are placed, give a whole idea of their own view of CSR and how it is worked or performed by them. These findings help to answer the research questions given in the first section of this thesis since they offer some light on the performance of CSR activities and strategies by these companies. The importance of having external forces (clients) pushing them to accept and implement certain standards is also highlighted in the statements given during the interviews. Having clients motivating or pushing companies to implement certain standards and practices regarding CSR is one of the motifs for these companies to be socially responsible.

Finally, the SMETA audit protocol and ETI Base Code which is the code used for evaluating the companies during the audits, besides local laws and other SMETA principles, are taken into account by companies when implementing their own CoC’s according to their own statements given in the interviews and showed in the Table 12. The application of principles based on SMETA or ETI has been performed by Company D and Company A and specifically included in their own CoC’s as stated by representative A from Company A:

We are still in the process of creating our own code of conduct, which […] is inspired by the ETI base code […] so we could say that in the near future the image of the company as this will change and this change has been inspired by performing SMETA audits and implementing the ETI Base code principles.

5.2.2 Motivations and Benefits of implementing CSR through SMETA

During the interviews with the companies’ representatives, some benefits and motivations for implementing CSR through SMETA were identified. Thereby some motifs were identified more than once among the companies’ interviews.

First of all, the most mentioned motifs for implementation will be described. For instance, one of the most mentioned motifs or drivers for implementing CSR standards through the SMETA audit protocol happened to be the pressure by external and potential clients as expressed by Company A and Company C representatives:

Definitely the main incentive was initially to meet the requirements of our customers, after that first approach we concluded that implementing such tools should be something that departed first from the company as it helps us to continue to grow sustainably towards our goal and has an impact on the productivity (Company A). Pressure by external clients & more profitability and productivity
Most clients also have increased the amount of supply that they need from us since we started implementing CSR and going through SMETA audits, for examples (Company C). → Pressure by external clients

Company D also stated the main motivations that have driven the company to adopt the SMETA audit protocol:

Our main goal is that employees have a good working environment work and feel comfortable […] if our employees are happy, that will suit much to the company for the issue of productivity (Company D). → Improvement of working environment, more profitability and productivity & less employees’ turnover rates

On the other hand, the main motivations for Company E are more related to reputational purposes and attraction of new clients:

This protocol is starting to be considered by many of our clients already and we need to improve our participation in the local market with a focus on internationalization of our products in the following years. Besides this reason, we are also very worried about our reputation and the value of our brand and that is why we have considered that it is important to implement this protocol to show what we are doing in relation to CSR (Company E). → Enhanced reputation & attraction of potential clients

Company B was more focus on improving their relationships with the stakeholders such as communities and the environment in general, as the representative explains on the following statement:

Our motivation for going through the audit processes after implementing the SMETA audit protocol, well besides that it was a requirement of our clients, were basically driven by our need to achieve a higher efficiency in the use of our resources and above all improve our relationships with clients, communities and our own employees (Company B). → Improve relationships with stakeholders

The companies have stated 7 specific motifs that made them feel more interested in implementing SMETA on their organizations. In the literature review presented on section 2, Rahim & Vicario described that some of the motifs that makes a company to implement standardization on CSR were reputational and achievement of competitive advantage (productivity & image). These 2 characteristics are presented in the interviews as it was described before. Gao & Zhang’s views on the main motivations also described on section 2 of this paper, were related to increasing trust and cooperation with stakeholders via standardization of CSR. This characteristic was also mentioned by one of the companies. Finally, Adams & Zutshi’s views on this theme, mentioned the retention of good and valuable employees as a motivation for companies to implement standardization of CSR in their organizations. Retention of good employees can be understood also as improvement of employee turnover rates.

In summary, the main 7 motivations that were identified are presented as follows:
1. Pressure by external clients
2. Attraction of potential clients
3. Enhanced reputation and image
4. Improvement of working environment
5. Less employee turnover rates
6. More profitability and productivity
7. Improve relationships with the stakeholders

Next, the main benefits for implementing CSR standardization through SMETA have been identified during the interviews. In the next statement, Company A expresses that some of the benefits are customer satisfaction and entering new markets:

[...] SMETA also helped us to keep our clients interested in us and receive more requirements, so we sell more, because for them it is important that we follow CSR practices and guidelines such as SMETA. For example we have 2 very important international clients that required us SMETA audits and implementation of its principles before signing a contract with them (Company A). \( \rightarrow \) Customer satisfaction and entering new markets

Company B on the other hand, stated that for them it is important to implement and audit CSR through SMETA because of the continuous improvement benefits. Hanh, (2012) also considered continuous improvement as a benefit of CSR standardization:

For us the implementation of SMETA and every audit is an opportunity to improve our processes and our view of CSR. Observations and findings detected during these processes always provide very important feedback for the company and allow us to establish continuous improvement procedures (Company B). \( \rightarrow \) Continuous improvement

Company D views on benefits are addressed to cost-saving benefits and shares the views of Adams & Zutshi, (2004):

Such standard and its audit processes help us to see the points of improvement in our CSR management, because it is the only way to obtain profitability and productivity [...] our staff should feel at ease and productivity must be optimal. If the employee feels bad or work with listlessness, our staff turnover rate is high and it is not convenient for our company, we want to save those costs and prevent them to happen (Company D). \( \rightarrow \) Cost-savings benefits

Company C views on benefits of standardization are related to Hanh, (2012) when being aware of flaws is mentioned as a benefit detected by the company when implementing SMETA:

I think this protocol helped us discovering the weaknesses of our CSR policies or in our CSR performance (Company C). \( \rightarrow \) Awareness of own flaws
For Company E, the main benefit obtained by means of implementing SMETA has been the enhancement of their own image and reputation among their customers and the community:

Our image has improved in front of clients, potential clients and the public institutions that perform visits to our premises to verify labour and environmental compliance with the local law (Company E). → Enhancement of reputation

In summary, the main 6 benefits that were identified during the interviews with the companies are presented as follows:

1. Customer Satisfaction
2. Entering new markets
3. Continuous improvement
4. Cost savings
5. Awareness of own flaws
6. Enhancement of reputation and image

100% of the companies have has mostly positive comments regarding the SMETA audit protocol and the guidelines that are included and evaluated during the audits. This includes the ETI Base Code which was also taken by some of these companies as an inspiration for creating their own CoC’s.

5.2.3 Reporting and CSR

The importance of reporting CSR activities and CSR performance by companies interviewed was only manifested by Company B that explained that they issue an annual report on every CSR activity performed during the year both internally for their own employees and for external stakeholders such as clients and public in general:

We use internal communication channels through the support of the Internal Communication and Culture department, we take reporting very seriously as we consider it critical to CSR projects […] they help us spread the messages through our own intranet, printed media, videos, etc. Also, on an annual basis we issue a progress report on CSR activities for the Global Compact of the United Nations, which is also delivered to our employees.

It is important to mention that Legitimacy theory related to reporting CSR, states that there is a need for companies to provide information and data about their own social and environmental behaviour to their stakeholders or the public in general as it was mentioned previously in the first section of this paper (Gray et al., 1995 as cited on Hooghiemstra, 2000). As manifested during the interviews, Company B makes use of the application of this theory by considering reporting of their activities as critical. It is also mentioned by the same company that communication about CSR activities to their stakeholders is vital, as it was showed in the extract of the interview presented lines above.
5.2.4 Companies’ perceptions of CSR auditors and Audit Company X

The relationship between CSR auditors and audited companies before (coordination with audit company), during and after (coordination activities to raise findings and close process) the SMETA audit processes, was also part of the interviews and was considered a critical topic by the researcher, in order to answer the research questions. Regarding the performance of SMETA audits in these five companies, the same audit company was mentioned as the one performing these audits between 2014 and 2015. Besides SMETA initial 2-Pillar audits, there were also desktop audits performed by the same audit company. There were positive and negative critics found by the researcher regarding the behaviour and objectivity of auditors during these processes when the companies’ representatives were interviewed.

On Table 13, the most recurrent impressions given by the Companies’ representatives during the interviews regarding this specific topic are presented. These statements have been divided among three parts showing the impressions before the audit, during the audit and after the audit. This information is vital for the study in order to evaluate if the relationship between auditors and audited companies has had any effect to the SMETA audit process itself. Both communication before and after the audit was made with the audit company directly and no with the auditors. The only communication happening between companies and auditors was performed during the audit process. However, it is important to consider impressions of the companies during all three phases for the purposes of this paper.

Table 13 – Impressions of companies about auditors and audit company

<table>
<thead>
<tr>
<th></th>
<th>Before the audit</th>
<th>During the audit</th>
<th>After the audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company A</td>
<td>“The coordination performed by the audit company before the audit was correct, they provided us with a list of documents and a sort of checklist so that we can be prepared for the day of the audit process”</td>
<td>“So far our experience with the auditors from this company was positive and any inconvenience that might have arisen it was solved very quickly [...]they were very clear and they knew very well the local laws and the SMETA guidelines, also I have to mention that when there was an opportunity to clarify a finding or raise a finding during the day of the audit, they were very understanding and helpful”</td>
<td>“[...] For example we think that a consultancy service by the audit company would be optimal, in that way we could understand better what we should do to raise those findings, of course we know that due to conflicts of interests, this is not possible”</td>
</tr>
<tr>
<td>Company B</td>
<td>“Before the audit started, during the coordination period, the company was very correct towards us and always answered our questions”</td>
<td>“However, the day of the audit there were 4 auditors and we really considered that there should have been only 2, because that would have been enough. During the audit process we had some discrepancies with the auditors, and this usually doesn’t happen when it’s another audit company. We had certain lack of understanding between the auditors from Audit Company X and our team”</td>
<td>“Our audit went very well and we didn’t have any findings, because we were in compliance with all local laws and SMETA principles as well, plus we also had good practices”</td>
</tr>
<tr>
<td>Company</td>
<td>Statement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>---------</td>
<td>---------------------------------------------------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>“We had good coordination before the audit process […] and we usually ask for auditors’ CV’s so that we can have an idea of their competences as auditors and background as well”</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>“Auditors were getting along very well with our representatives during the audit process for SMETA and the only comment I could do about it would be that they showed a lot of disposition and willingness to answer our questions and explain us all the process very well”</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>“[…] during the audit process and after, the most important for us was to receive all the observations about the findings and that is what they did, so I have no complaints about it.”</td>
<td></td>
<td></td>
</tr>
<tr>
<td>D</td>
<td>“Our coordination with the auditing company was very short […] we confirmed the dates we had available. They only asked us to take them to the plant, as it is far from the centre of the city of Lima. There was no friction or problems with the audit firm. The only thing that I found weird was about the auditor asking us to show our profits, because for us it is confidential information and shouldn’t have been asked in a CSR audit process”</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>“In the case of the auditor, I saw that he knew the laws and handled easily the SMETA guidelines then I think he did have knowledge of both subjects. Although he said it was the first time he was auditing under the SMETA audit protocol, so it was very “pilot” in a way […] I think he was much more careful because of that reason and he also brought law books and material like that, etc. […] some required documents in the audit, were not clear, they asked us for our flowcharts of our processes, but when we showed them to the auditors, they told us that they needed other charts, this kind of things sometimes confuses us. They also asked about our general policies, but it is not clearly specified what exactly they need in the checklist”</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>“After the audit process, we had to have a follow up audit to raise the findings from that initial SMETA audit, but we haven’t performed it […] coordination was being held by our client and the audit company so we are just waiting for it to happen sometime soon this year 2016”</td>
<td></td>
<td></td>
</tr>
<tr>
<td>E</td>
<td>“Coordination with the audit company was fine, we didn’t find any problem with them, they always answered on time and called us on the phone very often to coordinate the audit plan and all that”</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>“With regard to auditors in charge of the process they showed full knowledge of the protocol, also during verification of documentation or the facility tour, if there were any comments or questions they always showed confidence and trust of the answers given and under legal basis”</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>“[…] we had to do some coordination with the audit company after the audit to raise the findings and we did it on time, it was our plan to close those findings in three months and we did it […] the audit company was helpful in the sense that they were always actively answering our doubts after the audit on how to solve the findings”</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

According to the statements given by all five companies, the coordination before the audit processes with the Audit Company X was correct and positive with a lot of willingness and care from the audit company towards the companies that had to go through the SMETA audits. There is evidence on the statements that a proper and correct coordination with the audit company and the audited companies is required in order to endure and audit process in a good way for both teams. Furthermore, according to the SMETA methodology described in section number 3, a checklist containing documents that would be required during the audit must be sent to the companies for preparation purposes. These results suggest that for the five companies a significant and detailed coordination procedure before the audit is necessary and helpful in order to have predisposition and certitude that the process will be execute properly and according to all the guidelines of SMETA.

Additionally, statements also showed evidence about the influence of a competent management by the audit company after the audits were performed in the sense of the willingness showed to help the companies to solve and raise
the findings detected during the audit processes in future follow-up or desktop audits. Company A stated about this phase of the audit process that a consultancy service provided by the audit company would be very helpful and they also expressed that they would pay for a service like that if the audit company would be willing to offer such service. They explained that the main reason was that the audit company had many years performing SMETA audits and they knew the guidelines very well. However, they also affirmed that they knew this would not be possible due to conflict of interests, since an audit company should only audit and not give consultancy services to the same company at the same time.

Some comments and critics from the interviewees towards the audit company were also identified during the interviews. For instance, Company C was the only one requiring beforehand information from the auditors, as it is quoted on the Table 13. Regarding this comment given by Company C, the representative stated that it is very important for them to know the professional background of the auditors coming to their company’s premises because of confidential reasons. Protection of “know how”, processes and machinery is a very delicate topic for them. This can be illustrated in the SMETA audit report provided by the company, where only 18 photographs were permitted to be taken, stating that it is not convenient for them to show “their secrets” on photographs that the auditors could take with them after placing them on the report template. Most of the photographs are taken from afar of the areas or departments and most of them were photographs of health and safety tools, fire extinguishers and fire alarms and not machinery itself. The representative stated that since they are one of the few companies in the country that supply a specific type of product that they manufacture, it could be dangerous because they are a bit scared of potential competitors. Company C stated that the auditor understood its worries and confirmed this issue with the audit company office in order to let the client know that not many photos would be taken in the premises due to confidential issues.

Company D, on the other hand explained that the checklist was not well clarified by the audit company before the audit and that during the audit process the auditor asked for some documents but was not very descriptive of which documents were those that were needed to be revised. The company’s representative stated that probably it was a lack of experience from the auditor on how to manage this type of audit. An important comment given by this representative was that the auditor told to the representative that the audit was the first SMETA audit he ever performed. That also could be a reason why there was a small misunderstanding of which documents were required during the audit process as the evidence suggested during the interviews. Another anecdote told by the representative is that this auditor brought with him law books and other material in order to serve as reference material during the process. According to the interviewee, this fact showed 2 different things: that this auditor did not have enough experience on SMETA audits or CSR audits in general or that he wanted to make sure to perform a “perfect” audit and leave out any possibility for mistakes or subjectivities.
Company B indicated that there was a misunderstanding between auditors and their team during the audit process, however the details were not provided as the representative preferred to keep the reasons as confidential. However, the representative stated that they would rather prefer to work with other audit companies such as SGS or Bureau Veritas as they have found that they get along in a better way than with Audit Company X. Furthermore, it was stated by the interviewee from Company B that they have told their clients to allow them to decide among Audit Company X and the other audit companies, however the clients are reluctant to work with more than 2 audit companies for certain CSR protocols or standards. In the case of SMETA, Company B stated that their client wanted to work only with Audit Company X and for this reason, they had to accept this fact and continue with the audit process. Besides these inconveniences stated by the company, the representative expressed that the average performance of the auditors during the SMETA audit was good.

Finally, it is important to mention that all SMETA audits were paid by the companies’ clients and not by the companies themselves. This fact makes the auditors to be considered in the category of independent auditors. According to Rahim & Vicario (2015) this characteristic makes the auditors to be more trustable on their observations and could lead to an effective audit process.

In summary, relationships developed before the audit process are as important are those relationships developed during the audit process. According to the statements given by all representatives, the importance given to a good previous coordination process is great. The main findings on the consequences during the audit processes, caused by the relationship between auditors/audit Company and audited companies can be expressed in the next Table 14:

<table>
<thead>
<tr>
<th>Reasons for Positive consequences</th>
<th>Reasons for Negative consequences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective coordination before audit process</td>
<td>Lack of experience of auditors with the SMETA audit protocol</td>
</tr>
<tr>
<td>Effective clarification of documentation needed for the audit</td>
<td>Poor understanding between auditor team and companies’ representatives</td>
</tr>
<tr>
<td>Companies knowing that the audit is objective due to client paying the audit fee</td>
<td></td>
</tr>
<tr>
<td>Effective coordination after audit performance for raising findings</td>
<td></td>
</tr>
</tbody>
</table>
5.2.5 The application of the SMETA audit protocol and CSR performance

According to Haack et al., (2012) the most important phases of standardization in CSR are firstly implementing the standard and secondly performing an inspection or CSR audit in order to evaluate the continuous improvement on the CSR performance of the company. One of the most important issues that SMETA standardizes is the way findings, observations and good practises detected during an audit process are reported by means of a specific audit template or universal format of presenting this information. Another issue standardized by SMETA is the audit methodology that is part of this standard. When evaluating every company, in order to make sure that they are complying with the main CSR principles, the use of the ETI Base Code which contains ILO conventions about labour issues, is one of the most important parts of the SMETA audit. In the previous sections of this paper, the aim of SMETA has been also described as being a way to avoid duplicity on social audits. The SMETA Audit aims to reduce duplication of efforts by means of using a standardized protocol for social audit that could benefit retailers, consumer brands and their suppliers.

It is important to note that there are certain issues that SMETA pretends to standardize according to the ILO conventions such as the weekly working hours and overtime hours. Since SMETA applies the ETI Base Code, these issues are of great importance, however, this aim does not take into account other socio-cultural contexts. Furthermore, SMETA aims also at standardizing the use of the protocol in the supply chains of companies around the world. This protocol has been created to be applied in supply chains in order to achieve responsible sourcing. Important issues such as the use of child labour, discrimination, forced labour, freedom of association, immigrant work force are also taken into account by the protocol in order to be standardized in all companies that adopt the SMETA. In this context, a responsible behaviour from all companies involved in these processes, is expected. This responsible behaviour is expected to be from the inside of the company and to the outside of the company. This means that all stakeholders and groups affected by the companies activities should be included as part of their responsible behaviour.

In the case of the five companies that are included on this study, some of them have already been applying certain CSR measures, CoC’s or activities since recent years, however in most cases the application of a standard like SMETA had not been performed before companies’ clients requested it in order to continue with their business relationships as it was stated, for instance, by Company E and Company B:

The SMETA protocol has allowed us to maintain profitable relationships with one of our domestic customers for example (Company E).

We have perceived financial benefits because usually these audits are required by a vast number of clients and also potential clients and when this happens, we always show them our records of passing these type of audits, since obviously we didn’t get any certificate from SMETA but that’s ok with us […] we can always show them our CAP’s and other documents to prove
it. In the case of SMETA we have passed 2-Pillar and 4-Pillar audits as well (Company B).

Furthermore, SMETA also fulfils the main characteristics of a CSR standard mentioned in the literature review in section 3. Brunsson et al., (2012) describes three characteristics for CSR standards such as the inclusion of rules, guidelines or principles, the voluntary nature (no legislation implied) and the common use by many type of companies in different industries. Certainly, SMETA complies with all these three characteristics as the rules or guidelines are given by the ETI Base Code and the local laws, this standard is not compulsory by law and this standard can be utilized to be implemented and evaluated in many different type of industries.

During the interviews performed, one of the most mentioned topics regarding the implementation of the SMETA audit protocol in the companies, was the non-certifiable nature of the standard. A common view amongst interviewees was that the existence or not of a certificate issued after passing an audit or implementing a standard, was not of a vital importance for them. For example, one of the interviewees from Company B stated the following:

For us there is no difference if a standard such as SMETA, issues a certificate or not. I think that we always give the same treatment to any audit process whether there is a certificate or not, because that doesn’t take our willingness to have an outstanding CSR performance during an audit process.

Whilst a minority mentioned that it is really important to obtain some kind of certification or document stating that companies have passed a CSR audit process or implemented a standard (Company D and Company E), all agreed that the procurement of a certificate does not affect directly their CSR performance but in their opinion, it would be something significant to show to consumers and potential clients because it brings reputation, good image and credibility to their brands.

These findings about the importance of having a certificate or the probable effect that it would have on the CSR performance of companies also corroborates the findings of the study performed by Catska et al., (2008), where no clear link between certification and CSR performance was found. However, as it was mentioned by Castka et al., (2008) managers would usually prefer to receive any type of certificate. In this study, at least 2 interviewed (2 companies) mentioned that they would like to have or obtain a certificate after implementing and auditing a standard like SMETA.

During the interviews, the companies’ representatives mentioned the most important measures that they have been taken when implementing a CSR standard like SMETA, in order to ensure an effective and improved CSR performance and take advantage of the standard and its guidelines:

After implementing the guidelines, we have performed some activities to internalize the SMETA principles and in general CSR principles [...] with our employees, for example, we’ve instilled a culture of respect for the environment in trainings and working meetings with them (Company A).
We perform working environment surveys monthly and our employees are very welcome to share their ideas to improve the working environment or give any recommendation in any sort of issue that needs improvement [...] we have located suggestion boxes in three places in the company where employees can write anonymously their thoughts and suggestions [...] we want to promote dialogue with our internal clients (employees) (Company D).

 [...] is so important to offer trainings and presentations about the benefits of being socially responsible so that they (employees) can adopt these behaviours in their daily lives. Our company has a responsibility and wants to take leadership on promoting change in the organizational culture [...] participating in these trainings makes them (employees) feel as team members and bring more productivity to our company and less employees turnover (Company E).

These statements suggest that after implementing the SMETA audit protocol, companies are taking into account the following issues as mentioned by Were, (2003) in the literature review:

1. Employee involvement/dialogue (stakeholder dialogue)
2. Management involvement (leadership)
3. Trainings/meetings to internalize changes (internalization of values)

Trainings or meetings can be seen as a type of rehearsal for fostering a faster adoption of CSR values in the company members which causes in long-term the internalization of these values and possible changes in the organization culture of the company (Haack et al., 2012). According to the interviews’ findings, trainings also serve as an update of all the knowledge obtained by employees during the implementation of standards and after audits are performed. It is suggested that after the performance of an audit process, the findings or results obtained should be disseminated among all employees that work in the audited site or facility. This may help to foster internalization of procedures and promote standardization of CSR procedures.

Finally, all companies stated that the working hours/overtime hours’ policies required by SMETA were difficult to achieve, but that they are doing great efforts in order to perform “perfectly” regarding this issue. These policies are requirements included in the ETI Base Code that is evaluated during the audit processes and which is one of the issues that SMETA pretends to standardized in all companies that adopt the protocol. Furthermore, the internalization of the values or policies that comply with the SMETA protocol, are also one of the issues that SMETA pretends to standardize, since the only way to have a high performance and comply with the requirements by law/ETI Base Code and have a responsible behavior towards stakeholders is to make employees participate on these activities and have a voice. In order to do this, the use of training techniques are very important for all companies interviewed.
5.2.6 Main findings or non-conformities during the SMETA audits

Once the implementation of the guidelines and standard’s principles have been performed by the companies, the next step to continue with the CSR standardization process is to evaluate or monitor this implementation by means of an audit.

In section 3, the SMETA audit protocol methodology was fully described as a process that included the evaluation of a CoC that is provided by the ETI Base Code and the local laws. This process also included a facility tour and interviews to employees and management.

In order to corroborate the responses of the interviewees, regarding the main difficulties to fulfil the requirements of SMETA during the audit processes, the SMETA audit reports from these five companies have been revised as secondary data. Table 15 shows a summary of the most important data found in the SMETA reports for these five companies:

Table 15 – SMETA Reports data

<table>
<thead>
<tr>
<th>Information summary of the 5 Companies' SMETA Reports</th>
<th>Company A</th>
<th>Company B</th>
<th>Company C</th>
<th>Company D</th>
<th>Company E</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audit Date</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Audit Man-days (MD)</strong></td>
<td>2 MD</td>
<td>4 MD</td>
<td>1 MD</td>
<td>2 MD</td>
<td>2 MD</td>
</tr>
<tr>
<td><strong>Type of SMETA audit</strong></td>
<td>Initial 2 Pillar Audit</td>
<td>Initial 2 Pillar Audit</td>
<td>Initial 2 Pillar Audit</td>
<td>Initial 2 Pillar Audit</td>
<td>Initial 2 Pillar Audit</td>
</tr>
<tr>
<td><strong>Was the audit announced?</strong></td>
<td>Announced</td>
<td>Announced</td>
<td>Announced</td>
<td>Announced</td>
<td>Announced</td>
</tr>
<tr>
<td><strong>Audit requested by (Client, Company, NGO, etc)</strong></td>
<td>Retail Client</td>
<td>Retail Client</td>
<td>Retail Client</td>
<td>Retail Client</td>
<td>Retail Client</td>
</tr>
<tr>
<td><strong>Follow-up / Desktop audit Date</strong></td>
<td>Follow up still not performed</td>
<td>May 2015 – Desktop Audit</td>
<td>Follow up still not performed</td>
<td>May 2015 – Desktop Audit</td>
<td></td>
</tr>
<tr>
<td><strong>Economic Sector</strong></td>
<td>Foodstuff</td>
<td>Personal care and cosmetics</td>
<td>Foodstuff</td>
<td>Foodstuff</td>
<td>Foodstuff</td>
</tr>
<tr>
<td><strong>Market</strong></td>
<td>Local/International</td>
<td>Local/International</td>
<td>Local</td>
<td>Local/International</td>
<td>Local</td>
</tr>
<tr>
<td><strong>Type of Company</strong></td>
<td>Big company</td>
<td>Big company</td>
<td>MSME’s</td>
<td>Big company</td>
<td>MSME’s</td>
</tr>
<tr>
<td><strong>Number of employees</strong></td>
<td>256</td>
<td>1337</td>
<td>58</td>
<td>350</td>
<td>61</td>
</tr>
<tr>
<td><strong>Number of anonymous interviews</strong></td>
<td>26</td>
<td>26</td>
<td>10</td>
<td>26</td>
<td>10</td>
</tr>
<tr>
<td><strong>Location</strong></td>
<td>Lima - Perú</td>
<td>Lima - Perú</td>
<td>Lima - Perú</td>
<td>Lima - Perú</td>
<td>Lima - Perú</td>
</tr>
<tr>
<td><strong>Non-conformities detected</strong></td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Management systems and code implementation (ETI)⁵</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment freely chosen</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Freedom of association</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
</tr>
</tbody>
</table>

⁴ A man-day is a unit of measure of a day's work of a person.
⁵ Finding Category related to the implementation and communication of the ETI Base Code to the company, employees and own suppliers.
<table>
<thead>
<tr>
<th>Safety &amp; Hygienic conditions</th>
<th>1. No tracking records of evaluation of risk agents (NC against Local Law).</th>
<th>1. No tracking records of risk agents (NC against Local Law).</th>
<th>1. No Health and safety preventive measures given to employees was evidenced (NC against ETI &amp; Local Law).</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2. No registers of delivering the internal health and safety rules to employees (NC against Local Law).</td>
<td>2. No evidence of emergency drills/fire/earthquake drills performed (NC against Local Law).</td>
<td>2. No tracking records of physical factors risk agents (NC against Local Law).</td>
</tr>
<tr>
<td></td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Child Labour</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Wage and Benefits</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Working Hours&lt;sup&gt;6&lt;/sup&gt;</td>
<td>1. Some employees worked a 7-day period without a rest day (NC against ETI Base Code).</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td></td>
<td>2. Working times and lunch times are not posted and available to be seen by employees (NC against Local Law).</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Discrimination</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Regular Employment&lt;sup&gt;7&lt;/sup&gt;/ Sub contracting Home-working</td>
<td>1. There is not a register file of delivering of internal working rules to employees (NC against Local Law).</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td></td>
<td>NO</td>
<td>NO</td>
<td>1. Payslips do not show complete data according to law (NC against ETI &amp; Local Law).</td>
</tr>
<tr>
<td>Harsh or Inhumane treatment</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Work and Immigrants</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Environment</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Good Examples (GE)</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
</tr>
</tbody>
</table>

---

<sup>6</sup> Information regarding this finding category can be found on the requirements of the ETI Base Code: [http://www.ethicaltrade.org/eti-base-code](http://www.ethicaltrade.org/eti-base-code)

<sup>7</sup> On this finding category, the auditors have considered that companies have to demonstrate compliance on regular employment practices such as the delivery of working contracts, internal working rules and other documents related such as the pay slips containing all information required by law, to employees.
The number of man-days per each audit is determined by the number of employees that each company has, according to the SMETA audit methodology explained in the SMETA Best Practice Guidance. The five audits were performed under the guidelines of SMETA 2 Pillar audit, which does not include the environmental and business ethics pillars. Environmental issues are indeed evaluated during the audit processes, however only under local laws and not under the SMETA requirements.

The following findings categories expressed on the chart above, were encountered by the auditors during the audits on the five companies, according to the reports analysed by the researcher:

- Company A: Safety & Hygienic conditions, Working hours & Regular Employment (5 findings in total)
- Company B: No findings detected (0 findings in total)
- Company C: Safety & Hygienic conditions (2 findings in total)
- Company D: Safety & Hygienic conditions (6 findings in total)
- Company E: Regular Employment (1 finding in total)

As it can be observed from the chart and the main findings detected, most findings belong to the health and safety issues category where most of the findings are related to infrastructure issues, fire extinguishers, emergency alarms and documentation related. The second category with most findings is regular employment which is related to documentation issues that could be easily solved by the companies according to the comments given during the interviews. Finally, only one finding was related to the category of working hours. In this case, the finding of not having a day off in a 7 day period, takes into account the ETI Base code and SMETA requirements, however as it was previously mentioned, in the Peruvian law this is not a non-compliance. Nevertheless, this finding was included in the report since this was against the ETI Base Code requirements.

Only one of the companies performs Good Practices or Best Practices, according to the evaluation made by the auditors found in the reports. Company D offers their employees free health campaigns and also 50% free meals every day of work. It is important to note that during the interviews, Company D also stated that they provide breakfast for their employees from the first shift of the day, since approximately 6 years. This information was not included by the auditors on the report.

During the interviews, the interviewees were asked about the findings that are more difficult to comply with during SMETA or other CSR audits performed in their companies. The following answers were given to the researcher:
Those Non-conformities involving the allocation of budget that was not initially assigned because all expenses must be justified and approved by management, for example infrastructure related. (Company A) \textbf{\tit{Health and safety finding}}

In the case of the last SMETA audit that was performed, we had a problem with the updating of our MSDS's\(^8\) because for us it was not considered as a requirement. (Company B) \textbf{\tit{Health and safety finding}}

We had an issue with overtime hours, I would say that was the only non-conformity that was and is difficult to raise and comply with the ETI requirements. (Company C) \textbf{\tit{Overtime Hours/Working Hours finding}}

Always the hardest are those that are infrastructure issues related which at the same time are related to Health and Safety issues for example, because they must be quick, we must cover maintenance costs, etc. [...] some others that are hard to comply with could be those related to overtime hours. (Company D) \textbf{\tit{Health and safety & Overtime Hours findings}}

The most difficult nonconformity to solve was regarding working hours and that because we are a manufacturing plant, sometimes on time due, there is an increasing demand from our customers and because of this, there are times when our operating production employees need to work more than 8 hours a day, given that we only have two shifts a day. (Company E) \textbf{\tit{Overtime Hours/Working Hours finding}}

According to the responses given by the interviewees, the main findings during SMETA and other CSR audits are related to Health and safety and Overtime Hours issues. Regarding the best practices or good practices that are also supposed to be included in the SMETA reports, the auditors that issued the audit reports only noted Company D to have such good practices. However during the interviews all the companies’ representatives stated that they performed good practices including working with NGO’s, communities projects with churches and other groups in the communities, donations, water and sanitation for communities, sport competitions with prizes for their employees, meetings to promote the protection of the environment, among others. They stated that these activities were indeed implemented and performed before having the SMETA audit protocol implemented and the audits performed. It is unsure and there is no evidence why these good practices were not included on the reports prepared by the auditors. However, during the auditors’ interviews, Auditor X gave some light about this problem and stated that it was due to time constraints:

Sometimes the audit processes especially when auditing the SMETA in companies, tend to be very long and we as auditors do not have much time to note everything that is showed to us, but I think it is essentially necessary to provide us with more man-days for certain type of companies, especially when these are big companies with large quantities of employees (Auditor X).

\(^8\) MSDS stands for material safety data sheet.
5.2.7 Drawbacks of Standardization through SMETA

During the interviews, not only motifs or benefits given by SMETA as a standard were mentioned by the interviewees. There are also drawbacks or characteristics of the SMETA audit protocol that could discourage companies from participating in this type of CSR standardization processes. The main drawbacks have been identified and classified, as follows:

A. **Time constraints:**

According to the interviewees, effective time management for complying with the principles and guidelines of SMETA have been something difficult to achieve, mostly because the time given from initial audit to follow up audit is not enough for most of them. The SMETA methodology gives up to 365 days to raise the findings and some companies find this time gap complicated to work with:

The main drawback has been that we haven't been able to find the time to devote to implement the necessary changes or improvements in our CSR system and at the same time go beyond. (Company A)

B. **Lack of a specific department devoted to CSR issues:**

According to the responses given during the interviews, most companies stated that one of the problems for them not to be able or capable to solve the non-compliances on time, it is because they do not have a specific department devoted to management systems that included environmental or social systems. The tasks related to CSR issues and implementation of CSR standards are not centralized in one department that could provide the other departments with the corresponding guidelines and that could also evaluate or monitor the improvements according to a formal plan. The only company that was able to do this was Company B whose department called Safety, Occupational Health and Environment (SSOMA) is exclusively in charge of designing and implementing CSR strategies in the corporation. The rest of the companies gave the responsibilities of implementing CSR standards to more than only one department in multidisciplinary teams, however one of the main issues with this approach is the lack of time and continuity of the teams:

[…] perform all the improvements when we have certain CSR issues, is a big thing for us, since our personnel is usually very busy with many activities and we don't have a big environment or social department that could make all the improvements by themselves. (Company C)

We have sought to assign personnel to attack the problems observed in the audits, otherwise it would not have been possible to align our policies first and then look for new and better ways to evaluate ourselves internally facing new processes related to CSR, we don’t have a department that is focus on CSR entirely, unfortunately. (Company A)

C. **Money constraints:**
Interviewees manifested that not only money was an issue when implementing the improvements for raising non-conformities detected in the SMETA audit processes and other CSR audits, but also the money issues comes when the audit process is charged to them. According to some interviewees, some clients/buyers have specific guidelines regarding these issues such as for example making the companies pay only the follow up audit processes or making them pay the initial audit process in case of a non-conformity detected. Some stated also that even if the audit process is paid by the client/buyer, the other expenses of having an audit team performing an audit in their premises, have to be paid by them, such as transportation costs, meals, use of certain equipment, among other expenses not considered by the clients when requiring these companies to perform the evaluations or audits:

[…] also, I have to mention that money is sometimes a constraint because we have a limited budget for activities related to CSR such as the raising of non-conformities. Other issues, for example that I can recall are the issues related to when the audit process has to be performed, I mean, when auditors are sent to our premises to audit our company, we have to cover meals and sometimes transportation, even if our client sometimes pay the audit process. (Company B)

D. **Long time to see results sometimes can be discouraging:**

According to the interviews, companies found that after implementing SMETA principles and CSR activities, results were not fast enough and this discouraged them as obtaining results could take more than 2 years in average. Short-term mentality is something that reigns in Peruvian companies, according to some interviewees:

For example at the beginning when we started doing working environment surveys after implementing certain measures, the results were very poor and bad, it was not until two and a half years later that we obtained results, sometimes management doesn’t understand that seeing results might take more time than expected. (Company D)

At first it was very tedious and hard work, but it has paid off, now there is very good communication of the employees with their direct bosses, they feel good at work and with the company. (Company A)

E. **Changing the “old ways” can be discouraging:**

Companies’ representatives stated that trainings, seminars and environmental education programs have been useful to “change the chip” of employees, especially very old senior employees who were accustomed to perform their duties in different and more risky ways. Representatives also stated that the lack of environmental and social education in general in the educational system in Perú, especially in public schools (free of charge schools), which is where most employees working in non-administrative jobs studied, it is an issue that should be taken into account by the government.
at first it was difficult that all personnel are familiar with the standard, especially in the case of senior staff that was used to work in a different way than currently we are promoting, all these measures to seek safety, self-care and integrity of staff [...] for some of them took more time to get used to the new ways of doing things that the implementation of a CSR standard like SMETA brought to the company. (Company E)

F. Company acting as a “nanny” of employees can be discouraging:

Company D mentioned that one of the drawbacks of implementing standards of CSR and specifically regarding the SMETA, was that the department in charge of making employees involved in the process was having many problems with this task due to some employees who were having personal and family issues at the time. These problems with certain employees made the administrative employees feel that they had to get themselves involved into these employees’ lives in order to understand and solve the problem that was causing their low productivity and involvement in the project of adopting a CSR standard in the company:

We have sometimes had to get into family issues, that way we had to do some work and try to understand what was happening with our employees that was not letting them work productively and participate actively in the project [...]. Our Human Resources personnel had to act and visit the employees’ homes and talk to the wives and sometimes the children, we felt like nannies to our employees at some extend [...] and we had to get not only human resources department involved on this matter, but also social workers from our company and assign tutors for these employees [...] of course it was a tedious work, and that is one of the issues with adopting a CSR standard, it takes not only time and participation of everybody in the company, but also mental involvement with the project by everyone (Company D).

Finally, only the drawback mentioned by Hanh, (2012) regarding the audits being costly, extra expenses and penalization of certification process, was detected during the interviews to the companies’ representatives. Other drawbacks such as subjectivity and complexity of CSR audits, auditors’ training and experience (Morimoto et al., 2004), lack of regulation for auditing (Rahin & Vicario, 2015) and proliferation of standards (Gilbert et al., 2011) were not mentioned by the interviewees as essential drawbacks of standardization through SMETA, which evidenced that more operational drawbacks such as time and money are more essential to them.

5.2.8 Standardization with certification or without?

As it was mentioned on section 5.2.5, the link of obtaining any type of certification influencing positively the companies’ CSR performance is not clearly evident. Regarding this theme, the companies’ representatives expressed their opinions where they stated that it was not categorically necessary to obtain a certificate or participate in a certifiable standard, however according to them, in an ideal scenery, the idea of obtaining a certificate could improve their need of participating in more CSR standards initiatives. Regarding SMETA being a non-certifiable
standard, the companies stated that they understand the “spirit” of the standard being not a certification scheme, not pass or fail audit and not exclusive since the one of the main goals of the standard is standing for a continuous improvement audit. For this reason a certification scheme could be a dangerous approach.

As it was stated by some interviewees, even if the SMETA standard is not a certification program, a confirmation that the site has been evaluated through the SMETA audit would be ideal. They also understand that this depends on the customer and not the program itself. If the customer/client wants, they are free to create a document for confirmation of the factory or site having gone through the audit process:

We are accustomed to seeking certification to somehow get the credentials necessary for our business relationships. We understand that the spirit of SMETA could not be subsumed in obtaining or not a certificate because what is sought is a comprehensive view of the state of the audited organization, however we would like that it had a certificate of compliance at least if we, as a company, achieve a level of performance above a minimum. (Company A)

SMETA doesn't provide a certificate but it gave us a lot of knowledge on how to manage our CSR performance. (Company C)

Company C also refers to obtaining credibility as one of the benefits of having a certificate from CSR audit processes:

It could be that having a certificate gives a certain credibility to a company, but for our company is almost the same not to receive a certificate or receive one because we always keep evidence of the audit process […]. (Company C)

Other CSR audit schemes similar to SMETA were mentioned by the interviewees from companies A and E as a way of comparing that these other audit schemes offer a certificate or letter as a way of representation of a certificate:

For example we have obtained a WCA certification (Workplace Condition Assessment) so we would like that SMETA also implements this benefit for companies that are audited and get a result above average. (Company A)

WCA is also a CSR standard that issues a certificate that has an unlimited time validity for the companies that obtained it. This program was mentioned by 2 companies during the interviews as giving example of CSR standards that could provide a certificate since they consider that SMETA should also issues a certificate due to the fact that it is a costly audit and in despite of the client paying for the audit process, the companies consider that it would be very helpful for

---

9 The WCA is a generic CSR certification standard created by the private British auditing firm Intertek and focuses on issues such as environmental sustainability, social, economic and business ethics. This program can also be applied to supply chains of companies in any industry. Until the year 2015, 8000 factories around the world obtained this certification. Information obtained in [http://search.standardsmap.org/assets/media/WorkplaceConditionAssessmentWCA/English/AtAGlance_EN.pdf](http://search.standardsmap.org/assets/media/WorkplaceConditionAssessmentWCA/English/AtAGlance_EN.pdf)
them to obtain a certificate or a document that can prove that a SMETA audit was performed in their premises.

It is important to mention that all 5 companies interviewed considered that the ideal would be to receive a certificate, however their CSR performance and commitment to the standard is not compromised or in risk because of not receiving a certificate. Obtaining a certificate would be for the companies, suggestion for SMETA in order to loyalty their own clients that pay the membership for the SEDEX platform and also the SMETA audits.

5.2.9 Auditors’ views on the SMETA audit protocol

Five interviews to five CSR lead auditors were performed for this study. The main reason for including the auditors in the study was of obtaining the auditors’ views on the development of the SMETA audit protocol during the audit processes performed in Peruvian companies. Confronting companies’ views and auditors’ views was very important in order to analyze how the standardization process through SMETA could affect the CSR practices and performance of Peruvian companies. 4 out of 5 auditors work as freelance auditors for diverse audit firms and 1 out of 5 works as staff auditor, in other words this auditor not only performs audits on behalf of the audit firm but also works as a full time auditor with a permanent working contract unlike to the other 4 auditors who are paid per audit process. The information resulted from these interviews has been divided in X parts, as follows:

A. SMETA and the socio-cultural context of the Peruvian companies:

Being the CSR auditors interviewed, experts on the auditing of CSR audits and specifically on the SMETA standard for more than 2 years, questions regarding how the standard is flexible or fits the Peruvian context were asked. 3 out of 5 auditors considered that standards like SMETA should be more flexible when evaluating companies from the developing world such as Peruvian companies. The main reason given for this opinion was that the section of Working Hours (WH) and Overtime Hours (OH) should be rethink taking into account the different industries in these countries. In the Peruvian case, this is referring to the legislation giving not limits to the number of overtime hours performed by an employees. According to the SMETA audit protocol and ETI Base Code, the schedule of work should be in all cases at 48 hours per week having one day off per 7 day period. In reality, since the Peruvian legislation does not mandate a maximum of overtime hours, the seasonal businesses such as those that belong to the agricultural industry, usually spend for example 2 or 6 months working on the fields during the harvesting season or the packing plants during and after the harvesting seasons. During those periods of work, the employees work more than 48 hours a week because of the high season or high demand of their labor or manpower as explained by Miriam Illa one of the freelance auditors that was interviewed for this study:
The issue of overtime in SMETA, which is aimed at standardizing is applied in seasonal businesses as well and I think it is a very hard limit and very difficult to achieve, since workers may only work two months a year and must save money to survive the remaining months of the year. Working more overtime hours or during their days off represents a higher income for them, considering that almost 95% of the exporters (agro-industry companies) pay only the minimum wage mandated by law (S/.750\(^{10}\)) in the case of agro-industries and textile companies in Peru (Miriam Illa).

The auditor Pedro Alvarez also stated his opinion regarding this issue, considering that in the developing countries the needs are different than in developed countries regarding the eradication of poverty and extreme poverty and the improvement of sanitation systems and health care available for everyone, for example.

It should be considered that in developing countries, the needs are different, such as economic growth to eradicate poverty and improve the quality of life for people. This has to be taken into account, because the development and implementation of management systems go hand in hand with an investment, in this case the client should support businesses by buying goods and services with a commitment to see continuous improvement, so that this client should be more understanding of companies not being able to achieve the goals of the standard at first place (Pedro Alvarez).

On a different perspective of this theme, the auditor Ellen Areche considered that the big responsibility relies on the auditors themselves, in the sense that they should be able to interpret the guidelines and principles according to each companies’ reality and context, considering as well the main context of the country:

I believe that when protocols or standards are established, they must have general and international guidelines but at the time of the audit, rather than being adapted to the Peruvian reality I think, that a very big responsibility lies on the auditor as it prevail his/her discretion and understanding to interpret each requirement of the protocol (Ellen Areche).

In summary, 3 out of 5 auditors considered that the SMETA standard should be more flexible in order to work efficiently in different contexts, especially in developing countries like Peru. The rest of the auditors interviewed considered that the main issue relies on the interpretation of each auditor and that it does not have to be changed because of a different cultural context.

\(^{10}\) S/. Stands for “Nuevo Sol” the Peruvian currency.

1 Nuevo Sol is equivalent to 0.27108 Euros according to the currency rankings announced in XE website: [http://www.xe.com/en/currency/pen-peruvian-sol](http://www.xe.com/en/currency/pen-peruvian-sol)

The amount of S/.750 Nuevos Soles was until the year 2015 the minimum wage in Peru. On March 2016, the Peruvian president Ollanta Humala announced that the new minimum wage would be S/.850 Nuevos Soles, information from the website: [http://diariocorreo.pe/politica/ollanta-humala-decreto-incremento-de-sueldo-minimo-vital-a-s-850-663255/](http://diariocorreo.pe/politica/ollanta-humala-decreto-incremento-de-sueldo-minimo-vital-a-s-850-663255/)
B. SMETA and ethic’s conflicts between auditors and companies

The topic of conflicts of interests or ethic’s conflicts during audit processes, was also discussed with the auditors who were interviewed for this study. According to Björkman & Wong, (2013) third party auditors may want to please their clients when performing audit processes, which could conflict with their evaluation and performance as auditors. These authors also states that the less likely to become affected by conflicts of interests is the “independent auditor” who does not work for a specific audit company and provides services as a freelance auditor. Furthermore, there is little literature about the importance of independence of the social auditor and it is recommended that this topic should be researched in different contexts.

In order to perform this case study, 4 freelance auditors and 1 staff auditor were interviewed. Being the first 4 auditors freelance and having only service contracts with different audit companies, they have also performed auditor services independently and not always on behalf of certain third party audit company. The fifth auditor interviewed has been working only for the company that she represents Audit Company X, since her start as CSR auditor. Both type of auditors’ perspectives are very useful for the study since they provide very rich evidence of the topic.

When interviewing Auditor X (freelance auditor), he stated that conflict of interests are likely to happen a lot when performing audit processes and that auditors should be objective, stay with their convictions and avoid personal involvement. Auditor X was the only auditor from the interviewees who had an experience regarding an issue with ethics and conflicts of interests. He told a story about one encounter that he had with a company when performing a CSR audit, as a lead auditor:

In another country (not in Peru) a company’s representative asked me how much I gained per audit process, I told him that it was confidential information but he insisted in having a meeting with me alone and without the other auditor that was with me. He then started saying that it is very bad for auditors that auditing companies gain much more than the auditors themselves and that is not fair. There was not a direct offering but his intentions were very obvious. Of course I avoided it (Auditor X).

The auditor then explained that the only way to avoid this type of situation at that time was to be very sure of the findings presented and have a very good knowledge on why that certain finding was not complying with the requirements of the protocol and needs to be included on the report. He stated that he focus on 2 things in this type of situations, the high impacts of the finding and the evidence:

[...] first of all, if the finding is systemic and if it has some high impact, some isolated happenings have made me changed my mind and revise the finding more deeply with more evidence, but that's all. If they ever forced me, I always had to explain with facts, laws, legislation and evidence why the finding has to be included in the report (Auditor X).
Auditors have stated that pressures made by the company during the audit processes do not make them change the findings or the observations but it has occurred that companies have solved a findings on the same day of the audit, as expressed by Miriam Illa (freelance auditor):

The audit results are explained in a pre-closing meeting, where the company has the opportunity to raise the findings. When this has occurred, the report was changed (Miriam Illa).

Ellen Areche (staff auditor) has a similar view on how to handle these type of situations when companies do not agree with certain findings or observations:

In some audits, it has happened that companies disagree with the findings, either by interpretation of the rule or lack of knowledge of the audit protocols and guidelines. What I have done in those occasions, is to listen to their opinions, and then explain in detail which is the root of the problem as they could also raise the non-conformity before closing the audit process and issuing the CAP (Ellen Areche).

Another topic regarding conflicts of interests arose during the interviews. For Saulo Quiesquén (freelance auditor), in this case, the conflicts of interests could appear if the audit company would be involved not only in auditing but also in consulting:

[…] however, I think third party audit companies that perform activities for different industries, should stay as audit companies and verifiers but avoid also doing consultancy to the same companies that they audit […] in that type of situation, I see a conflict of interest definitely (Saulo Quiesquén).

Pedro Alvarez (freelance auditor) also brought up another topic regarding ethics and how the work of freelance auditors could be affected by decisions made by the third party audit companies that hire them for performing audit services on their behalf. The auditor explained that the main issue that freelance auditors like him have with the coordination departments in audit companies, is that after completing the CSR reports, the auditors have to send the electronic formats of reports and CAP’s to the coordinators for the corresponding revision, grammar check and form check and this way they never see the final versions of the audit reports. This type of issues have happened to him and other auditors as he mentioned during the interview when auditing SMETA and other CSR standards:

To avoid any conflict of interest, once the reviewing of the report is finished, then it should be returned to the auditor to sign it and send it back again to the office (audit company office/audit company reviewers and coordinators). Currently, the circle is not closed and freelance auditors usually do not know the final result of their reports. Normally, the office in the audit company does not warn us of any possible changes made in the reports until months after in case of the occurrence of a claim by the client for example […] and what bothers is that in some occasions, the freelance auditors have to call the audit firm coordinator before finishing the CAP during the audit
process and ask for approval to the non-conformities that should be left in
the document. I think that should change and we, as auditors, because we
are responsible and our names are written on those reports, should be asked
to sign and revise the reports at the end, after the coordinator or reviewer
checked all the documents (Pedro Alvarez).

Communication and showing willingness are also important attributes
when auditors perform audits at companies for the first time. According to Mir-
iam Illa, this is key for a good understanding between auditors and companies:

Since the beginning of the audit you can realize of the attitude of the repre-
sentatives of the company. In my experience, those who are less willing to
receive the audit is because they do not have the documentation requested
that is why a good communication and clarity is needed since the process
starts. A good attitude during the audit facilitates communication and allows
the company to better understand what the requirements that are being
asked by the auditor are (Miriam Illa).

In summary, auditors expressed during the interviews that audits are not
free from having issues relating to ethics and conflicts of interests, however the
most important is to keep convictions and objectivity in line in order to perform
a good process. Moreover, having a good attitude and showing willingness and
openness is important to establish a good relationship between companies and
auditors which can facilitate the process itself and make it more dynamic. Giving
the company the chance to solve or raise findings during the same day of the
audit process is also one of the key issues mentioned in the interviews which
could be the result of having good communication since the beginning of the pro-
cess, in the sense that the companies might feel comfortable and sure about the
auditor’s skills and willingness to help them to have a good performance in the
audit process. Some other issues such as lack of understanding between audit
companies and auditors were also mentioned by auditors. This last issue could
have an impact on the quality of the reports as mentioned before by auditors in
the interviews.

C. How is the SMETA audit process perceived by auditors?

All auditors interviewed agreed that the SMETA audit protocol is acquiring more
adepts among Peruvian companies due to the requirements of many interna-
tional clients or potential clients. Some auditors also stated that having imple-
mented the SMETA audit protocol could be seen as a previous step before imple-
menting and certifying an ISO standard or SA8000. Entering new markets and
being a previous step before implementing SA8000 are among the SMETA’s char-
acteristics that are considered valuable to the auditors interviewed:

[...] also is a good start for companies to begin the process of implementing
some sort of ISO or SA8000 (Ellen Areche).

SMETA does no need a certification scheme, because it can be seen as a pre-
vious phase before implementing an SA8000 for example (Pedro Alvarez).
Regarding the SMETA audit process, auditors consider that in order to have a good performance during the audit, the previous coordination between clients and companies and between companies and audit company is very important, because audit processes have to as clear as possible for companies in order to have a good performance and facilitate communication with the auditors during the audit date. Furthermore, they have also mentioned that implementing SMETA have helped companies to be more socially responsible and comply with local laws:

A lot of changes have happened in the recent years since I started auditing, for example now companies pay all the social benefits mandated by law, overtime hours are being controlled more and more, working environments have improved, SMETA has helped many companies here in my opinion, because this standard has “forced” many big companies to audit and evaluate more often their supply chains without the need of creating their own codes of conduct by themselves and instead making use of the SMETA audit protocol and ETI Base Code (Auditor X).

Miriam Illa stated that in her experience as a CSR auditor, she has encountered many companies having certain difficulties on the SMETA audit protocol and its implementation due to the strict requirements on overtime hours and rest days:

[…] some companies believe that this international standard is too demanding and do not believe that companies from China and India would follow it without non-conformities. Also, I have identified that the main resistance is against the limit of 12 hours overtime a week and the day off on a 7-day period, especially in the agro-industrial sector in the country (Miriam Illa).

Auditor X also stated that during SMETA audit processes, some companies have manifested to him their worries and confusions about the protocol specifically referring to times of completions or time periods for raising certain type of findings:

[…] I think that standards without certificate like SMETA need a clearer pass/fail result by means of points or grades and also it would be good for the standard that it can give certain recommendable time periods for raisins findings so that the company is able to raise the findings with a clearer sense of time (Auditor X).

Auditor X also considers that during the audit process itself, the main difficulties that he has been through are related to the lack of participation of the management that does not commit easily to CSR and the implementation of the standard on a long term to see results:

The management is sometimes not committed, I could observe that because they do not attend the opening and closing meetings […] the companies are sometimes worried they do not see the need to follow these standards because the clients do not make difference on buying from who has passed very well an audit and who has passed with poor status of compliance, some
of them say that clients only want to buy cheap and these things confuse them a bit to the point of not feeling that they should commit to CSR that much or a standard (Auditor X).

In summary, auditors have stated that they perceived the process of a SMETA audit, as a process that needs to have companies and management committed to CSR in order to have a good performance on the audit itself. Good communication from the beginning of the process among auditors and companies is vital for performing a good audit. According to the auditors, some companies see a lot of benefits on having the SMETA implemented and audited because it is like a previous step before certifying SA8000 or an ISO standard. However, some companies have expressed their main fears and difficulties stating that some requirements are too strict and not adjusted to the Peruvian reality of companies such as the overtime hours’ issue. Furthermore, they would prefer to have a more specific time frame for the raising of findings and if possible a grading system with points and grades, which currently SMETA does not offer since it is considered as a continuous improvement standard for CSR. Finally, auditors complained that usually management does not participate actively during the audit processes and this could affect the implementation of a standard in the long term.
6 DISCUSSION

The aim of this thesis was to achieve a better understanding of the implementation of standardized audit protocols such as SMETA, using the context of Peruvian companies from the manufacturing industry. Four companies belonging to the foodstuff industry and one company belonging to the personal care and cosmetics industry were analyzed by the researcher. One of the ideas behind this research was also to study the impacts that this type of standards could have on the CSR performance of these companies. For the researcher, it was important to find positive and negative impacts that these CSR standards might have on companies and their CSR performance in order to enrich the existent literature on the topic and provide more information concerning the future development of the implementation of standardized audit protocols such as SMETA in Peruvian companies or in similar socio-cultural contexts.

In this section, a revision of the methodology, literature employed, the reasons why SMETA was chosen as the case study for this research, limitations and recommendations for future research will be discussed.

6.1 Review of the methodology employed in the research

The performance of one case study based on the SMETA audit protocol applied in five Peruvian companies has provided results and findings to the main and specific research questions that were prepared by the researcher. In spite of obtaining the information from a small quantity of semi-structure interviews as the source for primary data, interesting responses were given by the interviewees. One of the main difficulties for obtaining all the information needed for answering the research questions was due to time constraints and resource limitations. Most interviews were performed via Skype and not face to face.

There were some difficulties for contacting the interviewees from the companies in some occasions due to their workload and daily activities because all of them were in managerial positions. Other difficulties included that in some questions during the interviews, the interviewees were not able to give definitive answers or more specific descriptions and reasons because of confidentiality problems. On the other hand, most companies found that they wanted to participate on the research because they had begun to implement the SMETA audit protocol and had only one audit performed until now. According to these interviewees, this type of studies are useful for them because they can learn a lot more about the standard having an external opinion or comments which were given by the researcher during the interviewees in order to make the conversations more dynamic and more relax for the interviewees. In the case of the auditors’ interviews it was easier to obtain appointments with them and establish interviews’ times.
and dates. They were always willing to participate and given their opinions and comments.

After the performance of the study, it is important to reflect on the ways the research could have had more information sources or possibilities of obtaining more data. Besides, having the SMETA reports provided by the companies themselves, for instance, it would have been a good idea as well to combine the semi-structure interviews with surveys in order to reach to more companies and interviewees and provide results that could be easier to generalize or that could be easier to apply on a higher population of companies. One of the main reasons for using these methods together is their capability of shedding more light on the findings from a higher amount of companies from more industry sectors. Furthermore, using surveys would give the participants more time to answer and provide their insights on the topic in a more relax atmosphere.

Auditors’ interviews were provided by four freelance and one staff auditor all of them work for Audit Company X. Obtaining interviews from auditors from other audit companies would have also given the researcher richer results especially in one of the research questions regarding the relation of auditors and companies and how these auditors perceive the audit process of the SMETA audit protocol.

After revising the interviews and results obtained from the interviews data, perhaps it would have been enriching to the study, also to have interviewed some clients or MNE’s that are implementing the SMETA in their supply chains as well, in order to contrast the information given by the manufacturing companies and the CSR auditors. More information about why suppliers could be reluctant to participate in these initiatives or how good they are performing on CSR issues and the SMETA audit protocol implementation according to the clients’ views, would have been very valuable for the research.

6.2 Why choosing SMETA for this research?

The choice of analysing specifically the SMETA audit protocol could be subject for discussion as well. The SMETA audit protocol is only one of the most used CSR standards used by manufacturing companies from diverse type of industries nowadays. Because it was also important for the researcher to make a comparison among the most used standards, the Table 7 Comparative table of CSR auditing and reporting initiatives placed on page 49 in this paper, offers a summary of the most important features of these standards. Due to time constraints and lack of resources, it was decided that only SMETA was going to be the case study of this thesis due to the fact that it also contains most of the features or characteristics of all these standards. Perhaps if more initiatives would have been included on the research, the findings would have been easier to generalize, that is why this paper encourages researchers to take into account more initiatives such SMETA applied in developing countries’ contexts.
It is important to mention that for the researcher choosing SMETA as the case study of standardization in CSR was a very natural step to take, because of previous work experiences and knowledge of the protocol. One of the main reasons was that a lot of Peruvian companies are being included in the responsible sourcing initiatives from MNE’s since recent years, which include the implementation of SMETA as standard and the corresponding audit process. All this knowledge was acquired during these previous work experiences.

There is also another important discussion regarding the choice of SMETA and in general NGO’s or private initiatives regarding CSR implementation, reporting and auditing. This is that it is still arguable that these initiatives are indeed the most recommendable ones for implementing CSR and manage CSR implementation and auditing in supply chains. Some authors in the literature researched for this paper, assured that the governments or public institutions could also have a say in the regulation and controlling of CSR themes in companies.

After the reflections expressed above, then there is still one question that must be clarified: what does standardize SMETA in Peru or in Peruvian companies? First of all, the SMETA audit protocol aims to standardize the weekly working hours, overtime hours and the day-off every seven-day period in the workplace according to the ETI Base Code which is the code of conduct that is implemented when adopting the SMETA standard. This is one of the most important and controversial features on the SMETA because of the difficulty of implementing such guidelines in the Peruvian context. As it was previously presented on section 2, even though the Peruvian government has signed the ILO convention number 1 about working hours, the Peruvian labour legislation does not mandate a limit on overtime hours nor a specification on how the 48 hours of work during the week should be applied. Obviously, there is an inconsistency between what SMETA guidelines aim to standardize and what the local legislation mandates on this specific issue. However, most standards including SMETA aim to standardize the same ILO convention in all companies. This issue is more a matter of legislation depending on the country where it is applied. There are other cases in other countries where there is indeed a limit for overtime hours and ILO conventions are all respected at least formally in the legislation. In order to finally standardize this issue in all the Peruvian companies and industries, there is a need of the government intervening and revising the existing labour laws. Clearly, only with the standards, in this case SMETA wanting to standardize this issue by themselves, it is not going to be possible and that is why a public intervention is needed in this specific problem.

The results of this paper, shows a clear commitment of the companies interviewed to comply with the overtime hours and working hours SMETA guideline, however as most of them have stated this is not always possible due to variations on the demand of their products and seasonal work. One of the solutions for this issue would be to implement more working shifts and establish a fair amount of limited overtime hours, meaning that it would be fair that all employees that would want to work more hours to gain more money, could be able to
do it. Obviously, all of this must be done after an extensive research and evaluation by both government organizations and private companies. The ideal scenario would be to have a limit on the overtime hours and a clearly marked working hours schedule per week including the day off per seven-day period on the legislation.

Since this standard has been created for managing responsible sourcing in supply chains, one of the reasons for using this standard in Peruvian companies comes from outside most of the time. Clients of manufacturing companies in Peru often require the implementation of standards like SMETA. This has been very beneficial for many companies like the ones that were interviewed for this paper, as it was already expressed on the findings section of this thesis. Not many standards are created specifically for managing supply chains internationally. It is also important to say that not only MNE’s and big brands worldwide are using this standard, but also important companies that only operate in the South American region, have also started to use it to manage sustainability in their supply chains. For instance a very important Chilean supermarket chain called Tottus has started a responsible sourcing program in its supply chain which includes many countries in the region such as Peru and Chile (Tottus, 2014):

The commitment to workers’ rights is not only within the company. As well we must promote good labor practices with our suppliers and contractors. Under this look and as part of the Falabella Group, we have joined SEDEX which it is a global platform on issues of social responsibility in the supply chain (Tottus, 2014).

Finally, choosing SMETA as the case study of standardization on CSR in Peruvian companies was indeed enriching regarding the new knowledge that has arisen from the findings and results of this paper. There has not been a study before specifically about the application of the SMETA audit protocol and its guidelines from the manufacturing companies’ points of view. It has been also enriching because of the statements provided by CSR auditors on this topic. Despite there is still much more to deepen, the aim of this paper was to bring awareness that more literature is needed and more research is also needed on these topics, specially focused on Latin America or Peru as well. Some recommendations for future research will be presented in the following subsections.

6.3 Reflections on the literature chosen

Even though, any CSR theory per se was chosen for being included in this study, there were some concepts and theories related to CSR that were included by the researcher in order to help to answer the research questions. The CSR implementation stages concepts offered by Martinuzzi & Krumay (2013) were useful for the research in order to locate the companies interviewed into the corresponding CSR stages, that way the researcher could study them with more understanding of their own contexts and realities regarding their CSR performance, which was
of great importance for answering the research questions. Concepts and academic articles related to the benefits of implementing CSR and CSR reporting were also included and gave the researcher more light about possible and potential results from the interviews performed, which supported the findings. For understanding the CSR reporting initiatives by the companies interviewed, the legitimacy theory was used in order to understand the motifs of the companies to report CSR to the general public or their stakeholders.

The topic of CSR in Latin America and developing countries or EM has not developed a CSR theory by itself, so in order to have a broader view on this specific CSR topic, academic articles related to CSR in these contexts were revised by the researcher. Most articles refer to CSR in developing countries from the point of view of the MNE’s, clients or buyers. Moreover, most academic articles found studied CSR in developing countries in the context of mining and energy companies and not referring to the manufacturing industry. In this thesis, the researcher has focused on companies that belong to the manufacturing industry. A paper by Altamirano, (2013) was considered by the researcher on this study due to the findings that showed this article about the results, drawbacks and benefits of implementation of CSR in Peruvian companies, especially in the SME’s category, where most Peruvian companies are classified. Most literature found about CSR in Peruvian companies focused on success cases of big sized companies and Altamirano’s paper is one of the few that focused SME’s instead. This literature was very helpful to the researcher when analyzing the findings from the interviews in order to compare the similarities, for instance.

According to the literature review performed for this research, the topics of standardization in CSR applied to the case of manufacturing companies in developing countries is still in progress to increase. There is very little written about this topic and finding literature about it was a real challenge for the researcher. Mostly standardization in CSR and what it meant was mentioned in the literature according to the MNE’s and buyers or clients with businesses in developing countries. Hardly ever the topic was taken from the point of view of the companies that were audited. There is definitely more literature regarding these companies in developing countries from the African and Asian cases than from Latin American cases. Furthermore, no longitudinal studies regarding implementation of CSR standards was found by the researcher when performing the choice of theory and literature for this research, which would have been of great help in order to understand and compare the benefits and drawbacks of standardization in CSR. Hopefully, this research would bring more awareness to researchers that more studies are needed in this topic.

It is also important to mention that the specific research questions could be also considered as individual research questions for individual thesis topics. That is why, it is recommended that more research about these questions is needed in order to obtain more verifiable results and findings. For instance, the topic of the relationship of auditors and audited companies influencing the audit processes and the results is one of the topics that would need more research.
Finding links between certification and CSR performance would be also one topic for future research which would shed more light and enrich the current literature.

Finally, the topic of standardization in CSR is still a very new and young topic that would need more attention from researchers, in order to develop a stronger theory and literature. Perhaps, literature on this topic is scarce due to the fact that it is a relatively new phenomenon and in order to develop a proper theory and framework more time is needed to study cases that have implemented CSR standards like SMETA in a longer time than only one of two years which is the case of the companies studied in this research.

6.4 Limitations and suggestions for future research

6.4.1 Research Limitations

During the process of the literature review for this research, the most important problems that were encountered by the researcher are the following:

A. Little bibliographic information: Unfortunately, it was found very little literature about the SMETA audit protocol by the researcher. Most information about the protocol was found on the website of SMETA. Additionally, researches about the topic and specifically about a guidance standard or non-certifiable standard like SMETA was very difficult to find during the literature review. The aim of this paper is also in part to make a contribution on increasing the literature about the topic of SMETA and in general non-certifiable CSR standards, being that this protocol is increasing its popularity among many countries, especially in developing countries.

B. Limitation in time for research: The researcher only had seven months from October 2015 to May 2016 to complete the thesis research including the analysis and the procurement of results. The time frame taken into account for the implementation and performance of the SMETA audit protocol by the five companies that were part of the case study is from 2014 to 2015. In that sense, this research covers those years that was exactly the time were these companies had to implement the protocol and monitor it through the performance of an external audit process performed by a third party audit company (in this case Audit Firm X).

C. Lack of collaboration and interest from those selected for email and skype interviews as well as the auditor companies. Most of them were very busy people and had managerial status for which it resulted complicated to obtain their answers on time or completed. Fortunately, the research could be completed due to the insistence of the communications and emails sent to the interviewees.

D. Lack of possibility of onsite work at the companies’ premises in order to have a better understanding of all processes during facility tours or visits and personal
interviews to the representatives from the firms and from the auditing company selected for this research as well. The researcher location is in Finland, while the companies are located in Lima-Perú.

E. About the possibilities of generalization of results: Another limitation of the study is that it has an exploratory character, and although the results are practical, applicable and can generate relevant conclusions in other companies that belong to the industries that were studied (food stuff and personal care), it should be complemented with other variables that may affect the behaviour of companies, for example the inclusion of quantitative data. In this way, the data could be corroborated from more and different sources including data obtained from objective procedures. Finally, the study's scope is nationwide in the Peruvian territory, so the need to investigate whether the results are generalizable to other countries is detected by the researcher. However, the information obtained might be very useful for context alike to the Peruvian one, as it was previously mentioned in other sections in this paper. The research in foreign companies would allow to compare the results and identify gaps, enabling obtaining deeper and more complete results.

Nevertheless, in spite of the limitations of research, the investigation could be conducted, due to its importance and possible benefits for companies that are willing to implement the SMETA or similar standards or are in the process of implementation and evaluation of similar standards. It is also hoped that this thesis can also motivate more Peruvian companies to make use of not only the SMETA audit protocol but also other initiatives similar to SMETA.

Finally, regarding the economic limitations of this research, in order to have this research performed, the necessary resources were covered and were borne by the researcher. The companies that are part of the case studies only provided the corresponding information to the research and not any type of monetary contribution or finance help.

6.4.2 Suggestions for future research

First of all, it is necessary to investigate further whether the results obtained in this study are generalizable within each industry if possible, through a conclusive study, by which it would be possible to corroborate if what was found in this study is valid at the national level in Perú. To achieve this, it is important to study companies that have gone through SMETA audits in each existing industry in the country, if possible.

Secondly, it is necessary to investigate whether the results of this study are generalizable to other countries. In this case, the objective would be evaluating the effect of the intercultural factor, as the idiosyncrasies and the socio-cultural contexts of each country could be the main factor affecting the degree of CSR that the companies adopt, including the importance of implementing the SMETA audit protocol or the like.
Thirdly, in order to confirm that the results are sustainable in time, it would be very interesting to study the same companies through a longitudinal case study that would take into account more than one year of implementation of the SMETA audit protocol. This would be very positive because the information that could be obtained, could be more conclusive and more useful for companies that aim to achieve certain results in a medium or long-term.

Another issue that would enrich literature regarding the implementation of CSR standards in supply chains and the use of it for homologation of suppliers, would be to study the preference of companies for those suppliers who behave socially responsible against the suppliers who sell cheaper their products. As it was mentioned by one auditor in the results section of this paper, some companies do not take too serious CSR because they do not see much benefits after they learn that their clients prefer to buy from cheaper suppliers than from the ones that comply with all the requirements of CSR standards. In this context, it would be enriching to know if this is indeed true and to what extent.

Confirming the relation or linkage between standard certification and company CSR performance is also one pending issue that needs to be more researched. In this study, most companies expressed that it was not vital for them to have a certificate in order to feel more motivated and perform CSR strategies or initiatives, however, it would be very enriching for the current literature to investigate more this issue in different contexts.

Regarding the reports that were revised as secondary data for this study, it would be very interesting to understand the relation of auditors’ experience and training with the reports delivered by them in terms of quality and objectivity. As it was previously mentioned on the results section, some companies’ reports reviewed by the researcher showed a lack of information that was later obtained during the interviews to the companies’ representatives. In this context, it is important to understand the quality of the triangulation of data performed by the auditors during the audit processes and if it has any relation with the auditors’ experience and training on CSR standards like SMETA.

Finally, it is still pending a research about the relation of the lack of understanding and good relationships between audit companies and auditors and reporting quality is also one issue that showed in the results section. This last issue could have an impact on the quality of the reports issued by the auditors and then modified or revised by the audit companies and should be researched more thoroughly.
7 CONCLUSIONS

SEDEX is a not for profit global membership organization dedicated to improving global supply chains and helping organizations to manage their supply chains all around the world. The SMETA audit protocol is the CSR tool created by SEDEX that helps companies on identifying, measuring and capturing more information about what is happening in their supply chains. It aims at managing risk in every tier of the supply chain regarding CSR. The SMETA audit protocol’s main concern is specifying and standardizing basic activities and policies on labor rights, health and safety, environmental and ethical on companies using this standard. SMETA not only requires compliance with the legal minimum guidelines but goes beyond the law because in each of its principles, there are requirements that without being required by legal regulations are necessary for a company to be considered socially responsible with their employees and the environment in which it operates.

Through a case study of CSR standardization by means of the SMETA audit protocol, the challenges, benefits, drawbacks and difficulties of the implementation and evaluation of this standard were explored on five different manufacturing companies located in Lima, Peru. An insight on the implementation and auditing of this CSR standard on five manufacturing companies from Lima, Peru was provided. The main aim of this thesis has been to improve the understanding on how CSR initiatives such as SMETA work by means of real examples. SMETA being a standard recently started to be implemented in Peruvian companies, its use has started to increase in more Peruvian companies due to external clients requiring this standard in order to start business with Peruvian companies.

Peruvian companies and the Peruvian business context in general does not take into account CSR policies or initiatives in their activities yet, mostly due to the fact that CSR is not mandated by Peruvian law. Peruvian legislation on CSR themes is quite poor and mostly it is focused on the mining industry and other energy sectors such as fossil fuels. The manufacturing industry as such has not been taken directly into account as in the cases of the mining industry, regarding CSR and environmental issues. The companies selected for the study were already knowledgeable about CSR standards at some extent. However, the SMETA audit protocol was relatively new for them because it was implemented and evaluated by means of an audit process only 2 years before this study.

The results analyzed from the auditors’ and companies’ interviews, showed that there is a clear influence of the SMETA audit protocol in companies’ CSR performance after companies learn and implement the standard. For instance, it was already discussed in the findings section that at least two companies have been inspired by SMETA and the ETI Base Code for creating their own CoC that contained similar guidelines. According to the results, the implementation of the standard provides companies with a clear method of verification of their CSR continuous improvement measures. Companies agreed that SMETA is a very complete standard with guidelines that once implemented, can bring
many benefits to them such as customer satisfaction, entering new markets, continuous improvement, saving costs, awareness of their own flaws and enhancement of reputation and image.

Auditors interviewed also agreed that the SMETA audit protocol is a very complete standard that includes issues of health and safety, labor, human rights, environment and ethics into the guidelines which are then evaluated through audit processes. The auditors stated that according to their experience performing SMETA audit processes, communication before and during the audit is vital issue in order to have a good understanding between auditors and companies and facilitate the audit process so it can be done and finish in normal conditions and on time. Furthermore, SMETA was considered as a previous step before implementing other certifiable standards such as SA8000 by the auditors interviewed. They considered also that SMETA adoption has increased since recent years and more Peruvian companies are implementing the standard and requiring audits. Moreover, auditors have given their recommendations regarding some improvements or issues that should be taken into account when implementing the standard referring to the working hours and overtime hours’ requirement and the times for raising the findings. Furthermore, auditors considered that one of the main issues to battle against, is the lack of commitment from the management that could be detrimental for the successful implementation of the standard.

Finally, it is recommendable that the companies make the necessary improvements in order to raise the findings that were found during the initial audits of the SMETA. Companies need to implement CSR policies and initiatives that allow them to obtain good results in the next SMETA follow-up audits and re-audits. Furthermore, it is also recommended that this standard should not only be taking into account by the companies but also should be fostered to their suppliers through the implementation of plans aimed at supporting these suppliers in implementing CSR initiatives that go hand in hand with the SMETA. This would allow them to obtain significant advantages, improve working conditions, improve service quality, enhance their good reputation, cause a greater identification of workers with companies’ goals, improve their competitiveness and would have greater possibilities of obtaining contracts with other international customers, among other advantages that would make companies’ sustainable development possible.
ANNEXES

Annex 1 – SMETA Report non-compliance table

<table>
<thead>
<tr>
<th>Issue</th>
<th>ETI Base Code</th>
<th>Local Law</th>
<th>Additional Elements (i.e. not part of ETI code)</th>
<th>NC</th>
<th>Obs</th>
<th>GE</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 Management systems and code implementation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Employment Freely Chosen</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Freedom of Association</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Safety and Hygienic Conditions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Child Labour</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Wages and Benefits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Working Hours</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Discrimination</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 Regular Employment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8A Sub-Contracting and Homeworking</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9 Harsh or Inhumane Treatment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10A Entitlement to Work</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10B2 Environment 2–Pillar</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10B4 Environment 4–Pillar</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10C Business Ethics</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Please note the table above records the total number of Non compliances (NC), Observations (Obs) and Good Examples (GE). This gives the reviewer an indication of problem areas but does not detail severities of each issue – Reviewers need to check audit results by clause.*

Source: SMETA report template (SEDEX, 2015h)
Annex 2 – Interview Guide: Companies

Purpose of the interview / questionnaire: Understand and know the views of companies that have performed audits SMETA protocol voluntarily or at the request of their customers. Understand expectations, comments, experiences, thoughts, and perceptions audits SMETA protocol and influence in the management of social responsibility in their respective organizations.

Interviewee:
Listed company:
Date:

Questions regarding CSR:
1. Why your company originally became interested in corporate social responsibility policies, programs, etc? Please describe the reasons.
2. What is the point of view or position that the company has regarding social responsibility? What kind of activities regarding social responsibility have been implemented or performed by the company during the last years?
3. What are the main benefits that your company has obtained in implementing social responsibility programs? How the company has been able to measure these benefits and using which tools?
4. What are the main problems that the company has had regarding to the implementation of social responsibility programs or activities, etc?
5. What kind of media or how, is reported within the company, the position the company has in terms of social responsibility or the work performed related to this? (eg how employees and customers and other stakeholders are informed about these activities)

Questions about the tools/standards/guidelines to manage social responsibility:
1. What are the tools (standards, code of conduct, guidelines, certifications) your company uses or has implemented to ensure social responsibility?
2. Should possess a code of conduct (for example, the ETI code being evaluated in SMETA audits), these tools are also disseminated in the process of induction of new employees? What kind of training and how often?
3. Do your suppliers have to adhere to these type of tools (labels, code of conduct, standards)? To what level are they also involved?
4. For how long your company has implemented the ETI code of conduct, which is assessed during audits SMETA? When was the first SMETA audit conducted in your company? Have you required a follow-up audit, how long after the first audit, it was made or will be made (in case it has not been performed yet)? Do you consider that the time allowed before the audits is sufficient for you? Why?
5. How positive has been the implementation of the SMETA audit protocol, or other CSR protocols, standards, on the motivation of your employees regarding social responsibility topics?
6. The audit protocol SMETA is an initiative of the sustainable supply chains that buyers implement on their suppliers. Have your company received enough support from the client in order to successfully pass the audit? What was this kind of support? Does the company consider it enough? If not, with which subjects or topics would have been desirable that your client supports you?
7. What type of financial benefits has your company achieved after joining initiatives such as SMETA? And in general after implementing programs or initiatives of social responsibility?
8. Which are the topics covered by the audit SMETA that have helped your company to discover weaknesses in their management?
9. How the image of your brand or company has changed after implementation of the SMETA audit protocol or in general after the implementation of CSR standards or guidelines?
10. In your opinion, what have been or are non-conformities more difficult to overcome in such audits of social responsibility?
11. Possible reasons for the use of tools to manage social responsibility?
12. What were the main incentives for the company to implement tools to ensure and manage the corporate social responsibility?

On the control of these tools:
1. How the control is done at your company to verify that your company is complying with the guidelines of the tools as SMETA?
2. In case your company should ask their suppliers to meet the standards of social responsibility, would you consider as an option SMETA audit protocol? And why? What other types of standards or certifiable or non-certifiable initiatives would you consider?
3. What is the relationship of non-certifiable standards such as SMETA or others being standards without certification with the performance of your company regarding CSR? Do you believe that the fact of obtaining a certificate influences the performance of your company? (e.g., ISO14000, ISO9000, BSCI, among other standards issue certificates after certification audits).

**On the audits and auditors, audit coordination, etc:**

1. The auditing firm that performed the SMETA audit in your company is a firm assigned by your client? Is it chosen by yourself? If assigned by your client, did you agree with this?
2. Who is responsible for paying the audit? Your client? What is your opinion on this system of allocation of payment? To be the case in which your company must pay for the audit, do you consider that the price of the audit is fair? What should be considered to assign a fair price?
3. What is your opinion on the coordination carried out by the auditing firm before the performance of the SMETA audit? The auditing company offered relevant information so that you can prepare for the audit?
4. What is your opinion on the disposition of the audit firm to answer your questions, before audit process? The treatment received from them has been positive? Has your company any dispute or problem with this firm?
5. What is your opinion of the auditors who performed the audit process? How you realized of their knowledge about the audit protocol and local laws, which these auditors handled?
6. What was the most important observations or comments that the auditors could bring to your company during and after the audit process?
7. In general, it is said that external auditors do not have enough knowledge of the real problematic and reality of companies and their needs, because when finding non-compliances, they tend to be reluctant to understand and analyse in the context of the company (for example, if the company is micro, small or medium sized). In what extent, do you consider that the auditors have analysed in an objective manner the situation of your company?
8. You should have had a follow-up audit process, after the first SMETA audit, what has been the role of the auditor as to provide support or feedback on how to resolve these outstanding non-compliances?
9. What would you improve on the development and work of the audit firm before, during and after the audit process?
10. In your opinion, how the relationship that the company had with auditors from the beginning of the audit, affects the process of conducting the audit itself or the results?
Annex 3 – Interview Guide: CSR Auditors

Purpose of the interview / questionnaire: Understand and know the opinions of auditors regarding their performance of audits protocol like SMETA and their experience in CSR audits. Understand the expectations, comments, experiences, thoughts, and perceptions related to the SMETA audit protocol and influence in the management of social responsibility in Peruvian companies.

Note: Please indicate whether your name may be included in the thesis paper. Mark your answer with an X in the space provided.

YES _____ NO _____

Time of auditing experience (years):
Date:

Questions:

1. On regards to the topic of corporate social responsibility in Peruvian companies, which have been the comments of the audited companies (representatives) that have surprised you or caught your attention? (For example, the views of such representatives on social responsibility initiatives or audits).

2. In your experience as auditor, Peruvian companies in terms of social responsibility, on which topic they prefer to focus: environmental, social / labor or health and safety issues? Please briefly explain this point.

3. What do you think are the major problems with Peruvian companies that have been audited by you, concerning the compliance of all audit requirements of social responsibility in audit processes such as SMETA audit?

4. What is your opinion on the SMETA audit protocol? In your opinion please indicate which aspects of the protocol you consider that should be improved if any. What do you think this protocol needs in order to improve?

5. Since this is an audit protocol and NO CERTIFICATION (different from certifiable standards such as ISO 14000, ISO 9000, SA 8000, etc.), to what extent do you consider that this fact has any influence on the course of the audit or the performance of the audited company?

6. In what way it affects the relationship between you as an auditor with representatives of the audited company, to the completion of the audit process? Does this relationship has any influence on the results of the audit?

7. Have you ever encountered bribery or malpractice by a company that you have audited before?

8. As an independent auditor or freelance, but being hired by a company such as the auditing firm for which you work, how do you handle the issue of conflicts of interest (eg in case the auditing firm is hired by the company that is audited and this could affect the outcome of the audit process)?

9. Discuss or mention any time that you have felt forced to change an outcome or non-compliance detected during a CSR audit? Please explain what happened.

10. In your opinion, what are the greatest benefits accruing to firms after going through such processes of CSR audits?

11. In your opinion, what are the major difficulties that companies have to meet on the long term in order to meet such standards or principles of social responsibility after the audits are done? (Continuous improvement).

12. What are the most frequent non-conformities in audits of Peruvian companies that you have performed so far? What are the most difficult to fulfil by the companies? Please comment if anytime any company gave you an opinion regarding a non-conformity which was difficult for them to comply.

13. Considering that almost 100% of protocols, standards, codes of conduct and social responsibility guidelines were created in the Western world or developed countries, in your opinion what should be considered in these initiatives in relation to the context or reality of Developing countries like Peru?

14. Since you started to conduct audits of this kind so far, how big was the change of Peruvian companies regarding social responsibility to be considered as part of their strategic practices? Or rather to what extent CSR is still considered as mere philanthropy? If you can tell any story from a company that you audited before, please feel free to comment it.
REFERENCES


Gestión (2014). Diez cosas que debes saber sobre la jornada de trabajo en el Perú [Ten things you must know about the working hours in Peru] retrieved 08.02.16 http://gestion.pe/empleo-management/diez-cosas-que-debes-saber-sobre-jornada-trabajo-peru-2095834

Retrieved on: November 18, 2015.


http://www.ics-asso.org/index.php?id=3&L=2


SEDEX (2015a). About SEDEX, retrieved: 18.11.15  
http://www.SEDEXglobal.com/about-SEDEX/

SEDEX (2015b). SEDEX members ethical trade audit, retrieved: 20.12.15  
http://www.SEDEXglobal.com/ethical-audits/smeta/

SEDEX (2015c). About SEDEX: What we do, retrieved: 12.01.16  
http://www.sedexglobal.com/about-sedex/what-we-do/

SEDEX (2015d). About SEDEX: Members, retrieved: 13.01.16  
http://www.sedexglobal.com/about-sedex/buyers-and-suppliers/

http://www.sedexglobal.com/join-sedex/pricing/

SEDEX (2015f). SEDEX members ethical trade audit: Best Practice Guidance, retrieved: 13.01.16  
http://www.sedexglobal.com/wp-
SEDEX (2015g). SMETA: SMETA Best Practice Guidance: 14.01.16


