



Methodology guidance for the PLWF living wage assessments

Garment sector

June 2022

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About this guidance

The living wage assessment is based on two main international guidelines: The OECD guidelines for multinational enterprises and the United Nations Guiding Principles for Business and Human Rights (UNGP's) with its reporting framework. Central to these guidelines is the due diligence process consisting of the six steps in Figure 1.

In this guidance we will provide some background to each of the eight assessment criteria of the living wage assessment, including additional tips, tricks and inspiring reports. Implementing all steps will enable garment & footwear brands to pay a living wage throughout their supply chains.

Why living wage?

A living wage is a basic human right also known as an 'enabling right': living wages have the potential to positively impact other fundamental human rights in global supply chains, e.g. child labour and gender equality. Workers who earn a living wage can meet their own basic needs and those of their families as well as to put aside savings, thus being more likely to find their way out of poverty. They work regular working hours instead of excessive overtime to make ends meet, and they are more likely to send their children to school instead of sending them to work.

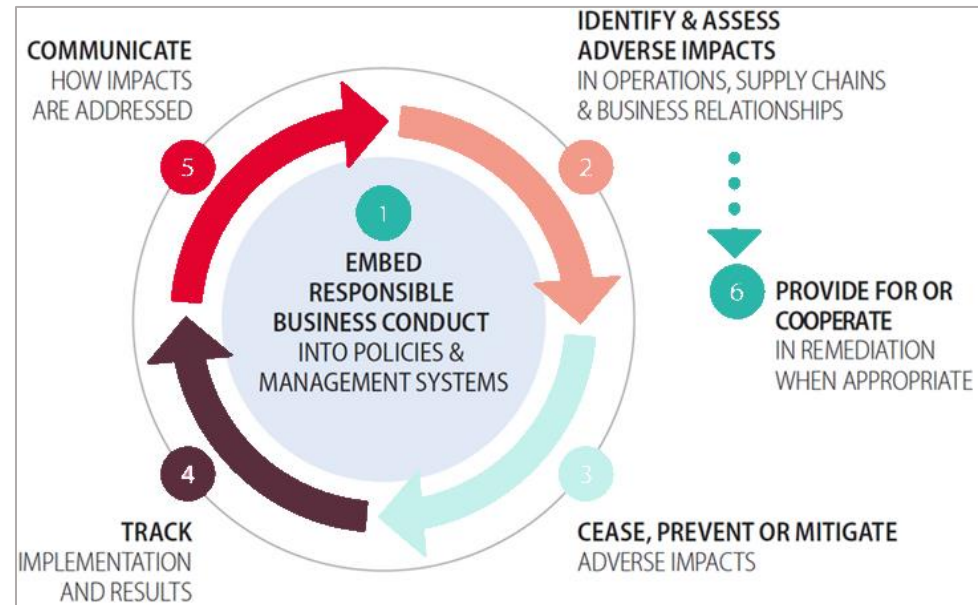


Figure 1 - Due diligence cycle (OECD)

1. Policy

The first question of the PLWF methodology addresses whether companies have the right policies in place and whether they consider living wage to be a salient issue. The reasoning behind this question is that without policy commitment it is very unlikely to expect any actions on this topic by brands. PLWF also asks companies how they define living wages and how they are addressed both within the company and in relation to suppliers.

Living wages – some inspiration

From our Friends of the Platform

[Fair Wear Foundation](#) – Pushing for Living Wages

[FLA](#) - Reaching Living Wage for Garment Workers

[IDH](#) – Roadmap on Living Wages

On Living Wage Benchmarks

[Anker Methodology](#) for Estimating a Living Wage

[Global Living Wage Coalition](#)

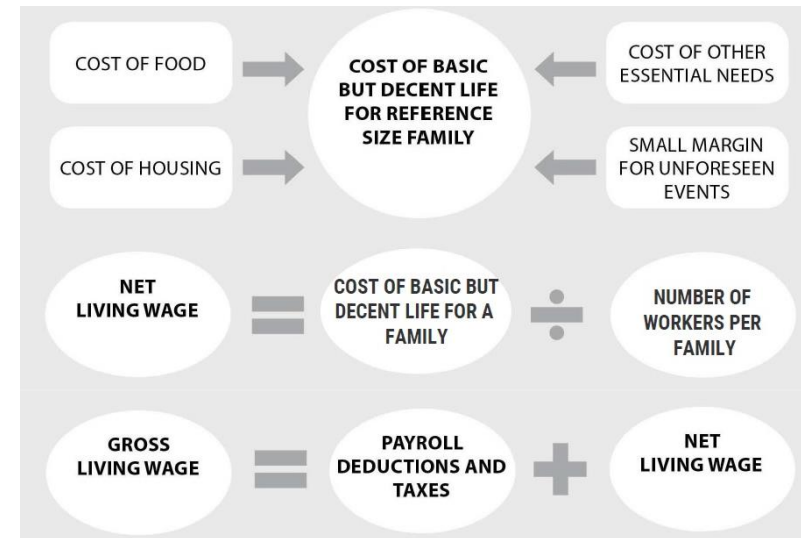


Figure 2 - Composition of a living wage

	Methodology question	Guidance	Example
<p>5 points</p>	<p>It is clear that those who are implementing the policy or statement operationally understand the importance of a living wage and the business rationale. E.g. through training, creation of an implementation infrastructure, reporting of relevant KPIs etc.</p>	<p>Evidence shows that the responsible persons are trained and informed on living wages.</p>	<p>H&M - "Awareness raising and sense-making of what it means to operate with respect to human rights is key to effective integration. We provide basic human-rights training across our business, tailoring content for different functions and roles. Training includes a basic introduction to human rights, an outline of our responsibilities in line with the UNGPs, and key aspects of effective implementation. In-depth training and workshops are targeted at key staff and cover specific topics such as forced labour and application of remedy logic. A similar approach is being applied to suppliers and business partners."</p> <p>"We delivered human rights trainings and workshops to 178 global and regional managers in construction, expansion, logistics, and sustainability teams. Content included due diligence processes, salient issues and migrant workers/modern slavery issues as one focus area."</p>
<p>4 points</p>	<p>The company ensures that living wage is addressed at Board level. This can be evidenced by reference to a board member having responsibility over human rights / living wage or a dedicated committee (possibly sustainability or procurement) which includes having jurisdiction over human rights / living wages in the supply chain.</p>	<p>Board level commitment is an indicator that living wage is considered and addressed throughout the company.</p> <p>Publicly available material shows that board or executive members are informed on living wages and/ or made responsible for the company's living wage targets and programs.</p>	<p>"VF Corporation's Chairman, President and Chief Executive Officer, along with our full Executive Leadership Team (ELT), is responsible for approving the company's Sustainability and Responsibility strategies and goals, including those related to human rights. Our Chief Human Resources Officer and Executive Vice President of Public Affairs is responsible for human rights issues within the company's direct operations. Our Executive Vice President, Global Supply Chain, oversees the implementation of our human rights commitments in VF's supply chain. Both are members of the ELT and report directly to VF's Chairman, President and CEO. These executives receive annual briefings on human rights risk assessments and our efforts to prevent and mitigate those risks, and approve policies related to human rights."</p>
<p>3 points</p>	<p>The company identifies living wage as a salient / paramount issue and has formulated a definition that meets the fundamental elements of widely recognized living wage definitions i.e. Basic Needs for a person and his/ her family and discretionary income.</p>	<p>Next to a formal policy/statement, a company needs to publicly acknowledge that living wage is a salient human rights risk.</p> <p>The definition that PLWF expects to see from garment & footwear brands must include the following components:</p> <ol style="list-style-type: none"> 1) basic needs 2) family component 3) discretionary income 	<p>Since its inception in 1997, adidas' human and labor rights program has been built on the back of intense stakeholder outreach and engagement: seeking to understand and define the most salient issues to address as a company. Through those engagements the company has identified a number of salient issues for its human rights program and the focus for its human rights due diligence efforts. Among these issues is fair wages.</p> <p>"The idea of a living wage is that workers, and their families, are able to afford a basic, but decent, standard of living that is considered acceptable by society at its current level of economic development. A fair compensation approach goes further than this." [...] "Our aspiration, as set out in the core principles of our Workplace Standards, is that workers earn enough for their basic needs and those of their family, and have income remaining to cover discretionary spending, as well as savings."</p>

2 points	The company has a formal policy, or expanded statement addressing living wage in their own manufacturing operations (where applicable) and/or a living wage definition and it is clear that they are addressing manufacturing operations in their supply chain.	To score 2 points, the company has to address the importance of a living wage not only internally, but also towards suppliers and business partners. This is often evidence by a Supplier Code of Conduct.	<p><u>Associated British Foods</u> - "Living wages are paid." (...) "Wages and benefits paid for a standard working week must meet, as a minimum, the national minimum wage, or in the absence thereof an acceptable industry benchmark. In any event, wages must always be enough to meet basic needs and to provide some discretionary income. Primark actively supports moves to ensure that the minimum wage is determined by national collective bargaining at industry level."</p> <p>"Even though <u>Primark</u> doesn't own any factories, the company strongly believes it has a responsibility to check that its suppliers' factories treat their employees well. Primark has built a team of more than 110 ethical and environmental sustainability specialists. They work in key sourcing countries to make sure all factories meet a strict code of conduct, based on the ILO's standards. That code covers everything from working conditions to wages."</p>
1 point	The company refers to living wage in their documentation but there is no formal policy, statement or definition.	PLWF expects investee companies to have a formal policy or statement that addresses living wage.	See the above examples and for instance <u>VF Corp's Living Wage Position Statement</u> .

2. Engagement with MSIs

Achieving a living wage requires collaboration with various stakeholders such as trade unions. It also requires collaborating with other companies. Achieving a living wage for factory workers cannot be achieved by one sole company, it requires a sector- wide approach. Since most garment manufacturers supply several brands, collaboration among the buyers is often necessary to make any progress. Buyers should cooperate instead of compete on the issue of a living wage. When brands join forces, their leverage increases which makes actual improvements possible.

Relevant Multi- Stakeholder Initiatives in the Garment & Footwear sector

- ACT on living wages
- Ethical Trading Initiative
- Fair Labour Association
- Fair Wear Foundation
- ILO Better Work
- IndustriAll Global Union
- Sustainable Apparel Coalition

	Methodology question	Guidance	Example
5 points	There is evidence that feedback from stakeholders has been fed into internal discussions and decision-making processes.	This should be evidenced by a process through which the company collects, evaluates and implements feedback from relevant stakeholders about the company's efforts to work towards a living wage.	<i>No example yet</i>
4 points	The company has a clear process to engage with MSIs and has articulated how it knows that these collaborations are progressing the payment of a living wage. This includes an indication of what the company has done with knowledge obtained from collaborating with MSIs. Evidence of progress needs to extend beyond stand-alone pilot projects.	Evidence should concretely show what positive impact the collaboration with the MSI has on workers' wages. For example, collective bargaining agreements, upskilling initiatives or improved wage management systems that have led to wage improvement that can be evidenced have been implemented.	<i>No example yet</i>
3 points	The company has articulated how, through this collaboration, it is advancing the payment of a living wage in their supply chain. A clear reference to living wage is made.	This could involve evidence of how the MSI helps the company in e.g. improving its purchasing practices, wage data analysis, pilot project, collaboration with unions or governments, etc.	<p><i>"The governing principle of the Framework Agreement between IndustriALL Global Union (International Trade Union Federation representing over 50 million workers who are members of almost 600 unions worldwide) and Inditex is the shared conviction that cooperation and collaboration play a key role in the promotion of human rights within our supply chain. In this regard, respect of the rights of freedom of association and collective bargaining, along with the promotion of social dialogue in the Inditex supply chain continue to make up the backbone of the strategic relationship that Inditex formally enjoys with IndustriALL since first signing our Global Framework Agreement in 2007.</i></p> <p><i>A joint declaration between Inditex and IndustriALL was made in 2020 for the purpose of reinforcing the longstanding cooperation by supporting the global garment industry to recover after the covid-19 crisis. Both our organisations publicly reasserted and underlined our commitments to work together with the suppliers on matters such as continuous respect for the right of freedom of association and collective bargaining throughout the company supply chain in an effective way, to ensure the validity of the workers' right of affiliation to a trade union of their choice, as well as respect for the right to collective bargaining as a tool to ensure the conditions to reach collective bargaining agreements. In addition, another of the points in this declaration on</i></p>

workers' participation is that of the promotion of social dialogue with information, consultation and bargaining at all levels as the main means of settling conflicts, since both parties understand that social dialogue is the most valuable mechanism to bring about mature industrial relations."

Creation of Global Union Committee --> This approach has been further strengthened in 2020 with the formal creation of the Global Union Committee, a newly created body decided on during the last renewal of the Global Framework Agreement in 2019, which establishes a new coordination structure in which the voice of the local members of IndustriALL Global Union plays a significant role in defining, along with Inditex, the strategy to implement the Agreement in the markets in which our supplying activities take place. This new structure is comprised of 9 representatives acting on behalf of the members of IndustriALL and, therefore, on behalf of the workers manufacturing in Inditex's clusters, as well as the representatives of the Spanish unions and, thus, Inditex workers. They will be responsible for electing a Global Union Committee Coordinator, responsible for liaising with Inditex. In addition one of the members shall be responsible for General Coordination.

2 points	The company has joined a MSI with a clear program on living wage.	See the text box in this section with examples of relevant MSIs.	ASOS is a member of the MSIs IndustriAll, Action Collaboration Transformation and ETI.
1 point	The company has identified relevant MSIs with a clear program on living wage but has not yet collaborated with them.	The company mentions important MSIs, but has not yet signed-up to or collaborated with these MSIs.	<i>See the text box in this section with examples of relevant MSIs.</i>

3. Engagement with trade unions

One of the factors important to achieving a living wage is the involvement of trade unions or, if this is not possible in the context of a certain country, other forms of workers’ representatives (*ILO Conventions No. 87 (Freedom of Association), No. 98 (Right to Organise and Collective Bargaining) and No. 135 (Workers’ Representatives)*). Freedom of Association (FOA) is the internationally recognised human right of workers to form and join organisations of their own choosing. FOA is a prerequisite to collective bargaining and an enabler of higher wages in and of itself. Respect of FOA provides workers with the voice and representation to negotiate collectively with employers on terms and conditions of work, including wages and benefits. Therefore a brand needs to work to improve workers’ collective bargaining power and ensure their right to freedom of association is respected.

Useful research

*“The **Social Dialogue in the 21st Century Project** focuses on what social dialogue should look like moving forward. Social dialogue has the potential to deliver better working conditions, social stability and a level playing field in the garment industry and beyond. However, the social dialogue systems and strategies developed in the 20th century were never designed to cope with the complexities of globalisation. Freedom of association and collective bargaining rights remain fundamental, but it is time to rethink how social dialogue should function in a global economy. Through research and stakeholder consultations in ten garment-producing countries, the project aimed to create a root-cause analysis of barriers to impactful social dialogue, analyse similarities and differences between countries and arrive at conclusions for how to overcome barriers and move forward across the entire global garment industry. The research was also expanded to include an analysis of how COVID-19 has impacted social dialogue structures, and examine how social dialogue contributed to the recovery efforts. Today all ten country-specific reports have been published, along with an in-depth comparative Synthesis Report highlighting key findings and ways forward. In the reports, the interests and roles of the current complex network of actors are mapped out.”*

	Methodology question	Guidance	Example
5 points	<p>There is evidence that the outcomes of the company's relationship with collective employee / trade union groups has led to a large-scale positive impact in at-risk geographies either in (if relevant) own manufacturing operations or their supply chain. Companies should be able to monitor the rate of factories covered by collective agreements, verify that actual negotiation took place between suppliers-workers and confirm that benefits agreed upon are in line with living wage estimates.</p>	<p>More or less the same indicator as the 4p, but evidence should be provided for a large-scale impact in the company's supply chain. Companies should be able to monitor one of the following topics: rate of factories covered by collective agreements, verify that actual negotiation took place between suppliers-workers and confirm that benefits agreed upon are in line with living wage estimates.</p>	<p><i>No example yet</i></p>
4 points	<p>The company has articulated how its relationship with collective employee / trade union groupings leads to positive outcomes either in (if relevant) own manufacturing operations or their supply chain. This can be evidenced by changes in the company's purchasing practices or the conclusion of a collective bargaining agreement that includes living wage.</p>	<p>To score this indicator, a company should provide concrete evidence of the positive impact on factory workers' working conditions and wages that a collaboration with a trade unions or collective employee groupings has had. This evidence could be anecdotal.</p>	<p><i>H&M - In 2020, Greg Distelhorst and Jee-Eun Shin from the University of Toronto carried out a statistical analysis on an unprecedented volume of data from around 800 factories across the H&M supply chain to assess the factory-level impacts of H&M's strategy. One of the findings of their analysis was that [the] presence of trade unions had an average positive effect on wages of 5.5% (global average). Another one that workplace dialogue programmes led to a 2% average wage increase, compared to suppliers not enrolled in these programmes.</i></p>
3 points	<p>The company has articulated how through its relationship with collective employee / trade union groupings it is advancing the payment of a living wage either in (if relevant) own manufacturing operations or their supply chain. In case of an indirect relationship through an MSI, the company has also articulated the background of this indirect relationship.</p>	<p>The company should provide evidence of what in their opinion is the added value of working with unions. How does it contribute to better working conditions and higher wages? This indicator is about a company's reasoning and intention, not about the actual impact of working with unions.</p>	<p><i>ASOS' Modern Slavery Statement - Our Global Framework Agreement (GFA) with IndustriALL Global Union, signed in October 2017, strengthens our approach to protecting the right to freedom of association and collective bargaining, understanding the challenges faced by workers, and proactively preventing and resolving human rights violations, in turn mitigating the risk of modern slavery. ASOS is an active participant in the Action Collaboration Transformation (ACT) initiative on living wages, which aims to improve wages by establishing industry collective bargaining in key garment and textile sourcing countries, supported by world-class manufacturing standards and responsible purchasing practices.</i></p>

<p>2 points</p>	<p>The company has actively communicated to its suppliers the importance of engaging with collective employee groupings / trade unions (directly or indirectly through an MSI with a clear program on engagement with trade unions / employee collectives). There is evidence that social dialogue between company – supplier - workers is in place.</p>	<p>This could be any kind of collaboration, either on a global or on a local level, as long as it concerns collective bargaining for factory workers. There is no minimum requirement for this collaboration; engagement with trade unions / collective employee groupings that addresses human rights and labour issues in the supply chain and is not a one-off engagement would suffice.</p>	<p>Through its Workplace standards, adidas articulates to its suppliers the importance of social dialogue: <i>"Business partners must recognise and respect the right of employees to join and organise associations of their own choosing and to bargain collectively. Business partners must develop and fully implement mechanisms for resolving industrial disputes, including employee grievances, and ensure effective communication with employees and their representatives."</i></p> <p>On its Partnership approach webpage (Stakeholder engagement and Guidelines), adidas identifies governments, trade unions, suppliers, factory workers, interest groups, consumers and peers among their key stakeholders. The company is involved in "a diverse range of engagements, including with local and international NGOs, labor rights advocacy groups, human rights advocacy groups, trade unions, investors, SRI (socially responsible investment) analysts, national and international government agencies, and academics. adidas also participates in a series of long terms purpose-built fora and multi-stakeholder initiatives, including the Fair Labor Association (FLA) and the Bangladesh Accord, among others."</p>
<p>1 point</p>	<p>The company indicates that it upholds freedom of association and collective bargaining, but there is no evidence that it has collaborated with collective employee/trade union groups.</p>	<p>This should be evidenced by a formal policy to respect FoA and collective bargaining in its supply chain.</p>	<p>See for instance PUMA's sustainability handbook on social standards, including FoA and collective bargaining.</p>

4. Guidance assessing impact

This assessment question informs on how the company identifies actual impact and changes in the level of risk, related to non-payment of living wages. What processes does the company have in place to monitor this issue and to identify any changes in potential severity over time and across its activities and business relationships. Processes through which the company could identify changes are for instance, social or human rights audits, periodic risk assessments, engagement with relevant stakeholders, patterns and trends in filed complaints.

	Methodology question	Guidance	Example
5 points	<p>There is evidence that the company uses information and data on implemented actions and performance tracked as input for further continuous improvement in the risk analysis process.</p>	<p>The company has specific indicators or information related to wages and workers' livelihoods that are used to improve its risk analysis process.</p>	<p><i>Oxfam gives several recommendations based on the analysis it has conducted. M&S addresses which actions it will take or has taken per recommendation and how it is improving its risk process.</i></p>
4 points	<p>There is evidence that the company obtained information to assess the risks and understands the consequences of non-payment of a living wage on human rights, including worker livelihoods.</p> <p>If the company only operates in low risk jurisdictions, proof of sufficient due diligence is sufficient. E.g. information that proves that the jurisdictions the company operates are low risk jurisdictions.</p>	<p>The company has assessed what the implication of wages below the living wage estimate are for workers' livelihoods and living conditions. Relevant information for the company could include e.g. information from a grievance or complaints mechanism, expert data or anecdotal evidence gathered through stakeholder engagement.</p>	<p><i>M&S asked Oxfam to conduct a 'gap analysis' study to help the company understand the reality for workers in the global supply chains. 'Workers voice' was part of the research. The report indicates that (page 17): "It was a common theme that workers reported earning the legal minimum but less than a living wage and some had incurred debts. This in turn led them to working excessive hours, accepting cash-in-hand work or taking second jobs."</i></p>
3 points	<p>There is evidence that the company has a process in place to assess its actual impact on human rights, including worker livelihoods, as a result of the non-payment of living wages in (where relevant) its own manufacturing operations and supply chain.</p> <p>The company has updated its risk assessment if changed circumstances indicate a need to do so (e.g. new territory, global pandemic, etc.)</p> <p>Some companies only operate in areas where there is a low risk of paying wages below living wage (or there is < 10% difference between the legal minimum wage and the living wage), the so called low risk jurisdictions. 3 points can be awarded if the company has mitigated the risk within a supply chain (or manufacturing operations) by only sourcing from low risk jurisdictions.</p>	<p>The company has processes in place for collection of wage data and analysis. The evidence should also include a comparison between actual wages at suppliers (could be aggregated information) and the relevant minimum wage level (or industrial wages).</p> <p>The company has updated its risk assessment in case of changed circumstances: a number of factors may change the impact of non-payment of living wages such as entering a new market where laws or social practices place the human rights at greater risk or changes in operating environments such as significant changes in democratic freedoms.</p>	<p><i>Esprit compiles wage data for the areas where its products are made. The goal is to learn how much workers actually earn and take home, and to understand the basic cost of living in their communities. In 2020, Esprit began to go a step further by working with the Fair Compensation Tool from the Fair Labor Association. The tool helps them to understand the discrepancy between actual wages and the various living wage calculations per region.</i></p> <p><i>Esprit updated its risk assessment by including the emergence of the global pandemic. They have implemented self and online assessments in their supply chain. Key areas Esprit is closely monitoring include 'ensuring payment of workers in the supply chain'.</i></p>

<p>2 points</p>	<p>There is limited evidence that the company assesses its potential or actual impact on human rights, including worker livelihoods, as a result of the non-payment of living wages in (where relevant) its own manufacturing operations and supply chain. This may be evidenced by the identification of at-risk geographies where living wage is a salient issue, identification of high risk suppliers and/or processes to monitor the wages paid.</p>	<p>There is evidence that indicates a geographical prioritization of the company’s work on living wage. This could depend on the severity of the issue or on suppliers that are identified as high risk and/or there is evidence that the company has processes in place to monitor the wages paid</p>	<p><i>Asics’ collects the Higg FEM (Facility Environmental Module)/FSLM (Facility Social Labor Module) data from its strategic suppliers which covers 74% of its volume. Further, Asics’ supplier audits include a detailed review of wage systems</i></p>
<p>1 point</p>	<p>There is limited evidence that the company identifies its potential or actual impact on human rights, including workers livelihoods, as a result of the non-payment of living wages (can be in either own organization or supply chain).</p>	<p>Social or human rights audits or assessments are conducted at suppliers’ sites. Although these audits have their limitations and generally do not provide any evidence on wages except for minimum wage compliance, they give some indication of whether a supplier meets the social supply chain standards of the buying company.</p>	<p><i>Asics’ assessments and audits use 17 criteria to evaluate its Tier 1 suppliers’ sustainability performance. Each supplier is awarded an overall rating based on its performance. Audit criteria covering forced labour, child labour, abuse and harassment, wages, discrimination and hours of work are defined as zero tolerance criteria.</i></p>

5. Integrating findings

Integrating findings refers to ‘how a company integrates findings about a salient issue (e.g. living wage) into decision-making processes and actions? An example: a company performs an impact assessment of its purchasing practices and finds that current lead times are negatively impacting living wages. Following the due diligence cycle, the brand will then identify how the lead time needs to be adapted in order to no longer negatively impact wages. **The UN Guiding Principles Reporting Framework** provides some helpful supporting questions:

1. How are those parts of the company whose decision and actions can affect the management of salient issues, involved in finding and implementing solutions.
2. When tensions arise between the prevention or mitigation of impacts related to a salient issue and other business objectives, how are these tensions addressed?
3. During the reporting period, what action has the company taken to prevent or mitigate potential impacts related to each salient issue?

The Common Framework for Responsible Purchasing Practices

*“**The Common Framework for Responsible Purchasing Practices** (CFRPP) is a reference point for companies working to improve their purchasing practices and for Multi-Stakeholder Initiatives supporting their member companies in implementing practical improvements in purchasing, to increase the scope for improved working conditions in supply chains.”*

“Purchasing practices are the actions taken by a buying company in order to purchase a product or service (in whole or in part) from a supply business. They encompass design and product development, contracts, technical specifications, order placement and lead times, cost and price negotiations, payment terms and also the underlying behaviours, values and principles of purchasers which impact supplying companies and ultimately workers’ lives.”

	Methodology question	Guidance	Example
<p>5 points</p>	<p>There is comprehensive evidence of responsible purchasing practices. E.g. the company has developed pricing models that account for the cost of providing a living wage, help set up wage management systems or help calculate labor minute costing for a living wage.</p> <p>There is a clear link between these measures and the outcome of the company's risk assessment.</p> <p>These measures are implemented at scale.</p>	<p>To receive 5 points, the same criteria for 4 points apply. On top of that, there is evidence that the measures or responsible purchasing practices are implemented at a wider level, so not only pilot scale or at a country or regional level.</p>	<p><i>There is comprehensive evidence of responsible purchasing practices (see below) being implemented at scale. E.g. H&M's Sustainability Performance Report 2019 states that wage management systems were implemented at suppliers producing 88% of total production volume in 2019. The company continues to evaluate and strengthen its programmes, for example on pricing. The 2020 reassessment of H&M's overall approach to fair jobs and wages should further reinforce its strategy.</i></p> <p><i>H&M uses the SIPP method to identify weaknesses and risks with suppliers and uses these insights to set priorities. The company uses a global approach for promoting fair and competitive wages, but this feeds into country-specific strategies taking into consideration the outcomes of the annual risk assessment for major production markets (human rights heat maps).</i></p> <p><i>"All the major production markets have established heat maps of human rights related issues based on severity and likelihood to inform where extra attention is needed. This is an annual process looking at the type of manufacturing that takes place in the market, insight is drawn from our own supplier performance data, issues raised, stakeholders' input as well as an assessment of the broader context in the country. This process is key in informing our goal setting process and, consequently, prioritized issues are either addressed in local goals or through global programmes as well as industry initiatives."</i></p>
<p>4 points</p>	<p>There is evidence of responsible purchasing practices, such as taking into account procurement measures that enable suppliers to uphold working conditions that support a living wage.</p> <p>If an organization predominantly produces their own garments, similar evidence should be sought in its own manufacturing companies.</p> <p>E.g. providing enough lead time to orders, or changes to orders, so that</p>	<p>To receive 4 points, the same criteria for 3 points apply. On top of that, the taken measures or purchasing practices follow the outcome of a risk assessment (such as a research report, continuously monitoring suppliers etc.).</p> <p>An example: When a risk assessment in Bangladeshi factories shows that the price negotiations infringe on the wages, the company should take appropriate measures to adapt the negotiation process in order to prevent and mitigate further negative impacts on the negotiated wages.</p>	<p><i>As a member of ACT and signatory of the Memorandum of Understanding, H&M has committed to ensuring that purchasing practices facilitate the payment of a living wage. In 2017, H&M adopted the five global commitments on purchasing practices shared by all members of ACT.</i></p> <p><i>H&M Sustainability Performance Report 2020 - "We made progress against our ACT purchasing practices commitments, including developing and rolling out our 'SMV Estimation Application' app to help our merchandisers ring-fence labour costs in price negotiations. The cost of a garment is divided into different costing blocks such as material, stitching, and labour cost. When we ring-fence the labour</i></p>

work rosters can be rearranged without infringing other human rights.

A reference has been made to the company's risk assessment, such as country or region specific risks and actions.

cost, we remove that part from the price negotiations so that the wages are never affected."

"Since 2011, we have been working with a [Supplier Relationship Management](#) system that guides our supplier relationships. It helps us to evaluate, develop and reward responsible suppliers – in short, to be a fairer buyer. This system also helps H&M Group provide suppliers with production plans well in advance. For the best performing suppliers, we plan our order capacity as long as three to five years ahead."

"To help develop and improve our practices, we ask our suppliers how they perceive us as a buyer in anonymous surveys. Last year, 96% of our suppliers said that we are a responsible buyer – and we are working hard to bring that number up to 100."

3 points

There is limited evidence of responsible purchasing practices that contribute to the payment of a living wage.

E.g. the company has introduced capacity building training, is helping suppliers with their own practices, provides enough lead time to orders or does not change orders last minute.

To receive three points a company has to show that a statement or policy on living wage is also being translated into action: responsible purchasing practices.

Responsible purchasing practices are needed to facilitate the payment of a living wage. If a company has sufficient and ambitious policy but cancels orders last-minute, shortens lead time, negotiates on (lower) wages, these actions go against the policy and hence work counterproductive.

Therefore, a company has to show that it has in place responsible purchasing practices. Elements you can think of are:

- improve on forecasting accuracy
- transparent payment terms
- shared (financial) risks and responsibilities between brands and suppliers
- supplier trainings and empowerment
- responsible cancellation of orders, pre-payment of orders

H&M - "Responsible purchasing practices are fundamental to safeguard the fair treatment of garment workers and to provide a healthy work environment. It is difficult for suppliers to be good employers if their buyers are not committed to responsible purchasing practices."

Ways in which H&M wants to be a responsible business partner include (but are not limited to) focusing on long-term and collaborative relationships with suppliers; supporting suppliers to plan ahead; providing capacity building training; and setting up wage management systems that enable suppliers to pay living wages. The evidence below shows how H&M works on capacity building. See above for other concrete examples.

H&M Sustainable Impact Partnership Program: Capacity building is an important element of the SIPP: "Validated assessments of our suppliers' sustainability performance are used to identify their strengths and weaknesses. This information is used to ask our suppliers to set their goals and act to strengthen their capacity to better manage their sustainability performance. We work with our suppliers to identify areas where H&M Group can best provide support through capacity-building workshops, training and management systems analysis. We also build connections between our suppliers and other functions at our production offices, such as our merchandising and quality departments. We use these connections to encourage our suppliers to develop their own strategies and solutions to challenges, as well as providing incentives to shift impacts from negative to positive."

2 points	There is evidence that the company communicates within (when relevant) its own manufacturing operation and its supply chain the importance of paying a living wage. E.g. through a code of conduct or a human rights policy.	It is communicated to all suppliers, facilities, business relations in the entire supply chain that the company expects the payment of a living wage. This can be found for instance in a Supplier code of conduct, Compliance principles, and publicly available annual or sustainability reports	<i>See for instance:</i> <ul style="list-style-type: none"> - H&M's Business Partner Sustainability Commitment - Inditex' Code of Conduct for Manufacturers and Suppliers - Primark's Supplier Code of Conduct
1 point	There is evidence that the company communicates within its own company the importance of paying a living wage.	For instance a living wage statement or Code of conduct.	<i>See above.</i>

6. Tracking performance

The question on tracking performance refers to the effectiveness of a company's efforts to address living wage issues. How does the company know if it is making progress? It focusses on the company's indicators for tracking performance. Particular qualitative and quantitative indicators can be used to assess how effectively the living wage issue is being managed. Indicators can be developed by the company or by a relevant industry association, multi-stakeholder initiative or in a more general reporting framework.

Good practice by PUMA

PUMA successfully collaborated with a factory in Vietnam to increase wages for factory workers. In its report "Reaching Living Wage for Garment Workers", the FLA states that the use of data has led to positive impact. By adjusting the factory's payment system and production planning, PUMA and the factory successfully reached a living-wage agreement for the workers in three years' time. PUMA continues to invest in the scalability of its fair compensation program and is actively using the FLA's Fair Compensation Dashboard to monitor wages on a regular basis and ensure progress towards a living wage.

	Methodology question	Guidance	Example
5 points	<p>There is evidence that the closing of the wage gap is widespread in the supply chain (and, where relevant, own manufacturing operations).</p>	<p>To receive 5 points, the same criteria as for 4 points apply. In addition, we would like to see data that shows that the gap has been significantly reduced widespread in the company's supply chain (contrary to pilot projects).</p>	<p>Both of these programmes as described below are implemented at scale, so these results represent a significant part of H&M's supply chain.</p>
4 points	<p>There is evidence that the qualitative and quantitative indicators have resulted in a closing of the wage gap. There is evidence that the use of this data is leading to positive changes.</p> <p>E.g. wage-related pilot projects in-country run with suppliers and/or unions to close the gap.</p>	<p>There is evidence of a feedback loop that illustrates how a company collects and evaluates data and information on the effectiveness of its actions and how it uses this information to further improve its actions to increase the positive impact of it on workers' wages. Relevant information could include findings from surveys or other feedback mechanisms and/or independent research documenting impacts in areas where the company has been actively working for progress.</p>	<p>In 2020, H&M has committed to an extensive, external and independent evaluation of its living wage efforts. This included an assessment of the effectiveness of previous efforts. Researchers showed that factory-level wage management systems at H&M suppliers led to a 2.8% average wage increase and workplace dialogue programmes led to a 2% average wage increase, compared to suppliers not enrolled in these programmes. When these programmes are completed with the implementation of a wage grid, the total increase in wages was brought on average to 5% compared to suppliers that were not enrolled in these programmes. The researchers also found positive effects of trade union representation and efforts to improve productivity.</p>
3 points	<p>The company collects and tracks qualitative and quantitative indicators that are linked to actions implemented and/or goals set by the company.</p>	<p>The company provides evidence of how it tracks progress of its actions and goals on due diligence as described in the OECD Guidance for Responsible Business Conduct. In a company's reporting, progress is generally not attached to specific actions, so this could also be progress of the company's actions in general.</p>	<p>H&M uses the SIPP (Sustainable Impact Partnership Programme) method to collect wage data at supplier factories. In addition, H&M collects and tracks data for its 'Fair & Equal KPIs' which have been updated in 2020 with the support of two external reserachers. The new KPIs include the percentages of supplier factories with trade union representation and with collective bargaining agreements. Both elements are central to H&M's living wage strategy and directly linked to its actions to facilitate living wages.</p>

<p>2 points</p>	<p>There is some evidence the company uses indicators to track the effectiveness of its efforts on the advancement of living wage. Refer examples of indicators included below for 1 point.</p> <p>E.g.: The company is aware of any changes in wages (minimum wages, average industry wages, collective bargaining wages etc) that arose in the past year, through the use of government and other reliable data sources. The company is monitoring the gap that exists between actual wages and a living wage estimates.</p>	<p>The company provides evidence that it has actually used these indicators to track progress towards the advancement of living wage and/or is monitoring the gap that exists between actual wages paid and living wage estimates (for which existing national/regional benchmarks may be used).</p>	<p>Lojas Renner made a first analysis seeking to identify the gap between the lowest salary paid in its national suppliers' chain and the fair salary value, considering the methodology established by the Interunion Department of Statistics and Socioeconomic Studies (DIEESE). The first step was to monitor the actual compensation paid in the chain. With the support of the compensation and benefits team, the company defined the compensation data to be collected in the annual compliance audits for national suppliers.</p>
<p>1 point</p>	<p>The company has appropriate qualitative and quantitative indicators to effectively address living wage issues. There is no evidence the company uses indicators to track the effectiveness of its efforts.</p> <p>Quantitative indicators could be: the number of minutes to manufacture a garment, the wage cost per minute, the % of that suppliers business the company has (clue to leverage), wage ladders, rate of staff turnover, overtime levels, average industry wage rates.</p> <p>Qualitative indicators could be: identification of the stakeholder groups engaged with, articulation of the business rationale for a living wage, identification of the challenges of implementation, feedback from MSIs¹, improvement in quality of garments etc.).</p>	<p>The company has defined clear qualitative or quantitative indicators to address living wage issues. The company should disclose what indicators it has defined or what indicators are provided to them by MSIs either publicly or privately.</p>	<p>Adidas has fulfilled the Fair Labor Association (FLA) requirements on wage data collection outlined the Fair Compensation Strategy 2020, being: "all FLA companies and suppliers were required to collect wage data from a representative sample of their supply chains and use the FLA's Fair Compensation Dashboard to analyze the living wage gap."</p>

7. Remedy

This question seeks to answer the following: How does the company enable effective remedy if people are harmed by its actions or decisions in relation to the salient human rights issues? (**Reporting Framework**). What kind of grievance and whistleblowing system does a brand use? How are employees and third parties made aware of its existence and how can grievances be raised? ‘Access to remedy’ is the third Pillar of John Ruggie’s Guiding Principles on Business and Human Rights and is a vital aspect in respecting and safeguarding workers and their rights.

Good practice by adidas	Complainant ¹	Factory name	Complaint	Outcome	Status (Date case opened/closed)
<p>Adidas has a formal complaints mechanism in place that is accessible to internal and external employees as well as third parties. They also allow guidance and assessment from external independent parties. The company also publicly discloses an overview and analysis of human rights related complaints. This also includes the status and outcome of the complaints (Figure 3).</p>	<p>The Coalition of Cambodian Apparel Workers Democratic Union (C-CAWDU)</p>	<p>Quint Major Industrial Co., Ltd. (QMI - B) - T1 subcon</p>	<p>On July 30, 2020, C-CAWDU’s President sent a letter to adidas, alleging discrimination and unlawful termination of C-CAWDU union reps at QMI. Following the first letter, C-CAWDU sent several follow-up letters, alleging improper handling of the termination dispute by the Ministry of Labor and asking adidas to intervene and press QMI management to negotiate with C-CAWDU directly to resolve the dispute.</p>	<p>Upon receiving C-CAWDU’s first letter, adidas immediately launched an investigation. We shared our findings with the union on August 13, 2020 and concluded that:</p> <ul style="list-style-type: none"> Due to a business downturn, QMI had laid off 156 employees with lawful compensation and following the proper communication procedure. adidas found no evidence of discrimination against C-CAWDU. The pool of dismissed employees included both unionized and non-unionized workers. We found that none of the laid-off employees were union leaders as claimed by C-CAWDU in their complaint letter. Union officials are a protected class of worker. <p>Despite a lack of compelling evidence, the union decided to take the dispute to Conciliation with Ministry of Labor. adidas informed C-CAWDU that we would respect their decision and asked QMI to extend their full cooperation.</p> <p>In subsequent letters, C-CAWDU asked adidas to intervene, alleging that the Ministry of Labor had mishandled the dispute case, which had led to a ruling by the Arbitration Council (AC) to close the case.</p> <p>At this point, we have no new evidence that would overturn the AC ruling. We continue to treat this as an open/unresolved case, pending further information and engagement with C-CAWDU.</p>	<p>Opened: 30.07.20 / Ongoing</p>

Figure 3 - adidas' grievance overview

Methodology question	Guidance	Example
<p>5 points There is evidence that the company responds appropriately to all complaints and that effective remedy is provided.</p>	<p>The company also publicly discloses the status of the grievances and how they have been handled.</p>	<p>Each year, adidas publishes a summary of all human rights complaints handled. The overview contains the name of the complainant, the factory name, a summary of the complaint, the outcome and the status.</p>
<p>4 points There is evidence that such mechanisms are being used (e.g. there is evidence of human rights related complaints).</p>	<p>The company discloses the number and type of human rights/ labour rights related grievances.</p>	<p>There is evidence that adidas' grievance mechanisms are being used and monitored. Adidas annually discloses an overview and analysis of the human rights related complaints that it has received on its Human Rights (Due diligence webpage). Their Summary of Human Rights Complaints shows that in 2020, adidas handled 22 human rights complaints using its third-party complaint mechanism.</p>
<p>3 points There is evidence that such mechanisms are being monitored.</p>	<p>The company shows to be informed on the received complaints. The company shows this by disclosing the number of complaints received. Additionally, they show this by describing the types of complaints, for instance human recourses, remuneration, harassment etc.</p>	<p>Associated British Foods: "In the year to June 2020, 136 notifications were received, of which:</p> <ul style="list-style-type: none"> • 28% were resolved, with outcomes ranging from reviews of processes and support for individual employees to, where necessary, termination of contracts; • 40% were unsubstantiated and required no action; and • 32% remain under investigation. <p>The most common grievances were related to human resources issues, theft, and incidents related to bullying and harassment."</p>
<p>2 points This mechanism can be accessed by both internal and external stakeholders and all grievances are independently assessed (i.e. complaints are assessed by an independent party outside of the company).</p>	<p>Grievances are accessible to <u>all</u> parties (internal and external) AND it is possible to have grievances assessed by an independent party or complaints can be reported anonymously at an external party/helpline.</p>	<p>VF Corp - "Our Ethics Helpline, which is available in more than 150 languages, can be used by anyone inside or outside our company to confidentially ask questions or raise concerns regarding ethics and compliance issues."</p> <p>"Our Ethics Helpline isn't just for VF associates. Anyone who wishes to raise a concern about a potential violation of our Code of Business Conduct or the law can contact the Helpline." [...] "VF does not tolerate retaliation against an associate for making a good faith report of a potential violation of our Code of Conduct, a company policy or the law or for participating in an investigation."</p>

EthicsPoint: "The website and helpline are managed by an independent third-party service provider, and you can request to speak with someone in your local language."

1 point There is a formal mechanism by which the company can receive complaints (e.g. a telephone line/ email operated by a third party or by an MSI), but it is only internal and the grievances are not independently assessed.

The company has a formal grievance mechanism BUT,

- The grievance mechanism is not accessible to external parties, e.g. NGOs, trade unions, local communities. Sometimes, companies only have grievance mechanisms for their own employees. This means that e.g. factory workers down the supply chain are also excluded from the grievance mechanism. We consider this as an internal mechanism as well.
- When a company exclusively assesses complaints internally (e.g. a working groups or department). The company does not allow for grievances to be assessed by an external independent organization.

H&M has a *Global Grievance policy that applies to own employees and not to external stakeholders such as supply chain workers.*

8. Transparency

Transparency is the public disclosure of information that enables stakeholders such as customers, investors, trade unions and workers to hold decision-makers to account. For the fashion industry, it means sharing information about supply chains, business practices and the impact of these practices on workers, communities and the environment. Transparency is crucial for connecting the dots of the problems in the fashion industry and understanding how to fix them. The transparency criterion relates to step 5 of the due diligence process: communicate how impacts are addressed (see [OECD Due Diligence Guidance for Responsible Business Conduct](#)). Also have a look at [The transparency pledge](#) and [The Fashion Transparency Index](#).

Good practice

It is important to realize that achieving a living wage in your supply chain is a step by step process. It will not be achieved overnight and that is also not expected. However, it is important to disclose not only the end result, but also your journey to the end results. Be open about your efforts, your successes as well as your learning points. This will help bring the industry as a whole further and it will lead to more trust from for example customers and investors. (Not) Paying a living wage should not be part of the competition between brands, it should be all brands cooperating and sharing knowledge.

Example: Tony Chocolonely openly **reports** about child labour in their supply chain. Tony's says: *But before your alarm bells go off, know this: finding cases of child labor in the supply chain means change is happening. We want to find the children performing illegal labor. Only then can we work with the families to address the problem.*

	Methodology question	Guidance	Example
<p>5 points</p>	<p>The company provides all information listed for 4 points publicly.</p> <p>I. Data about indicators surrounding living wage in (where relevant) own manufacturing operations and manufacturing operations in supply chain (excessive overtime, types of contracts, freedom of association, collective bargaining mechanisms).</p> <p>II. (At least) some examples of geographic areas deemed high risk for the non-payment of living wages.</p> <p>III.Examples of wage data in (where relevant) own manufacturing operations and manufacturing operations in the supply chain.</p>		<p>I. H&M reports on a number of KPI's some of which relate to the topic of living wages. Relevant indicators include the number of factories with trade union representation (32% in 2020), and the number of factories with collective bargaining agreements (18% in 2020). Both indicators were newly introduced in 2020 to better track progress on fair and equal jobs in the supply chain. H&M also discloses information about worker representation and trade union representation on its Wages webpage for a number of key production countries.</p> <p>II. "Our salient issues [which includes living wages] form the basis for our ongoing risk analysis across our business, and we apply this to different situations and contexts to inform a risk-based approach for our due diligence and to prioritize our efforts."</p> <p>As part of their annual risk review, H&M conducts country specific risk assessments: "All the major production markets have established heat maps of human rights related issues based on severity and likelihood to inform where extra attention is needed. This is an annual process looking at the type of manufacturing that takes place in the market, insight is drawn from our own supplier performance data, issues raised, stakeholders' input as well as an assessment of the broader context in the country. This process is key in informing our goal setting process and, consequently, prioritized issues are either addressed in local goals or through global programmes as well as industry initiatives."</p> <p>III. H&M discloses aggregated wage data for its key production markets for the first half of 2020, including a more detailed country-analysis of the impacts of Covid-19.</p>
<p>4 points</p>	<p>The company provides all of the following information, either publicly or on information request:</p> <p>I.Data about indicators surrounding living wage in (where relevant) own manufacturing operations and manufacturing operations in supply chain (excessive overtime, types of contracts, freedom of association, collective bargaining mechanisms).</p>	<p>I. Preferably supply chain wide information on the indicators mentioned.</p> <p>II. Eg national minimum wages, average industry wages, reliable living wage estimates, collective bargaining wages. Evidence that the company works with wage ladders.</p>	

	<p>II. (At least) some examples of geographic areas deemed high risk for the non-payment of living wages.</p> <p>III. Examples of wage data in (where relevant) own manufacturing operations and manufacturing operations in the supply chain.</p>		
3 points	<p>The company publicly discloses the following information:</p> <p>I. Number of geographic areas of own manufacturing operations and manufacturing operations in supply chain.</p> <p>II. Information about the length of relationships with key suppliers.</p>	<p>I. This should be evidenced by a supplier list.</p> <p>II. Information should be provided about the length of relationships with key suppliers as in the example of Lojas Renner.</p>	<p>I. Lojas Renner discloses a very detailed list of all its Tier 1 and Tier 2 suppliers, including the number of workers and a sex/gender breakdown.</p> <p>II. <i>Lojas Renner, Fair and Safe work document: We have a Supplier Council, formed by a group of Resale Suppliers that are strategic for our operations, with which we have and continuously build long term relationships. Our average relationship with these suppliers is 10 years, considering a historical series of data that has been monitored since 2007. Meeting quarterly, the Council is an important forum for sharing experiences and discussing themes of common interest, with the goal of building an efficient, competitive and sustainable value chain, while also allowing us to evolve our purchasing practices based on feedback from these suppliers.</i></p>
2 points	<p>The company discloses information on relevant initiatives that are driving the payment of a living wage throughout (where relevant) its own manufacturing operations and its supply chain, but does not provide further details about the entire supply chain / organization.</p>	<p>This is a very broad indicator. Any information on relevant initiatives that have the goal to improve factory workers' working conditions and wages is sufficient for scoring this indicator.</p>	<p>Esprit joined with other brands and IndustriALL Global Union to form an initiative known as ACT (Action, Collaboration and Transformation). ACT seeks to address the problem of low wages in the apparel industry by promoting industry-wide, nation-wide collective bargaining agreements in key apparel exporting countries. Through their union representatives, workers can negotiate higher wages within agreements that address a range of concerns about working conditions while preserving the competitiveness of their industry. ACT makes it clear that wages and compensation must be paid regularly and on time, and be sufficient to meet basic needs and provide some discretionary income for workers and their families.</p> <p>In FY19/20, 4% of Esprit's the factories we work with had a collective bargaining agreement and 6% were unionized.</p>
1 point	<p>The company has a public living wage policy and addresses information requests meaningfully.</p>	<p>Addressing information requests meaningfully should be handled leniently. Only if a company does not respond after multiple requests and/or gives evasive answers to our questions, it can be considered to not score this indicator.</p>	<p>Living wage is included in M&S' Global Sourcing Principles: "Suppliers should work towards paying workers a fair living wage (p 9).</p>

About the annual assessment process

By assessing investee companies against a robust UNGP-aligned living wage assessment methodology and tracking progress over time, the Platform develops high quality data on the social performance of investee companies that cannot be obtained from external sources. Notably, the methodology was developed with external support and validation from a UK accountancy firm Mazars that co-created the UNGP Reporting Framework alongside Shift. It has been made publicly available. Ultimately, our work contributes to building a new data standard of social indicators that could feed into investment decisions in a more straightforward way.

The assessment procedure consists of four main steps:

1) Assessment by assessor

All of the 8 criteria explained in this guidance will be assessed by the assessor. The scores are given based on information that is publicly available, such as sustainability reports, FLA reports, codes of conduct, etc. In Column H, 1 or 0 should be inserted to get the green or red bullet. Furthermore, the methodology uses a subsequent scoring system, for example to award 3 points, all requirements for points 1 and 2 should be met.

2) Assessment 2nd reader

The assessment will be checked by a second reader, and the assessor and 2nd reader will discuss any points where there is a difference of opinion. Based on the assessment and the review done by the 2nd reader a preliminary score will be determined.

3) Feedback

The preliminary scores will be sent to the garment company that is being assessed. They will get a two-week period for reviewing their scores and provide feedback if they disagree as well as the opportunity to provide further evidence that might be relevant.

4) Finalising scores

Based on the additional information the assessor and 2nd reader will adapt the scores if necessary and will come to a final score. Based on the final scores, the companies are placed in the relevant development stage for the annual report (embryonic, developing, maturing, advanced or leader). Based on the final scores an engagement call will be scheduled to discuss results and steps forward.