

## Shaping our 2020 engagement priorities

### *Insights into PLWF assessments and the trends in companies' performance and disclosure*

The Platform Living Wage Financials (PLWF) remains a relatively young investor coalition. However, engaging and assessing companies in the garment and footwear sector for close to two years already offers interesting insights into the progress these companies have achieved, which areas of the assessment methodology have seen the most improvement and which the least, and how these experiences shape our priority engagement areas in 2020. We are presenting some of these insights during the 2020 **OECD Forum on Due Diligence in the Garment and Footwear sector** that takes place in Paris between 11-13 February in Paris.

#### Continuous improvement matters

In our engagement with investee companies, we emphasize the **rate of improvement**, or in other words, the change that has occurred, as **the most positive and desirable factor**. We closely survey companies that score relatively high, but have not improved any further in the course of the two annual assessment rounds. This is because scoring highly typically does not mean that a company's suppliers would pay a living wage to all the workers in their manufacturing operations: for all the companies our coalition assesses, there is still scope for improvement.

#### Positive progress overall

In comparison with the 2018 assessment results, overall a positive progress has been achieved and on average companies have increased their scores by about two points. For the first time there have been brands classified in the highest ranking of the assessment (i.e. leading phase).

#### Improvement beyond low-hanging fruit

Some of the progress relates to relatively low-hanging fruit. For example, there has been a notable improvement in the number of companies disclosing **living wage policies** and statements and **defining what a living wage is**. Most of these met the fundamental elements of widely recognized living wage definitions. Although this may seem like a marginal step, for some companies simply initiating internal discussions on living wage and taking first steps to integrate it in their processes may equal to climbing a steep mountain. The stage that follows this initial step is fundamental to defining the company's level of overall ambition on living wage, and we intend to influence that momentum through our engagement work.

Moreover, some more limited, yet positive progress has been achieved with respect to **'Integrating findings'** (C5), one of the most fundamental questions of the assessment methodology which tackles, among others, the impact of companies' purchasing practices on suppliers' ability to uphold labor and human rights. However, it remains rather challenging for companies to 'break the glass ceiling' and move from 4 to 5 points under this question. We further address this under 'priority engagement areas' below.

### Areas with the lowest average scores remain unchanged, but 'Engagement' stagnates

'Assessing impacts' (C3) of paying wages below a living wage level, 'Tracking performance' (C5) of monitoring systems aimed to review the implementation of the living wage policy and 'Transparency' (C6) have come out as the assessment areas with the lowest average scores. These remain around 2 points. This is in line with the 2018 assessment results, where these three areas also received the lowest average scores relative to the other questions of the assessment methodology. In absolute terms the average scores related to these questions have increased, with 'Tracking performance' carrying the lowest average improvement. The area with the **least improvement overall** is, however, perhaps surprisingly 'Engagement' (C3), a question under which companies' multi-stakeholder collaborations related to wages are assessed, and where it is evaluated whether these have had any positive effects. Only two companies improved their scores on this question between 2018 and 2019.

### Some companies are progressing, others less so

Top movers upwards have been Asics, Burberry, M&S and Lojas Renner, whose final assessment result has improved by about 6 points on average. We see a positive correlation between the quality of our engagement with these companies and their rate of improvement. Little progress has been achieved by GAP, Inditex, and Gildan as their scores remained virtually unchanged since 2018. These are the companies from which we expect more progress in 2020.

### 2020 engagement approach

We see that it requires a concerted effort to ensure that our engagement is picked up at highest levels of the companies we engage and ignites real change. Another challenge poses the fact that some companies are either unwilling or unable to progress 'beyond a certain point', particularly if the rest of the sector does not follow quite as quickly.

In 2020, we are thereby aiming to focus on more in-person engagement and diversify the modes of engagement to reach all relevant company levels and ignite real change. In this context we also realize that to ensure all companies and key stakeholders progress on living wage, the business case for living wage needs to be better understood. We hope to effectively advance this understanding through our work, report on the business case for living wage, and take steps to ensure that our work in this context and more broadly is understood and can be leveraged by different parties in the garment & footwear value chain.

We also hope to take first steps to better understand the effects our investor collaboration has. To be able to do this, we are initiating a **review of our living wage assessment methodology** in Q1 2020 to ensure it is fit-for-purpose and adequately captures the move from policy to implementation.

### Priority engagement areas

During the evaluation of the 2019 assessment results, the following areas stood out as areas where more progress is needed:

- Engagement (C2)
- Integrating findings (C4; breaking the glass ceiling by moving from 4 to 5 points)
- Tracking performance (C5)
- Remedy (C6)
- Transparency

However, priority engagement areas also depend on the current stage of each company.

**‘Engagement’** features as a question on which we have seen least progress between 2018-2019. We will aim to strategically engage with the Friends of the Platform to understand and discuss the difficulties with measuring positive impact of wage-related projects that companies undertake within multi-stakeholder initiatives (MSIs). Companies should also increasingly report on the positive impact of their work within MSIs in their own documentation, and move from pilots to more mainstreamed programs.

It remains challenging for companies to break the glass ceiling on **‘Integrating findings’** (move from 4 to 5 points). More progress on labor minute costing, pricing, and other ways through which companies can leverage their purchasing practices to not only minimize their negative impacts on their suppliers, but to actually positively contribute to suppliers’ ability to improve wages is needed.

After ‘Transparency’, **‘Tracking performance’** marked the lowest average score. Only one company scored 5 points. In their public reporting companies focus on social compliance and their *efforts* to mitigate adverse impacts on workers’ lives rather than the *effects* of those efforts. Instead of reporting on their *efforts*, companies should thereby identify the *effectiveness* of the actions that they have implemented to mitigate adverse impacts. Have these actions actually been effective, or is another course of action necessary? To be able to do this, companies should improve their data collection and showcase their understanding of wage trends over time.

Some frontrunners lag on **‘Remedy’**. Companies regularly do not see the relevancy of discussing human rights grievance mechanisms and access to remedy in relation to living wage. We will strive to ensure this topic gets adequately addressed during our engagement calls and meetings.

Progress on the highest indicators of several questions in the assessment methodology is often due to private disclosure. Ensuring that relevant data is disclosed publicly remains particularly challenging across the assessment methodology, but in the context of the **‘Transparency’** section in particular. More insights are needed to understand key reporting constraints.

#### Next steps: How to further enhance our effectiveness?

- In Q1, we continue to organize engagement calls and meetings with our investee companies to reflect on the 2019 assessment results and identify areas where most improvement is needed.
- On 17 February following the OECD Forum on Due Diligence in the Garment and Footwear sector, we will distribute an investor statement to call on luxury brands to enhance their transparency around the identification and management of material ESG issues, including efforts on living wage, and to create an altogether more sustainable industry. More information about this statement will be published on our website.
- We will also update the 2018 ‘Good practice guidance’ that can serve as a tool for investors and companies alike to identify frontrunners and learn about the types of practices these companies have been implementing.
- Along with Mazars, we have initiated a review of the living wage assessment methodology and approach to ensure it is fully fit-for-purpose. This review should be concluded by the end of March.
- We plan to intensify our engagement around companies’ Annual General Meetings (AGMs) and address letters containing our key asks to the management of selected companies.

- In Q2, we will start with the annual assessment cycle; final assessment results are expected to be publicly communicated in September/October.

We also look forward to engaging with you, our stakeholders, and invite you to explore how we could collaborate and engage in a discussion on how to best enhance the effectiveness of our investor coalition. Provided you wish to stay updated on our work, let us know at [info@livingwage.nl](mailto:info@livingwage.nl).

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*As of 11 February 2020, Members of the PLWF Working Group on the Garment and Footwear sector that are involved in the above engagement work are the following financial institutions: Achmea Investment Management, Actiam, ASN Bank, Amundi, Kempen Capital Management, MN (Chair of the Working Group), Robeco, Triodos Investment Management.*

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