Higg Brand Retail Module Guidance:
Setting Baselines & Targets

Setting Baselines - Introduction

As part of the Higg Brand Retail Module (Higg BRM), brands and retailers are expected to conduct a baseline assessment to establish targets and measure progress related to commitments for mitigating harm and improving social/human rights performance. This guidance is designed to establish a baseline to measure progress against your targets as part of tracking on social commitments.

The Sustainable Apparel Coalition developed additional tools that provide additional context to support your baseline assessment activities:

1) A target template for tracking and uploading your goals into the Higg BRM;
2) Guidance to set targets;
3) Guidance on how to track and communicate progress based on OECD Due Diligence Guidance.

What is baseline setting?

Baseline setting is an assessment to identify where you are now as it relates to a specific topic and/or area of focus. It also serves as the reference point used to measure progress and/or improvement of any activities taken, which is why it should be conducted before any activity begins. Some companies find it valuable to conduct a baseline prior to establishing a target to help inform the goal-setting process to help set realistic, stretch targets.

Example:
Health and safety is a priority for your company's responsible sourcing strategy. Recently, you have identified an increase in the number of factories with blocked fire doors identified during audits. Your company wants to set a 100% compliance target of unblocked fire doors for Tier 1 suppliers based on audit findings.

Your supply chain has 100 active Tier 1 factories you are sourcing product from. Based on reviewing the audit findings from the past year, 17 of those factories had non-compliances related to blocked doors. This means 83 active Tier 1 factories – representing 83% - have met your target. This is your baseline. The activities you take are focused on helping improve compliance for the remaining 17%.

How to conduct a baseline assessment?

A baseline assessment is made up of four parts:

1) Define:
    Establishing clear parameters on what is being measured is important to create an accurate baseline, which can be used to effectively measure progress. It should align with the qualitative and quantitative indicators you defined to **verify, monitor and validate** your activities. (Please

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refer to the Guidance on how to track and communicate progress based on OECD Due Diligence Guidance to learn more about setting indicators and tracking progress).

Example:
Building on the above example, the number of unblocked fire doors based on audit findings is being measured to achieve 100% compliance.

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2) Approach:
   Once what is being measured is defined, determining how it will be measured is essential because it will influence your approach. This should align with your defined verify, monitor and validate activities defined as part of your measurement plan. (Refer to Guidance on how to track and communicate progress based on OECD Due Diligence Guidance.)

   Below are a few different types of activities that can be used to define a measurement approach to assess the current state and define the baseline. The tactics selected should reflect what resources are needed and what would be considered credible data.
   - **Stakeholder Engagement**: Obtain data through interviews, focus groups, and direct observation to document the relative power and interest of the different actors involved in the situation (e.g. factory workers, factory owners, local NGOs).
   - **Questionnaires**: Conduct surveys targeting specific groups to obtain information to collect both qualitative and quantitative data. They can be helpful for standardised research of larger groups.
   - **Direct Observation**: Provides a more in-depth picture of issues and opportunities related to worker and supplier empowerment. This could include site visits and/or engaging in the local community to better understand the local context.
   - **Data Analysis**: Review existing set of information to verify an assumption or baseline. This can be by looking at audit reports or existing survey results.

Example:
- The target is being directly assessed using audit findings from site visits—unannounced third-party audits—to **verify** compliance. This was chosen as the methodology to establish the baseline measure because it provides additional credibility by being a surprise audit conducted by an independent party. Based on the audits conducted, the baseline is 83% compliance.
- While not specific to your baseline, below defines an approach to support the broader measurement plan to measure the results of your activities:
  o **Monitor** all audits are conducted at the sites as needed within the defined time range.
  o **Validated** if activities have led to 100% compliance or if additional actions will be needed to help hit this target.

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3) Measure:
   - Create a plan: Now that the approach is defined, outline the steps required to implement your measurement plan. Refer to the Guidance on how to track and communicate progress based on OECD Due Diligence Guidance for additional information on how to build your plan.
   - Define a documentation process: It is important to document steps taken as part of the baseline. This will allow you to repeat the same process to measure future improvements in the future while ensuring data integrity.
   - Implement the plan: Take all defined activities within the defined timeline. If there are obstacles to get any of the information, review the methodology and plan and refine as necessary.

4) Analyse results
   - Once the defined data points are collected, analyse the results to assess how the activities are against the target.
   - If the information doesn't provide the necessary detail to credibly indicate baseline performance due to either missing information or data quality issues, consider implementing additional tactics.

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- Present findings to internal stakeholders to discuss insights and collectively align if the baseline is findings are credible or if additional data are needed to qualify the results.

<u>Example:</u>
- Following the initial data review, internal stakeholders decided to change what is being measured to capture the perception of health and safety at the facility-level. This will help understand the sustainability of this intervention as part of broader efforts to embed health and safety practices into everyday behaviours and achieve culture change.
- The team will then conduct steps 3 and 4 as described above to implement the new approach.

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Setting Targets - Introduction
As part of the Higg Brand & Retail Module (Higg BRM), brands and retailers are expected to report on their company targets for mitigating harm and improving social/human rights performance. This guidance is designed to help you better understand how to set targets and track social performance commitments as part of your management systems.

Sustainable Apparel Coalition (SAC) developed additional tools that provide additional context to support target setting activities: 1) A target template for tracking and uploading goals into the Higg BRM; 2) Guidance on setting a baseline assessment; 3) Guidance on how to track and communicate progress based on OECD Due Diligence Guidance.
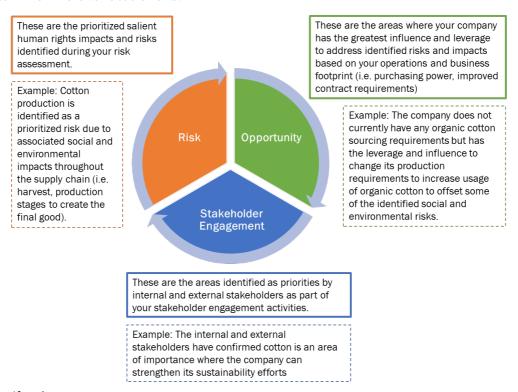
Defining Targets
Targets are defined performance goals of a company's committed activities, such as activities to mitigate human rights impacts and risks. They can also be an effective tool for your company to:
- Improve upon past performance;
- Make commitments concrete and manageable to support implementation;
- Strengthen reputation and trust with stakeholders;
- Engage employees;
- Hold the company accountable;
- Differentiate a company from its competitors;
- Align sustainability performance tracking with how the company measures and reports on business performance for improved integration.

Target Setting Process

1. Focus on issues that are material to your company
   Identify what areas are the most relevant based on **risk**, **opportunity** and **stakeholders** to determine where to focus efforts.

These are the prioritized salient human rights impacts and risks identified during your risk assessment.

Example: Cotton production is identified as a prioritized risk due to associated social and environmental impacts throughout the supply chain (i.e. harvest, production stages to create the final good).

These are the areas where your company has the greatest influence and leverage to address identified risks and impacts based on your operations and business footprint (i.e. purchasing power, improved contract requirements)

Example: The company does not currently have any organic cotton sourcing requirements but has the leverage and influence to change its production requirements to increase usage of organic cotton to offset some of the identified social and environmental risks.

These are the areas identified as priorities by internal and external stakeholders as part of your stakeholder engagement activities.

Example: The internal and external stakeholders have confirmed cotton is an area of importance where the company can strengthen its sustainability efforts

2. Identify where you are now
   Conduct a baseline assessment to define where you are now as it relates to the identified focus area. This provides context for you to set performance targets. **(Refer to the guidance for setting a baseline for more information.)**

> Example:
> Your company wants to make a commitment to source organic cotton. However, before making any commitments and/or establishing any performance targets, you need to understand the following:
> - Company's overall demand for cotton: What volume are you sourcing now?
> - Levels of organic cotton currently being used: What percentage of overall sourcing volume?
> - Products currently using organic cotton: What products and at what percentage?

3. <u>Engage internal partners to finalize goals</u>
   Targets should be informed by the leads for all business areas needed to achieve the potential target (i.e. procurement, merchandising, responsible sourcing). This accomplishes the following:
   - Establishes leadership commitment and shared accountability from all needed internal business units;
   - Defines how the target will support the overall business strategy such as increased revenue, productivity and/or risk management to help demonstrate and measure positive business impact;
   - Ensures all required parties are involved in target-setting because their support is critical;
   - Assesses the feasibility of potential targets to identify what resources are length of time are needed to achieve the potential targets.

> Example:
> To achieve the potential goal above
> - You need to identify the leads for business units that are involved in cotton sourcing and would be essential to delivering an organic cotton sourcing target.
> - Share the findings from the risk assessment and stakeholder engagement to help them understand why the company is considering establishing a target to change its cotton sourcing strategy to include more organics to reduce environmental and social risks.
> - Present the baseline data to help demonstrate the current state and seek business leads' input to determine what the potential target could be.
> - As a group, identify what resources are needed to achieve the potential targets, length of time needed for each and the associated positive and negative impacts to the business.
> - The entire group should be aligned on what is presented to senior leadership for approval and committed to supporting the external target. Without shared ownership and accountability, it may prevent the group from collectively realizing the target.

4. <u>Define what you want to achieve by when</u>
   Targets should strike a balance between challenging and realistic. It should be high enough to establish meaningful change. However, it should not be such a challenge that it is impossible for the company to achieve.

   Targets will be either quantitative or qualitative. Consider using both, if possible, to measure the results of an activity.

   - **Quantitative** indicators are numerical values used to measure if the activities and actions are happening as defined in the plan. This allows you to better identify trends and impact of the work.

     Example: The number of internal employees who attend a training on forced labor or the decrease in the number of audit violations.

- **Qualitative** indicators measure if the desired behavior change occurred as intended and are typically expressed as a percentage. This will help you better understand the nuance and drivers behind the impact.

   Example: Increased levels of women's participation in decision making at a factory as a result of women's empowerment training.

Use the SMART goal-setting methodology to ensure the target is:
- Specific: Well-defined, clear and unambiguous;
- Measurable: With specific criteria that measures progress;
- Achievable: Attainable and not impossible to achieve;
- Realistic: Within reach, realistic and relevant;
- Timely: With a clearly defined timeline.

Consider aligning your target with the relevant Sustainable Development Goals (SDGs). This is a great way to demonstrate how your company's targets are contributing to global priorities. Refer to the recently launched SDG Essentials for Business, an initiative by the World Business Council for Sustainable Development (WBCSD)

> Example:
> Based on data collected during the baseline and SMART goal-setting, your team is proposing the following target: **We will use 100% organic certified cotton for all children's pyjamas we sell by 2022.**
> This goal helps support multiple SDGs. To learn more about how organic cotton supports the SDGs, click here.

5. Get senior leadership approval and commitment
   Senior leadership should be aligned and supportive of the goal before it is adopted and announced internally and externally. This ensures there is accountability at the senior management level to help hold the organization accountable to its external commitment.