

THE FAIR LABOR ASSOCIATION'S 2020 FAIR COMPENSATION STRATEGY



The history of the FLA's commitment to fair compensation

Over its 20-year history the Fair Labor Association and its affiliates have made a commitment to ensuring that workers receive fair compensation. Specifically, the FLA Code of Conduct states that workers have a right to compensation within a regular work week that is sufficient

to meet their basic needs and have some discretionary income. In 2011 the FLA developed this code language, and over the last eight years the FLA has worked with its affiliates to align their internal codes of conduct with this commitment and make progress to achieve this goal.

What progress have FLA and its affiliates made on fair compensation?

In 2015, the FLA adopted the Fair Compensation Workplan and has worked steadily to implement it. Despite challenges, important progress has been made. The FLA has published analysis of average wages in FLA supply chains and shared recommendations for next steps in key countries such as India, Bangladesh, and Vietnam. We have compiled and updated living wage benchmarks in countries of greatest risk, provided training and FAQs on understanding these benchmarks and related issues, and convened regular discussions between companies about their experiences and approaches to fair compensation. The FLA has also created practical tools to support

companies in making progress such as the FLA's Wage Data Collection Toolkit. This tool, which will now be available online to FLA affiliates, enables companies to collect wage data using uniform metrics and standards and to visualize that data against living wage benchmarks.

All Participating Companies and Participating Suppliers are required to use the tool. All companies need to use this data to drive internal conversations about wages and to develop and implement fair compensation strategies. Progress on this challenging issue is both urgent and possible.



What's next for addressing fair compensation at FLA?

The FLA recognizes that there is no single blueprint for success; rather, our strategy must incorporate work with individual factories alongside collaborative efforts in countries where wages do not meet workers' basic needs.

Going forward, the FLA will adopt a two-pronged strategy with respect to these issues. The first element will be for representatives of the Business, CSO and University caucuses to develop pilot initiatives that will test implementation strategies. In formulating these pilot projects, each caucus should look for innovative approaches to improve performance with respect to compensation. To start, the FLA board members will identify those affiliates most interested in joint projects and with the support of FLA staff will convene a conversation to gauge interest and set collective priorities. The FLA is committed to the success of these pilots, and we acknowledge that achieve it will require active commitment and leadership from board members and affiliates.

On a parallel track the FLA will require each accredited company to use their wage data as a predicate to helping them set internal priorities and create actionable plans for implementing fair compensation. The FLA recognizes that due to

the complexity of the problem and the many forces involved, it may not be possible for an individual company to achieve fair compensation in their supply chain immediately and/or acting solely on its own. What the FLA's updated strategy does require is that companies articulate to the FLA how they are approaching the problem in priority countries based on their own footprint, leverage, and workers' needs, and how they intend to raise wages where necessary to provide fair compensation over time.

Specifically, the FLA's strategy requires each company to commit to the following:

- 1) To collect data** from a representative sample of their supply chain using the FLA wage tool;
- 2) To use this data** to generate cross-departmental conversations within each company about setting strategies and priorities for fair compensation, including tactics pertaining to high risk sourcing and/or owned production countries;
- 3) To develop a blueprint** for fair compensation that articulates their priorities and describes how they will implement changes or test new approaches towards improving worker wages;
- 4) To publish their commitment** to fair compensation, including details of their efforts towards implementation.



How will we know if we are making progress under the 2020 strategy?

The FLA Board of Directors has carefully considered our goals and tactics. We recognize the need for an ambitious — yet realistic — strategy that aims for progressive improvement and honors our organizations' ongoing commitment to transparency. To achieve these goals the FLA will evaluate individual company progress, including through the company self-assessment and re/accreditation processes which will include a review of each company's blueprint for fair compensation. We will continue to report publicly on the status of the FLA's

joint efforts, particularly in countries where the need is the most urgent. Additionally, the FLA will publish an update illustrating the status of each company's fair compensation plan.

The FLA's updated fair compensation strategy reflects our major accomplishments, sets clearer accountability measures, and acknowledges areas that need further work. We are grateful for the work of all affiliates and stakeholders as we continue to make forward progress on the urgent issue of fair compensation for workers.

VISION

- ▶ **Workers in FLA affiliate supply chains will earn compensation in a regular workweek that is sufficient to meet their basic needs and have some discretionary income.**

STRATEGY

- ▶ **The FLA and its affiliates will actively create and communicate expectations and structures that enable workers to earn fair compensation, supported by the FLA's tools, guidance, and collaborative community¹**

¹ FLA activities described in this document will be undertaken in compliance with all applicable laws, including anti-trust regulations.



GOAL: Establish a foundational commitment to fair compensation for FLA affiliates.	
TACTICS	TIMELINE
▶ Develop language establishing a worker's right to compensation that allows them to meet basic needs for themselves and two dependents and have some discretionary income.	▶ Accomplished 2011
▶ Develop an initial fair compensation work plan for the FLA and its affiliates, with public updates as needed.	▶ Accomplished 2015, 2017
▶ Develop language establishing a worker's right to compensation that allows them to meet basic needs for themselves and two dependents and have some discretionary income.	▶ Accomplished 2011
▶ Develop an initial fair compensation work plan for the FLA and its affiliates, with public updates as needed.	▶ Accomplished 2015, 2017
▶ Align code language for all Participating Company (PC) and Participating Supplier (PS) affiliates.	▶ Accomplished 2018
▶ Align code language for all Category B affiliates. University affiliates support this effort.	▶ Accomplished 2019
▶ Align code language for all Agriculture affiliates.	▶ 2020



GOAL: Overcome knowledge barriers so that FLA and its affiliates understand a) what workers are earning; and b) how those earnings compare to fair compensation.

TACTICS	TIMELINE
▶ Develop a standard definition of net wage and a worker sampling methodology.	▶ Accomplished 2015
▶ Develop an accessible, user-friendly tool for collecting comprehensive wage ² data across a wide sample of facilities.	▶ Accomplished 2018
▶ Create a user-friendly tool to analyze and visualize compensation data against wage ladders, including opportunity for affiliates to enter additional wage benchmarks as needed.	▶ Accomplished 2018
▶ Bring data analysis online in a centralized wage dashboard, to broaden scope of data collection and allow each company to perform an individualized analysis of their own supply chain.	▶ 2019
▶ Periodically update fair compensation benchmarks to reflect the latest research and knowledge. As possible, collaborate with other organizations to fund benchmark research in the highest volume regions. Companies engage with CSOs as needed to gather and establish additional benchmarks, particularly in areas where FLA affiliates have a small sourcing footprint overall.	▶ Began in 2017, ongoing
▶ Develop or compile tools to understand the underlying costs and prices that influence farmer income and worker wages in the agricultural sector, according to the needs identified by the Agricultural Committee.	▶ 2020

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² A note on terminology: In this document, the FLA uses the term “fair compensation” as well as the term “wages.” Both terms are inclusive of all aspects of worker pay – base wage, cash and in-kind benefits – and exclusive of legal deductions and taxes. Incentive pay is included only when it can be earned by all workers within a regular work week.



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TACTICS	TIMELINE
<ul style="list-style-type: none"> ▶ Companies³ and Category B licensees use the data collection process to initiate conversations with suppliers about understanding fair compensation needs for workers and the intent to work cooperatively on methods to address wage gaps. University affiliates help communicate this expectation to their licensees. 	<ul style="list-style-type: none"> ▶ Began in 2018, ongoing
<ul style="list-style-type: none"> ▶ Companies and Category B licensees use wage ladders and other data analysis to understand the state of play within their company's supply chain. Companies begin to set internal priorities based on areas of greater need, leverage, ability to effect change, etc. 	<ul style="list-style-type: none"> ▶ Began in 2018, ongoing
<ul style="list-style-type: none"> ▶ Companies and Category B licensees use online Wage Dashboard to compare facilities and regions within their own supply chain, to help clarify internal compensation goals. Companies collect data for a representative sample of their supply chain. 	<ul style="list-style-type: none"> ▶ 2020
<ul style="list-style-type: none"> ▶ Companies and Category B licensees may continue to use 2015 worker sampling methodology as needed to measure gender wage gaps, particularly where gender discrimination and similar compliance risks have been identified. 	<ul style="list-style-type: none"> ▶ 2019, ongoing

³ For the purposes of this strategy document, "companies" refers to FLA Participating Company (PC) and Participating Supplier (PS) affiliates unless otherwise noted. Category B licensees are specified where appropriate.



GOAL: Communicate externally about the FLA's fair compensation efforts, so as to actively advance public conversation, awareness, and knowledge.

TACTICS	TIMELINE
<ul style="list-style-type: none"> ▶ Publish global wage report that aggregates data and establishes collective understanding of high risk regions. 	<ul style="list-style-type: none"> ▶ Accomplished 2016
<ul style="list-style-type: none"> ▶ Publish regional wage reports that outline specific compliance issues contributing to low wage levels (Bangladesh, Vietnam, and India – Agriculture.) 	<ul style="list-style-type: none"> ▶ Accomplished 2018-2019
<ul style="list-style-type: none"> ▶ Publish data and analysis of aggregate average wages in FLA supply chains and regional changes over time. 	<ul style="list-style-type: none"> ▶ Begin in 2021, ongoing
<ul style="list-style-type: none"> ▶ Engage with external stakeholders – including other organizations, MSIs, governments, investors, trade and industry associations, retail associations, consumer groups, and the public – through speaking engagements, written content, and other opportunities for communication and action. 	<ul style="list-style-type: none"> ▶ Began in 2015, ongoing
<ul style="list-style-type: none"> ▶ Engage with the media to highlight the positive efforts of the FLA and its affiliates around fair compensation. 	<ul style="list-style-type: none"> ▶ Began in 2016, ongoing
<ul style="list-style-type: none"> ▶ Highlight best practices and examples of successful implementation strategies. Communicate externally about FLA's recommendations for additional progress involving all stakeholders. 	<ul style="list-style-type: none"> ▶ Began in 2019, ongoing



GOAL: Identify and test tactics for implementing fair compensation, including pilot programs. Focus on priority countries where FLA can support collaborative efforts.

TACTICS	TIMELINE
<p>▶ Generate regular internal communication – including updates, training content, in-person discussion, and online Q&A – that keeps all affiliates informed of approaches, best practices, and progress.</p>	<p>▶ Began in 2018, ongoing</p>
<p>▶ Have one-on-one conversations with companies and document their success stories and challenges in implementing fair compensation programs. Include and highlight the work of Participating Suppliers. Documentation is in the form of presentations at board meetings, (re)accreditation reports, periodic white papers, and annual public reporting. Some examples of tactics may include:</p> <ul style="list-style-type: none"> • Remediation of compensation-related labor violations such as minimum wage, overtime payment, accurate payment, fringe benefits, and fees. • Taking measures to increase productivity and pay while reducing hours; • Changing pay structures or systems to increase take home earnings; • Incorporating costing measures – such as transparent costing or labor minute costing – that allow for more open price negotiations; • Improving purchasing practices such as production planning and lead times to reduce overtime hours and increase productivity; • Understanding procurement prices and impacts to farmworker wages; • Engaging with union and/or worker representative structures to improve communication and setting of wage policies and procedures; • Engaging with civil society organizations on living wage, collective bargaining, freedom of association, and other related actions; • Engaging with governments in collaborative advocacy efforts; • Surveying retailers and consumers (including students) as well as licensors and licensees (including universities) to understand customer demand for fair compensation; • Working with academia or researchers to examine specific issues on discretionary income, gender wages gaps, production efficiency, etc.; • And others. 	<p>▶ Began in 2018, ongoing</p>

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TACTICS	TIMELINE
<ul style="list-style-type: none"> ▶ Convene small group, cross-caucus discussions to share experiences and challenges with implementation of fair compensation. All caucuses will use these conversations to understand challenges and adjust approaches as needed. Upon request, match affiliates with mentors or mentor groups to advise on fair compensation progress. 	<ul style="list-style-type: none"> ▶ To begin in 2020
<ul style="list-style-type: none"> ▶ FLA, in consultation with all caucuses, will identify priority countries and levers based on both need for intervention and opportunity for joint advocacy. 	<ul style="list-style-type: none"> ▶ To begin in 2020
<ul style="list-style-type: none"> ▶ With other MSIs or industry organizations, jointly engage with governments on wage issues particularly in regions where minimum wages are inadequate to meet workers' needs. Publish letters and other joint communication to governments and keep affiliates informed through relevant issue briefs. 	<ul style="list-style-type: none"> ▶ Began in 2015, ongoing
<ul style="list-style-type: none"> ▶ Engage with ACT, Global Living Wage Coalition, Fair Wear Foundation, AAFA, and other MSIs, industry, or worker groups to identify additional tactics that can address systemic causes of low wages, including jointly advocating for increased minimum wages, benefits, rights, and other government level actions. Companies, CSOs, and Universities will support on identifying high impact projects and opportunities for engagement. 	<ul style="list-style-type: none"> ▶ Began in 2019, ongoing
<ul style="list-style-type: none"> ▶ Develop training, including webinars and other guidance documents, on best practices in implementing fair compensation – including costing guidance and guidance on purchasing practices. CSO affiliates to support with guidance from their sectors/regions. University affiliates to support in communication to licensee affiliates. 	<ul style="list-style-type: none"> ▶ Began in 2019, ongoing
<ul style="list-style-type: none"> ▶ Conduct a formal pilot program to test approaches to implementing minimum wage in the agricultural sector (India). 	<ul style="list-style-type: none"> ▶ Accomplished 2019
<ul style="list-style-type: none"> ▶ FLA to support pilots and other collaborative efforts between affiliates in their efforts to achieve fair compensation, especially in multi-buyer facilities. These efforts will focus on the co-creation of solutions and tactics to increase compensation. CSO affiliates to support this effort. 	<ul style="list-style-type: none"> ▶ To begin in 2020
<ul style="list-style-type: none"> ▶ FLA to refine strategy for fair compensation in agriculture, including the elements above, as appropriate for the sector. 	<ul style="list-style-type: none"> ▶ To begin in 2020



GOAL: Make ongoing progress towards fair compensation and incorporate measures of progress into the FLA's core accountability programs.

TACTICS	TIMELINE
<ul style="list-style-type: none"> ▶ Incorporate fair compensation questions into FLA impact assessment and worker voice methodologies, including WISE, with a focus on the gender pay gap and other issues of impact. 	<ul style="list-style-type: none"> ▶ 2019-2020
<ul style="list-style-type: none"> ▶ Measure remediation of fair compensation wage violations in countries in FLA factory assessments, in countries where FLA compiles industry benchmarks. Measure remediation of gender discrimination indicators in FLA factory assessments. 	<ul style="list-style-type: none"> ▶ Began in 2018, ongoing
<ul style="list-style-type: none"> ▶ Engage with investor communities to ensure that FLA affiliates' work on fair compensation and responsible purchasing and production practices is understood and incorporated into their evaluative tools. 	<ul style="list-style-type: none"> ▶ Began in 2018, ongoing
<ul style="list-style-type: none"> ▶ Each accredited company develops a blueprint for making progress on fair compensation. Each company's blueprint will draw on wage data to set priorities, including in high risk and/or high production countries, and will identify a process for testing approaches towards improving worker compensation. Companies will make these plans available to the FLA for review. 	<ul style="list-style-type: none"> ▶ 2020

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TACTICS	TIMELINE
<p>▶ FLA to review each company’s fair compensation progress, including as part of the annual self-assessment and (re)accreditation. This review will focus on whether a company is:</p> <ol style="list-style-type: none"> 1) collecting data from a representative sample of their supply chain; 2) using data to compare facilities and regions within their own supply chain and drive cross-departmental conversations about priorities and tactics for fair compensation; 3) creating a blueprint for fair compensation that draws on wage data to set priorities, including in high risk and/or high production countries, and identifies a process for testing approaches towards improving worker compensation; 4) engaging with CSOs around fair compensation; 5) implementing changes or testing new tactics towards improving worker compensation. <p>After 2021, this review will focus on whether:</p> <ul style="list-style-type: none"> • blueprints are being implemented; • progress is being made and measured in high risk and high priority sourcing and/or owned-production countries; • further goals and tactics have been identified to progressively expand the scope of implementation. 	<p>▶ 2020, ongoing</p>
<p>▶ FLA to incorporate evaluation of progress in increasing worker wages into the annual self-assessment and (re)accreditation processes, beginning with each company’s priority facilities and regions. This evaluation will initially focus on:</p> <ul style="list-style-type: none"> • full remediation of legal compensation violations; • examples of increased wages in facilities. <p>After 2021, this review will focus on each company’s demonstration of progressively increased wages over time in high risk and high priority sourcing and owned-production countries, according to the priorities set in each company’s plan.</p>	<p>▶ Began in 2019, ongoing</p>



GOAL: Report on company progress, both internally and externally.	
TACTICS	TIMELINE
▶ FLA to include verification of companies' progress on fair compensation in public accreditation and reaccreditation reports.	▶ Began in 2018, ongoing
▶ FLA staff to provide regular updates to the Board of Directors on company progress according to the measures and timelines outlined in this strategy.	▶ 2020 onward
▶ FLA to publish updates illustrating the overall status of each company's fair compensation plan.	▶ 2020 onward
▶ All accredited companies to publish their commitment to fair compensation, including details of their efforts towards implementation.	▶ 2021