WWF | H&M Group

HOW TO USE WATER RISK INDICATORS TO SET CONTEXTUAL WATER TARGETS
– a H&M Group case study

WWF has been partnering with H&M Group on water stewardship since 2011. H&M Group is the second largest apparel company globally, and operates over 5,000 stores in 74 countries. The textile industry has a high impact on water, cotton growing and wet processing such as dyeing and washing requires a lot of water – producing a single cotton t-shirt entails around 3,000 liters.

Raw materials and processing locations are often based in some of the world's most water stressed and polluted river basins. This is why WWF and H&M Group partnered; to improve water stewardship across H&M's value chain as well as to work collectively with others, within and beyond the fashion industry, for a more responsible water use.

More recently, H&M Group has been working with WWF to define the next iteration of its water strategy that will guide their efforts on water beyond 2022. Part of this work includes H&M Group adopting a contextual approach to their performance targets, to help accelerate their ability to reduce impacts across the business and full value chain.

CONTEXTUAL VS. SCIENCE-BASED TARGETS

In short, these two types of targets are different and do different things. While these differences can be very technical they can be summarised as:

CONTEXTUAL TARGETS aim to ensure that the focus of performance targets is aligned with materially relevant water challenges.

SCIENCE-BASED TARGETS aim to ensure the level of the performance of the targets is in line with what science tells us is needed to establish sustainable water systems.

>1,100
suppliers within its production value chain are operating in 24 countries

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THE WHY: OBJECTIVES OF THE WORK

H&M Group has over 1,100 suppliers within its production value chain, operating in 24 countries. The way each supplier uses water differs significantly, depending on contextual conditions. However, the performance targets that are assigned to suppliers don't reflect these contextual conditions (i.e., a one-size-fits all approach). H&M Group is committed to taking more meaningful action on water and the starting point is to ensure that performance targets for individual suppliers better reflect the contextual conditions in which they operate.

Therefore we wanted to create, and scale, an efficient approach to set individual and meaningful performance targets for all suppliers - that are related to their operational and basin contexts.

WWF & H&M Group used the steps within the framework within WWF's recent guidance **"Contextual Water Targets"** (Figure 1) as a guide to implement this.
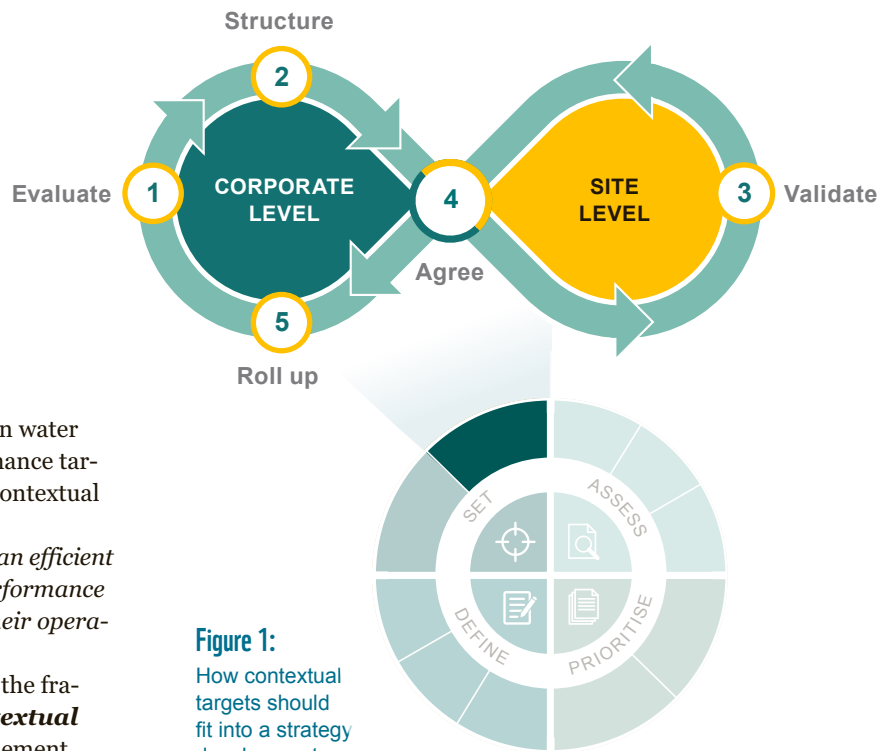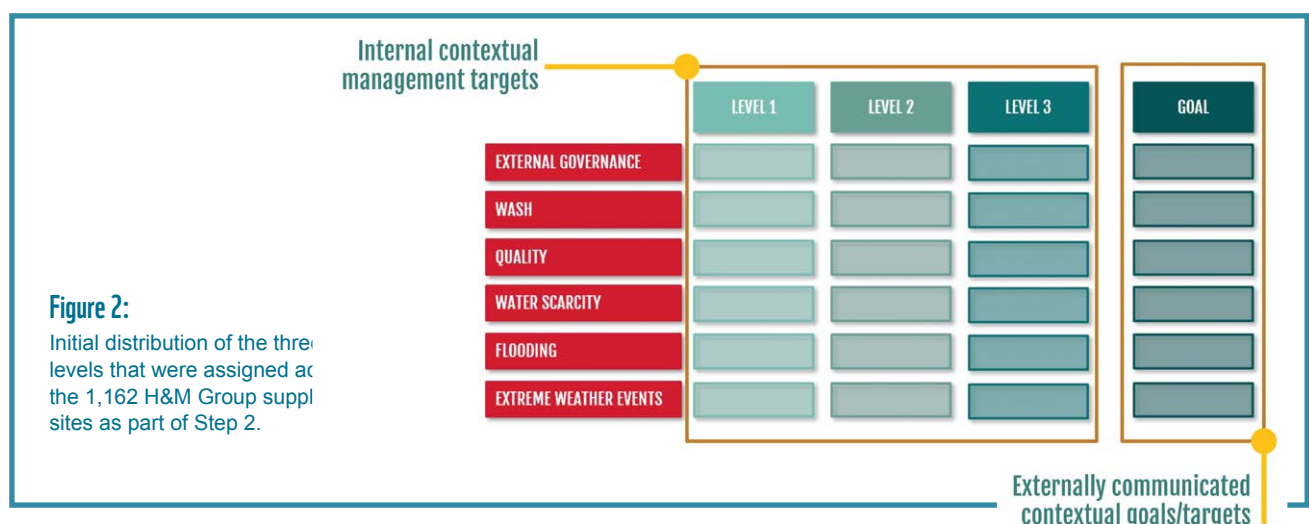

Figure 1:
How contextual targets should fit into a strategy development process.

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1 Evaluate

Indicators from WWF's Water Risk Filter (WRF) were identified as proxy values to evaluate the *Current State, Dependencies, Impact/Influence* for each supplier site against 7 water-related challenges. At an individual site level, this enabled a quick assessment of the state for each of the water-related challenges in the basin (Current State), the potential exposure/reliance (Dependencies) and the potential for Impact/Influence for each site. Grouping the sites into regional clusters helped to identify strategically material water-related challenges for H&M Group suppliers at a regional scale.

2 Structure

To maintain a degree of "standardization" for targets across suppliers, while still accounting for local context, WWF & H&M Group developed a matrix structure of targets and goals (see Figure 2 below). The conceptual logic of the matrix was that performance required would increase with the levels. The values from the *Current State, Dependencies & Impact/Influence* values from Step 1 were used to assign a level of performance for each of the 6 water-related challenge areas for each site. The objective was to assign more ambitious performance to sites where contextually appropriate. The Goals were then a summary of the 3 levels of targets and would be used in external communications.

Figure 2:
Initial distribution of the three levels that were assigned across the 1,162 H&M Group supplier sites as part of Step 2.

③ Validate

Once the different levels for each of the 6 water-related challenges has been assigned to all H&M Group's supplier sites. These results were shared with regional H&M Group water responsible managers. These managers had an intimate knowledge of each of the suppliers and their operating context and were asked to evaluate the appropriateness of the assignment of the contextual targets and provide recommendations for adjustments – if required. The feedback from these consultations enabled WWF to make minor improvement adjustments to the formula used to assign the target levels to sites.

④ Agree

Once the assignment of the levels of performance to sites was validated, WWF & H&M Group (Corporate & regional water managers) worked together to refine and target wording and performance levels. During this process, historical performance of H&M Group was considered along with the general Current State of the basins in which suppliers operate. A trajectory (i.e., assignment of different delivery dates for each target level) of performance was also established that create a pathway to monitor performance progress between 2022 (implementation date of the targets) and 2030 (end date of the new H&M Group water strategy).

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⑤ Roll up

As each level of targets had an assigned delivery date (i.e., Level 1 – 2025, Level 2 – 2027 and Level 3 – 2029), these dates became the trajectory to monitor progress towards the overall 2030 performance Goal. The Levels also acted as a mechanism to monitor individual site progress (i.e., a site assigned a Level 3 target could have its progress against the Level 1 target checked in 2025 to assess if it was on track for its 2029 Level 3 target). Combined, it was then possible to identify how many sites are expected to deliver which targets by a certain date at different spatial scales (e.g., region, country, basin etc.) this allows H&M Group to customize how it rolls up and reports against its progress in the future.

2030
IS THE OVERALL PERFORMANCE GOAL

PUTTING WATER STRATEGY INTO CONTEXT
Corporate strategy is increasingly embracing and embedding the notion of purpose into the heart of strategy. Acting on water presents a pathway for the creation of purpose and value for a company but only if it is addressed strategically within a corporations overall strategy.

Water is fundamentally a local resource meaning it has a unique context – therefore transformational water strategies must account for this context at their core. Without embedding water context into the core of a strategy, it is far harder to contextualise or adopt a "science-based" approach to target setting. WWF's guidance *"Putting Water Strategy Into Context"* provides a framework to embed context into strategy.

THE WHAT: OUTPUTS OF THE WORK

The water risk assessment is done with WWF's Water Risk Filter. It can be used for creating efficient mechanisms to set contextual water targets for the 1,100 H&M Group suppliers. The approach effectively balances top-down corporate performance, by setting objectives while accounting for bottom-up water and operational context. To set contextual water targets creates a meaningful and comprehensive suite of water performance targets.

Therefore we wanted to create, and scale, an efficient approach to set individual and meaningful performance targets for all suppliers – that are related to their operational and basin contexts.

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"The WWF approach to setting contextual water targets allowed us to focus our performance on more water-related challenges but scale the ambition of that performance to account for both local water context and operational parameters"

KIM HELLSTRÖM,
Climate and Water Lead H&M Group
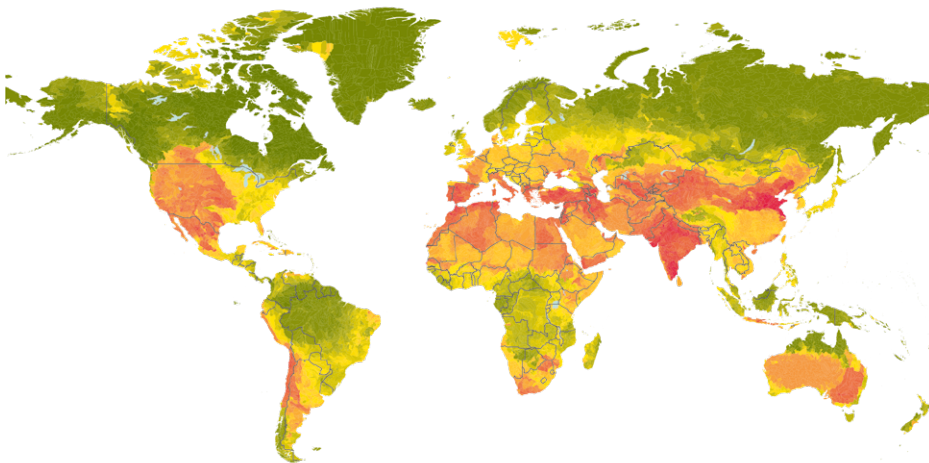
WWF WATER RISK FILTER

WWF's Water Risk Filter is an online tool that supports companies to assess and identify responses to address unique contextual water-related risks.

To assess basin water-related risks, the Water Risk Filter uses the geographic location of a site to draw as many as 32 data layers across three types of water-related risks; physical, regulatory and reputational risks. The filter is peer-reviewed and will be updated on an annual basis.

As such, it is possible to use the Water Risk Filter's indicators as proxy values to understand the current state, dependency, impact and influence each basin site has, related to water. This is a useful and efficient way to define the "context" of each basin within a contextual target setting process.

KEY LESSONS LEARNT & IMPLEMENTATION CONSIDERATIONS

CONTEXUAL TARGET SETTING AT SCALE

It is possible to efficiently set contextual targets across a value chain with many sites while accounting for the local context of water and corporate reporting objectives.

THE WATER RISK FILTER DUAL BENEFITS

It is possible to use the outputs of WWF's WRF assessment for setting contextual water targets – meaning dual benefits for using the tool for your risk assessment.

DO MORE BUT SCALED TO CONTEXT

It is possible to expand its performance targets to more water challenges but scale the ambition of that performance to match the context – do more but do it smarter.

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