



ARENA ITALIA S.P.A

ASSESSMENT FOR ACCREDITATION

February 2017

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INTRODUCTION

This report provides an assessment of the labor compliance program of Arena Italia S.p.A (arena) and concludes with a recommendation to the FLA Board of Directors regarding the accreditation of the company's program. When joining the FLA, Participating Companies and Participating Suppliers commit to implementing the [FLA Workplace Code of Conduct](#), which ensures "respectful and ethical treatment of workers" and "promotes sustainable conditions through which workers earn fair wages in safe and healthy workplaces." The [Principles of Fair Labor and Responsible Sourcing / Production](#) ("Principles") serve as the standards against which Participating Companies and Participating Suppliers are assessed towards an accreditation of their labor compliance program. Participating Companies and Participating Suppliers with accredited compliance programs have demonstrated that they have the systems and procedures in place needed to successfully uphold fair labor standards throughout their supply chains.



The FLA accreditation process involves staff conducting due diligence on the performance of a Participating Company or Participating Supplier during the implementation period. The FLA will assess the implementation of all Principles to ensure a social compliance program has been implemented to accommodate the supply chain expansion. This assessment involved testing a selection of data points or information sources in order to verify actions by the company. Sources of information may include:

- 1) Affiliate Headquarter Assessment: Assessments at headquarters and field offices to interview staff involved in compliance and in other functions, and to review documentation, processes, and database capabilities. In some cases, the offices of agents are visited as well. In countries where the FLA is not able to conduct in-person assessments, interviews are conducted by phone with company staff involved in compliance and in other functions.
- 2) FLA Factory Level Assessments: Independent External Monitoring (IEM), Independent External Verification (IEV), and Sustainable Compliance Initiative (SCI) assessments are sources of information on compliance issues and remediation efforts.
- 3) Annual Reports: Affiliate reports for each year of implementation provides data on the evolution of an affiliate's compliance program in line with FLA Principles.
- 4) FLA Third Party Complaints: Where relevant, an affiliate's involvement in, and responsiveness to, FLA Third-Party Complaints provide additional insight into compliance programs and remediation strategies.
- 5) FLA Strategic Projects: Where relevant, an affiliate's participation in FLA Strategic Projects provides opportunities to learn about the affiliate's compliance strategies for detecting and remediating complex issues.
- 6) Observation: Where possible, FLA staff accompanied affiliate compliance staff on internal audits, training sessions or remediation visits.
- 7) Routine Interactions: Information on the affiliate's compliance program has also been collected through discussions and interactions with affiliate compliance staff in the course of each year's program. Exchanges with civil society organizations and other stakeholders interacting with the affiliate provide additional perspective.

SECTION 1: ARENA COMPANY AFFILIATE OVERVIEW

Name of Company		Arena Italia S.p.A (arena)	
Category	Participating Company	Location	Tolentino, Macerata, Italy
Product/s	Apparel and Accessories (swimwear)	Current Number of Applicable Facilities	39
FLA Affiliation Month/Year	February 2011	End of Implementation Period	February 2014
FLA Accreditation Lead/Support	Accreditation Lead: Tiffany Rogers, Business Accountability Program Manager Accreditation Support: Alpaly Celikel, EMEA Regional Manager		
Unique Company Characteristics	<ol style="list-style-type: none"> 1) arena was founded by Horst Dassler (the son of adidas' founder, Adi) in 1973 after he was inspired by a U.S. swimmer winning seven gold medals at the 1972 Olympics. The adidas Group sold arena in 1990. 2) arena is an official sponsor of the Fédération Internationale de Natation (FINA), also known as the International Swimming Federation. arena sponsors the swimming federations of multiple countries such as, the U.S., Italy, Australia, the Netherlands, and South Africa. 3) Through exploring collegiate licensing in the U.S., arena was recommended by the Collegiate Licensing Company to affiliate with an organization, like the FLA, to support the development of its social compliance program. 		
Summary of Key Strengths	<ol style="list-style-type: none"> 1) Top management's commitment and comprehensive understanding of arena's social responsibility program and potential for further improvement; 2) arena's internal training programs to gain further knowledge of social responsibility, social compliance, and labor standards to inform the development of its program; 3) The Quality Assurance & Social Responsibility (QA & SR) Team's commitment to develop and provide arena suppliers trainings on workplace standards to improve working conditions; 4) The QA & SR Manager's development of procedures and tools to collect and organize social compliance and purchasing practices data; 5) The QA & SR Team's data analysis of social compliance, purchasing practices, and knowledge gained from trainings to inform and improve the social responsibility program; and 6) arena's integration and collaboration amongst relevant business staff to develop and implement responsible purchasing practices and procedures. 		
Summary of Key Suggestions for Strengthening	<ol style="list-style-type: none"> 1) Continue to improve the application of arena's auditing standards and methodology with third-party service providers; 2) Ensure workers in their supply chain are trained to understand the workplace standards and grievance mechanisms; 3) Continue to explore incentives for suppliers that uphold arena's commitment to improving the lives of its workers; 4) Continue to explore incentives for suppliers that uphold arena's commitment to improving the lives of its workers; 5) Continue to implement the arena CSO Engagement Procedures and to engage with civil society to collaborate towards the improvement of working conditions; and 6) Participate in FLA initiatives and activities that facilitate brand and industry collaboration to improve workers' lives. 		



FLA staff and arena staff gathered for the opening meeting of arena's HQ assessment

Arena Italia S.p.A. (arena) is a privately held business located in Tolentino, Macerata, Italy. arena is a competitive swimwear brand and was founded in 1973 by Horst Dassler, son of Adi, the founder of adidas. Dassler was inspired to develop a swimwear line after watching a U.S. swimmer win seven gold medals at the 1972 Summer Olympics. In 1990, adidas Group sold arena to a financial investment group. arena has approximately 260 employees, which includes employees at their wholly-owned subsidiaries in Italy, France, Germany, and the U.S. arena covers 105 country markets with the support of distributors and licensees that source arena products. Additionally, the Descente Group, based in Japan, owns and manages the arena brand in 11 Asian countries. arena products sourced and sold by the Descente Group are not included in the scope of FLA affiliation for the arena brand.

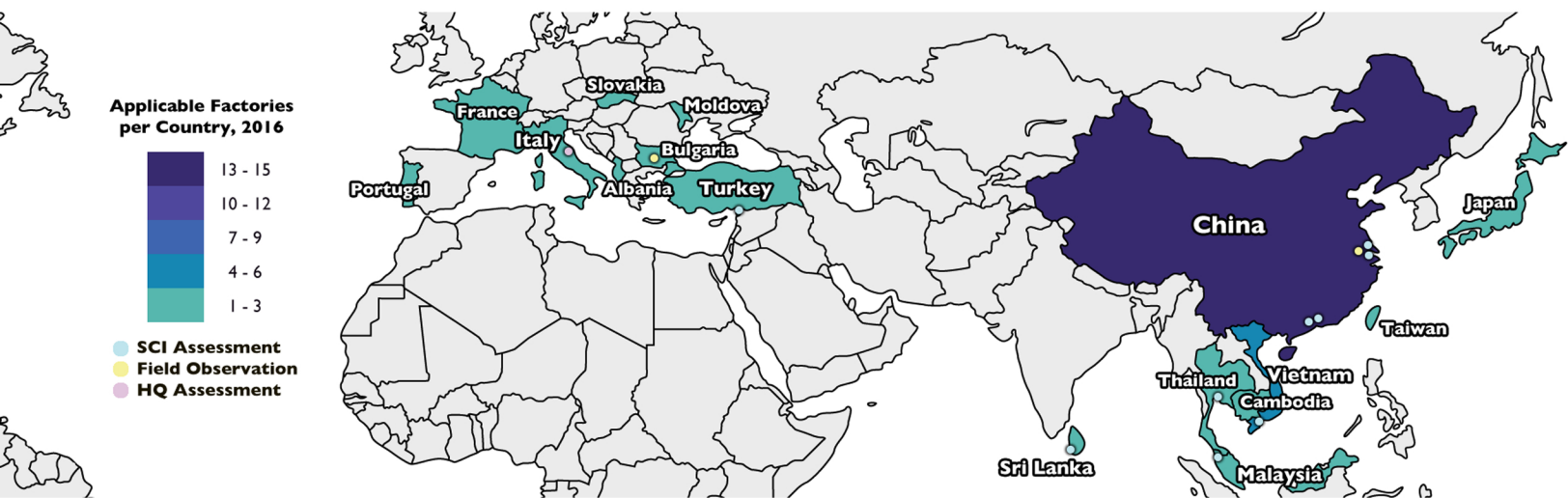
arena specializes in the niche market of competitive swimwear, sponsoring world-renowned swimmers through its Elite Team, such as Olympic Gold Medalists Chad Le Clos from South Africa and Sarah Sjöström from Sweden. arena is an official sponsor of the Fédération Internationale de Natation (FINA), also known as the International Swimming Federation. arena sponsors the swimming federations of multiple countries, such as the U.S., Italy, Australia, the Netherlands, and South Africa, and was an official sponsor of multiple swimmers participating in the 2016 Olympics. arena also sponsors the collegiate national champion swimming and diving teams at Auburn University and University of California, Berkeley (men's team). Prior to FLA affiliation, arena considered entering collegiate licensing for the University of California, Berkeley and was introduced to the Collegiate Licensing Company (CLC). CLC recommended arena to pursue affiliation with an organization, like the FLA, that would provide support and accountability of social compliance of arena's supply chain. Currently, arena only sponsors collegiate swim teams and is not producing collegiate licensed merchandise.

arena was approved as an FLA Participating Company in February 2011, originally selecting a three-year implementation period, however was eligible to select a five-year implementation period¹. arena adopted the FLA Workplace Code of Conduct as the arena Workplace Code of Conduct in 2012, and made further enhancements to the Code in 2016. At the time of affiliation, arena did not have an existing social compliance program in place, so the program was developed within its Quality Assurance Team under the Global Sourcing Department. In 2013, the Quality Assurance & Social Responsibility (QA & SR) Manager was hired to manage the SR Program and reports to the Global Sourcing, QA & SR Director. The QA & SR Team consists of the manager and two QA & SR Specialists.

arena remained engaged with the FLA throughout its implementation period and showed significant progress throughout 2015 in implementing a social compliance program with the target of achieving FLA accreditation. In 2016, arena's Responsible Sourcing Procedures were recognized by the FLA's Stakeholders Services Team who invited the arena QA & SR Team to be featured on a Responsible Purchasing Practices webinar to provide guidance to affiliates on the implementation of the FLA's "Principle 8."² arena plans to continue to pursue opportunities to collaborate and demonstrate leadership within the FLA and in the apparel industry.

¹ In February 2007, the FLA Board of Directors established a Working Group to analyze and make recommendations regarding the accreditation of small or low-revenue PC (low-revenue PCs were defined as those with consolidated revenue under \$300 million). The rationale for the establishment of the Working Group was that small or low-revenue PC faced challenges in meeting all of the FLA company obligations in the same manner that larger PC were able to do. In October 2007, the Board of Directors approved a series of proposals developed by the Working Group that modified the accreditation process for low-revenue PC by: (1) allowing low-revenue PC a longer implementation period, which could be as long as 5 years provided satisfactory progress in implementing a labor compliance program was being made; (2) maintaining the same company obligations for all participants but recognizing that low-revenue PC could meet some of the company obligations primarily through collaborative activities organized by the FLA rather than through individual activities; and (3) taking into account this latter consideration in the evaluation of compliance programs for accreditation purposes. This assessment for accreditation of arena's labor compliance program follows the guidelines for low-revenue PC approved by the Board in October 2007.

² One of the FLA's Principles of Fair Labor and Responsible Sourcing: Principle 8 – Responsible Purchasing Practices: Company Affiliate aligns planning and purchasing practices with commitment to workplace standards. <http://www.fairlabor.org/our-work/principles>



SECTION 2: ARENA’S SUPPLY CHAIN & FLA DUE DILIGENCE ACTIVITIES FROM 2011-2016

The above map shows arena’s sourcing countries and the range of factories in each highlighted country. arena sources from Albania, Bulgaria, Cambodia, China, France, Italy, Japan, Malaysia, Moldova, Portugal, Slovakia, Sri Lanka, Taiwan, Thailand, Turkey, and Vietnam and has a total of 39 applicable suppliers in its FLA scope. From 2011 to 2016, arena received seven SCI Assessments in China, Malaysia, Sri Lanka, Thailand, and Turkey. FLA staff conducted two field observations of arena audits, one in 2014 in China and the other in 2016 in Bulgaria, and conducted a headquarters assessment in Italy in 2016.

SECTION 3: ANALYSIS OF ARENA'S LABOR COMPLIANCE PROGRAM FOR ACCREDITATION

Information used in this assessment originates from annual reports submitted by arena to the FLA verified through:

- 1) An assessment at arena's headquarters conducted by FLA staff in November 2016;
- 2) Information gathered in person, via phone interviews, and through email correspondence with Arena staff;
- 3) Documentation review of supporting evidence submitted by arena;
- 4) Field observations of two arena factory-level assessments in Bulgaria and China;
- 5) Results of FLA Independent External Assessments at arena applicable facilities conducted by FLA assessors and accredited service providers; and
- 6) Communication with stakeholders.

PRINCIPLE 1: WORKPLACE STANDARDS³

Workplace Standards & Top Management Commitment

In 2012, arena adopted the FLA Workplace Code of Conduct as the arena Workplace Code of Conduct. In 2016, arena revised its code of conduct, keeping all standards aligned with the FLA Workplace Code of Conduct. arena has adopted the FLA Compliance Benchmarks to operationalize its code of conduct in its monitoring program. Included on the arena Workplace Code of Conduct is the signature of arena's current co-CEOs.

arena holds an annual Corporate Social Responsibility (CSR) Management Review Meeting to review the status of arena's Social Responsibility (SR) program, share the analysis of findings and remediation within arena's supply chain, review the training activities for staff and suppliers, and provide an update on the analysis of arena's purchasing practices. Through this meeting, further discussion on the next year's budget and planned activities to improve the SR program are discussed. The FLA reviewed the procedures for this meeting and interviewed the relevant staff, which includes the co-CEOs; the CFO; the Global Sourcing, QA & SR Director; and the Global Supply Chain Director.

The arena [website](#) has a section devoted to CSR, which includes the arena's commitment to uphold the Workplace Code of Conduct. The FLA recommends that arena continue to explore public reporting opportunities to further communicate arena's SR program and commitment to uphold workplace standards in the arena supply chain.

PRINCIPLE 2: RESPONSIBILITY & HEAD OFFICE TRAINING⁴

Staff Responsible for Implementing the Social Responsibility Program

arena's SR Program is managed by the QA & SR Team, which includes the QA & SR Manager and two QA & SR Specialists. The QA & SR Manager was hired in 2013 to continue the development and implementation of arena's social responsibility program and has been supported by a QA & SR Specialist. The QA & SR specialist was hired in 2009 as the Quality Control Assistant and transitioned to the QA & SR Specialist position in 2013. In 2015, further support was provided to the QA & SR Team with the hiring of an additional QA & SR Specialist.

³ Principle 1: Company affiliate establishes and commits to clear standards.

⁴ Principle 2: Company affiliate identifies and trains specific staff responsible for implementing workplace standards and provides training to all head office and regional staff.

The QA & SR Team reports to the Global Sourcing, QA & SR Director who reports directly to one of the co-CEOs. The QA & SR team job descriptions include responsibilities in quality assurance and social responsibility. The FLA reviewed the responsibilities applicable to social responsibility, which include developing and implementing the supplier assessment plans, defining and reviewing corrective action plans (CAP), ensuring grievance procedures are developed and implemented at the supplier-level, and managing grievances submitted through arena's confidential reporting channel.

Training the QA & SR Team

At the time of affiliation in 2011, arena did not have a monitoring program in place to assess for factory conditions. arena's QA & SR Team participated in various trainings to understand how to conduct assessments and how to develop a monitoring program to inform the Social Responsibility (SR) Program. In 2012, a QA & SR Specialist attended an FLA SCI training in Istanbul, Turkey and shadowed an SCI Assessment. In 2015, arena worked with Bureau Veritas' (BV) Italy office to participate in further training on developing a social compliance program. This training provided support in identifying the gaps arena had in its social compliance program. The QA & SR Team then worked towards developing policies and procedures on responsible purchasing practices, factory on-boarding, and CSO Engagement. Additionally, arena's co-CEOs, Global Sourcing, QA & SR Director, and other staff applicable to purchasing practices participated in the BV 2-day training. Since the 2015 training with BV, the QA & SR Team developed a training quiz based on the training content to assess if the social compliance training was effective and that staff retained knowledge.



arena's Social Responsibility Team

The FLA recommends that arena continue to explore and participate in trainings to further inform the SR Program, specifically trainings on collective bargaining, union engagement, worker-management communication channels, and sourcing country-specific labor issues such as migrant workers in South East Asia.

Training Third-Party Auditors

arena works with third-party service provider SGS to audit its suppliers, which will be further discussed in the section below covering "Principle 5." In 2015, arena and SGS provided auditor training to review the arena audit standards and methodology. Due to the QA & SR Specialist's participation in an SCI training, arena adopted similar SCI standards and methodology. arena then worked with SGS to develop the audit tool and provide the training to the SGS auditors. This training reviews the methodology and provides examples of findings, how findings should be corroborated, and examples of the legal and Code references the findings violate.

In 2016, during the observation of an arena audit in Bulgaria, the FLA identified that the auditor had not been trained by SGS on arena's auditing standards and methodology. However, the

auditor was well experienced, was provided the training presentation, and conducted the audit per arena's standards. To ensure consistent training of its third-party auditors, arena will request verification that training has been completed by the auditor and will review the auditor's curriculum vitae prior to scheduling audits. The FLA recommends that arena and SGS work collaboratively to ensure auditors are consistently trained to audit to arena's standards.

Training arena Staff

In 2015 and 2016, the QA & SR Team facilitated and provided trainings to arena staff on its commitment to uphold workplace standards in the supply chain. arena's Global Sourcing Department; Business Unit General Manager; Finance & Administration Department; Design & Product Development Department; the Global Product Manager; Global Supply Chain Directors; and Supply Chain Managers participated in the BV training with the QA & SR Team. This training supported arena's overall mission to source responsibly, and provided further context to working conditions and noncompliances for applicable arena staff to be aware of when visiting and communicating with suppliers.

In 2015, the QA & SR Team developed a shorter webinar training to provide to the rest of the staff at its headquarters. In 2016, training was provided to arena's staff at its subsidiary offices in Germany, France, and the U.S. The QA & SR Team presented the percentage of staff training completed in November 2016 during its annual CSR Management review meeting, in which the QA & SR Team had about 35% of arena staff left to train on its social compliance program in 2016. Additionally, the team administered a quiz following the training to assess that staff understood the training content. The QA & SR Team will review these results to improve the training for 2017. The FLA reviewed the contents of the trainings and quizzes, and interviewed arena staff on their learnings from the trainings.

PRINCIPLE 3: SUPPLIER TRAINING⁵

Supplier Commitment

All suppliers are required to sign arena's General Trading Terms & Conditions, which includes the expectation to uphold arena's Workplace Code of Conduct, facilitate assessments from arena's third-party auditors and the FLA, and commit to remediation. arena's Quality Manual includes a section on its SR Program and the expectations arena has of its suppliers to uphold the arena Workplace Code of Conduct. This section includes further explanation of expectations of assessments and arena's affiliation with the FLA, and emphasizes the importance of upholding freedom of association.

arena began to assess its suppliers in 2014; suppliers were notified of this new requirement through the Quality Manual and further communication by the QA & SR Team. In implementing the monitoring program, one supplier did not agree to allow arena to assess its working conditions, so it was agreed that arena would need to phase this supplier out of arena's supply chain.

In 2017, arena will separate the SR Program section from the Quality Manual to be a stand-alone manual. arena will also update the SR Program manual to include the revisions to the Workplace Code of Conduct.

⁵ Principle 3: Company affiliate obtains commitment and trains relevant supplier management on workplace standards and tracks effectiveness of supplier workforce training.

Conditioning Future Business on Suppliers' Improvement of Working Conditions

The Social Responsibility section of the Quality Manual includes arena's policy to terminate business partnerships if suppliers do not show significant progress towards remediation during the follow-up audit. Suppliers can be subject to annual assessments; however, arena strives to assess suppliers once every two to three years, if the audit results do not include critical findings. Critical findings are similar to the FLA's criteria for Immediate Action Findings for SCI assessments, and include child or forced labor, discrimination, abuse or harassment, and egregious health, safety, and environment findings that could affect the wellbeing of the workers. In the case of critical findings, arena will schedule a follow-up audit within the year to review the remediation, and if progress is not verified, arena's Global Sourcing Team and Category Purchasing Managers will work to phase this supplier out of arena's supply chain. Since 2005, arena has utilized a Supplier Ranking Matrix tool to analyze the performance of their suppliers in terms of quality and production. In 2016, the QA & SR Team and relevant business staff at arena incorporated social responsibility performance into the Supplier Ranking Matrix. The matrix quantifies the performance of suppliers in Social Responsibility, Supplier Collaboration, Manufacturing Lead Time, Cost Competitiveness, Quality, and Customer Service. The FLA reviewed the ranking matrix at the headquarter assessment and discussed how the QA & SR Team developed the methodology for the Social Responsibility rating. Suppliers receive rankings from zero to ten based on their assessment results and progress towards remediation. If a supplier receives a score lower than four and the follow-up audit does not show improvement of working conditions, the Global Sourcing and the Category Purchasing Managers will begin to phase out the supplier. FLA staff reviewed PO quantities of select suppliers based on the arena scorecard that showed a reduction of units in upcoming seasons to the suppliers that had scores lower than four in Social Responsibility.

Supplier Training

In 2015, the QA & SR Team began to hold formal webinar trainings for its suppliers on CSR; however, the QA & SR Team reported in the CSR Management meeting that only 22 percent of its suppliers participated in the training. For 2016, the QA & SR Team held more frequent webinars so that their suppliers could attend, and they saw increased participation with 64 percent of arena suppliers participating in the training. This webinar training included defining CSR; the expectation to implement a CSR system; and the components of a CSR system, such as workplace standards, training, grievance mechanisms, monitoring, data analysis, remediation, and responsible production practices. This training also reviewed arena's affiliation with the FLA and arena's Workplace Code of Conduct.

Through reviewing arena's supplier audit findings, the QA & SR Team identified Health & Safety as a priority in providing further training to its suppliers. In 2016, the QA & SR Team developed a webinar training for its suppliers that covered the different types of hazards, the importance of controls to limit hazards, management commitment and employee involvement in a Health & Safety program, personal protective equipment (PPE), and fire safety. The QA & SR Team provided the training presentation to its suppliers, and some suppliers translated the training to provide it to their managers and supervisors.

In 2016, the QA & SR Team administered a survey to its suppliers to receive feedback on arena's SR program, which included questions on the quality of training and its code of conduct. The results were reviewed during arena's CSR Management Review Meeting, which found on average that questions around the CSR training and clarity of standards received high rankings from its suppliers. The FLA reviewed the suppliers' feedback during the headquarter assessment.

The FLA recommends that arena continue to review its audit findings to address the other priority areas of training for its suppliers. Additionally, the FLA recommends that arena continue to measure the application of knowledge gained from the training to ensure that the training is effective for its suppliers.

Workplace Standards Accessibility & Training for Workers

After arena adopted the FLA Code as its Workplace Code of Conduct in 2012, arena provided translations in Albanese, Arabic, Bulgarian, Chinese, Sinhalese, English, French, Japanese, Italian, Malaysian, Moldavian, Portuguese, Slovakian, German, Turkish, Thai, and Vietnamese to its suppliers. arena revised its Workplace Code of Conduct in 2016, however these revisions did not change the alignment with the FLA Code. arena has translated the revised code in German, English, and Italian and will complete the translations in local languages in 2017. Suppliers are required to post the arena Code and implement the standards at the production facility.

To ensure that workers receive training on workplace standards, arena's third-party auditors review training documentation and procedures during supplier audits. arena third-party auditors also interview workers to ask questions about the training they have received, and if workers remember and understand their rights that the supplier is to uphold according to arena's Workplace Code of Conduct. During an audit field observation in Bulgaria in 2016, FLA staff observed that the auditor identified, through document review and worker interviews, several gaps in the training that workers were receiving, including freedom of association and the arena Code. Worker training was included as a finding and the supplier was required to develop a corrective action plan (CAP) to develop workplace standards training for its workers.

The QA & SR Team started to collect documentation from its suppliers in 2016 on the training they are providing to workers. Additionally, suppliers are to submit quizzes completed by workers after the training to assess if workers understood the content of the training.

The FLA recommends arena to continue to assess and ensure that suppliers are providing comprehensive training to its workers so that they understand the arena Code and their own rights.

PRINCIPLE 4: FUNCTIONING GRIEVANCE MECHANISMS⁶

Assessing for Functioning Grievance Mechanisms

arena includes the review of functioning grievance mechanisms during its supplier audit process. In July 2015, FLA staff observed an audit in China, in which the auditor reviewed the factory's grievance policy, but not the grievance procedures, and did not include questions about the grievance mechanisms in most of the worker interviews. After reviewing the FLA's recommendations from the field observation report, arena worked with the third-party auditing organization, SGS, to ensure that questions were consistently included during the worker interviews on grievance mechanisms. During an audit field observation in Bulgaria in April of 2016, FLA staff verified that the SGS auditor consistently included these questions during the worker interview process and that grievance procedures were included during the document review. Additionally, the auditor assessed to ensure that the grievance mechanisms lacked penalty through the document review and worker interview processes.

⁶ Principle 4: Company affiliate ensures workers have access to functioning grievance mechanisms, which include multiple reporting channels of which at least one is confidential.

In 2016, the QA & SR Team started to collect the grievance procedures of its suppliers and evidence of grievances submitted by workers. The team has started to review these procedures and will provide further guidance to its suppliers. Additionally, through analyzing its supplier data, arena has verified that all suppliers have at least a suggestion box for workers to use as a confidential reporting channel.

FLA recommends arena continue to assess for functioning grievance mechanisms and to provide support to suppliers to improve functionality so that workers understand and trust the mechanisms.

Confidential Reporting Channel to arena's Headquarters

Included on the arena Workplace Code of Conduct is an email address (grievance@arenawaterinstinct.com), that workers can use to submit grievances if they believe their rights have been violated or their factory's grievances process has not met the worker's expectations. The arena Code also includes that all communication submitted is confidential and workers can submit grievances in their local language. arena's procedures for addressing grievances submitted through the confidential channel are included in arena's Supplier Social Responsibility Monitoring Procedures. FLA staff reviewed these procedures, which includes a timeline for reviewing the grievance, discussing with the Global Sourcing department, and meeting with the supplier to discuss the grievance and develop an action plan. The QA & SR Team included the confidential reporting channel as part of their CSR supplier training in 2015 and 2016. Additionally, the FLA verified that SGS auditors provide their contact information during worker interviews, in case there is retaliation, during the 2016 audit field observation in Bulgaria.

arena has yet to receive any grievances from workers through their email channel or to SGS auditors. The FLA recommends that arena work with its suppliers to communicate to workers about arena's confidential reporting channel, especially for suppliers that are in the process of remediating audit findings on functioning grievance mechanisms. Additionally, the FLA recommends that arena work with SGS to include communication of arena's confidential channel during worker interviews.

Ensuring Training for Workers & Providing Support on Grievance Mechanisms for Suppliers

For workers, the audit process also includes the verification of worker training on grievance mechanisms during the document review, and questions are asked about grievance mechanisms training during the worker interviews. Also included in arena's audit procedures is the request to collect documentation on grievances submitted by workers. The QA & SR Team request that suppliers submit evidence that workers understood the training on grievances mechanisms.

For suppliers, training on functioning grievance mechanisms was included in the 2015 and 2016 CSR Training provided by the QA & SR Team. Where suppliers needed further guidance in developing grievance mechanisms, the team provided arena's own grievance policy and procedures as an example to the supplier. arena grievance procedures include a flow chart that shows the multiple channels an employee can submit a grievance, discussion of the grievance committee that reviews grievances, and a confidential reporting channel. The FLA reviewed emails in which arena has provided this guidance to its suppliers.

The FLA recommends that arena continue to ensure that workers receive effective training on grievance mechanisms and support suppliers including mention of the grievance channels in all worker trainings, so that workers can be aware and reminded of the options they have in addressing concerns of workplace conditions.

PRINCIPLE 5: MONITORING⁷

The Supplier Qualification Process

arena has a three-phase supplier qualification process before suppliers can be approved for arena production, as outlined by their Supplier Qualification Procedures. First, suppliers must submit the Supplier Assessment Tool, which is a self-assessment that includes questions on the production development, production planning, production process, quality control, health, safety, and environment, product safety and certification, and social responsibility. For social responsibility, arena asks if there is a social responsibility program and manager, if the supplier will apply arena's Workplace Code of Conduct, if grievance procedures are in place, if there is a collective bargaining agreement, and other questions on abiding by local law. arena reviews the completed self-assessment tool and provides a scoring summary of the results to the suppliers. Where responses are not adequate, the tool will populate a CAP for the supplier to implement.

If the supplier receives a score of 80 percent, arena then proceeds to the second phase of the supplier qualification process. arena staff visits the factory, verifies the responses from the Supplier Assessment Tool, and checks the progress of the implementation of the CAP. arena's Global Sourcing Team or SGS conducts this visit. If the supplier's score on the Supplier Assessment Tool remains above an 80 percent, the supplier is approved for production. For suppliers that receive a score between 60 -80 percent, they can implement the CAP provided by arena



Employees at a cutting department of an arena contract garment facility in China

and receive a follow-up audit to verify remediation. This third phase includes a follow-up audit conducted by the arena Global Sourcing Team or SGS within three months after the factory visit. Purchase orders are not placed until the follow-up audit results verify a score on the Supplier Assessment Tool greater than 80 percent.

Top management reviewed this procedure, and once approved, the QA & SR Team and the Purchasing & Category Managers received training on these procedures and how to use the Supplier Assessment Tool. The FLA reviewed the Supplier Assessment Tool and the Supplier Qualification Procedures for new suppliers during the headquarter assessment.

Assessing Factory Conditions

arena's monitoring program is outlined within its Supplier Social Responsibility Monitoring Procedures, which includes five phases: Evaluation, Planning, Execution, the Supplier Ranking Matrix Update, and CAP Implementation & Follow-Up. In the Evaluation phase, the QA & SR Team reviews and identifies the suppliers that will receive audits for that year; arena conducts full

⁷ Principle 5: Company affiliate conducts workplace standards compliance monitoring.

audits for one third of its suppliers per year. In the Planning phase, the QA & SR Team works with SGS to schedule the audits for that year. The Execution phase is when SGS conducts the audit and sends the results to the QA & SR Team to review. The QA & SR Team then communicates the audit report and the CAP to the supplier. During the Supplier Ranking Matrix Update phase, the QA & SR Team updates the supplier's ranking based on the results of the audit. In the last phase, CAP Implementation & Follow-Up, the supplier implements the CAP and provides evidence to the QA & SR Team to verify implementation. arena has developed criteria to categorize findings by critical, major, and minor to prioritize the remediation and weight the supplier's score from the assessment.

After the audit is conducted, suppliers are informed of the results and the score. Suppliers receive follow-up audits the following year to assess for improvements. Suppliers can be exempt from the follow-up audit if the original audit results have no critical or major findings, and the overall score is above 80 percent.

Observing arena Audits & Recommendations

The FLA observed two audit field observations to verify that arena includes a factory walkthrough, document review, worker interviews, management interviews, and includes union or worker representatives in the assessment process. During the first field observation, conducted in 2015 at a supplier in China, FLA staff verified that arena's audit included all criteria included in Principle Benchmark 5.2; however, they included recommendations to increase the number of worker interviews, include worker representatives in the opening and closing meeting, include questions during the factory and worker interviews to corroborate findings, and to enhance the root cause analysis of findings.

During the second field observation in 2016 at a supplier in Bulgaria, FLA staff verified the implementation of the recommendations to include worker or union representatives at the opening and closing meetings. The FLA also observed that the SGS auditor was able to corroborate findings through the increase of worker interviews conducted. arena had adjusted its monitoring procedures to increase the number of worker interviews based on the number of workers at the factory, similar to the SCI worker interview methodology. The FLA provided further recommendations to develop criteria to interview workers under special categories such as juvenile workers, disabled workers, and pregnant or nursing workers. While the root cause analysis was more in depth during the second audit field observation, the FLA provided further guidance to arena on comprehensive root cause analysis.

The FLA recommends that arena continue to work with SGS to ensure that audits are conducted to the standards and procedures of arena's social responsibility program. Additionally, as arena refines and improves the quality of its audits, FLA recommends that arena implement a risk-based approach to auditing its suppliers.

PRINCIPLE 6: COLLECTION & MANAGEMENT OF COMPLIANCE INFORMATION⁸

arena's Data Management

As part of arena's supplier agreement, suppliers are to provide the following information: the complete factory name, factory address, compliance contact, number of worker, arena's production capacity at the supplier, estimated USD volume, primary production processes, and the season and year of arena's first purchase order. This information is submitted to the FLA and

⁸ Principle 6: Company affiliate collects, manages, and analyzes workplace standards compliance information.

included in arena's supplier data tracking. Through the audit process, arena collects the following data: union and worker representative structures in place, any current collective bargaining agreements, and any accidents or incidents that have occurred at the factory. The QA & SR Team manages this information in a supplier tracker, which also includes suppliers that were not approved for arena production or were phased out for various reasons. Suppliers that were not approved through the Supplier Qualification Process are tracked, since they are able to re-apply after one year.

Analyzing Social Compliance & Supporting Data

arena hired its QA & SR Manager in 2013, who has extensive knowledge in developing Excel-based tools to quantify and analyze data. The QA & SR Manager developed the Supplier Assessment Tool and the audit tool to be able to quantify the noncompliances and populate CAPs. Suppliers are also provided with a radar chart that shows the areas of strength and weakness from their assessment. The FLA reviewed arena's data analysis tools during the headquarter assessment.

On an annual basis, the QA & SR Team collects all findings from the audit cycle and codes the data to develop pivot tables that analyze trends and areas of risk in the arena supply chain. This analysis has enabled arena to identify the allocation of findings by country, allocation of findings by code element, progress of remediation implementation, and percentage of findings that have yet to show progress in remediation. arena conducts this analysis for all internal audits and for all FLA SCI assessments conducted. In 2016, arena found that the majority of its findings were in China, with 44 percent of all findings showing progress of improvement and 49 percent of findings were in Health & Safety. The data of the Health & Safety findings led the QA & SR Team to prioritize Health & Safety Training for its suppliers in 2016.

The QA & SR Manager also developed a risk assessment per supplier based on the data collected. The risk assessment looks at the number of open critical, major, and minor findings from all suppliers, the ranking severity of open findings, percent of remediated findings, number of workers, union presence, and the establishment of a collective bargaining agreement. These data points all inform the supplier's risk rating, which will inform a risk-based approach to auditing in the future, as recommended in the section above.

The analysis discussed here, the training data analysis discussed in the section on "Principle 2" above, and the sourcing data analysis that will be discussed in the section on "Principle 8" below is all included in the annual CSR Management Review Meeting that the QA & SR Team has with relevant business staff and top management. The FLA considers the data analysis, its use to inform the improvements of the SR program, and its regular presentation to top management as strengths of arena's SR Program.

PRINCIPLE 7: TIMELY & PREVENTATIVE REMEDIATION⁹

Tracking Remediation at the Factory Level

arena's procedures for CAP Implementation & Follow-Up are included in the Supplier Social Responsibility Monitoring Procedures. The QA & SR Team provides a CAP to the supplier, who then reviews the CAP and provides proposed actions to implement arena's suggestions. The proposed CAP from the supplier is to be submitted within 30 days of receiving the audit report.

⁹ Principle 7: Company affiliate works with suppliers to remediate in a timely and preventative manner.

During the follow-up audit process, arena will review the implementation of remediation efforts at the factory level.

The QA & SR Team maintains a tracker per audit cycle that includes all findings and the CAPs from that audit cycle. The information in the CAP tracker includes: factory information, finding explanations, local law or code requirement, rating of the finding (critical, major, or minor), root causes, arena's proposed CAP, the supplier's proposed CAP, planned completion dates, follow-up audit date, and verification results. The classifications of "critical," "major," and "minor," define the timelines of the implementation of a CAP. The QA & SR Specialists review the tracker and follow-up with suppliers to provide updates and documentation of remediation.

FLA recommends arena include in its monitoring procedures a process to incorporate union or worker representative feedback during the development of the CAP or during the development of improved policies, procedures, and practices that are a result of the CAP.

Root Cause Analysis

As per arena's Supplier Social Responsibility Monitoring Procedure, for all critical and major findings, the auditor conducts root cause analysis during the audit. The auditors have access to arena's Workplace Code of Conduct Auditors Training document, which provides further support in defining root causes. For 2017, the QA & SR Team is improving the training document to incorporate feedback from the FLA and other improvements.

Through the audit field observations conducted by the FLA and by reviewing the CAP tracker, FLA verified that root cause analysis is conducted to inform findings. However, FLA provided guidance to show arena how root cause analysis can dive deeper to identify all the various causes of a finding. FLA recommends that arena continue to work with SGS and its suppliers to develop a collaborative and comprehensive approach to conducting root cause analysis so it can better support the development of the CAPs and provide context to the challenges suppliers have in implementing workplace standards.

Effectiveness of Remediation

arena has implemented multiple mechanisms to ensure that suppliers are incentivized to guarantee the remediation actions implemented are effective and mitigate the risk of repeat findings. arena's monitoring procedures include the follow-up audit process; suppliers that receive a score less than 80 percent from the most recent audit will receive a follow-up audit the following year. As outlined in the flow chart in arena's monitoring procedures, suppliers that are not able to implement remediation actions to achieve a score over 80 percent during the follow-up audit, are required to show progress of implementing the CAP from the follow-up audit. If the supplier does not show progress in improving workplace conditions after the follow-up audit, the supplier is phased out of arena's supply chain.

The monitoring procedures also include specific discussion on repeat findings. When repeat findings are identified by the auditor, the auditor is to assess whether or not efforts were made to implement the CAP and what led to the lack of improvement. If it is found that the CAP was insufficient to address all root causes, the auditor will conduct further root cause analysis to inform the finding and the new CAP. If the supplier had not consistently implemented the CAP, the auditor will review to see which improvements are still in place and the supplier will have 30 days to recover all missing improvements. If the supplier does not recover all missing improvements, the supplier will be phased out of arena's supply chain.

Additionally, as discussed in the section on “Principle 6,” the QA & SR Team tracks the progress of remediation and reports the progress of remediated findings to top management during the annual CSR Management Review meeting. The FLA recommends that arena continue to ensure remediation actions are consistently applied at the factory level to improve conditions for workers.

PRINCIPLE 8: RESPONSIBLE PURCHASING PRACTICES¹⁰

arena's Responsible Sourcing Procedures

arena's Global Sourcing, QA & SR Director, and the QA & SR Manager developed its Responsible Sourcing Procedures in 2015. These procedures outline seven phases: Supplier Scouting, Supplier Qualification, Development & Production Planning, Production Allocation, Production Management, Manufacturer Performance Monitoring, and Purchasing Strategies Review. For the Supplier Scouting phase, arena outlines the expectation in suppliers to produce competitive products in quality and price, while respecting international standards, national laws, and regulations in product safety, environmental sustainability and social responsibility management. arena identifies potential new suppliers through networking, exhibitions, and fairs, and will consider spontaneous applications from suppliers. The Supplier Qualification Phase includes the Supplier Qualification Procedures discussed in Principle 5, with further discussion of Sourcing's role in on-boarding a potential new supplier, such as negotiating trade terms and payment schemes, requesting quality tests and certifications, and requesting prototypes.



arena's Category Manager – Swimwear and Apparel reviews the plans for the upcoming arena collections.

The Development & Production Planning phase procedures discuss the two main seasonal collections for arena, Spring/Summer and Fall/Winter, and arena's Team Line/Racing Swimwear collection, which is launched every four years in preparation for the Summer Olympics. It is in this phase where the Critical Path Schedule (CPS) is developed for arena and the supplier. The CPS is a weekly calendar maintained by Global Sourcing, Quality Assurance, and Design & Production Development, and outlines all necessary steps arena and the supplier will take from development to bulk

production for a collection's purchase orders (PO). The procedures outline the main activities included in the CPS such as, providing product tech-sheets, cost negotiations, receiving the various samples needed to approve the product and present in sales meetings, and establishment of order/delivery windows. The procedures state that Global Sourcing is responsible for reducing negative impacts at the supplier level, which includes respecting the CPS and deadlines, placing orders in line with the supplier's capacity, and providing updates on volume forecasts so suppliers can procure raw materials in a timely manner. When arena is the cause of a delay, the CPS is revised with extended deadlines so the supplier will have sustainable deadlines to complete the PO.

¹⁰ Principle 8: Company affiliate aligns planning and purchasing practices with commitment to workplace standards.

During the Production Allocation & Manufacturing phases, Global Sourcing, with the support of Design & Product Development, select the suppliers for the collection's POs based on the supplier's previous performances, features of the product, raw material accessibility, the supplier's production and time to market lead time, and price competitiveness. For orders that are placed outside of the regular collection's POs, the supplier must confirm the lead time and can apply for longer lead time if the late order will generate a high risk of negative impacts at the factory level. In the case of a shipment delay, arena has a penalty scheme; however, the procedures state that arena will accept late deliveries without applying penalties if there is no impact on arena's business. The procedures also state that arena is to evaluate the issues that led to the late delivery, instead of applying monetary penalties that could add to further negative impacts at the factory level. The last phase of the Responsible Sourcing Procedures is the Purchasing Strategies Review, which will review the supplier performances of the previous collection and will be further discussed later in Principle 8.

The FLA considers arena's Responsible Sourcing Procedures and the collaboration between Global Sourcing, QA & SR, and Design & Product Development strengths of arena's SR Program. These procedures allow for arena to establish consistent practices to build collaborative relationships with its suppliers.

Training Relevant Business Staff on Responsible Purchasing Practices

As part of the development of arena's SR Program, relevant business staff include the co-CEOs (2), the QA & SR Team (4), the Business Unit Managers (2), the Global Sourcing Team (3), Finance & Administration (1), Design & Product Development (3), and the Supply Chain Managers (2). As discussed in Principle 2, relevant business staff completed CSR training in 2015. The training devoted significant attention to responsible and sustainable sourcing practices and how these practices must consider the economic, social, and environmental issues during the stages of design, raw materials procurement, production, logistics, transportation, etc.

Additionally, the Global Sourcing Team provided training to relevant business staff on the Responsible Sourcing Procedures. As part of the procedures, training will be provided when the procedures are updated and when there are new team members. At minimum, relevant business staff will receive refresher training on an annual basis. The FLA recommends that arena continue to develop training on responsible purchasing practices, specifically on the negative impacts to workers that can be a result of poor purchasing practices.

Holding the Relevant Business Staff Accountable to Purchase Responsibly

The main accountability mechanism to ensure that relevant business staff upholds the Responsible Sourcing Procedures is the weekly calendar (CPS), which assigns responsibility to staff for each step of the development to shipment processes. arena staff are to maintain the deadlines outlined in the CPS and must adjust the deadlines accordingly for the supplier if arena has delayed the process.

Additionally, relevant business staff attend the CSR Management Review Meeting, which covers analysis of previous seasons performances in forecast accuracy and on-time POs. Through this review, arena found that about 93 percent of POs for the Spring/Summer 2016 collection were placed on time, in contrast to only about 61 percent of the POs for Spring/Summer 2017 collection being placed on time. However, arena decreased the number of POs that were placed with a major or medium delay in the Spring/Summer 2017 season, with less than .2 percent of POs placed with a major or medium delay. In Spring/Summer 2017, about 39 percent of POs were placed with a minor delay of two weeks. Medium delays are defined by a delay of four weeks and major delays are greater than four weeks. By presenting this analysis to relevant

business staff and top management, the Global Sourcing Team is held accountable for its practices and the QA & SR Team can start to benchmark progress in issuing on-time POs from season to season.

The FLA recommends that arena continue to implement mechanisms to hold relevant business staff accountable for purchasing responsibly, such as including responsible sourcing practices into the job descriptions of relevant business staff.

Dialogues with Relevant Business Staff & Suppliers to Implement Responsible Purchasing Practices

The Global Sourcing Team is in regular communication with suppliers. Forecasts are provided both three months and six months in advance to suppliers, and POs are shipped in three shipping windows. arena provides the total forecast and the estimated forecast per shipping window, which is about 40 percent of the total order in the first window, 35 percent in the second window, and 25 percent in the third window. By providing the forecasts by shipping window as well as the updates, the suppliers are able to purchase raw materials accordingly and consequently mitigate inaccuracies in purchasing raw materials. As part of an accountability mechanism, arena reviews its forecast projections during the CSR Management meeting for the total PO and each shipping window. arena saw a slight increase in forecast accuracy from Fall/Winter 2015 averaging 60 percent of supplier POs in line with the forecasts to an increase of 65 percent for Spring/Summer 2017.

Additionally, as outlined in the Responsible Sourcing Procedures, arena strives to find solutions for late deliveries to avoid applying its monetary penalty mechanisms. In the case of a possible late shipment, the Global Sourcing Team will prioritize orders for on-time delivery and work with arena sales representatives to communicate potential delays for other products. arena also maintains stock of high-demand race suits for athletes that may request a last-minute change for an upcoming race, to mitigate changes for supplier POs. arena will facilitate communication amongst suppliers that produce similar arena-patented products, such as goggles. By facilitating this discussion and the sharing of knowledge, suppliers are able to learn how to manufacture the product more efficiently, and arena is able to expect consistent quality of the product from the different suppliers.



arena's QA & SR Manager shows the FLA's EMEA Regional Manager how they assess the quality of products

Lastly, the QA & SR Team developed a survey for suppliers to provide feedback on its SR Program and purchasing practices. Suppliers were asked questions on arena's purchasing practices mitigating negative impacts, alignment of the CPS calendar, accurate forecasting, timeliness of payment, etc. While arena will continue to build trust with suppliers to seek honest feedback, the QA & SR Team found that some suppliers answered frankly in not receiving useful

forecasts and experienced delays in payment. The responses on payment were then analyzed by arena's Chief Financial Officer, who was able to address why there were delays in the payment process and improve the process for future seasons.

Incentivizing Suppliers to Improve Conditions for Workers

As part of the Responsible Sourcing Procedures, suppliers are reviewed on a seasonal basis through the following key performance indicators (KPIs): overall efficiency, design & product development competence, manufacturing lead time, customer service, overall reliability, cost competitiveness, quality, and social responsibility. Collaboratively, arena's relevant business staff and the QA & SR Team developed a point-based rating system to evaluate all suppliers under the KPI criteria. Additionally, suppliers are categorized by the products they manufacture and scores are reviewed by each category, such as racing suits, pool bathing suits, beachwear, equipment, and apparel. arena found that suppliers of its racing suit score highest as an average of all KPIs and in social responsibility. Alternatively, arena found that pool bathing suit suppliers have the lowest average total score and the second lowest average in social responsibility.

arena's main incentive for suppliers to improve workplace conditions and other production practices is increased business. FLA staff verified the increase of business for suppliers that maintained high scores in social responsibility by reviewing PO quantities over four seasons. However, in the case of racing suit suppliers that score well in the supplier ratings, the racing suit is a niche product for competitive swimmers and arena may not be able to steadily increase orders in these suppliers each season due to the niche market. The FLA recommends that arena develop incentive options that do not rely on increased business, such as funded capacity building projects or acknowledgement and recognition of the supplier's commitment to improving working conditions.

PRINCIPLE 9: CONSULTING WITH CIVIL SOCIETY¹¹

The CSO Engagement Procedures

Once the QA & SR Team had developed its monitoring program and Responsible Sourcing Procedures, the team devoted its resources to developing Civil Society Organization (CSO) Engagement Procedures and began to reach out to CSOs they identified through their own research. FLA staff reviewed the CSO Engagement Procedures and provided feedback to the QA & SR Team in August of 2016. The QA & SR Team revised the strategy based on the FLA's feedback to incorporate arena's social compliance data analysis in order to inform a phased approach to civil society engagement.

arena's CSO Engagement Procedures begin with stating that civil society can provide insight and feedback on arena's social responsibility program and local labor issues. The procedures also provide a brief summary on identifying CSOs and highlighting civil society areas of focus, including the improvement of conditions and standards in human rights, integration, gender, environment, youth issues, economy, employment, and social services.

The CSO Engagement Procedures include eight phases:

- 1) Finding Analysis: As discussed throughout the report, the QA & SR Team's data analysis is conducted after the completed annual audit cycle. The analysis of the findings will help the QA & SR Team prioritize civil society engagement by country and trends in noncompliance.

¹¹ Principle 9: Company affiliate identifies, researches and engages with relevant labor non-governmental organizations, trade unions and other civil society institutions.

- 2) Country Selection: Through the data analysis, risk assessment, and volume of production per country, the QA & SR Team identified China, Cambodia, Malaysia, Sri Lanka, Vietnam, and Tunisia as their high-risk and high-production volume countries.
- 3) CSO Selection: The procedures provide basic guidelines on groups to consider when selecting potential organizations to engage with, such as labor inspection offices or organizations focused on health & safety and employment relationship, chambers of commerce, national trade unions, and organizations that support worker representative structures. The procedures also indicate that arena would prefer to work with CSOs that can operate in a local capacity with arena suppliers.
- 4) CSO Meeting: Third-party auditors initiate the engagement with civil society through the audit process. The auditor will request a meeting with various CSOs before the audit takes place to learn about the relevant local labor conditions. The QA & SR Team will then conduct follow-up engagement and offer to the CSO to learn more about arena's SR Program.
- 5) CSO Meeting Report: The QA & SR Team will provide a written summary drafted by the auditor of the meeting to the CSOs. Depending on the nature of the engagement, the QA & SR Team will strive to provide the audit report to the CSOs as well.
- 6) CSO Integration: After reviewing the feedback from civil society, the QA & SR Team will conduct further research and engagement with local organizations to understand relevant root causes and identify potential solutions. Additionally, information gathered by the QA & SR Team will be incorporated into the supplier trainings.
- 7) CSO Relationship Retention: The QA & SR Team make the commitment to provide regular updates to engaged CSOs that wish to maintain a relationship with arena, so that the CSOs may learn more about arena's commitment to improving workplace standards.
- 8) Development of Capacity Building: Where arena has identified CSOs that specialize in trainings, workshops, or capacity building at the factory level, arena makes the commitment to strive to develop these projects that could improve lives for workers.

Additionally, the QA & SR Team has started its CSO Mapping of organizations that arena has engaged with or has identified as potential organizations to engage with. The team also established an email channel for all CSOs to use if they wish to contact arena (csoengagement@arenawaterinstinct.com) with inquiries about its supply chain or opportunities for collaboration. FLA recommends that arena continue to implement this strategy, update and maintain its CSO Mapping, and to make their email channel for CSOs more widely available.

Engaging Civil Society on Local Labor Issues

At the time of the 2016 audit field observation in Bulgaria, arena piloted its CSO Engagement Procedures. The FLA observed the meetings with civil society held by the auditor. The auditor had meetings with the Confederation of Independent Trade Unions in Bulgaria, the Ministry of Labor and Social Policy, and the Chamber of Commerce and Industry.

The FLA also reviewed the report provided by the auditor on the meetings that were held prior to the audit. During the meeting with the Confederation of Independent Trade Unions in Bulgaria, the union status of the factory that would receive the arena audit was discussed, since the union in place had ceased activity in 2005. The chairman did note that workers at this factory had not filed any complaints or anonymous tips. In the meetings with the Ministry of Labor and Social Policy and the Chamber of Commerce and Industry, the representatives discussed with the auditor the activities they conduct, such as labor inspections and projects to benefit social economic outcomes. The Chamber of Commerce also noted that the audited factory is a strong

contributor of the economy in the region due to its new job openings, the amount of workers hired from the region, and its participation in the European Union's social initiatives.

FLA staff provided recommendations based on the observation of this engagement that were included in the CSO Engagement Procedures. For example, the FLA recommended that there be follow-up procedures, in which arena makes direct contact with the organizations engaged. The FLA continues to recommend that arena work with third-party auditors on developing guidance and training for auditors to conduct these meetings as a representative of arena's SR Program. For the 2017 audit cycle, the FLA recommends continuing to conduct the CSO Engagement meetings as part of the research prior to the audit. Once the audit cycle has concluded and the QA & SR Team has reviewed the CSO Engagement Reports in all sourcing countries, the FLA recommends that arena review its CSO Engagement Procedures and training materials to reflect on and improve the process.

Engaging Civil Society on the Design & Implementation of Workplace Standards Strategies

In tandem with developing and implementing arena's CSO Engagement Procedures, the QA & SR Team started to conduct research on potential CSOs that could support arena's commitment to workplace standards in China. China was identified as arena's top high-risk and high-production country, and the team prioritized engagement with civil society in China in 2016 accordingly, knowing that the landscape for civil society in China can be challenging¹². In early 2016, the QA & SR Team had a call with the China Labour Bulletin (CLB), in which CLB's collective bargaining initiatives and training programs were discussed.

Additionally, arena started to engage with the Center for Child Rights and Corporate Social Responsibility (CCR CSR) in October 2016. CCR CSR specializes in capacity building projects to address child rights, specifically children with migrant-worker parents. The capacity building projects are aimed to strengthen the domestic migrant-worker relationships with their children, who are often raised by other guardians while their parents live in the dormitories of the factories where they work. The QA & SR Team had calls with CCR CSR to learn more about their initiatives and pursue reviewing the capacity building project opportunities arena would have in engaging with CCR CSR.

The FLA supports arena's initial steps towards CSO Engagement and recommends they continue to identify CSOs that can collaborate with arena to improve the lives of workers in their supply chain in the high-risk and high-production volume countries.

Unions & Worker Representative Structures

arena has incorporated into its monitoring procedures and CSO Engagement Procedures processes that include union and worker representation in order to understand the relationships between suppliers and unions. As part of the monitoring process, auditors are to invite union or

¹² The FLA recognizes that legal restrictions on trade unions and CSOs present challenges for company's implementation of Principle 9. The FLA recognizes the restrictions that have been included in the newly passed Overseas NGO Management Law of the People's Republic of China, applicable to foreign non-governmental organizations (NGOs) and civil society organizations (CSOs) operating in China. It is expected that this law, once implemented, may present new restrictions on legal registration, funding and scope of activities. Over the course of 2015, space for labor-focused civil society groups and legal aid centers to operate has been further restricted, and 2016 saw additional restrictions placed on foreign nongovernmental organizations operating in China. The Chinese constitution guarantees Freedom of Association; however, the Trade Union Act prevents the establishment of trade unions independent of the sole official trade union – the All China Federation of Trade Unions. According to the International Labor Organization, many provisions of the Trade Union Act are contrary to the fundamental principles of freedom of association, including the non-recognition of the right to strike.

worker representatives to the opening and closing meetings and include them in the worker interviews. Additionally, auditors will engage with the local unions prior to the factory audit to further understand the union's activities in the region and the relationship with the audited factory.

As mentioned in Principle 7, the FLA recommends that arena include union and worker representatives in the remediation process in order to provide feedback on the CAP and on the development of improvements to policies, procedures, and practices aimed at improving working conditions.

PRINCIPLE 10: VERIFICATION REQUIREMENTS¹³

arena has been an FLA Participating Company in good-standing since its affiliation in 2011. arena developed procedures to maintain FLA affiliation, which lists the applicable documentation for completing the annual FLA self-assessment, providing factory list updates, facilitating SCI assessments, providing remediation updates and exit language, submitting payment of dues, and facilitating field observations of audits and trainings. The procedures also include contact information for FLA Accountability staff.

arena has submitted its annual self-assessments from 2012 to present and responded to requests from the FLA on a timely basis. All FLA PCs are required to provide remediation updates to SCI assessments every six months; while arena provided these updates, the FLA provided further recommendations to give more comprehensive summaries of the actions taken to remediate noncompliances. arena provided updates to remediation actions of its SCI reports to give more context to the remediation that had taken place since these assessments.

While arena had historically not been an active participant at FLA Monitoring Committee and Board Meetings held in the U.S., arena staff attended the FLA Europe Meeting in 2015. Additionally, arena's QA & SR Manager was a panelist on the FLA's webinar on Responsible Purchasing Practices in December 2016. On the webinar, the QA & SR Manager provided a summary of arena's actions to implement Principle 8 and discussed how their team addressed challenges in implementing its Responsible Sourcing Procedures. The FLA recommends that arena continue to participate in FLA activities and collaborate with other FLA affiliates to contribute to the improvement of working conditions worldwide.



Employee at an arena contract facility in Italy works on a racing suit

¹³ Principle 10: Company affiliate meets FLA verification and program requirements.

SECTION 4: CONCLUSION AND RECOMMENDATION TO THE BOARD OF DIRECTORS

This review of arena's labor compliance program is intended to help inform the decision of the FLA Board of Directors on whether to accredit the company's program.

The FLA staff conclusion is that since affiliation as a PC, arena has increasingly developed a labor compliance program that, on balance, aligns with FLA standards, benchmarks, and protocols. Accreditation is a measure of the capacity of a company's labor compliance program to ensure respectful and ethical treatment of workers. The FLA recognizes that no labor compliance program is perfect; the notion of continuous improvement means that there will be instances when a specific principle or benchmark is not met, yet such occurrence does not call into question the integrity of an affiliate's entire program. FLA staff will continue to provide programmatic recommendations to further an affiliate's labor compliance efforts in support of the FLA's mission to protect workers' rights and ensure decent working conditions. FLA staff recommends to the FLA Board of Directors the accreditation of arena's labor compliance program.

The assessment identified certain areas in which arena's labor compliance program has been strong and also areas with respect to which improvements are possible.

Strengths of arena's labor compliance program include:

- 1) Top management's commitment and comprehensive understanding of arena's social responsibility program and potential for further improvement;
- 2) arena's internal training programs to gain further knowledge of social responsibility, social compliance, and labor standards to inform the development of its program;
- 3) The Quality Assurance & Social Responsibility (QA & SR) Team's commitment to develop and provide arena suppliers trainings on workplace standards to improve working conditions;
- 4) The QA & SR Manager's development of procedures and tools to collect and organize social compliance and purchasing practices data;
- 5) The QA & SR Team's data analysis of social compliance, purchasing practices, and knowledge gained from trainings to inform and improve the social responsibility program; and
- 6) arena's integration and collaboration amongst relevant business staff to develop and implement responsible purchasing practices procedures.

Suggestions for strengthening arena's labor compliance program include:

- 1) Continue to improve the application of arena's auditing standards and methodology with third-party service providers;
- 2) Ensure workers in their supply chain are trained to understand the workplace standards and grievance mechanisms;
- 3) Further participation of union and worker representatives in remediation activities of suppliers;
- 4) Continue to explore incentives for suppliers that uphold arena's commitment to improving the lives of its workers;
- 5) Continue to implement the arena CSO Engagement Procedures and to engage with civil society to collaborate towards the improvement of working conditions; and
- 6) Participate in FLA initiatives and activities that facilitate brand and industry collaboration to improve workers' lives.

APPENDIX A: ARENA'S CODE OF CONDUCT



arena Workplace Code of Conduct

arena is committed to guarantee the highest possible level of integrity in every aspect of its activity and the absolute respect of human rights. For this reason, arena is fully committed to comply with fundamental principles, such as the laws in force, the provisions of the International Labour Organisation, the UNO Universal Declaration on Human Rights, the Conventions on the rights of Children, as well as the elimination of any kind of discrimination. For these reasons arena is willing to start and keep alive business partnerships exclusively with those Suppliers who share arena commitment to best practices and full accordance to the minimum standards set forth in this Code for the respect of workers' rights and the promotion of their well-being, as well as full respect of the environment and strong commitment to make any possible action to minimize negative impact of whatsoever kind on it, including waste reduction, responsible use of resources. When differences or conflicts in standards arise, affiliated companies are expected to apply the highest standard. All these aspects are key in suppliers' evaluation and selection.

Employment relation

Employers shall comply with and respect employment rules and conditions which are not detrimental for employees and are aimed at least at protecting their rights, in compliance with national and international labour and social security laws and regulations.

Non- discrimination

In the framework of the employment relation, no employee nor worker shall be subject to or suffer from any kind of discrimination with regard to hiring, compensation, career development, discipline, termination or retirement based upon gender, race, ethnic origin, religious belief, age, disability, sexual orientation, geographical origin, political belief and social group.

Respect and dignity (no harassment, no violence)

Each employee shall be treated with respect and dignity. No employee shall suffer from any kind of physical, sexual or psychological harassment or violence, nor verbal abuse.

Forced Labour

The Supplier does not use forced labour in any form -- prison, indentured, bonded or otherwise.

Child Labour

The Supplier shall not employ nor use in any other way any worker below the age of 15 or below school-leaving age, whichever is higher.

Freedom of Association & Collective Bargaining

The Supplier must recognize and fully respect the right of employees to collective bargaining and freedom of association

Health, Safety and Environment

The Supplier shall ensure a safe and healthy working environment in order to prevent accidents and injuries due to or occurring during work or resulting from suppliers' facilities. Suppliers shall be strongly committed to take any possible action to minimize negative impact of whatsoever kind of environment, which may derive from their activity.

Hours of Work

The Supplier complies with legally mandated work hours according to respective national laws. The standard weekly hours of work shall not exceed 48. The Supplier shall provide 24 consecutive hours of rest in every seven-day period. Overtime shall not be the standard practice nor mandatory, but made on a voluntary and optional basis and fully rewarded at a premium rate. In any case, the supplier shall require overall no more than 60 hours of work (ordinary and overtime) per week, save under exceptional circumstances.

Compensation

Every worker has the right to compensation for a regular work week that is sufficient to meet the worker's basic needs and provide some discretionary income. The Supplier shall provide each employee with at least the minimum wage or prevailing wage applicable in their country for their sector, whichever is higher; the Supplier shall comply with all the law provisions regarding compensation, while also offering fringe benefits in accordance with law or employment contract. In case compensation is below the minimum level, and does not cover the employees'/workers' essential needs and does not guarantee some discretionary income, each Supplier shall, in collaboration with arena, take the appropriate measures so as to gradually reach a satisfactory compensation level.

Confidential communication with arena (reporting grievances)

*If you think that your rights are not respected or that your complaint has not been properly dealt with at your workplace and is below your expectations, you can contact arena by e-mail at **grievance@arenawaterinstinct.com**. All the communications will be strictly confidential. Feel free to write using your mother tongue.*

As an essential requisite for running business relations with arena, Suppliers shall implement and integrate the Code of Conduct into the area devoted to arena productions, submit to inspections and monitoring activities, visibly affix the Code of Conduct within the arena production area as well as all the freely accessible areas of their facilities, in the local languages or in the languages of the employees/workers. Moreover, Suppliers shall inform their employees/workers about their rights and obligations, as set forth by arena Code of Conduct at the workplace and in accordance with the local laws in force. Suppliers shall also guarantee compliance by each sub-contractor involved in arena products manufacturing.