



NEW BALANCE ATHLETICS, INC.
ASSESSMENT FOR REACCREDITATION

FLA BOARD OF DIRECTORS MEETING
OCTOBER 2018

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New Balance’s Global Compliance staff conduct a factory walk-through as part of New Balance’s Sprint Audit.

INTRODUCTION

In October 2018, the FLA Board of Directors approved the reaccreditation of New Balance's labor compliance program; this report reviews New Balance's improvement since its 2014 accreditation and the FLA's assessment for reaccreditation. When joining the FLA, Participating Companies and Participating Suppliers commit to implementing the [FLA Workplace Code of Conduct](#), which aims to ensure "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 upon 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. In assessing for reaccreditation, the FLA looks for continued implementation of the workplace standards and focuses on key components that innovatively support the FLA's mission to "improve workers' lives worldwide."



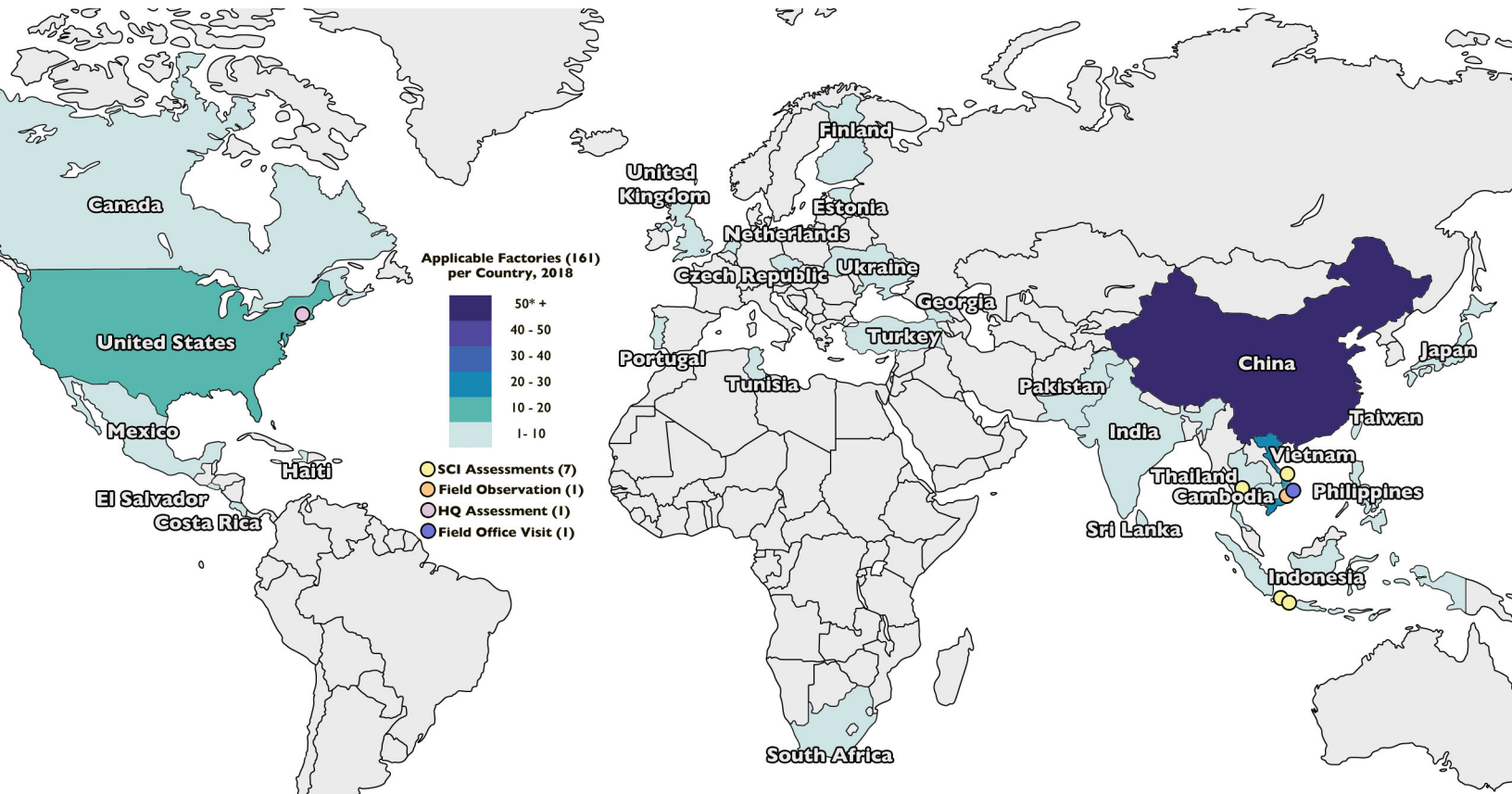
The FLA reaccreditation process involves staff conducting due diligence on the performance of a Participating Company or Participating Supplier during the implementation period. To assess an affiliate for reaccreditation of its labor compliance program, the FLA focuses on implementation of responsible purchasing practices, civil society engagement, remediation efforts, and program innovations. This assessment involves testing a selection of data points or information sources in order to verify actions by the company. Sources of information may include:

- 1) Affiliate Headquarters 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 all sources of information on compliance issues and remediation efforts. For reaccreditation, affiliates are subject to Verification Assessments, which verify remediation efforts and may include analysis of the affiliate's assessment tool.
- 3) Annual Reports: Affiliate reports for each year of implementation provide 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: Wherever 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: NEW BALANCE AFFILIATE OVERVIEW

Name of Company	New Balance Athletics, Inc.	Category	Participating Company
Location	Boston, MA, USA	Product/s	Apparel, Footwear, Accessories, Equipment
Total Annual Revenue	Approximately, 4 Billion USD (privately held)	FLA Affiliation Month/Year	October 2009
Current Number of Applicable Facilities	161	Original Accreditation Month/Year	June 2014
FLA Reaccreditation Leads/Supports	<p>Leads: Tiffany Rogers (Program Manager, Business Accountability); Tat Udomritthiruj (Senior Accountability Associate)</p> <p>Supports: Phuong Do (Regional Manager, Southeast Asia); Jun Jia (Director, Accountability, China), Wanjing Lu (Assessor, China)</p>		
Unique Company Characteristics	<ol style="list-style-type: none"> 1) New Balance is a privately-owned footwear, apparel, and equipment athletics business. In addition to the New Balance brand, New Balance owns Warrior, P.F. Flyers, and Brine. 2) New Balance's mascot is the chicken; in 1906, New Balance's founder William J. Riley manufactured arch supports that were inspired by chicken feet and how chickens, standing on three claws, achieved perfect balance. 		
Summary of Key Strengths	<ol style="list-style-type: none"> 1) Aligned top management commitment to workplace standards between the Value Chain and Global Compliance Departments; 2) Provision of various confidential reporting channels with local service providers to ensure worker grievances are received and resolved; 3) Social compliance data analysis to inform program improvements and sourcing decisions; 4) Local engagement with civil society organizations to make collaborative improvements to workers' lives; 5) Implementation of a "beyond compliance" program to incentivize footwear suppliers to improve working conditions; 6) Brand and supplier collaboration through shared audits, remediation initiatives, and trainings; and 7) Progress on and commitment to analyzing compensation data of workers to identify wage gaps. 		
Summary of Key Suggestions for Strengthening	<ol style="list-style-type: none"> 1) Continue to expand engagement with civil society in other high-risk sourcing countries and beyond Tier 1; 2) Continue to develop and implement incentives and "beyond compliance" programs for apparel and equipment suppliers; 3) Continue to work with Tier 1 facilities in remediating labor violations in their supply chains; 4) Continue to analyze compensation data and develop a long-term fair compensation strategy to make progress in closing compensation gaps; and 5) Continue to define and implement a strategy to identify and remediate labor violations beyond Tier 1 suppliers. 		

SECTION 2: NEW BALANCE SUPPLY CHAIN & FLA DUE DILIGENCE ACTIVITIES FROM 2014-2018



As of 2018, New Balance produces and sources in approximately 160 facilities from around 30 countries, with the majority of its production coming from Asia. The top sourcing and production countries for New Balance are: China (54 factories), Vietnam (25), and the USA (16). Additionally, New Balance has nine owned facilities in the following countries: USA (6), Finland (1), Mexico (1), and United Kingdom (1). Since 2014, New Balance has received seven SCI and SCI Verification (SCIV) assessments. In 2017, New Balance received two SCIV Assessments, one each in Vietnam and Indonesia, to verify remediation actions from previously SCI-assessed factories. The FLA conducted the Headquarters (HQ) Assessment at New Balance's offices in Lawrence and Boston, Massachusetts in April 2018. FLA also conducted a field office visit and training field observation in Ho Chi Minh City, Vietnam in June 2018.

SECTION 3: ANALYSIS OF NEW BALANCE LABOR COMPLIANCE PROGRAM FOR REACCREDITATION

Information used in this assessment originates from reports submitted by New Balance and verified by the FLA through:

- 1) An assessment at New Balance headquarters conducted by FLA staff in April 2018;
- 2) An assessment at New Balance's field office conducted by FLA staff in June 2018;
- 3) Information gathered in person, via phone interviews, and through email correspondence with New Balance staff;
- 4) Documentation review of supporting evidence submitted by New Balance;
- 5) Field observation of one supplier training in Vietnam in June 2018;
- 6) Results of FLA Verification Assessments at New Balance Tier 1 facilities conducted by FLA assessors to verify remediation efforts at the factory level;
- 7) Results of FLA Independent External Assessments at New Balance applicable facilities conducted by FLA assessors and accredited service providers; and
- 8) Communication with stakeholders.

A REVIEW OF NEW BALANCE'S IMPLEMENTATION OF THE PRINCIPLES OF FAIR LABOR AND RESPONSIBLE SOURCING & PRODUCTION¹

New Balance Social Compliance Program Transition

Since the 2014 Accreditation, New Balance's Compliance team has expanded from 16 to 19 staff, including regional staff. In that time New Balance's total revenue has almost doubled, from 2 billion USD in 2014 to approximately 4 billion USD in 2017. The Senior Leadership Team of the Global Compliance Department has remained the same, with some additions to the Global Compliance team in strategy development and regional staff. New Balance's Vice President (VP), Responsible Leadership & Global Compliance is responsible for the strategic direction of the compliance program and reports to New Balance's General Counsel. The VP is supported by Global Compliance Directors in the Eastern and Western Hemispheres to manage the various teams that implement the compliance program. The Global Compliance Department includes staff responsible for implementing workplace standards in social responsibility and environmental sustainability. The FLA noted New Balance's close collaboration between the social responsibility and environmental sustainability teams as a strength of its program, especially when developing its "beyond compliance program," which is further discussed under the Remediation, Innovation, and Collaboration element of this report. While not within New Balance's FLA affiliation scope, the FLA verified New Balance's Licensee Compliance program by reviewing training materials that were provided to licensees and conducting an interview with the Licensee Compliance Lead Specialist. The lead specialist partakes in cross trainings and travels to meet directly with licensees and visit licensee suppliers and has started to participate in the FLA's Responsible Licensing Working Group.

The growth of New Balance's compliance program has been supported by overall consistency in staff. In 2017, New Balance hired its current Executive Vice President, Value Chain who oversees New Balance's footwear, apparel, accessories, and equipment sourcing operations. The EVP, Value Chain has worked with the Global Compliance Department to put supplier compliance performance at the forefront of expectations. To communicate these goals, the EVP, Value Chain and the Global Compliance Team members together have met with every strategic footwear supplier, and the EVP plans to meet with all key suppliers twice annually. The meetings with strategic suppliers have allowed

¹ The Principles of Fair Labor & Responsible Sourcing and Production include the main components for a company to build a social compliance program. The complete sets Principles can be found on the [FLA website](https://www.fairlabor.org).

for open dialogue and communication between New Balance and the suppliers, as well as sharing New Balance's values and visions. In 2016, New Balance revised its code of conduct to align with the [FLA Workplace Code of Conduct](#); additionally, New Balance has revised its Supplier Standards Manual to reflect changes from the Code alignment. FLA verified New Balance has implemented the revised Code of Conduct by reviewing updated supplier agreements, language translations, and the New Balance Code of Conduct posters.

Implementing the Key Performance Indicators (KPIs) of the Principles

In 2015, the FLA revised its [Principles of Fair Labor & Responsible Sourcing and Production](#) to raise the standards of company and supplier social compliance programs, with the most notable change being the improvement of Principle 8: Responsible Purchasing & Production Practices. New Balance has actively worked to meet and exceed the current Principles in its program implementation. The FLA has verified improvement in New Balance's suggestions for strengthening² in the 2014 accreditation report. Additionally, the FLA has verified New Balance's implementation of the Principle KPIs from 2014 to 2018 through self-assessment submissions, a training field observation, and through the headquarters assessment. Since 2015, FLA affiliates with owned facilities have been required to implement the [Principles of Fair Labor & Responsible Production](#) for all owned facilities. New Balance has nine owned facilities, six in the United States (U.S.), one in Finland, one in Mexico, and one in the United Kingdom. Each facility has a Human Resources manager who ensures that the Code of Ethics is upheld by the workers, supervisors, and managers. New Balance conducts periodic audits of owned facilities through its Global Compliance Department, and facilities based in Mexico and Finland are audited annually. The FLA verified the systems in place at the owned facility in Lawrence, Massachusetts through interviews with the Human Resource Manager and the Senior Environment, Health & Safety Engineer, along with a facility tour.

New Balance recently shared its five-year Compliance Goals with its suppliers. The goals include a monitoring and management systems component, including rolling out "beyond compliance," going beyond Tier 1 and exploring Tier 2 risk management, having compliance embedded in the business, increasing brand collaboration, and increasing internal and external communications on social and environmental responsibility. Additionally, the compliance goals are incorporated into the "Value Chain's Objectives, Goals, Strategy, and Plans" that were communicated to the suppliers by the EVP, Value Chain. New Balance has taken lessons learned and best practices from the footwear supply chain and implemented them into its non-footwear supply chain.

In terms of public reporting, New Balance has a dedicated [webpage](#) to "Investing in People" that includes links to a public [supplier list](#) that is update regularly. In 2012, New Balance published its [Responsible Leadership Report](#) that provides an overview of New Balance's social compliance program; New Balance is currently improving its public reporting on social compliance and sustainability, and will launch a new website by the end of this year to provide an update to New Balance's Responsible Leadership program. The FLA reviewed the content of the new website, which included further information on collaboration and partnerships with various organizations New Balance has developed to improve working conditions.

² The four Suggestions for Strengthening included in the 2014 Accreditation Report were: 1) Taking lessons learned and best practices that have been effective with New Balance footwear suppliers and applying them to the non-footwear supply chain (e.g. trainings for workers on workplace standards and grievance mechanisms, provision of a confidential channel for workers to contact New Balance, and root cause analysis of noncompliances). 2) Ensuring timely delivery of remediation plans, updates on remediation progress and exit language to the FLA for Independent External Assessments. 3) Identifying a database solution that will address various compliance-related needs in the company, including maintaining an up-to-date supplier list and providing analysis and reporting functionalities. 4) Expanding New Balance's efforts on Responsible Sourcing/Production to address the recently approved Principle Eight benchmarks.

CSR Alliance

In 2009, New Balance established the Corporate Social Responsibility (CSR) Alliance as a forum for training suppliers in China; over the past two years, New Balance has been standardizing the CSR Alliance programs in China, Vietnam, and Indonesia. New Balance holds CSR Alliance workshops about three times a year. These trainings include updates for suppliers on New Balance's social compliance program. Additionally, suppliers are selected to present best practices, such as energy sustainability or a capacity building program with civil society. In June 2018, the FLA conducted a training field observation of New Balance's CSR Alliance supplier training in Vietnam. During the FLA observation, New Balance included the FLA accredited service providers Openview and One Step Vietnam to present on the work that they conduct for New Balance, including trends in audit findings and information about their confidential reporting channel for workers to submit grievances. On the second day of the CSR Alliance workshop, the FLA observed New Balance's more focused training for footwear suppliers and their subcontractors in which suppliers reviewed examples of high-risk and zero tolerance findings. The FLA recognized best practices in these trainings; for example, there is open communication that allows suppliers to raise questions and concerns on the content of the training, New Balance's workplace standards, and practical challenges suppliers have in implementing these standards. Additionally, allowing suppliers to present to each other creates a supportive environment for implementing New Balance standards and allows for the suppliers to see how practical solutions can be implemented. The FLA recognizes the CSR Alliance workshops as a strength of the New Balance program.



FLA staff observed representatives from suppliers participating in New Balance's CSR Alliance in Vietnam.

Ensuring Functioning Grievance Mechanisms

New Balance seeks to ensure that every contract facility has an effective grievance mechanism through its Sprint Audit process. New Balance's trained auditors are experienced at assessing for functioning grievance mechanisms through document review and worker and management interviews. The auditors provide suggestions and feedback to factories in cases where there is a lack of a functioning grievance mechanism. At the HQ assessment, FLA confirmed that New Balance's internal standard to ensure facilities have functioning grievance mechanisms is to verify that at least 90% of the workers interviewed during the audit understand the grievance mechanisms in order to consider it to be functioning at the facility.

New Balance works with service providers to provide facilities with confidential reporting channels in case workers do not trust the available grievance mechanisms. In China, New Balance uses [Inno Community Development Foundation](#) (Inno) as a channel for confidential reporting. When grievances are submitted, New Balance is informed by Inno, which then further investigates the grievance and supports New Balance in determining appropriate next steps. Workers can submit grievances through WeChat, QQ, phone, or text message; most commonly, workers use the social media outlets to

submit grievances. With the exception of grievances that are considered “high risk” (based on New Balance’s criteria) and which New Balance is immediately notified about, New Balance reviews the grievances submitted to Inno on a monthly basis. Frequently, grievances occur due to the lack of effective communication with workers, or due to decisions made by the local authorities that impact the factory. New Balance has also received grievances through Inno on delays of payment and required overtime; which Inno and New Balance have worked to understand and resolve. During the Field Office Visit in Vietnam, the FLA interviewed New Balance’s contacts at Inno to verify the process to address grievances submitted through the confidential reporting channel provided by Inno.

In Vietnam, New Balance uses [One Step Vietnam](#) to provide facilities with confidential reporting channels direct to New Balance headquarters. The FLA observed a representative from One Step Vietnam provide a presentation on its confidential reporting channel process during the CSR Alliance supplier training. Both Inno and One Step Vietnam have training programs to implement the confidential reporting channels. New Balance received approximately 1500 reports and enquiries since the implementation of the hotlines; out of these, eight have been identified as significant issues. In Jordan and Haiti, New Balance works with Better Work to implement confidential reporting channels. For all other countries, workers have access to New Balance’s email channel (csr@newbalance.com), which can be found on New Balance’s revised Code of Conduct poster.

In 2017, New Balance received nine grievances classified as serious via email directly to New Balance headquarters and the worker hotlines, including grievances on issues related to Freedom of Association, Collective Bargaining, Forced Labor, and Wages and Benefits. One of the grievances submitted through the One Step Vietnam hotline was on freedom of movement in a factory in Vietnam. It was reported a worker was not free to go to the bathroom as the factory had stopped giving short breaks and there were not enough workers to take the place of that worker. New Balance and One Step Vietnam worked with the factory to give workers short breaks during the work day. One Step Vietnam also conducted a follow-up to ensure that these breaks were implemented.

For owned facilities, the Human Resources (HR) Department is responsible for the Code of Ethics, which includes supply chain and supplier responsibility. Manufacturing associates have access to an email hotline (ethics@newbalance.com) and an open-door policy for associates to raise issues to their supervisor or escalate to the HR Department.

Data Analysis and Management

New Balance transitioned to the [Fair Factories Clearinghouse \(FFC\)](#) as its compliance database at the end of 2014; this change has supported New Balance to analyze trends on compliance related activities and make informed decisions on how to improve the compliance program. The transition to FFC has supported detailed data analysis which will eventually be integrated in New Balance’s big data strategy. New Balance has dedicated staff to conduct data analysis who uses a dashboard to track month to month issues. The software that New Balance uses allows it to analyze on many different levels, including country levels.

The Global Compliance staff has worked with the sourcing teams to determine audit schedules using the analyzed data. This leads to an environment where noncompliance issues are commonly known between the Sourcing and Compliance teams. The Global Compliance Department provides an update to senior leadership on aggregated data from audits to provide a common baseline for measuring progress on a monthly basis.

FLA Participation

New Balance staff and leadership have participated broadly in FLA committees and working groups. New Balance's Vice President, Responsible Leadership & Global Compliance has been on the FLA's Board of Directors since 2012; she is also the chair of the FLA's Finance Committee. New Balance's former Compliance Manager, Operations and Analytics engaged with the Business Caucus representatives in the FLA's Practitioner's Working Group for Fair Compensation to pilot the FLA's compensation data collection tool and provide feedback to the working group. In 2018, New Balance's Global Compliance Director, Western Hemisphere & Strategic Planning joined the FLA's Monitoring Committee as a Business caucus Representative; and New Balance's Licensee Manager, Global Compliance has been participating in the formation of the FLA's Responsible Licensing Working Group. Additionally, at the FLA's 2018 February Board Meeting, New Balance's VP, Strategic Sourcing and the Senior Director, Costing presented New Balance's costing and purchasing practices as part of a Fair Compensation Panel.

CIVIL SOCIETY ENGAGEMENT³

Civil Society Engagement Strategy Development & Implementation

In 2017, New Balance developed its Stakeholder Engagement Plan to articulate the engagement practices New Balance has been implementing; the plan is regularly reviewed and at the time of this report, was most recently revised in April 2018. The plan includes external stakeholder civil society organizations (CSOs) such as unions, non-government organizations (NGOs), and multi-lateral organizations, as well as other external stakeholders such as academia, business partners, multi-stakeholder initiatives (MSIs), standards organizations, industry peers, and business and trade associations. The plan defines a prioritization matrix dependent on country risk and country production volume. New Balance has also defined how it will categorize issues to address through stakeholder engagement to support prioritization of engagement; the categories include: issues across the global footwear and apparel industry, examples of issues encountered by New Balance, and examples of recorded grievances. Stakeholder engagement tactics are included in the plan and are categorized by monitoring, informing, consulting, involving, and collaborating. Goals for New Balance's stakeholder engagement include evaluating the efficacy of existing stakeholder relationships, mapping new relevant stakeholders for potential engagement, and ensuring prioritized stakeholder engagement countries and issues are updated as needed. The FLA reviewed New Balance's Stakeholder Engagement Plan and interviewed relevant compliance staff to verify the implementation of the plan and engagement with civil society.

Countries where Civil Society has been Engaged by New Balance



³ Principle 9 "Consultation with Civil Society (CSO)" articulates how a company can engage with civil society to improve the lives of the workers in its supply chain.

Union Engagement Guidelines

Within the Stakeholder Engagement Plan, New Balance includes guidelines on engaging with unions and responding to grievances. For new suppliers, New Balance identifies the union structures at the contract facility through its factory profile and questionnaire and will establish relationships with the union representatives. When conducting audits or addressing grievances, New Balance auditors engage with the union representatives, review the collective bargaining agreement (CBA), and conduct document review specific to freedom of association. Additionally, by establishing a relationship with the union representatives, New Balance is able to contact the representatives when anti-union activity is reported to New Balance or if a strike occurs. New Balance's Stakeholder Engagement Plan also includes the expectation for union engagement in corrective action plans, where relevant labor violations warrant engagement with unions.

Americas Civil Society Engagement

New Balance is actively involved in the Americas Group, a multi-stakeholder organization of brands and civil society organizations, who work together on systemic labor issues in Mexico, Central America, and South America. New Balance participates in two committees within the Americas Group, the Mexico Committee and the Central America Committee. In 2016, the Mexico Committee published [guidance](#) for suppliers on the existence of protection contracts and inclusion and exclusion clauses in CBAs, requiring workers to join the union if employed at the factory and be terminated by the factory if they leave the union. New Balance was an active participant in the development of this guidance, which included a training for factories and auditors in identifying protection contracts in contract facilities in Mexico⁴. New Balance continues to support the initiatives of the Mexico Committee; currently, New Balance has requested that its three suppliers in Mexico provide the CBAs that are in place, in order to review them for inclusion and exclusion clauses. Because of the protection contract for the union, it is common for workers not to have access to this CBA and for the factory management to provide the union membership fees. In these situations, workers are usually not aware of the violation to their right to freedom of association and are not able to negotiate the removal of these clauses in the CBA. New Balance provides recommendations to its suppliers that have existing protection contracts to improve worker awareness, engagement, training, communication, and dialogue on freedom of association.

The FLA has verified New Balance's engagement with the Americas Group and Mexico Committee by being an active participant in the activities and discussions organized by the Americas Group. Additionally, the FLA worked with an FLA accredited Participating Supplier (PS) which produces for New Balance in various countries including Mexico. In early 2018, the PS's social compliance audit identified that there was a protection contract in place at one of their facilities and provided the CBA and exclusions clauses to the FLA for review. At the time, New Balance had not been provided the CBA to review by this facility; the FLA worked with New Balance and the PS to understand the challenges in addressing protection contracts in Mexico and improve the trust between the brand and supplier so that the CBA could be shared with New Balance. Both the FLA and New Balance provided support and recommendations to the PS to improve Freedom of Association at this facility in Mexico.

Through the Central America Committee, New Balance is engaging with trade unions and women's organizations in El Salvador to address issues faced by women working in the maquila sector, as [identified](#) by the Central American Women's Network in Support of Maquila Workers (REDCAM). In May 2018, New Balance participated in a forum coordinated by the Americas Group to address

⁴ FLA observed this training as part of the [PVH's Reaccreditation](#) in 2016.

childcare issues and solutions for working parents in the maquila sector. This forum was targeted to the maquila sectors in El Salvador and included multiple brands, a national industry association, relevant government departments, and civil society organizations focused on labor and women's issues. Additionally, New Balance participates in the Gender-Based Violence Working Group within the Central America Committee. This group is working to develop guidance on prevention of sexual harassment and other forms of violence against women in the workplace for El Salvador.

East Asia Civil Society Engagement

In 2017, New Balance began its Workplace Cooperation Project in China to promote better dialogue between workers and managers. This year long program is contributing to the development of New Balance's Marathon Program, a program for suppliers to implement modules that goes beyond addressing basic compliance issues. New Balance partnered with [Timeline Consultancy](#), a capacity building service provider based in Guangzhou, China, to benchmark the progress of the program over a course of a year. To develop this program, New Balance took the learnings from their engagement with the Freedom of Association (FOA) Protocol in Indonesia and applied them to the conditions in China and workplace dialogue. Currently, this program has been implemented in six facilities (two each from apparel, footwear, and equipment) and the factories are working to develop a communication committee to serve as a platform for discussion between workers and managers. Additionally, New Balance engages with Inno to implement a functioning confidential channel at its factories in China, this partnership is described in detail earlier in this report under Functioning Grievance Mechanisms.

South East Asia Civil Society Engagement

New Balance is a signatory of the [FOA Protocol](#) in Indonesia; this initiative is coordinated by Oxfam Australia and includes other signatory brands and unions from contract factories of the brands. The FOA Protocol upholds Freedom of Association standards that go beyond Indonesia's local laws and provides operational standards to support the implementation of the protocol. Six suppliers, three footwear and three apparel, participate in the FOA Protocol. New Balance representatives attend the national committee meetings, including quarterly meetings that include factory management and trade union representatives. The FOA protocol has strengthened communication between the union representatives and New Balance and has allowed New Balance to mediate between the factory management and union representatives, especially when there are multiple unions within a facility. During the [reaccreditation of the adidas Group's](#) compliance program, the FLA conducted interviews with Oxfam Australia to verify the work that signatory brands have committed to under the FOA Protocol.

In Vietnam, New Balance works with the Life Centre through its partnership with [BSR's HERHealth program](#); [Life Centre](#) implements the HERHealth program at the local level. A facility of an FLA accredited PS in Vietnam has implemented this program in its production for New Balance. A representative from this facility presented on their work with the HER Project at New Balance's CSR Alliance training in June 2018, which was observed by the FLA. Additionally, New Balance has been a [Better Work Vietnam](#) (BWV) Partnership Brand for about eight years and 12 New Balance apparel facilities in Vietnam are part of the BWV program. Through this program, the suppliers have implemented the Performance Improvement Consultative Committee (PICC). For 10 out of the 12 suppliers, the PICC is a functioning committee that includes management, workers, and union representatives.

New Balance had identified a gap in civil society engagement in Thailand and conducted a mapping of stakeholders in Thailand to research and potentially collaborate with. In October 2018, New Balance engaged with an NGO based in South East Asia focused on issues of human trafficking and forced

labor, to speak at its Global Compliance Team summit. FLA recommends New Balance continue its outreach and engagement to civil society organizations in Thailand and other high-risk countries.



New Balance's Compliance Manager, EMEA presents on New Balance's program to the Republic of Georgia's Ministry of Labor.

Europe, Middle East, and Africa (EMEA) Civil Society Engagement

New Balance has worked collaboratively within the partnership between [UNHCR and the FLA](#) to increase Syrian refugee employment in Jordan and Turkey. In Turkey, New Balance has been able to support legal employment of Syrian refugees at one of their contract facilities. In the Republic of Georgia, New Balance participated in the FLA's training with the Labor of Ministry on assessing health and safety standards. It is also noted that New Balance engages with the Woodworkers Trade Union in its owned Finland facility when issues on seasonal employment arise.

Public Disclosure & Government Advocacy

In 2017, the Civil Society Coalition on Garment Industry engaged with brands, including New Balance, to commit to a Transparency Pledge to publicly disclose their supplier factory lists so civil society could better collaborate in addressing labor and human rights in supply chains. New Balance committed to the pledge; and publicly discloses its [supplier list](#) in a downloadable and searchable format.

New Balance has also supported various government advocacy initiatives with the FLA since its accreditation in 2014. In 2015, New Balance supported [FLA's call](#) for a meaningful minimum wage legislation to the Georgian Minister of Labor. New Balance also supported [FLA's opposition](#) of an unfair minimum wage exemption for garment workers in Myanmar in 2015. More recently in 2017, New Balance supported the [FLA's advocacy](#) to the Secretary of Labor and Social Welfare of Mexico, emphasizing the recognition of labor rights to freedom of association and collective bargaining. In Cambodia, New Balance has been participating in calls and meetings with the Cambodia Delegation (coordinated through the FLA, Cornell University, and the American Apparel & Footwear Association) to address freedom of association and labor issues with the Cambodian government. In June 2018, New Balance signed a letter from the FLA and AAFA addressed to the President of Nicaragua, expressing concerns on the political and social crisis in Nicaragua and the impacts it had on the livelihood of workers and Nicaragua's export capacity.

Generally, FLA recognizes New Balance engagement with civil society and the positive impacts New Balance's partnership with these organizations provide to workers. The FLA encourages New Balance to continue to expand and improve its engagement with civil society in additional sourcing countries as well as beyond Tier 1.

RESPONSIBLE PURCHASING & PRODUCTION PRACTICES⁵

Responsible Purchasing & Sourcing Practices Policies and Procedures (Contract Facilities)

New Balance's Global Compliance and Value Chain Departments work together to implement responsible purchasing and sourcing practices within its apparel, footwear, and equipment supply chains. The VP, Responsible Leadership & Global Compliance is part of the Value Chain Leadership Team that meets regularly to discuss purchasing practices and compliance issues that impact suppliers. New Balance's five-year Global Compliance Goals are integrated in New Balance's Value

⁵ Principle 8 "Responsible Purchasing Practices" articulates how a company develops and implements responsible purchasing practices, that mitigate negative working conditions, informed by the company's social compliance program.

Chain's strategic plans, specifically, "Goal 3: Compliance Embedded in the Business." This goal speaks directly to the Value Chain Department's "Objectives, Goals, Strategies, and Plans" (OGSP); the first OGSP focused on engraining responsible leadership through their extended value chain and including goals specific to global compliance. The FLA considers the alignment of Global Compliance's goals and Value Chain's OGSP as a strength of New Balance's program, as it allows for New Balance staff to engage with suppliers with a clear voice on New Balance's priorities in business growth and working conditions.

New Balance is the sole or primary buyer in its contract footwear facilities,⁶ and therefore has more leverage as well as more responsibility to ensure reliability of orders to maintain a steady workforce. As part of their responsible purchasing practices for footwear contract facilities, New Balance has developed standard operating procedures (SOPs) to manage purchase orders, early buys, costing, and changes in allocation. In the last year, New Balance implemented its flexible supply chain SOP, which strives to forecast potential orders that may require a second or third facility allocation. This SOP holds New Balance planning staff accountable for forecasting the size of the potential PO and deciding if other contract facilities should be added to the PO allocation in case of issues with production capacity. Because New Balance is able to forecast at the PO allocation that there may need to be a second or third facility, New Balance and suppliers can mitigate instances of excessive overtime or retrenchment that would negatively impact workers. Costing of footwear products is managed by New Balance's Finance Department; due to the majority of the New Balance's business is in footwear, the Senior Director of Costing manages a team to facilitate the process.

Since the 2014 FLA Accreditation, New Balance's apparel business has grown to about 16% of New Balance's overall revenue, with plans for continued growth. In apparel, accessories, and equipment contract facilities where New Balance is one of many buyers, New Balance works to understand the capacity of the facility for New Balance production. New Balance also has SOPs in place to plan and manage PO placement, costing, lead time, and various product development timelines and calendars for their apparel and equipment lines. Costing of apparel, accessories, and equipment products is managed by the apparel and equipment Eastern and Western Hemisphere teams under the Value Chain Department. In August 2018, New Balance's Value Chain Department was restructured to more strongly align footwear and apparel sourcing, development, planning, quality, etc. The Vice President, Strategic Sourcing now oversees the sourcing for footwear, apparel, and materials and components for domestic manufacturing. New Balance's Value Chain Department is continuing to build efficiencies by streamlining the sourcing and purchasing processes between footwear and apparel, including reviewing the costing department structure and processes between the two product categories.

FLA recognizes the strengthening of New Balance's responsible purchasing practices procedures and the structure of the Value Chain Department and encourages New Balance to continue to implement practices to improve purchasing practices in all product categories.

Training on Responsible Purchasing & Sourcing Practices

New Balance's Global Compliance Department works regularly with the footwear, apparel, and equipment sourcing teams within the Value Chain Department. Through this close collaboration, there is informal training on responsible purchasing practices; the departments meet regularly to discuss impacts to purchasing practices on working conditions. Additionally, through the Value Chain Leadership Team, that includes Global Compliance and Costing, there is regular meetings to discuss

⁶ New Balance is the primary buyer in the factory building or location; most footwear facilities are owned by large vendors that operate multiple buildings and usually serve several customer brands.

needs as well as systemic improvements in New Balance's purchasing practices. The Value Chain and Global Compliance Departments communicate together with their suppliers on the expectation that they uphold the workplace standards and coordinate with New Balance on production practices. The FLA conducted interviews with the planning and purchasing staff and the Executive Vice President, Value Chain, and verified that there was comprehensive knowledge on the Global Compliance program's operations and standards that are affected by New Balance's purchasing practices, such as practices in forecasting and supplier evaluations. Additionally, during the interview with New Balance's Executive Vice President, Value Chain, the FLA noted the EVP's emphasis on supplier engagement to improve working conditions as a strength in communicating to and training relevant staff. The FLA recommends New Balance continue to ensure informal trainings and learnings from discussions are applied to improve New Balance's purchasing practices, and consider developing a formal responsible purchasing practices training, especially for relevant new hires in the Value Chain Department.



New Balance's Director of Global Compliance, Asia engages with factory management during the audit process.

Accountability for Implementing Responsible Purchasing & Sourcing Practices

New Balance job descriptions and performance reviews for Value Chain staff include responsibilities for implementing the New Balance operations according to the documented SOPs and workflows, which are developed to help mitigate negative impacts at the facility-level. The SOPs implemented by New Balance also include expectations of clear and timely communication with suppliers throughout the production process. The footwear, apparel, accessories, and equipment teams utilize calendars that articulate the entire process from sample approval to a completed PO. The process identifies the responsible lead (either the vendor or the applicable New Balance department) and a start and end date. For footwear, there are targets defined to on-time delivery of prototypes, salesmen samples, buy ready and X-factory date. Internal calendar adherence is reviewed on a weekly basis to ensure the sourcing teams are maintaining defined deadlines. Additionally, for the footwear and apparel sourcing teams, there is a clear on-boarding and off-boarding supplier process that articulates the activities both Value Chain and Global Compliance must complete to ensure the suppliers are clear on the expectations from sourcing, quality, costing, logistics, and compliance. Through the review of New Balance's procedures as well as interviews conducted at the HQ Assessment and Field Office Visit, the FLA verified the implementation of systems that hold staff accountable for production deadlines and clear supplier communication.

Dialogue & Engagement to Implement Responsible Purchasing Practices

New Balance's Global Compliance, Value Chain, and Finance departments work closely together to ensure there is regular communication internally on various purchasing practices or compliance related issues. Formally, the VP, Responsible Leadership & Global Compliance and the Sr. Director of Costing, as well as the Value Chain Controller, sit together on the Value Chain Leadership Team. This team meets several times a month to discuss implementation of the OGSP and address issues as they arise with suppliers. In 2017 and 2018, with the hiring of the new EVP, Value Chain, staff from the Value Chain and Global Compliance Departments visited all strategic suppliers together to communicate New Balance's values and expectations in sourcing and compliance. New Balance communicates its Rough Cut Capacity Plan to its suppliers as a means of forecasting upcoming POs.

The Rough Cut Capacity Plan is built upon the standard work week (based on local country laws) and can be increased to 60 hours per week if a need is indicated by the supplier.

As New Balance is usually the sole footwear supplier in a contract facility, New Balance has stricter processes and procedures to manage excessive overtime for footwear suppliers. New Balance has an overtime authorization process, in which contract facilities are responsible for communicating to New Balance when overtime is needed. For overtime between 48-60 hours, the New Balance Factory Operations Manager and Country Manager must approve the factory's request and copy the Director of Asia Operations and relevant staff from Sourcing, Compliance, Business Operations, and Order Management. If overtime is to exceed over 60 hours per week, the approval must come jointly from the VP, External Products and the VP, Responsible Leadership & Global Compliance. The overtime requests are then tracked through New Balance's Sourcing Operations Team Site. This overtime policy is in place so that New Balance can review internally and offer solutions to avoid excessive overtime. However, New Balance has found some cases in which contract facilities did not notify regional staff of excessive overtime, leading to transparency findings during the annual audit. To incentivize transparency with the contract facilities in notifying New Balance of upcoming overtime, New Balance has communicated to its contract facilities that the supplier's on-time delivery score in New Balance's supplier scorecard will be negatively impacted if they do not abide by the overtime notification process. The negative impact to on-time delivery will be directly proportional to the amount of unauthorized excessive overtime worked. New Balance will include premium rates for overtime, so long as the supplier is transparent with New Balance about overtime worked.

While the overtime notification process was in place during New Balance's 2014 Accreditation, the FLA notes that it has been improved to facilitate better transparency between New Balance and its suppliers. New Balance found that footwear suppliers did not feel comfortable notifying New Balance of potential overtime knowing that the request would need approval from New Balance's senior management in Sourcing and Global Compliance. After receiving this feedback, New Balance revised the policy so that only cases where overtime exceeds over 60 hours per week require approval from New Balance's VP, External Products and VP, Responsible Leadership & Global Compliance. (The VPs are notified by relevant staff when overtime will exceed 48 hours; however, approval is not required.) The FLA notes the consideration of supplier feedback in revising New Balance's overtime notification policy as a strength of New Balance's program in responsible purchasing practices.

In addition to collecting supplier feedback directly, New Balance has participated in two supplier survey rounds with [Better Buying](#). Better Buying is a non-profit funded by the C&A Foundation and Humanity United that allows suppliers to anonymously rate brands' purchasing practices. In fall 2017, New Balance participated in Better Buying's first round of supplier surveys by formally inviting all suppliers to submit Better Buying's survey on New Balance's purchasing practices. Suppliers provide ratings on [7 key categories](#) of purchasing practices, including planning and forecasting, cost and negotiation, payment and terms, CSR harmonization, and overall. Although only 9 of 40 suppliers responded to the survey, in all 7 categories New Balance's average ratings were equal to or higher than Better Buying's overall [industry average](#). Overall, Better Buying's report reflects potential strengths in New Balance's purchasing practices including design and development, payment and teams, management of purchasing practices, and CSR harmonization. Better Buying's report also points out areas for improvement in planning and forecasting as well as in sourcing and order placement. However, the ratings and trends identified by Better Buying may change if more suppliers, especially in footwear, submit responses. FLA identifies New Balance's participation with Better Buying as a strength of New Balance's focus on purchasing practices, also noting that New Balance suppliers have completed the second round of survey submissions during Spring 2018 and New Balance will eventually receive another report from Better Buying. FLA encourages New Balance to

continue to facilitate supplier feedback in a transparent manner and to improve purchasing practices based on supplier feedback to mitigate negative impacts on workers.



New Balance's Managing Director, Footwear Sourcing for Asia explains the dynamics of New Balance's Flexible Supply Chain SOP to FLA staff during the Vietnam Field Office Visit.

One of the areas for improvement from Better Buying's overall industry analysis and specific to New Balance was in sourcing and order placement, in which Better Buying notes the challenges all suppliers have in managing large peaks and valleys in production volume. Since 2017, New Balance has been working to implement its flexible supply chain process for footwear suppliers to allow for New Balance and its suppliers to balance orders and colorways for large volume styles. During interviews with the FLA, New Balance's Managing Director, Footwear Sourcing for Asia, explained that the intent of the flexible supply chain process is to balance high peaks and low valleys in production

volume by allowing New Balance to work with multiple suppliers or contract facilities. New Balance also facilitates communication and cooperation between the facilities and suppliers to ensure there is quality consistency if a different footwear supplier is supporting another supplier in the flexible supply chain process. Additionally, when New Balance formalized this process, they communicated the reasoning of the process to its suppliers. It was important for suppliers to understand that this process was not to decrease suppliers' orders, but to offer support to suppliers so that they can improve their adherence to local laws and New Balance's code of conduct in regard to hours of work.

New Balance has taken actions to improve communication between Tier 1 and Tier 2 nominated material suppliers in their apparel supply chain. These improvements include the ordering and storage of greige goods so that the Tier 1 suppliers can more easily manage the receipt of materials during peak or holiday seasons. New Balance will also offer some flexibility in delivery, where possible, if excessive overtime is a concern. Costing is negotiated for apparel products under the Product Development department; suppliers provide a breakdown of labor, materials, consumption, and overhead costs when negotiating the costs of apparel products with New Balance. New Balance's apparel business is continuing to grow; the apparel sourcing teams works to customize best practices and learnings from New Balance's footwear program, where possible. FLA conducted interviews with apparel sourcing staff in the eastern and western hemispheres during the HQ Assessment in the U.S. and the Field Office Visit in Vietnam; verifying the continuous improvement of purchasing practices for apparel.

Evaluating & Incentivizing Suppliers to Produce Responsibly

New Balance has a comprehensive supplier evaluation system. All suppliers receive a score from their most recent New Balance audit, which is then incorporated into a comprehensive supplier scorecard. The scorecards also incorporate responsiveness to New Balance's corrective action plan (CAP), as well as scores related to CSR, quality, supplier reliability, development, and survey. Footwear suppliers are scored on LEAN manufacturing as well. For the survey part of the scorecard, New Balance includes a section based on New Balance staff feedback through a survey. Senior staff provide rankings on various topics such as costing, management, leadership, development capability, innovation, etc. The FLA reviewed the survey questions and how New Balance utilize various supplier scorecards to inform sourcing decisions during the HQ Assessment.

As part of its incentives program, New Balance has developed a beyond compliance and capacity building program, known as New Balance's Marathon Program, for suppliers that qualify through their audit scores. Currently, the Marathon Program has two modules on energy and fire safety, and an additional module on workplace dialogue under development that include guidance, capacity building programs, and in-depth assessments. Suppliers that qualify are able to participate in the Marathon Program, which is then factored into their overall compliance score. As New Balance continues to implement the Marathon Program, the "beyond compliance" score will start to be weighted more significantly, so that suppliers will be incentivized to maintain basic compliance levels and pursue more best practices. Further discussion on the Marathon Program is included in the Remediation, Innovation, and Collaboration element.

For further incentives, New Balance strives to provide consistent and long-term business to suppliers that receive adequate scores within the supplier scorecard. New Balance also provides recognition awards to suppliers that perform well on the scorecard. Additionally, New Balance is developing a method to rate its Tier 2 suppliers according to their compliance with New Balance's restricted substances program, wastewater testing under the Zero Discharge of Hazardous Chemicals (ZDHC) Roadmap to Zero Programme, and other metrics. Further discussion on New Balance's progress in assessing compliance risks in upstream suppliers is discussed under the Remediation, Innovation, and Collaboration element. The FLA recommends New Balance continue to identify and provide various incentives for all suppliers that perform well under New Balance's scorecard.

Responsible Production Practices (Owned Facilities)

New Balance has nine owned production facilities; all are covered in some way by New Balance's Global Compliance program. Supply planners are responsible for ensuring that planning is adequate to provide regular production for these facilities. For the owned facilities in the U.S., these facilities have implemented programs to train manufacturing associates on one to three production processes so that they can be rotated depending on the production needs. While New Balance has invested in equipment to automate certain footwear production processes, this automation is not fully applicable to the custom-order styles for direct-to-consumer orders. Manufacturing associates can be rotated from an automated process to support timely delivery of direct-to-consumer orders. While New Balance does not have a formal incentives program for its owned facilities, the owned facilities have various programs to incentivize high-performance in leadership skills. During the FLA's HQ Assessment, FLA staff reviewed the owned facility in Lawrence, Massachusetts observing that the production lines are set up to produce regular retail orders and direct-to-consumer custom orders; verifying that manufacturing associates are incentivized to learn multiple production functions so that there is some flexibility when there are low and peak seasons.

REMEDIATION, INNOVATION, AND COLLABORATION⁷

Remediation Process

The Global Compliance Department's SOPs for Corrective Action Plan (CAP) Management articulates the process of following up with suppliers on remediation. The FLA reviewed the implemented version of the SOP, which identifies responsible staff for leading and supporting the remediation process and clear timelines for the supplier to conduct root cause analysis, create the CAP, set deadlines to complete or implement the CAP, and guidance for suppliers in conducting root cause analysis. To ensure timely delivery of remediation plans, communication has been transferred from the corporate

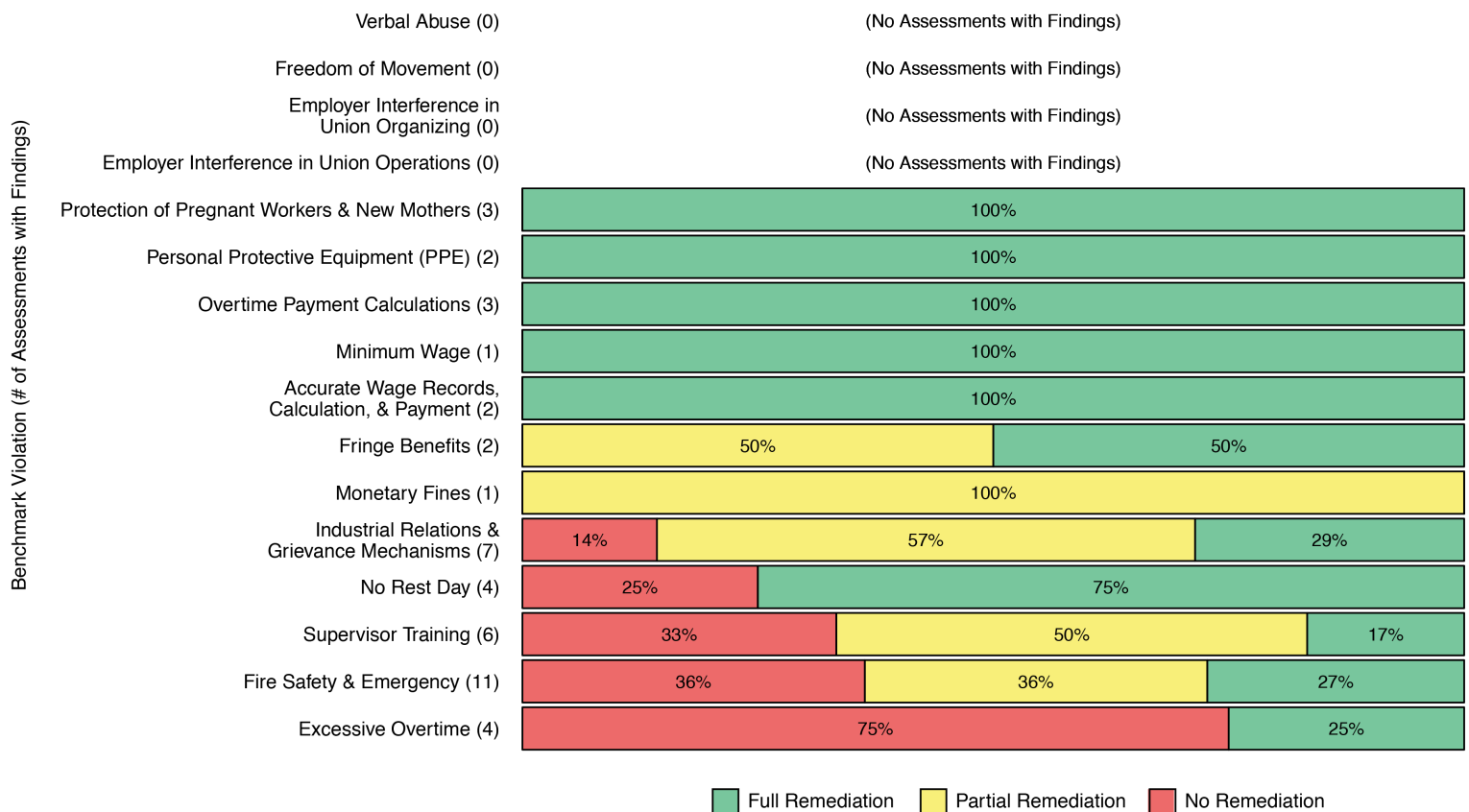
⁷Principle 7 "Timely and Preventative Remediation" articulates the expectation for companies to work with its suppliers to sustainably remediate noncompliances and improve working conditions.

office to the Compliance Regional Managers. After the supplier provides its CAP, there is a responsible New Balance Global Compliance staff assigned to ensure appropriate root cause analysis was conducted and that the CAP is executed on time. Ensuring quality of the root cause analysis and that CAPs are completed is the responsibility of the New Balance auditor or the approved third party. The verification process can be done remotely or onsite, depending on the severity of the finding; onsite verifications are conducted for zero tolerance and high-risk issues. Additionally, the SOP has a monitoring & KPIs section to hold responsible persons accountable. FLA identifies the procedures and guidance included in the SOP for CAP Management has a strength of New Balance's program to ensure remediation actions are implemented and verified to ensure effectiveness.

FLA SCI Remediation Results

Since New Balance's 2014 Accreditation, New Balance has received five FLA SCI Assessments and two SCIV Verification (SCIV) Assessments. Below is a chart that includes the remediation of noncompliances identified in all SCI Assessments, and remediation verified by the FLA during the two SCIV Assessments. The FLA has selected compliance benchmarks representative of common and egregious noncompliances found during SCI Assessments to show the progress of remediation. The FLA notes the completion in remediation of findings on protections of pregnant workers and new mothers, overtime payment calculations, minimum wages, and accurate wage records, calculation, and payment; and recommends New Balance continue to make progress in remediating the other findings identified in SCI Assessments, especially in excessive overtime.

New Balance Remediation of FLA Assessments' Findings (2014–2017)



During the reaccreditation process, FLA staff engaged with New Balance and another accredited FLA Participating Company in an instance of remediation of child labor found during an FLA factory assessment. In 2017, during an SCIV Assessment conducted in Vietnam for the FLA accredited

brands the FLA Assessor found four cases of child labor at the factory. All children were hired by an independent subcontractor of the factory and were about 14 years old, instead of the legally and code-required minimum age of 15 years old. Two child workers were hired by the canteen contractor and the other two child workers were hired by a recruitment agency for a production subcontractor onsite of the supplier's compound.

Both brands worked diligently to remediate the violations of child labor; however, due to a lack of timely and accurate information from the FLA Assessor⁸, the brands and supplier were only able to confirm the identities of two of the child workers. The brands and supplier developed an action plan, following guidance from [CCR-CSR](#), an organization with expertise on child rights, and the Child Labor Remediation Policy included in New Balance's Standards Manual. For one worker, the brands and the supplier were able to provide funding to the worker to go back to school. Additionally, the brands verified in September 2018 that the supplier had implemented a contractor/subcontractor management policy; the brands provided recommendations to strengthen the policy to include verification of the minimum age, minimum wages, working time, etc. The policy also includes annual training for the contractors and subcontractors on this policy. The supplier also learned through the identification and remediation of this finding that there was a need to directly hire for all production processes, and no longer uses a recruitment agency to hire for any production processes to ensure the age verification and other compliance standards are followed for employment.

This finding has been described due to the serious nature of the finding, but also to show an example of how child labor can be remediated in apparel and footwear supply chains through brand and supplier commitment and collaboration. Through FLA's annual cycles of SCI and SCIV Assessments, the occurrence of child labor finding happens rarely. While there is less risk of child labor in Tier 1 facilities, FLA recognizes that child labor can still take place. When child labor does occur the remediation process can be very challenging, as there are often cultural norms and family values impacting the conditions for the child worker. The FLA commends the collaboration between the brands and the supplier to uphold the legal requirements and codes of conduct on child labor by remediating the child labor findings identified by the FLA, and for offering financial support to the children workers so that they can go to school instead of working in a factory. The FLA recommends New Balance continue to work with the other accredited FLA Participating Company and the supplier to ensure that the policies on recruitment and age verification are implemented by the supplier and the subcontractors.

Beyond Compliance

In 2018, New Balance developed a "beyond compliance" system, known as the Marathon Program, to reward suppliers that achieve best practices. The Marathon Program is a combination of guidance, capacity building and engagement, and assessments to systemically improve suppliers' conditions in specific areas. The Marathon Program is currently optional for footwear suppliers that qualify through their Sprint Audit scores and has three modules: energy, fire safety, and workplace dialogue. To incentivize this program, New Balance revised its scoring system for suppliers to include room for growth in scores for the Marathon Program. New Balance developed the qualification process for the program by reviewing previous Sprint Audit scores of its suppliers to understand who would qualify for the program; to qualify, suppliers must have an average of a four-star rating Sprint Audit rating across four consecutive quarters. During the first half of 2018, New Balance began to implement the Marathon Program's energy and fire safety modules; six suppliers received Marathon scores for their

⁸ The FLA addressed this issue internally and is no longer assigning SCI Assessments to the assessor in question.



New Balance's Lead Compliance Specialist & Analyst discusses the cross audits suppliers will conduct together during the CSR Alliance observed by the FLA in Vietnam.

participation in these programs. Because these programs require long-term implementation, if a supplier's Sprint Audit drops below a four-star rating for one quarter, the supplier will be allowed to continue the Marathon Program but will lose their Marathon points until the Sprint score improves again. The FLA reviewed the early stages of the scoring, the qualification process, and the Q2 2018 scores for the six suppliers who had implemented the energy and fire safety modules.

For each module of the Marathon Program, there is a specific focus for the suppliers to implement standards, practices, policies, and procedures in either energy, fire safety, and workplace dialogue. Each module has the same structure and requires suppliers to demonstrate best practice in strategy development, engagement and

advisory sessions with New Balance, and performance assessments by New Balance. The FLA reviewed New Balance's workplace dialogue module; which is currently being piloted with suppliers and will be implemented in 2019. Through the strategy development and engagement and advisory sessions for the workplace dialogue module, New Balance explains the various guidance materials and tools that they will use to assess the success of the implementation of the supplier's program. The guidance materials provided by New Balance emphasize the need for functioning grievance mechanisms prior to the implementation of the workplace dialogue module, which is assessed in New Balance's Sprint Audit. The materials then review best practices in workplace dialogue, such as developing a workplace dialogue policy; establishing a team responsible for planning and implementing workplace dialogue programs and tracking progress; ensuring supervisors and managers are aware of the program and contribute where relevant; and utilizing worker surveys, exit interviews, and communication meetings to facilitate feedback. The program includes various engagement projects, that include worker involvement, conflict management, freedom of association, and capacity building. The assessment tool reviews the contract facility's performance in grievance mechanisms, the strategy to implement the best practices, and the performance of the implementation of the engagement projects. While this program is not fully implemented, New Balance's Workplace Cooperation Project with Timeline Consultancy has supported the development of the workplace dialogue module to roll out to suppliers outside of China. Timeline Consultancy also provided support in the development of the workplace dialogue module; applying lessons learned from the experience with the Workplace Cooperation Project.

Connected to the Marathon Program's workplace dialogue module, New Balance has incorporated a Worker Satisfaction Survey for some factories. New Balance began to pilot these surveys prior to the Marathon Program implementation, and has incorporated the surveying of workers to verify the performance of the engagement project for the workplace dialogue module. The survey is given to both workers and supervisors. The survey breaks down findings into High Priority Areas, Medium Priority Areas, and Low Priority Areas. FLA verified an example of the survey for a factory in Vietnam, prior to the implementation of the workplace dialogue program. The high priority areas from this survey were around perception of bottom-up communication, the lack of use of noticeboards by workers, and the information on the noticeboards.

The FLA identifies New Balance's development and implementation of the Marathon Program as a strength of its program; and recommends New Balance continue to develop a version of the Marathon Program that apparel and equipment suppliers would be eligible to implement.

Brand Collaboration

New Balance collaborates with other brands that have similar standards in social compliance and/or if they are FLA Participating Companies; this collaboration can be through audits, remediation, civil society engagement, and government engagement. Especially when egregious labor violations occur, New Balance works with other brands to emphasize the importance of remediation. In the EMEA region, New Balance is collaborating systematically with adidas and PUMA⁹ on audits and remediation in shared supplier facilities. In the Americas, New Balance collaborates with other brands through the Americas Group, as described under the Civil Society Engagement element. New Balance also actively participates in the Industry Summit, which was formed in 2017. The Industry Summit consists of 17 sportswear, fashion, and retail brands that represent over \$750 billion USD annual revenue. This group has met twice per year and has started to form working groups on assessment convergence, responsible business practices, and remediation. New Balance is a participant in the Industry Summit's Remediation Working Group and is leading a joint remediation pilot in one factory in China and participating in another pilot in Vietnam. New Balance is also a signatory of the Social Labor Convergence Project; a multi-stakeholder initiative working to converge differing auditing methodologies in the apparel and footwear industry. Additionally, in the EMEA region, New Balance participates in the brand collaboration group, Build Effective Solutions Together (BEST) that includes various brands sourcing from the region to discuss topics such as Syrian Refugee and foreign migrant worker employment. The FLA considers New Balance's willingness to collaborate with various brands sourcing in the same regions and suppliers to improve working conditions as a strength of New Balance's compliance program.

Fair Compensation

Through engaging with the FLA Practitioner's Working Group for Fair Compensation, New Balance tested and provided feedback to the FLA on the Compensation Data Collection tools for companies to use in their Tier 1 suppliers. In 2017 and 2018, New Balance collected compensation data from 16 of its 17 footwear suppliers¹⁰ and 14 of its apparel suppliers. For the footwear suppliers, New Balance collected data from facilities in China (7), Indonesia (3), and Vietnam (6); for apparel suppliers, New Balance identified their top riskiest countries, as identified by the FLA's [2016 Fair Compensation Report](#), including Sri Lanka (1), Jordan (2), Cambodia (4), India (12), Pakistan (10), and the Philippines (2). In June 2018, New Balance presented its findings from the compensation data analysis for its footwear suppliers to Global Compliance leadership to discuss New Balance's compensation strategy moving forward. The FLA reviewed this presentation, which included the wage ladders for all of the 16 footwear facilities and identified countries in which there are the largest and smallest gaps between average wages and fair compensation benchmarks. New Balance's short-term fair compensation strategy is to continue to analyze and verify the compensation data collected at its footwear and apparel factories, continue to work with the FLA on in-country regional benchmarks and data verification, and then to present the findings to their Sourcing and Costing Departments. FLA commends New Balance's work in compensation data collection and analysis to identify the highest risk wage gap countries and facilities and recommends New Balance to develop a long-term fair compensation strategy to address the wage gaps identified through their compensation data analysis.

Beyond Tier 1 Facilities

For process subcontractors for footwear suppliers, New Balance conducted limited scope Sprint Audits, that only focused on zero tolerance issues, in 2016 and 2017 and now has a baseline of compliance data for its subcontractors. For main process subcontractors, New Balance auditors will

⁹ adidas and PUMA presented to the FLA on this shared audit and remediation collaboration at the February 2016 Board Meeting.

¹⁰ New Balance's compensation data collection for footwear facilities excluded owned production facilities and those in the Americas Region.

conduct the audits; for “high priority” process subcontractors, the audits will be conducted by a third party. New Balance is continuing to review this data and the results to define the next phase of social compliance for these subcontractors.

New Balance has mapped its Tier 2 supply chain to understand the countries in which materials are manufactured; this mapping includes nearly 500 material suppliers in over 20 countries. New Balance then contracted with a third-party risk consultancy firm to conduct a country and material risk analysis to understand the local human rights and environmental risks within each country. To develop the standards for the risk analysis, New Balance utilized the [OECD Guidelines](#) and the [UN Guiding Principles](#) on Business and Human Rights. The risk analysis was presented to the Value Chain department, along with a discussion of possible next steps in pursuing compliance initiatives at Tier 2. New Balance has not committed to auditing all Tier 2 suppliers on a regular basis; instead, New Balance is seeking to create a more strategic approach to Tier 2 and to improve collaboration and leverage for remediation amongst the footwear and apparel industry to mitigate the audit fatigue that has occurred within Tier 1 social compliance. Additionally, New Balance is motivated to work with other brands and industry to improve leverage for remediation of labor and environmental violations in

upstream suppliers. New Balance has collaborated with other brands, including accredited FLA Participating Companies, to address forced labor risks in Tier 2 textile mills in Taiwan in a pilot project. The brands identified a mill from which all brands were sourcing and worked with the supplier to return passports and personal identification documents. The brands are continuing to work with this supplier to implement a “no fees” recruitment policy.

New Balance has also committed to the FLA’s rubber supply chain mapping¹¹ in Vietnam. This project will explore the rubber supply chains for New Balance and other FLA accredited companies and suppliers, by conducting interviews with the companies, suppliers, contract facilities, material suppliers, raw material suppliers, plantations, and farms. For this project, a task and risk mapping based on these interviews will be defined and FLA will provide recommendations to the involved companies and suppliers on how to improve working conditions throughout the supply chain. Once the project is completed, FLA will publish this report.

FLA commends New Balance’s work to review working conditions throughout its supply chain and recommends New Balance continue to develop and implement projects and accountability programs, in collaboration with other brands and industries, to ensure that workers’ rights are upheld throughout New Balance’s supply and value chains.



New Balance’s Office at the Lawrence Facility in Massachusetts, USA, with the quote: “One step can move a person, one person can move a community, and one community can move the world.”

¹¹ This project is considered an FLA “redirect,” in which once a company is FLA accredited some of their monitoring funds are redirected towards specific projects that focus on beyond compliance initiatives.

SECTION 4: CONCLUSION AND RECOMMENDATION TO THE BOARD OF DIRECTORS

This review of New Balance's labor compliance program is intended to help inform the decision of the FLA Board of Directors on whether to reaccredit the affiliate's program.

The FLA staff's conclusion is that since affiliation as a Participating Company, New Balance has developed an increasingly comprehensive labor compliance program that, on balance, aligns with FLA standards, benchmarks, and protocols. Reaccreditation is the FLA's continuing assessment of an affiliate's labor compliance program towards ensuring 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. The FLA 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 reaccreditation of New Balance's labor compliance program.

The assessment identified certain areas in which New Balance's labor compliance program has been strong, and also areas to which improvements are possible.

Strengths of New Balance's labor compliance program include:

- 1) Aligned top management commitment to workplace standards between the Value Chain and Global Compliance Departments;
- 2) Providing various confidential reporting channels with local service providers to ensure worker grievances are received and resolved;
- 3) Social compliance data analysis to inform program improvements and sourcing decisions;
- 4) Local engagement with civil society organizations to make collaborative improvements to workers' lives;
- 5) Implementation of a 'beyond compliance' program to incentivize footwear suppliers to improve working conditions;
- 6) Brand and supplier collaboration through shared audits, remediation initiatives, and trainings; and
- 7) Progress and commitment to analyzing compensation data of workers to identify wage gaps.

Suggestions for strengthening New Balance's labor compliance program include:

- 1) Continue to expand engagement with civil society in other high-risk sourcing countries and beyond Tier 1;
- 2) Continue to develop and implement incentives and 'beyond compliance' programs for apparel and equipment suppliers;
- 3) Continue to work with Tier 1 facilities in remediating labor violations in their supply chain;
- 4) Continue to analyze compensation data and develop a long-term fair compensation strategy to make progress in closing compensation gaps; and
- 5) Continue to define and implement a strategy to identify and remediate labor violations beyond Tier 1 suppliers.

APPENDIX A: NEW BALANCE'S CODE OF CONDUCT

New Balance CODE OF CONDUCT

OUR MISSION

Demonstrating responsible leadership, we build global brands that athletes are proud to wear, associates are proud to create and communities are proud to host.

This Code of Conduct sets forth the basic requirements that suppliers¹² must meet in order to do business with New Balance. This Code is based upon internationally accepted standards, including the International Labor Organization (ILO)'s core conventions, the Universal Declaration of Human Rights, and leading standards on occupational safety and health.

New Balance recognizes that different legal, political, economic, and cultural environments exist in countries around the world. In cases where differences or conflicts in standards arise, New Balance will apply the higher standard. New Balance is committed to doing business with suppliers who share our commitment to fair and safe labor and environmental practices.

At New Balance, we are catalysts for movement. We seek to work with suppliers which recognize that these standards are a baseline from which to move forward and are willing to commit to a program of continuous improvement. This is how we will evaluate supplier performance and determine who will help grow our business. This is how we build momentum for positive change in global working conditions. This is how we move.

I. Compliance with Laws

- a. Suppliers shall operate in full compliance with the laws of their respective countries and with all other applicable international, national, and local laws, rules and regulations.

II. Child Labor

- a. No person shall be employed under the age of 16 (or 15, where the governing law allows) or under the age for completion of compulsory education, whichever is higher. All suppliers shall maintain official documentation allowing for verification of each employee's date of birth.
- b. Suppliers must be in compliance with all laws and regulations regarding the employment of young workers. These regulations include but are not limited to types of work, work schedules and labor intensity.

III. Forced Labor

- a. There shall no use of forced labor, including but not limited to prison labor, indentured labor, bonded labor and other forms of coerced labor.
- b. Employees shall not be locked inside of factory premises for any reason.

IV. Humane Treatment

¹² Suppliers include but are not limited to all licensees, vendors, manufacturers or businesses which produce products with the trademarks of New Balance and/or its brands.

- a. Employees shall be treated with dignity and respect. Employees shall not be subject to any physical, verbal, sexual or psychological harassment or abuse.
- b. Employees shall not be subject to fines or penalties as a disciplinary measure.
- c. Suppliers shall maintain and enforce a non-retaliation policy that permits employees to express concerns about workplace conditions directly to factory management, relevant government authorities, and/or New Balance without fear of retribution.

V. Nondiscrimination

- a. No person shall be subject to any discrimination in employment, including but not limited to recruitment, hiring, compensation, promotion, discipline, termination or retirement, on the basis of gender, race, religion, age, disability, sexual orientation, nationality, marital status, pregnancy, parental status, political opinion, political affiliation, union membership, social group or ethnic origin.
- b. Suppliers that recruit or employ foreign or migrant labor shall ensure that these employees are treated fairly and on an equal basis with local employees.

VI. Wages and Benefits

- a. Suppliers shall pay employees in a timely manner for all work completed and shall pay at least the minimum wage required by law or the prevailing industry wage, whichever is greater, and shall provide legally mandated benefits.
- b. Suppliers shall pay annual leave and holidays as required by law.
- c. Suppliers shall not engage in false training or apprenticeship practices that are used to avoid payment of compensation.
- d. We recognize that employees have the right to just and favorable remuneration for a regular work week that is sufficient to meet employees' basic needs and provide some discretionary income. Where these goals are not met, suppliers shall work with New Balance to take appropriate actions to progressively raise employee compensation and living standards through improved wage systems, benefits, welfare programs and other services.

VII. Working Hours

- a. Suppliers shall comply with all applicable laws, regulations and industry standards on working hours. Except in extraordinary circumstances, the maximum allowable working hours in a week shall be the lesser of what is permitted by national law or a regular work week of 48 hours plus overtime hours not in excess of 12 hours. Suppliers shall not request overtime on a regular basis.
- b. Suppliers shall provide employees with at least 24 consecutive hours of rest in every seven-day period.
- c. Employees may refuse overtime without threat of penalty, punishment or dismissal.
- d. Overtime shall be compensated at a premium rate.
- e. All hours worked must be fully and accurately documented.

VIII. Freedom of Association and Collective Bargaining

- a. Suppliers shall respect the right of employees to freedom of association and collective bargaining. If freedom of association and/or the right to collective bargaining is restricted by law, employees shall be free to develop parallel means for independent and free association and collective bargaining.
- b. Suppliers shall develop and implement effective mechanisms to resolve workplace disputes, including employee grievances, and ensure effective communication with employees and their representatives.

IX. Employment Relationship

- a. Suppliers shall employ employees on the basis of a recognized employment relationship established through country law and practice.
- b. Suppliers shall not employ people on a temporary contract basis for positions that are by definition permanent for the sole purpose of avoiding the provision of benefits.

X. Health and Safety

- a. Suppliers shall provide a safe and healthy workplace setting to prevent accidents, illness and injury to health arising out of, linked with, or occurring in the course of work or as a result of the operation of suppliers' facilities.
- b. Suppliers shall adopt and implement systems that prevent, minimize, detect and respond to potential health and safety risks. These include but are not limited to fire protection, proper management and disposal of chemicals and hazardous waste, structural safety, electrical safety, personal protective equipment and adequate lighting, heating, cooling and ventilation systems.

XI. Environmental Protection

- a. Suppliers shall comply with all applicable environmental laws and regulations, including but not limited to air emissions, solid and hazardous waste storage and disposal, energy usage and water consumption and discharge.
- b. Suppliers shall adopt measures to mitigate negative impacts of operations on the environment.
- c. New Balance encourages suppliers to make progressive improvements in the environmental performance of their operations, including but not limited to responsible use of natural resources, reduction of waste, energy efficiency, and cleaner production methods.

MONITORING, VERIFICATION AND ENFORCEMENT

Suppliers shall implement this Code of Conduct and all accompanying policies and procedures into their operations and submit to monitoring and verification.

This Code of Conduct applies to all subcontractors utilized by suppliers to New Balance. Suppliers shall take all necessary steps to ensure that their subcontractors and component suppliers adhere to this Code of Conduct. No subcontractors shall be used without prior approval from New Balance.

Suppliers shall post this Code of Conduct in the language(s) of their employees in visible and accessible locations in their facilities and train employees on their rights and obligations according to this Code of Conduct and applicable laws.

Suppliers shall allow relevant New Balance personnel and/or any of its authorized representatives or agents unrestricted access to all facilities and all relevant records at all time, whether or not notice is provided in advance.

Where suppliers provide residential and/or dormitory facilities to employees, all relevant legal and Code of Conduct standards apply.

To report any violations of this Code of Conduct or related concerns, please contact CSR@newbalance.com