

Case Study: Examining Fair Compensation at Vietnam Suppliers

In Summer 2022, the New Balance Global Compliance team developed a case study on the approaches our strategic footwear suppliers in Vietnam have taken to address fair compensation at their facilities. We wanted to examine both the successes and the areas for improvement and identify the role that New Balance can play in positively impacting the wages of workers in our Supply Chain.

New Balance's Commitment to Fair Compensation

Part of our commitment to treat people with dignity and respect means paying them fair compensation. Our [Supplier Code of Conduct](#) requires suppliers to pay at least the minimum wage or the industry prevailing wage, whichever is higher, plus all legally mandated benefits. Workers are entitled to pay that allows them to meet their basic needs and have some discretionary income.

In cases where workers are unable to meet their basic needs and earn discretionary income in a regular workweek, we work with suppliers and external stakeholders to find practical ways in which fairer compensation can be progressively realized. We recognize that compensation is a complex issue involving macro- and micro-economics, social and cultural norms and political priorities. We engage with workers, factories and civil society to tackle this issue from many angles, including creating a working environment that enables constructive worker-management dialogue about wages, promoting effective legal wage-setting mechanisms, considering public policy advocacy and exploring improvements to factory efficiency and productivity during the regular workweek through value-added manufacturing and skills training.

What is the fair compensation blueprint?

The primary goal of our fair compensation work is to ensure that workers who make New Balance products earn a living wage. New Balance's fair compensation blueprint is an action plan that prioritizes living wage progress based on wage data analysis. The blueprint has three core aspects: ensure minimum legal compliance across the supply chain, identify countries where workers are at greatest risk for insufficient wages, and leverage relationships with strategic suppliers to positively impact workers' wages. To best leverage relationships, we have focused our work on strategic footwear suppliers in Vietnam. This case study outlines the progress that eight footwear suppliers in Vietnam have made in ensuring workers earn a living wage.

Examining wages in strategic footwear facilities

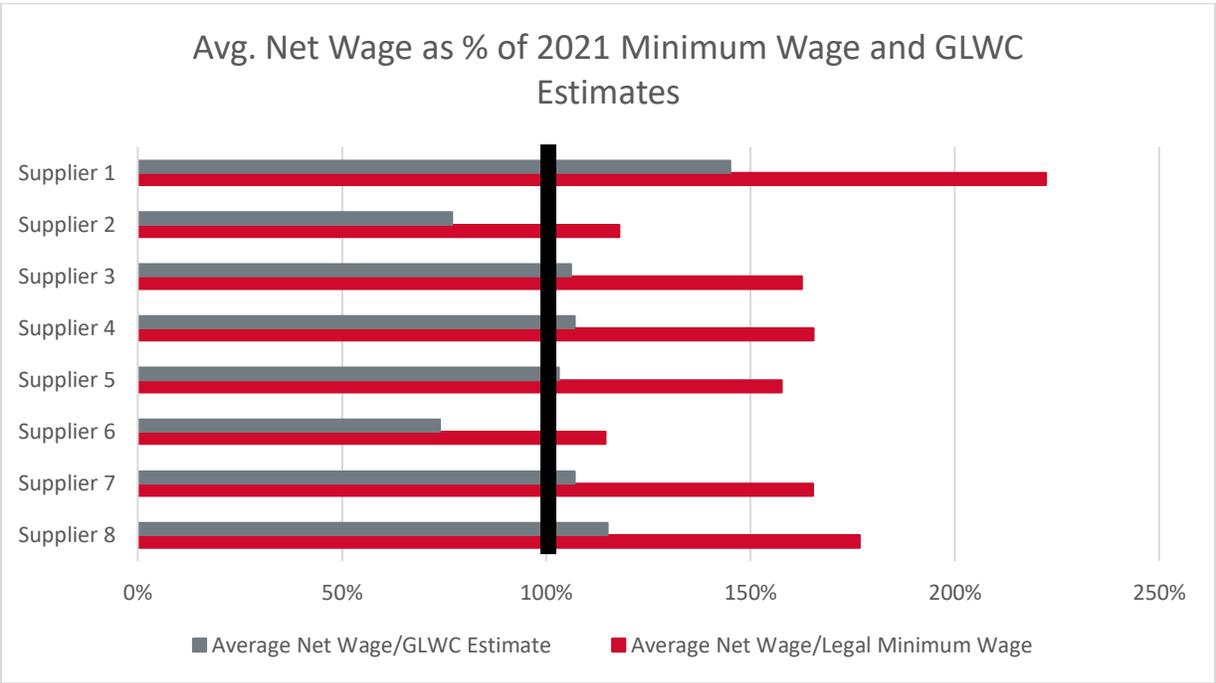
As part of New Balance's membership with the Fair Labor Association (FLA), we utilize the FLA's Fair Compensation Toolkit. This toolkit calculates the average monthly net wage for all workers in a factory, excluding supervisors and managers. The tool also collects annual totals for each cash and in-kind benefit, which are included in the average monthly net wage. This tool is a practical way to understand the average worker wage and to measure progress towards fair compensation for all workers.

What the data is saying

Since 2018, we have collected wage data from 34 suppliers in 11 countries. For this case study, we focused on eight strategic footwear suppliers in Vietnam that produce approximately 90% of New Balance footwear in Vietnam. In 2021, footwear made up greater than 80% of New Balance's overall

product volume and factories in Vietnam produced nearly 50% of that footwear volume. Therefore, working with these eight facilities can drive a huge amount of impact in our supply chain.

Six out of eight of these suppliers were paying above the [Global Living Wage Coalition \(GLWC\)](#) living wage benchmark estimate for their respective region in Vietnam.¹ Additionally, despite the many challenges of COVID and other supply chain disruptions, four of these eight suppliers were still able to offer wage increases in 2021. Furthermore, wages rebounded to either meet or exceed 2019 levels at seven of the eight factories studied in this case.



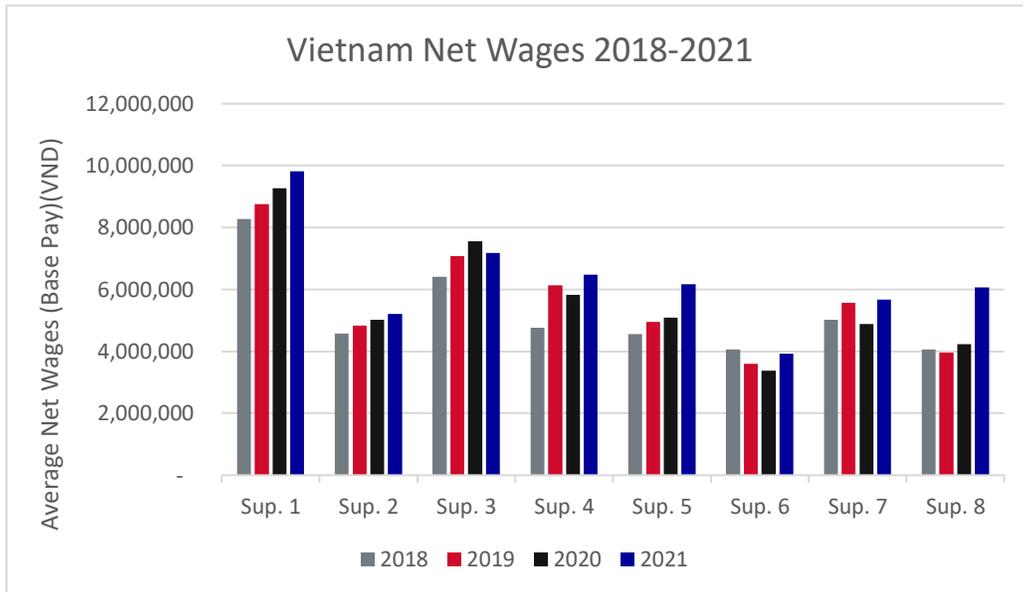
This data is based on 2021 wage data collected in the first half of 2022.

Our research shows that greater longevity and more meaningful retention in our supplier workforces are two key areas for improvement that can positively impact our fair compensation goals. The data shows that there is a link between worker seniority and worker compensation as the supplier with the highest average net wage (145% of GLWC estimate) also has the highest level of seniority (in average years). Conversely, the two factories with the lowest average net wages have two of the lowest levels of seniority among factories analyzed. While seniority should not be the only way that workers earn higher wages, higher retention can allow the factory to direct resources toward other investments.

¹ Vietnam has four wage zones with different minimum wages and costs of living. Two different factories could pay at least a living wage despite paying significantly different salaries. At the time of the report, the GLWC had developed benchmarks for two of the four zones: Zone I (Urban, Ho Chi Minh City), and Zone IV (Rural). Benchmarks for Zones II and III had not yet been developed. Additionally, estimates for 2021 or 2022 had not yet been updated. Therefore, our team has developed estimates for all four zones for 2021 using cost of living and inflation estimates. These estimates are based on our team’s expertise and official government inflation rates. However, they are estimates and may be different from official GLWC benchmarks.

What can we do with the data?

This compensation data can show us where factories have made progress and which factories require more attention. It also can show us how a factory improves over time, as we have been collecting data at these facilities annually since 2018. The below data shows net wages in the eight facilities from 2018-2021.



We believe that creating a more skilled, engaged, and senior workforce through training is essential. For example, in 2019, New Balance adopted the [P.A.C.E. program](#) (Personal Advancement & Career Enhancement), a women’s empowerment initiative launched by The Gap that helps workers learn effective communication skills that help with better decision making and problem solving leading to improved time and stress management techniques, alongside financial literacy. This program is a key part of our goal to have women workers participate in personal and career development programs. To show how important this program is to both New Balance and suppliers, one of our strategic suppliers opened a dedicated training facility in Spring 2021—the first of its kind among our suppliers – that functions as both a manufacturing training facility and a center to host PACE seminars. Worker voice is also essential to creating a more skilled and productive workforce. Marathon, our beyond compliance program, and our worker mobile apps focus on increasing worker voice and providing a method for workers to raise issues and for management to respond to those issues. These programs are core aspects of how we can work to positively impact worker wages as part of our Fair Compensation Blueprint.

While we have limited influence over these processes, we can work with our suppliers to help put more robust systems in place that can assist with production planning, financial management, training, and data collection. We are also exploring ways to make the data collection process itself more streamlined and efficient—both within our organization and by collaborating with other brands and external stakeholders.

Fair compensation is something we are committed to on a long-term basis and we realize that it will not be a quick fix in all cases. Our suppliers are in the same position. Given the financial and operational commitment, progress will not necessarily be quick or linear, particularly when considering external factors such as COVID-19. We want to continue to encourage progress at an acceptable rapid rate of change as much as possible, even if it falls short of immediate full achievement of our fair wage goals for a brief period of time.

Working toward meeting and exceeding living wage benchmarks is not a short-term project and paying fair wages and optimizing business performance are closely related. Our dedication to sustainable growth and investment in long-term factory partnerships ideally positions us to continue to work toward our fair compensation goals in Vietnam and throughout our entire global supply chain. The learnings from this case study and the work of our Vietnam suppliers will inform our strategy for the rest of our supply chain. Going forward, we will continue to evaluate how best to work with our suppliers to ensure workers earn a living wage. In 2023, we will start using the New Balance supplier scorecard to incentivize suppliers to analyze wages while also continuing to encourage suppliers' participation in wage pilot projects and work with non-governmental organizations.