

Retailers and Violent Video Games

Progress Made but Disclosure Needed

Introduction

Members of the Interfaith Center on Corporate Responsibility (ICCR), a coalition of 275 faith-based institutional investors with combined assets of more than \$110 billion, have engaged with some of the largest video game retailers in the country, asking them to create, implement and enforce video game sales policies to ensure that Mature (“M”)-rated video games for audiences ages 17 and older are not sold to minors. These games can contain graphic violence, strong sexual content and racist themes — material not suitable for young teens. Behavioral science research shows that playing violent video games increases the likelihood of aggressive behavior in children and youth. We believe this is a public health issue with the potential to impact investors.

Sales of violent video game to minors has led to protests from community groups, and proposed legislation at the municipal, state and federal level. Public pressure, the potential for legislation and/or regulation, and potential damage to a company’s reputation may pose risks to shareholders that could impact long-term shareholder value.

We believe that all companies should have clearly formulated and well-monitored policies and programs to address the risks associated with the sale of “M” rated games to minors. It is critical that retailers monitor and track the results from these programs and provide information to the public to demonstrate policy effectiveness. The policy should be periodically reviewed and updated to incorporate lessons learned from the corporation’s experiences and should include goals and benchmarks for continuous improvement. We have asked retail companies to disclose their policies and programs to keep violent video games out of the hands

of minors, which we believe can allow companies to better manage risks, preserve high ethical standards and serve the long-term interests of customers, investors, and other stakeholders.

As socially responsible shareholders, we view a commitment to transparency and disclosure as evidence of proactive and attentive management and an important aspect of corporate social responsibility that is a critical tool for building trust with investors and the public. It also provides a basis for analysis and allows shareholders to evaluate a company’s progress over time and compare company performance to that of its peers. Leadership in transparency and disclosure may enhance a company’s public profile with current and future customers, and result in a competitive advantage within the sector.

Major Video Game Retailers Respond to Investor Concerns

ICCR members’ dialogues with retailers noted in the chart have been robust and fruitful. In a short period of time, many retail companies have developed policies to address the ease with which minors are able to purchase violent video game.

Last year, ICCR outlined measures taken by retailers and the expectations of shareholders in ICCR’s 2005 report: *Retail Guidelines for the Sale of Violent Video Games*.^{*} Building from that report, ICCR has now developed a report and corresponding chart which indicates companies’ actions against the guidelines established last year. Our new report, *Actions Taken by Retailers to Prevent Sales to Minors of Mature-Rated Video Games*, compares the current practices of several major retailers as reported by the retailers during discussions with ICCR members and calls upon retailers to provide information on the implementation of and results

^{*}<http://www.iccr.org/issues/violence/videogameretailguidelines121305.pdf>

from their policies. Many of the categories selected for inclusion in the chart are based on ICCR's 2005 report.

When reviewing the chart, it is evident that the major retailers noted in the chart are doing well on several fronts. For example, all retailers have stated that they:

- Have video game policies to restrict access by young teens to M-rated games¹;
- Display signage about the Entertainment Software Rating Board (ESRB) rating system;
- Conduct employee training programs and ongoing education on the video game rating system for employees; and
- Have established a system to identify the age of the purchaser at the register.

In addition, selected retailers have made certain aspects of their policies more robust, such as Target and Best Buy, who do not advertise Mature-rated games in teen publications and on television, respectively. Target places a prominent “M” on games advertised in its store circulars. Best Buy has a substantive internal auditing process and compliance program. GameStop includes store managers’ compliance with video game sales policies in its manager evaluation process.

In its November 2006 report, *11th Annual Video Game Report Card*, The National Institute on Media and the Family also praised the major retailers for their work in this area but expressed disappointment with specialty stores and the ease with which young teens were able to buy M-rated games. Their report provides a snapshot of the video game industry as it relates to the welfare of children and families (www.mediawise.org).

While many retailers have done well to create policies, improvements can be made in this area — for example, only Best Buy and Target outline their programs in the company’s responsibility report, only Circuit City and Target have appropriately placed their video game sales policies in the game section of their website, and only Best Buy and Circuit City have their own process to collect and analyze data on performance. We encourage retailers to examine what we have identified as elements of an effective, responsible, and well-monitored video game sales policy and to take the next important step — to disclose to the public how their policies and programs are being implemented.

The Need: Disclosure and Reporting

We strongly encourage public disclosure of policies and practices related to the sale of “M”-rated video games. It is critical to maintaining a strong reputation and goodwill in the community. While it is understandable for companies to have concerns about disclosing proprietary information, many companies do disclose such

¹It is our understanding that Sears/K-Mart does not currently have a video game policy but is in the process of creating one.

things as their codes of conduct, environmental policies and standards for suppliers, demonstrating that it is possible to provide the public with the goals and objectives of video game policies and programs, the results of such programs and the ways of addressing the risks associated with the sale of violent video games to minors.

When deciding which particular aspects of performance data to make public, each company may seek to avoid revealing internal policies and procedures. However, with thoughtful planning, a company can create a version of a policy intended for the public that will provide stakeholders with the information they seek without putting the company at a competitive disadvantage.

While retailers have been successful in many key aspects of policy development, we hope to see a commitment to disclosure in the coming years. Specifically, we would like public disclosure to include:

A description of the ways the video game policy is implemented —

For shareholders, a crucial priority is gaining greater evidence that demonstrates how video game policies are being implemented and the results of that implementation. While our discussions with some retailers reveal that important steps are being taken around implementation, without better information we are unable to judge the quality of the company’s commitment or its techniques to implement, evaluate and enforce its policies and programs.

A process to collect, analyze and report data —

Providing information about the company’s process to collect data and analyze results will permit stakeholders to gain a more informed opinion about corporate performance. Over time, this information should help a company to establish an easily understood track record against its stated policies

and more effectively measure its own performance. Collecting and analyzing performance data can enhance and strengthen internal training programs, alert the company to the need for educational materials for consumers, and create new incentive mechanisms, such as the integration of performance data into the compensation plans of senior management.

Evidence of adherence to policy —

It is important for the company to outline programs to monitor adherence to the policy and corrective action mechanisms to improve performance. For example, the section that includes a discussion of how the company implements its policy should also include its mystery shopper program, results of the program, and future plans for improvement.

We understand that retailer members of the ESRB Retail Council will participate in a ‘mystery shopping’ verification program, coordinated by the ESRB, which will publicly disclose the mystery shop results on an aggregated and anonymous basis. While this is an important action, the need for individual results is critical to shareholders.

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The creation of long- and short-term goals — We recommend that companies set aggressive goals and objectives and track results to ensure progress is being made, with the end goal of 100% store compliance.

An example of a long-term goal that companies should consider is a commitment to review, evaluate and update video game policies at periodic intervals. Given the dynamic nature of issues relating to the sale of violent video games and the formulation of best practices by companies, public interest groups and trade organizations, it is important that a company's underlying policies and programs are continuously improving.

We would also like to see greater evidence of accountability built into the company's systems and long-term goals. The addition of explicit steps that explain goal-setting, self-evaluation, and corrective action would help ensure greater accountability, and we believe would improve the effectiveness and results of the company's programs.

Benchmarks and indicators — We suggest that companies create indicators to demonstrate implementation of their policies on violent video games and evaluate the effectiveness of these programs. In addition to establishing goals and benchmarks, describing implementation measures, and outlining challenges, other reporting data that would be of interest to shareholders includes:

- Outlining training goals, evaluation methods, and integration of video game training into routine employee training programs;
- Providing information on internal resources, such as manuals and intranet portals to provide staff with educational materials and references to new procedures; and
- Describing joint initiatives with other retailers aimed at preventing violent video game sales to young teens as further evidence of their commitment to the issue.

A balanced assessment — The public needs to understand the challenges relating to policy implementation, and what are the areas for improvement. There is no need to only present a rosy picture of policy implementation. Instead, we recommend that companies provide both the strengths and weaknesses of their policies and programs and provide a balanced picture to build credibility.

We encourage disclosure in the company corporate social responsibility (CSR) or sustainability reports². Other common venues for disclosure of social and environmental information include corporate codes of ethics, annual reports and websites.

²For more information on corporate reporting, please see www.siran.org and www.globalreporting.org. SIRAN, a network that supports social investment research analysts, provides information on good practice in corporate sustainability reporting. The Global Reporting Initiative (GRI) is a multi-stakeholder organization that provides guidance for organizations to use as the basis for disclosure about their sustainability performance, and also provides stakeholders a universally-applicable, comparable framework in which to understand disclosed information.

Additional Ways to Strengthen Video Game Policies

There are other key areas that retailers should begin to address in order to strengthen their policies and programs, including:

Creating ways to separate/differentiate M-rated games from other video games — It is important for retailers to better inform consumers of the rating of the video game they are considering purchasing. While M-rated games have an "M" in the lower left hand corner of the video game box, it is a small icon that can be easily overlooked. Retailers may want to evaluate ways that they can set apart M-rated from other video games. For example, M-rated games could be placed in a separate location in the video game area and/or brightly colored or enlarged "M" stickers could be placed on the cover of M-rated games so that purchasers are aware that the game they are purchasing is for people 17 and older. In addition, we recommend identifying M-rated games by emphasizing the M-rating icon online and in circulars.

Having store, district and senior manager evaluation and compensation tied to compliance of video game sales policy — To date, no retailer has done a satisfactory job of communicating how their video game policies and procedures affect executive and staff evaluation and compensation. Addressing this issue can help to persuade investors that the risks associated with the sale to minors of violent video games are being adequately addressed. Are there ways to introduce incentives for store, district and senior managers for avoiding risk in addition to such things as meeting sales goals? How can evaluations and actual bonus amounts and raises be more clearly linked to adherence to the video game policy and programs? How can fulfilling the policy enter annual evaluation forms? These types of measures can help to communicate to employees the value that the institution places on these issues.

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Conclusion

We hope to continue to see retailers strengthening their efforts to prevent the sale and marketing of violent video games to children, including increasing their transparency around public disclosure and creating new ways to distinguish M-rated games.

While retailers have been successful in many key aspects of policy development, there is a need for disclosure on policy implementation. Shareholders are calling on retailers to begin to develop systems for data collection and methods for reporting. In the future, we hope that the following information will be provided in corporate sustainability reports, annual reports, and/or corporate websites:

- A description of video game policies and programs and way in which they are implemented;

- Evidence of adherence to policy;
- Establishment of long- and short-term goals;
- Inclusion of and progress towards goals, benchmarks and indicators;
- Collection and analysis of data;
- Organizational chart that defines responsibility for and oversight of policy development; and
- An assessment of challenges and opportunities.

We will continue to monitor further developments in this industry, such as the downloading of games to cell phones and the selling of video games online, to ensure that children are not exposed to inappropriate video game content.

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For further information, please visit www.iccr.org or email Gary Brouse, ICCR Program Director: gbrouse@iccr.org.

Members of ICCR that have addressed retailers in corporate dialogues and shareholder resolutions to develop, strengthen, and implement their video game sales policies include: The Presbyterian Church (U.S.A.); Sisters of St Francis of Philadelphia; Evangelical Lutheran Church in America; Sinsinawa Dominicans; Boston Common Asset Management, LLC; Trinity Health; Adrian Dominican Sisters; Benedictine Sisters of Mt. Angel, OR; National Ministries, American Baptist Church, MMA Praxis Mutual Funds, School Sisters of Notre Dame, Milwaukee, Sisters of Charity of the Blessed Virgin Mary, Sisters of St Joseph of Nazareth, MI, Aquinas Associates, Benedictine Sisters of Cottonwood, ID; and Christian Brothers Investment Services.

ABOUT THE GROUPS

Christian Brothers Investment Services (CBIS) manages more than \$4 billion, combining faith and finance in the responsible stewardship of Catholic financial assets. CBIS' combination of premier institutional asset managers, diversified product offerings, and careful risk-control strategies constitutes a unique investment approach for Catholic institutions and their fiduciaries. CBIS strives to integrate faith-based values into the investment process through a disciplined approach to socially responsible investing that includes principled purchasing (stock screens), active ownership strategies (proxy voting, dialogues, and shareholder resolutions) and community investment. The firm contributes a portion of all profits to support the Church's educational and social ministry. Visit CBIS on the Web at <http://www.cbisonline.com>.

For over thirty years the **Interfaith Center on Corporate Responsibility (ICCR)** has been a leader of the corporate social responsibility movement. ICCR's membership is an association of 275 faith-based institutional investors, including national denominations, religious communities, pension funds, endowments, hospital corporations, economic development funds and publishing companies. ICCR and its members press companies to be socially and environmentally responsible. Each year ICCR-member religious institutional investors sponsor over 100 shareholder resolutions on major social and environmental issues. The combined portfolio value of ICCR's member organizations is estimated to be \$110 billion.

VIDEO GAME RETAILER COMPARISON CHART

Actions Taken By Retailers to Prevent Sales to Minors of Mature (M) Rated Video Games
(September 2006)

ELEMENTS OF AN EFFECTIVE, RESPONSIBLE, AND WELL-MONITORED VIDEO GAME SALES POLICY	BEST BUY	CIRCUIT CITY	GAME STOP	SEARS & KMART	TARGET	TOYS "R" US	WAL-MART
Has a policy on the sales of video games to minors	*	*	*		*	*	*
Discloses Video Game Policy in Stores	*	*	*		*	*	*
Discloses Video Game Policy on Web Site	*	*	*		*		*
Policy is in the game section of the website		*			*		*
Information about policy/program is in Corporate Social Responsibility Report	*				*		
Signage featuring rating in stores	*	*	*	*	*	*	*
Other means to identify M-rated games					*** Enlarged "M" in circulars		
Does not advertise M games in media geared to audiences 17 and under	*** No "M" game ads on TV			*	*** No "M" game ads in teen publications		
Shop by rating online	*	*	*	*(Sears Only)	*		*
Age verification in stores	*	*	*	*	*	*	*
Online shoppers of M games attest to being 17 or older	*		*	*	*		*
Separates M games in stores						*** On top shelves	
Employee training program	*	*	*	*	*	*	*
Ongoing employee education	*	*	*	*	*	*	*
Additional training during holidays and other peak sales periods	*	*			*		
Conducts its own audit for policy compliance	*** (At least 100 stores per month)	*	*		*	*	
Rewards employees for compliance	***						
Policy includes disciplinary action for non-compliance	*	*	*		*	*	
Has process to collect, analyze and report data	***	*					
Provides results of policy/program in corporate social responsibility report and/or website							
Senior managers assigned responsibility	*	*			*	*	*
Senior manager compensation tied to compliance							
Store manager evaluation tied to compliance			***				
Participates in ESRB Retailers Council (ERC)	*	*	*		*		*
Does not sell 'AO' games	*	*	*	*	*	*	*
Has refused to sell certain M games	*				*		

*** "Good Practice" Many of the categories selected for inclusion in the chart are considered to be progressive and proactive practices in the industry, as noted in ICCR's 2005 report, "Retail Guidelines for the Sale of Violent Video Games"
<http://www.iccr.org/issues/violence/videogameretailgdlines121305.pdf>

DISCLAIMER: This chart is the result of information gathered from the retailers noted by members of the Interfaith Center on Corporate Responsibility. It is intended for informational purposes only. We have made every effort to ensure the information is reliable, but make no guarantee as its accuracy or completeness.

We appreciate the cooperation and disclosure provided by the retailers noted in this chart.