

Project Kaleidoscope

A Collaborative Project to Encourage Sustained Code Compliance

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Center for Reflection, Education and Action
Connecticut State Treasurer's Office
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General Board of Pension and Health Benefits of the
United Methodist Church
Interfaith Center on Corporate Responsibility
McDonald's Corporation
Missionary Oblates of Mary Immaculate
The Walt Disney Company

Interim Report

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Introduction

McDonald's Corporation (McDonald's), The Walt Disney Company (Disney) and a group of faith-based, socially responsible and institutional investors whose work focuses on labor rights, are working on a unique project to determine how factory-based compliance with corporate codes of conduct can be improved and sustained over time.

The project, named Project Kaleidoscope, was launched as part of an ongoing effort by both companies to improve the effectiveness of their labor standards compliance programs. The companies and investors (the "Working Group") are developing a new compliance approach at 10 factories in China that produce toys, footwear and apparel. This approach seeks, among other things, to develop factory-based systems that can further pinpoint the source of recurring compliance issues with the objective of resolving and preventing them from recurring. The broader project objective is to identify effective practices that can be applied across different industries, geographic regions and socio-economic and regulatory systems. The factories' performance will be evaluated according to a common set of project employment and workplace standards, including such things as compliance with standards relating to wages, working hours, workplace safety, child labor, and a range of other labor standards identified by the Working Group based on commonly accepted principles.

The project is testing the premise that a successfully implemented internal factory compliance system will enhance the ability of factories to correct problems as they occur, while also creating a culture of compliance.

A project imperative has been the engagement of various stakeholders to take advantage of broad perspectives and engender a sense of shared accountability. The Working Group is collaborating with local civil society organizations (CSOs) in China, supply chain organizations, including individual factories, as well as external and internal social compliance monitors to develop practical compliance methods, including assessment, training, education and communication tools. The systems approach is designed to include factory management, supervisors and workers as participants in the on-going work of sustained compliance.

The central premises of Project Kaleidoscope include:

- Sustained compliance is possible
- The factories themselves must become part of the system responsible for compliance
- A new inclusive approach to compliance will enable timely corrective action

This report provides an interim snapshot of the project goals, key participants, and the progress to date on testing a model for sustaining compliance with established labor standards. The Working Group will issue a more detailed public report upon completion of the project, which is expected to be in late 2005.

Background

For the past eight years, both McDonald's and Disney have gained direct experience in establishing and assessing compliance with their codes of conduct for manufacturers. Each company requires that its suppliers commit to a code of conduct that addresses a range of employment and workplace standards. Ongoing training and education regarding what constitutes compliance with these codes is also conducted by each company with their respective supply chain and/or licensing systems. External and internal monitors are used to assess factory compliance. McDonald's and Disney are global alliance partners in an exclusive 10-year multi-divisional, multi-national relationship. McDonald's has exclusive restaurant industry marketing rights to Disney properties, including film, home video, theme parks and television.

The faith-based, socially responsible and institutional investors involved in this project also have a long history of engagement with corporations on developing, implementing and monitoring codes of conduct and have worked closely with a number of corporations that are seeking to address the challenges inherent in an increasingly global supply chain.

Project Kaleidoscope began as a concept in 2002 to make use of the collective expertise and experience of McDonald's, Disney and interested investor organizations to create a different approach to bring about enhanced compliance in factories and sustaining this compliance over time. In fact, the name Kaleidoscope was chosen for the project as an indication that there could be a new way of seeing, evaluating and bringing about sustained positive change in increasingly dynamic factory environments.

Project Objectives and Approach

The primary objective of Project Kaleidoscope is to create a verifiable, replicable model that results in sustained compliance in supplying factories. To do so, the project is utilizing a multi-stakeholder approach whereby the factories (workers, supervisors, management and owners) become more active participants in the compliance process. This inclusive approach requires capacity building at all levels. The Working Group considers Project Kaleidoscope to be a pilot project and seeks to produce learnings that may be applied across different industries and geographic regions.

A systems-based approach is being developed to encourage and support facility-level sustained compliance. The project seeks to create a model that is fact-based and can be measured to yield results that are reliable and repeatable. Once a system is producing verifiable consistent measurements, the goal is to seek to transfer the systems approach and methodology to other industries and geographic locations.

Such an approach includes, but may not be limited to, requiring management of each facility to develop and maintain an internal operational system to ensure that factory employees at all levels are aware of and comprehend applicable laws and standards. From each existing and updated law and standard, an operational process is to be created to ensure compliance in each area:

- Policy must then be translated into practice so that “compliance” results routinely from and within daily operations
- Periodic assessment will be performed to ensure that the operational system is followed, including the participation of workers, supervisors and managers
 - Non-compliance will be both identified and corrected in a timely manner. While the managers are ultimately responsible for the correction, the participation of workers and supervisors should mean that any concern can be raised and addressed as expeditiously as possible and without fear of retaliation.
- Performance measurements will be established and regularly communicated throughout the factory
- Active training will be conducted, which incorporates existing materials and new learnings aimed at fostering an environment of continuous improvement

A systems-based methodology:

- Recognizes that responsibility for compliance begins with factory ownership and on-site management
- Defines roles for stakeholders (e.g., factory owners and management, supervisors, workers, supply chain organizations, companies)
- Defines specific goals for each law and standard to periodically measure and report factory performance against compliance goals -- daily, weekly, monthly and annually
- Identifies and documents applicable laws, internal assessment of practices, communication and training to all employees as well as measurements and self-reporting for each law and standard
- Validates factory performance by using regular external assessment (performed by outside monitoring resources) to verify the effectiveness of self-correcting factory systems

Project Kaleidoscope is based on the concept that a properly operating compliance system will correct compliance issues in the near term and encourage sustainable compliance practices in the long term. This approach is also premised upon an inclusive model, with all parties working together to bring about this sustained compliance.

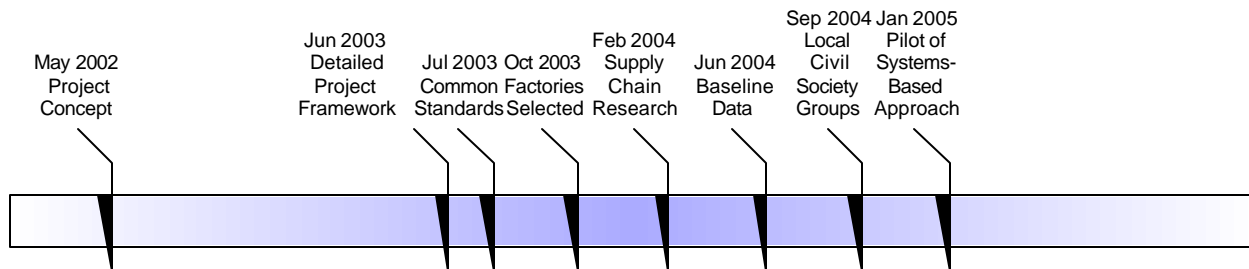
Recognizing the need for local resources, the Working Group identified groups and individuals based in China for participation in the project. A local-based CSO was identified as an in-country project coordinator. The project coordinator's efforts have been supplemented by additional CSOs in the Guangdong Province that could meet the project requirements including, but not limited to, needs assessment, labor practices monitoring, and training and education of factory workers and management.

Potential CSO project candidates were identified based on existing Working Group relationships, conversations with a worldwide network of contacts, and a survey conducted in China and Hong Kong of organizations and individuals involved in the labor standards arena. Interviews of CSOs that met prescribed qualifications (e.g., capacity, experience, ability to work within project framework) were subsequently conducted by Working Group members. Meetings were also held between representatives of the companies and various Chinese governmental bodies at national, provincial and local levels to describe the project's purpose and ensure both understanding and support from government authorities.

Progress to Date

To date, the Working Group has completed a number of key steps:

1. Developed general project concept and identified Working Group roles and responsibilities
2. Created a detailed project framework identifying specific work modules, including the systems-based approach, education and training, independent verification and public reporting
3. Created a set of common standards for the project that reflects a composite of McDonald's and Disney's existing codes of conduct
4. Selected and enlisted the participation of 10 factories in China as integral members in the project. The factories range in workforce size and produce a broad variety of toys, apparel and footwear items. Working Group members met with suppliers and factory managers, introduced the project, and developed relationships leading to a commitment on the part of each factory management to be active participants in each component of the project.
5. Collaborated with the supply chains and/or licensing systems involved in the 10 facilities to identify best practices and facilitate access to the factories not only for the monitors but also for the other organizations participating in various components of the project
6. Developed a baseline compliance data set for the participating facilities as well as the results of recent assessments to understand the existing compliance systems and conditions
7. Engaged local civil society organizations that have begun to play key roles in project management, independent assessment, training, education, and measurement
8. Defined a systems-based internal compliance approach that includes defined practices, tools, evaluation methodologies, forms of reporting, and communication forums. The systems approach also describes roles and responsibilities for sourcing organizations and all factory employees (production workers, supervisors and factory management).



Next Steps

1. Preliminary Assessment Evaluation
 - a. Factories will undergo a series of preliminary assessments designed to confirm the status of existing working conditions and functioning of internal monitoring and reporting systems
 - b. The assessment uses an external monitoring firm audit, CSO evaluation, and a detailed employee survey conducted by a recognized local university
 - c. The preliminary assessment evaluation will be used to analyze factory compliance levels, systems effectiveness, identification of best practices that could be shared, and an overall needs assessment
2. Improvement Approach
 - a. Non-compliance findings will be addressed through a variety of approaches including education and training, policy enhancement and improved system design
 - b. The goal of all improvement activity is to build factory-level capacity to handle issues as they arise and promote ongoing self-compliance
3. Multi-stakeholder Validation of Project Improvement
 - a. Factory-based reporting will be evaluated regularly from systems operating within each factory
 - b. Systems assessment will be conducted by external monitoring resources
 - c. CSOs will interview workers and coordinate an open outlet for worker communication and feedback
4. Overall Project Evaluation
 - a. The principal evaluation will measure success in achieving the original project vision: "Create a verifiable, replicable model that results in sustained compliance"
 - b. Perspectives will be drawn from all project stakeholders and participants
 - c. Additional evaluation will be made to determine the effectiveness of various project elements:
 - Standards
 - Participants
 - Assessment Tools
 - Systems Guidelines and Reporting
 - Education and Training
5. Final Public Report – A final report will be issued upon conclusion of the project

Project Participants

COMPANIES

McDonald's Corporation

McDonald's is a food service retailer with restaurants in 119 countries. McDonald's started a formal Supplier Social Accountability (SSA) program in 1998. The initial program began with premium vendors in China but has since expanded to all product lines in all geographic areas. The SSA program is part of the company's participation in the broader cross functional Social Responsibility effort that also includes Supply Chain, Marketing, Communications, Safety and Security, Government Relations, Public Relations, Human Resources and Restaurant Operations. The key program elements are education, monitoring, collaborative projects and anticipatory issue management.

www.mcdonalds.com

The Walt Disney Company

The Walt Disney Company is a diversified worldwide entertainment company consisting of four major business segments: Media Networks, Studio Entertainment, Parks and Resorts and Consumer Products. Disney created its International Labor Standards (ILS) program and Code of Conduct for Manufacturers (Code) in 1996. Since then, it has or has had conducted thousands of factory visits to assess compliance with the Code. The internal governance structure of the ILS program includes a functional reporting relationship to Corporate Finance, ILS Executive Committee oversight (executive members representing all business segments of the company) and regular communication with the Audit Committee of its Board of Directors. The ILS program is conducted through activities involving education, monitoring and collaboration.

www.disneylaborstandards.com

FAITH-BASED, SOCIALLY RESPONSIBLE AND INSTITUTIONAL INVESTORS

As You Sow Foundation

A non-profit organization, based in San Francisco, dedicated to promoting corporate social responsibility.

www.asyousow.org

Center for Reflection, Education and Action (CREA)

A faith-based social economic research, education and action center located in Hartford, Connecticut.

www.crea-inc.org

Connecticut State Treasurer's Office

The principal fiduciary of the Connecticut Retirement Plans and Trust Funds, located in Hartford, Connecticut, responsible for managing plan assets for teacher, state and municipal employees who are plan participants.

www.state.ct.us/ott

Domini Social Investments LLC

An investment firm, located in New York, managing assets for individual and institutional investors who wish to integrate social and environmental criteria into their investment decisions.

www.domini.com

General Board of Pension and Health Benefits of The United Methodist Church

A non-profit administrative agency, located in Evanston, Illinois, which supervises and administers the pension and benefits programs, plans and funds of The United Methodist Church.

www.gbophb.org

Interfaith Center on Corporate Responsibility (ICCR)

An association of 275 faith-based institutional investors, headquartered in New York, including national denominations, religious communities, pension funds, endowments, hospital corporations, economic development funds and publishing companies.

www.iccr.org

Missionary Oblates of Mary Immaculate

A Roman Catholic religious congregation, with offices in Washington, DC and Rome, comprised of Oblate priests and brothers working in 68 countries.

www.omiusajpic.org

CHINA-BASED CIVIL SOCIETY ORGANIZATIONS

Guangdong Women's Professional Technical College

An organization affiliated with the Guangdong Provincial Women's Federation with legal standing as a non-profit educational and public service organization. The faculty of the Women's Education & Development Research Center under this College provides counseling and training services for migrant women workers in the Pearl River Delta through a network of 16 town and municipal district centers, with facilities provided by the local government or the Women's Federation.

Guangdong Participatory Development Appraisal Network (PDA Network)

An organization affiliated with the Guangdong Human Resource Management Association (GDHRMA). The PDA Network's focus is on applying the Participatory Rural Assessment methodology in factories in the Pearl River Delta in order to increase the involvement of factory workers in improving working conditions in factories. The methodology includes raising awareness on the protection of workers' rights, health and safety, and working environment. The PDA Network's mission is to collaboratively support sustainable improvements in the lives and working conditions of Chinese workers, and to promote corporate socially responsible practices in compliance with China labor and environmental laws.

Zhongshan University

An institution of higher education located in Guangdong and Southern China. It is financed by both public sources and private donations, and has substantial academic resources in labor law, social work, community services and migrant issues among others. The University's Law School operates a Legal Aid Clinic in which law students and faculty provide legal services and counseling to migrant workers and other factory workers. The University's Social Development Department conducts research and needs assessment activities related to migrant factory workers.