



A Collaborative and  
Dynamic Approach to  
Code of Conduct Compliance

**March 2008**

**Final Report**

By the Project Kaleidoscope Working Group

“The most impressive thing about Project Kaleidoscope and the DSC [dynamic social compliance] process is that the systems have helped foster a culture of communication and mutual respect...Workers feel empowered because they feel that they can speak out and will be heard...To the senior management team, the DSC process serves as an “advanced warning system” for managers, who can use the survey results to gauge employee satisfaction, identify problems they face and fix them before they become out of control.”

– *Owner of factory that participated in Project Kaleidoscope*

“ We consider that the DSC process has enhanced the management and operation of the factory. DSC process has set forth detailed objective indicators for the assessment and evaluation of COC [code of conduct] compliance and requires monthly review of achievement that allows more effective and timely forecast/planning. Besides, it creates more transparent and effective communication between management and workers, as well as between the factory and customers.”

– *Manager of factory that participated in Project Kaleidoscope*

“There is more communication and interaction between management and workers now. Management is willing to listen to workers' opinions. The relationship is closer. This may enhance the development of the factory.”

– *Worker in factory that participated in Project Kaleidoscope*

## **PREFACE**

The kaleidoscope can serve as a powerful image. When you rotate a kaleidoscope, internal pieces shift, changing their relationship to one another so that you see them in a new and different way. There are two components to the experience—the pattern viewed and the person viewing it.

We can use the kaleidoscope as a symbol for a particular way of thinking. Kaleidoscope thinking requires those who are looking at a phenomenon—a situation, an issue, a set of facts—to be willing to look at it in a new and different way. When they do, they see a different pattern—perhaps new causal relationships, perhaps a new solution. The moment that new pattern emerges is a kaleidoscope moment.

Project Kaleidoscope was the creation of a Working Group that was willing to reconsider our views and explore new ways to approach our goal—improving working conditions in global supply chains. Expanding our perspectives and expanding the functions of major components of the current code of conduct compliance approach were both essential to the project.

Since the early 1990's, when global companies began to establish workplace standards for their suppliers, many stakeholders have taken a fresh look at the issues and come up with new ideas. We built on this progress and hope our work in Project Kaleidoscope will advance it.

# TABLE OF CONTENTS

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I.	Executive Summary	1-3
II.	Introduction	4
III.	Genesis of Project Kaleidoscope	5-6
IV.	Laying the Foundation	7-11
V.	Developing a Systems-Based Approach	12-13
VI.	Refining the Systems-Based Approach	14-16
VII.	Implementing the Systems-Based Approach: Phase I	17-20
VIII.	Implementing the Systems-Based Approach: Phase II	21-25
IX.	Assessments and Results	26-32
X.	Conclusions, Learnings and Questions for the Future	33-35
XI.	Glossary	36
XII.	Appendices	
	A. Core Working Group Members	37-38
	B. Project Elements	38-40
	C. Factory Sample Characteristics	41
	D. Local Civil Society Organizations	41
	E. Initial Factory Management Feedback	42-43
	F. Factory-Level Communications	44-46
	G. Worker Interview Summary	47
	H. Factory Management Feedback Toward End of Project	48-49

## NOTE ON SOURCES

Except as otherwise noted, the personal perspectives included in this report are extracts from statements provided at the request of the Project Kaleidoscope Working Group. Those of factory owners, managers and workers were collected and translated, when necessary, by Disney field staff and McDonald's agencies. We have made minor stylistic edits but, so far as possible, have kept the wording intact. The two perspectives from Professor Qu Ning were drawn from a single statement, which was translated by a member of the Disney Hong Kong office. We edited them and also the statement from Pei Bin of The Asia Foundation, but only to reduce them in length and improve clarity, where needed.

The example of how a factory found, fixed and set up or strengthened systems to prevent recurrence of a compliance issue was provided by Disney field staff, based on their ongoing reviews of the factory's reports and hands-on work with factory managers. We present it in a format that closely tracks the way it was reported to us.



# EXECUTIVE SUMMARY

I.

Project Kaleidoscope was a collaborative effort initiated and guided by a multi-stakeholder Working Group consisting of representatives of the McDonald's Corporation and The Walt Disney Company and other organizations that work on international labor issues. We, the Working Group, sought to improve working conditions in facilities that produce products for corporate supply chains. We believe this is not only a worthwhile objective in and of itself, but also a way to help protect against reputational risk and to enhance long-term shareholder value.

To these ends, we developed and field tested an alternative approach to promoting and enhancing long-term, sustained compliance with corporate codes of conduct. We called it Dynamic Social Compliance (DSC) because it reflects the dynamic factors that can affect compliance at the facility level.

The DSC approach consists of two basic components—robust factory-level communications and feedback mechanisms and dynamic internal compliance management systems. Our assessments suggest that the approach can achieve its objective. We, therefore, present this report in a spirit of optimism. We believe the DSC approach represents a promising alternative to the traditional code of conduct compliance process. However, further tests would be needed to determine if it can achieve comparable results in other situations and over a longer timeframe.

## An Expanding Circle of Stakeholders

Members of the Working Group include representatives of two global companies—the McDonald's Corporation and The Walt Disney Company—and seven organizations that engage in diverse efforts to improve working conditions in global supply chains. Some of them are investors in the brands.<sup>1</sup>

- As You Sow Foundation
- Center for Reflection, Education and Action (CREA)
- Connecticut State Treasurer's Office<sup>2</sup>
- Domini Social Investments LLC
- General Board of Pension and Health Benefits of the United Methodist Church
- Interfaith Center on Corporate Responsibility (ICCR)
- Missionary Oblates of Mary Immaculate

As the project evolved, we reached out to include other stakeholders, including an in-country project coordinator, several local civil society organizations (CSOs), McDonald's

creative agencies for promotional items, Disney field staff, the owners of the ten factories where the approach was piloted and factory employees at all levels—workers and line supervisors as well as managers.

## A Kaleidoscope of Perspectives

We chose the name Project Kaleidoscope for several reasons. The most important have to do with the new and different perspectives a kaleidoscope offers a viewer who will rotate the lens and look again. For us, this symbolized the type of thinking the project required—a willingness to re-view assumptions and expectations, an openness to seeing new patterns in facts and new functions for components of the established compliance approach.

## From Project Goals to Compliance Approach

We began by developing a consensus on what an optimum compliance approach would achieve and what it would include. Both reflected our own past experience and the experience of many other organizations involved in international labor issues.

The approach evolved over time—through dialogue, both among ourselves and with other stakeholders, and through learnings during the course of the project. An early, critical step was to conceptualize a compliance process. That process aims to identify opportunities to support timely, self-initiated correction of compliance issues so that acceptable performance levels can be sustained and working conditions continuously improved.

We focused on opportunities in the existing McDonald's and Disney compliance processes. These processes are very similar. To identify potential opportunities for improvement, we analyzed the processes and the results of past compliance audits. Such audits are a key element in both brands' approaches.

In the processes themselves, we perceived certain inherent limits. Among the most important is the fact that conventional audits provide only a "snapshot" of facility conditions at a particular point in time. They may also identify as compliance issues problems that have been corrected while, at the same time, missing certain current compliance issues.<sup>3</sup> Another limit is that negative findings are linked to potential loss of business. Facilities, therefore, may focus on securing passing scores, rather than on identifying opportunities for improvement.

<sup>1</sup> Information about our organizations is available in Chapter III and Appendix A.

<sup>2</sup> The Connecticut State Treasurer's Office is engaged in its capacity as principal fiduciary for the Connecticut Retirement Plans and Trust Funds.

<sup>3</sup> Compliance issues may elude auditors for various reasons. One is that they necessarily focus on samples, both for record reviews and interviews. They also generally focus on only parts of a facility. However, a facility may have many buildings and many thousands of workers.

For results of the audit process, we looked at past findings for the ten factories that had agreed to participate in the project. Over the years, auditors had found a spectrum of issues. Some reappeared in succeeding years, even though corrective action plans had been developed to address them. We concluded that sustainable solutions to systemic issues required something different from corrective actions triggered by conventional audits.

Out of these analyses grew an approach that recognizes facilities' intrinsic business interests in code of conduct compliance, gives them ongoing responsibilities for the compliance process and helps them develop effective internal compliance management systems that engage all factory personnel in the compliance process.

### **A Collaborative, Dynamic Approach to Compliance**

The Project Kaleidoscope compliance approach has two principal components. One is two-way communications—bottom-up, as well as top-down—that seek to engage key stakeholders, including workers and supervisors, as well as managers, in collaborative efforts to identify issues, develop solutions and monitor progress.

The other component is an internal compliance management system that registers and responds to the many internal and external factors that can affect compliance at the facility level. These factors are dynamic—changes in product demand or specifications, labor availability, power outages and so forth. We, therefore, concluded that a system for managing compliance should also be dynamic.

The two components converge in what we are calling a DSC system. It consists of ongoing monitoring processes and feedback mechanisms that enable designated factory personnel to find, fix and initiate strategies to prevent recurrence of compliance issues rather than await results of external audits. Factories affirmatively demonstrate their compliance efforts and are not penalized for issues they successfully correct. Audits still assess compliance, but they also focus on the functionality of each factory's internal systems and opportunities for improving them.

### **Implementing the Project**

We piloted our approach in ten factories in southern China that produce products for McDonald's restaurants and Disney licensees. We selected factories that would allow us

to test our approach in different environments. The factories range in size from approximately 450 to approximately 17,000 employees. They supply different types of products, including apparel, footwear, toys and other promotional items. At the outset of the project, they also had diverse compliance histories.

Building on the McDonald's and Disney codes of conduct, we developed a set of compliance guidelines—the Project Elements—to serve as a uniform code for the purposes of the project.<sup>4</sup> We then developed a self-assessment tool and an audit tool to reflect the Project Elements and our systems-based approach.

Consistent with the principal components of the approach, further implementation focused on two types of activities. One was in-factory workshops to facilitate two-way communications and collaborative problem-solving. The other was written guidance and hands-on training to support DSC system implementation.

### **Communications Workshops**

The communications workshops used a participatory rapid appraisal (PRA) process to open up dialogue and communal engagement.<sup>5</sup> Through team exercises and discussion, PRA facilitators engaged workers, supervisors and managers in collaborative efforts to identify factory strengths, opportunities for improvement and potential solutions to issues.

### **Factory Guidance and Training**

Factories were introduced to the DSC approach and given a self-assessment tool to help them develop internal compliance systems. Audits conducted shortly thereafter indicated a need to provide more detailed guidance.

This insight led to the development of a full-fledged implementation manual, with separate chapters showing how each standard in the Project Elements could be translated into the six system components we had defined.<sup>6</sup>

The factories then received hands-on training in how to use the manual to establish systems and address issues the systems would help them identify. The training programs were tailored to the needs and operations of each factory. However, all programs introduced factory employees to the Project Elements and the systems-based approach, and all the programs included more specific training for personnel with implementation responsibilities.

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<sup>4</sup>For the complete text of the Project Elements, see Appendix B.

<sup>5</sup> Participatory rapid appraisal was originally called participatory rural appraisal because it originated as a methodology for working with farmers. In a factory setting, PRA seeks to capture the value of workers' perspectives by converting top-down communications to a collaborative process in which managers, supervisors and workers analyze issues from their differing perspectives and jointly develop, assess and refine solutions.

<sup>6</sup> The system components are the major parts of a DSC system, *i.e.*, documented compliance requirements, written policies, procedures and processes, internal assessments, methods for communicating applicable requirements to employees, and systems for tracking and reporting on compliance and progress.

## Assessing the Project

Our goal was long-term, sustained compliance with corporate codes of conduct. Given the timeframe of the project, we knew we could not definitively determine whether our systems-based approach and the implementation methods we used could achieve this goal. We, therefore, decided to assess the project in part by measuring the participating factories' progress toward sustained compliance, as indicated by findings in external audits. We also used a worker survey, followup interviews and feedback from factory owners and managers.

### Results of these assessments indicate that:

- **The systems-based approach is becoming a regular part of business operations in the participating factories.** The factories have made improvements in their systems for communicating with workers and receiving feedback. They have also initiated periodic internal monitoring processes and related reports and used the results to find, fix and endeavor to prevent recurrence of compliance issues.
- **Conditions for workers have improved in areas they consider high priorities.** Between 78% and nearly 100% of workers surveyed at the participating factories said conditions had improved since the systems-based approach was implemented. Improvements identified by the highest percentages of respondents parallel certain priorities indicated by worker input during PRA workshops, *e.g.*, timely pay, good living conditions.
- **The factories see value in actively managing the compliance process.** They perceive its advantages for their business interests. They appreciate the greater clarity of expectations and their ability to monitor and address potential problems. They have endeavored, by and large successfully, to carry out their responsibilities for monitoring and demonstrating compliance.

- **The factories have made progress toward sustained compliance with the Project Elements.** Systemic issues, such as excessive working hours and wage payments inconsistent with the law, were found in far fewer of the factories at the end of the project than in earlier audits. Indeed, one formerly systemic issue—failure to pay required insurance—was not found at all.

We attribute these results to the entirety of the approach rather than to any one particular component. Indeed, we believe that the various components had different impacts in different factories and that the combined components operate synergistically.

Whether the factories integrate the entirety of the approach into their routine operations remains to be seen. However, we believe substantive progress has been made.

## Major Learnings

Project Kaleidoscope evolved through an ongoing learning process. Some of the most important learnings transcend any particular phase of the project.

- Active participation by all key stakeholders advances efforts to achieve compliance and continuous improvement in workplace conditions.
- Introducing a systems-based compliance approach takes time and persistent effort.
- Everyone involved must be open to change—not only initially, to a new concept, but on an ongoing basis.
- Relationships built on trust are essential.
- Expectations must be clearly formulated, and guidance must be specific and relevant to facility operations.
- Training and communications must go hand in hand with system implementation and ongoing internal compliance management.



## PERSPECTIVES ON PROJECT KALEIDOSCOPE

### From a Factory Owner

*Since implementing DSC, our system has become more transparent, and workers can understand more about the factory and the code of conduct. The system helps us monitor the trends of code of conduct and employee health and safety performance. With all the data and trends, together with the suggestions from workers, we can react to any issue in a timely manner, and the reaction will be more focused to workers' needs.*

### From a Factory Manager

*After Project Kaleidoscope was introduced at the factory, we all experienced a long period of grinding and carving—between the factory and client, the factory management and the workers and the factory's corporate social responsibility department and the other relevant departments. However, when compared to the traditional process, the project offers more chances and room for improvement, which strengthens the factory's aggressiveness in taking corrective actions. This, in turn, reinforces mutual trust between the factory and the brand.*

### From a Factory Worker

*Since DSC was implemented, we find that the management has made much progress, particularly in the area of health and safety. In addition, we have more channels to communicate with the management.*

## II. INTRODUCTION

Project Kaleidoscope was a collaborative effort initiated and guided by a multi-stakeholder Working Group. We, the Working Group, sought to improve working conditions in facilities that supply products for corporate supply chains. This was something we all had been working on for many years, individually and in other coalitions.

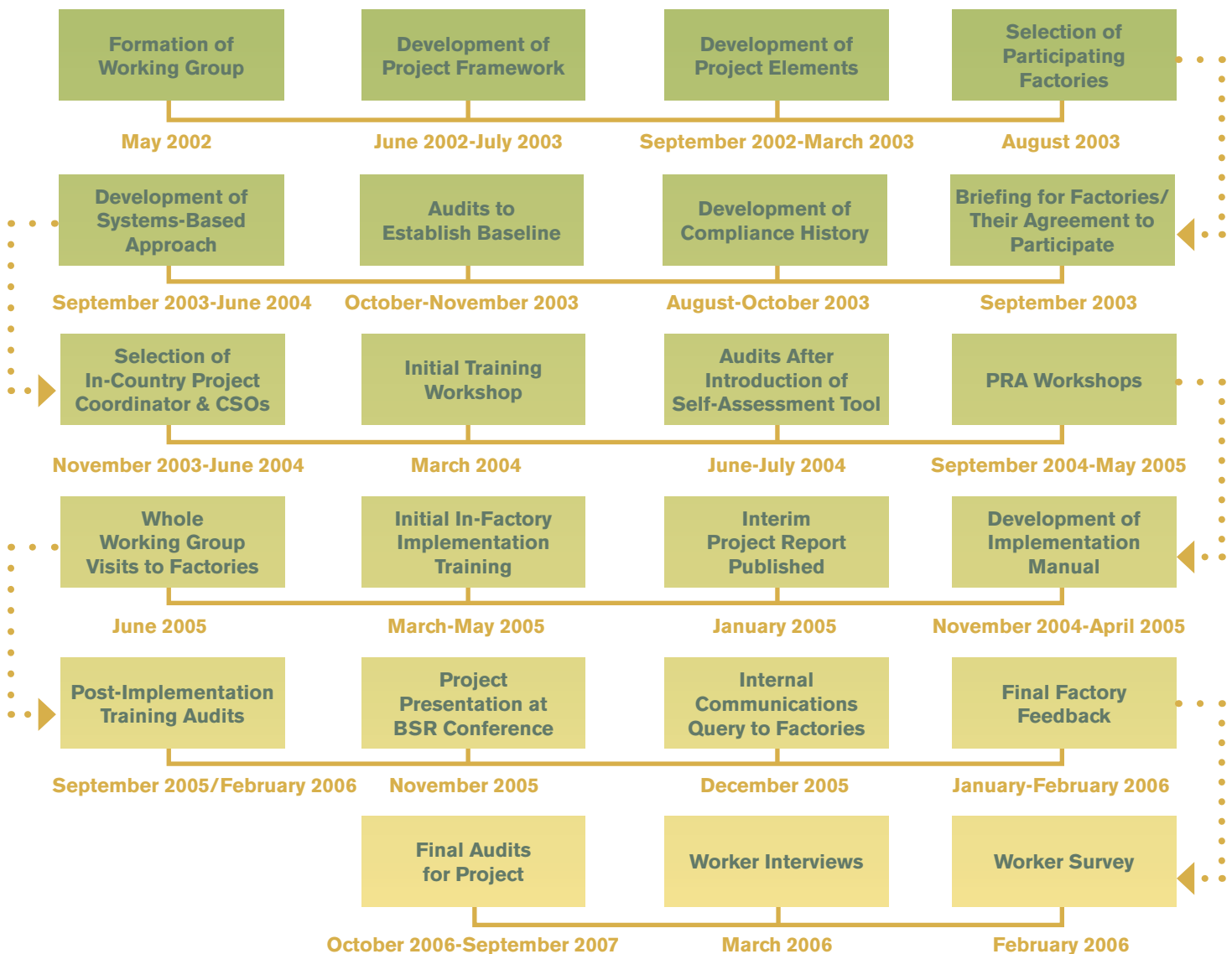
Together, we developed and tested an alternative compliance approach—one we hoped would enhance and promote long-term, sustained compliance with corporate codes of conduct for suppliers and licensees. Our assessments suggest that the approach can achieve this objective. However, the sample size in our pilot was limited, and the timeframe was relatively short. Further tests would be needed to determine whether and to what extent the approach can achieve the desired results throughout a global supply chain.

The approach evolved as we worked together, changing and refining it as we learned from one another, from the results of our efforts and from an expanding circle of project participants. We believe that openness—to other stakeholders and to changing our views—is essential to projects like ours.

We attribute the results of the project to the entirety of the approach, rather than to any one particular component. Indeed, we believe the combined components operate synergistically and that different components may prove most critical in different situations. So what we offer is not a template, but an account of the approach and tools we used.

This report traces the evolution of the approach and the major steps we and our partners took to implement it. It presents the results of the assessments we conducted, what we learned and what we believe we can conclude.

### Project Kaleidoscope Timeline



## Formation of the Working Group

Project Kaleidoscope originated in dialogue between two multi-national corporations—McDonald's Corporation and The Walt Disney Company—and seven organizations that engage in diverse efforts to improve working conditions in global supply chains. Some of them are investors in the corporations:

- As You Sow Foundation
- Center for Reflection, Education and Action (CREA)
- Connecticut State Treasurer's Office
- Domini Social Investments LLC
- General Board of Pension and Health Benefits of the United Methodist Church
- Interfaith Center on Corporate Responsibility (ICCR)
- Missionary Oblates of Mary Immaculate

McDonald's and Disney both have complex, extensive relationships and supply chains reaching around the world, and both have been actively engaged for some years in promoting safe, fair working conditions in facilities that produce products for them and/or with their trademarks.<sup>7</sup> While Disney purchases products for sale at its properties, a substantial portion of products manufactured with its trademarks are the result of agreements with approximately 6,000 licensees around the world, including McDonald's. The licensees engage factories in their respective supply chains to produce the trademarked products.

The seven other organizations all have a long history of engaging and working with companies to address social compliance challenges in global supply chains. For more than a decade, they have advocated the development of codes of conduct for suppliers, internal and independent compliance monitoring, training on code requirements for suppliers and their managers and workers and compliance reports to shareholders and the general public. They seek to advance human rights, social, economic and environmental sustainability and, if investors, to enhance protection of their interests as shareholders. All believe that improved working conditions in corporate supply chains can serve the business interests of suppliers, *e.g.*, by reducing turnover, while also

helping to protect corporations from reputational risk and enhancing long-term shareholder value.<sup>8</sup>

In the late 1990's, these groups, with other institutional investors, actively engaged McDonald's and Disney, through dialogue and shareholder resolutions (both proposed and withdrawn), to address matters related to the development and implementation of their respective codes of conduct and to report progress to shareholders. The companies initially responded separately, by meeting with the shareholder organizations. The organizations followed up with further questions and views. These led to further meetings and ultimately to collaboration.

Over time, information-sharing and debate evolved into open dialogues on supply chain compliance issues. The engagement and dialogues contributed to enhancements in both companies' compliance programs. Yet all agreed that the current compliance processes did not effectively prevent problems that had been corrected from recurring and, indeed, might not identify all problems that needed correction. This laid the foundation for an agreement to merge the separate dialogues in a collaborative exploration of ways to promote sustained code of conduct compliance.

As we began canvassing issues and options, we came to the view that we should take a fresh, holistic look at the whole compliance process and experiment with an alternative approach. Developing and testing that approach became our goal.

## Project Kaleidoscope in Perspective

Project Kaleidoscope grew out of and is part of a broader continuing evolution in multi-stakeholder efforts to improve supplier workplace practices.

In the early 1990s, major corporations began adopting voluntary codes of conduct establishing key labor rights requirements in their supply chains.<sup>9</sup> Some have gone on to invest resources in auditing supplier facilities, identifying instances of noncompliance with their codes, leveraging their influence to improve working conditions in the facilities and improving transparency. These processes have evolved over time.

<sup>7</sup> Disney initiated its international labor standards program in 1996. McDonald's supplier social accountability program dates back to 1998.

<sup>8</sup> For benefits they believe corporations can realize by ensuring responsible workplace practices in their supply chains, see, for example, *Sourcing Standards: Concerns for Investors*, Amalgamated Bank, Christian Brothers Investment Services, Connecticut State Treasurer's Office, Principal Fiduciary for the Connecticut Retirement Plans and Trust Funds, Interfaith Center on Corporate Responsibility and New York City Employees Retirement System (2004).

<sup>9</sup> The percentage that have done so is, however, still relatively low. A 2006 review of the S&P 500 by the Social Issues Service of Institutional Shareholder Services found that, at year-end 2005, 79 of the companies in the S&P 500 (15.8%) had vendor codes for suppliers, up from 64 in 2004. Social Issues Service, 2007 Background Report—Global Labor Standards, Institutional Shareholder Services, page 19.

## GENESIS OF PROJECT KALEIDOSCOPE continued...

A wide range of organizations have influenced the shape and direction of corporate code of conduct compliance programs. In some major industries, companies and their associations have developed voluntary codes of conduct. Local, national and international non-governmental organizations (NGOs) and trade unions have played an important role in identifying worker concerns in specific factories and industries, addressing systemic abuses and focusing attention on worker empowerment.

As in Project Kaleidoscope, various multi-stakeholder coalitions have adopted or piloted innovative approaches to promoting code of conduct compliance—for example, worker complaint systems, factory certification processes, worker and management training and capacity-building in factories and local communities.<sup>10</sup>

Project Kaleidoscope built on these collective efforts and aimed, from the outset, to contribute to them.



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<sup>10</sup> Major ongoing coalitions of this sort include the Ethical Trading Initiative, the Fair Labor Association, Social Accountability International, the International Council of Toy Industries CARE program, the Electronic Industry Code of Conduct Implementation Group and the Workers Rights Consortium.

## Our Starting Point

We began by developing a consensus on what an optimum compliance process would achieve:

- Prevention of foreseeable and recurrent compliance issues.
- Sustained acceptable performance—from one audit to the next and in the intervals between.<sup>11</sup>
- Timely correction of the full range of issues covered by workplace standards.
- Effective mechanisms for workers to participate, particularly to raise concerns.
- Accountability throughout the supply chain.
- Continuous progress aimed at improving working conditions.

Achieving these goals, we believed, would involve moving beyond the approach embodied in conventional audits to an approach that would drive continuous improvement through the factories' own ongoing, active involvement.

We established two further criteria for our prospective compliance approach:

- Its results would be verifiable according to consistent, quantifiable criteria.
- It would be replicable, *i.e.*, an approach that could potentially be extended beyond the pilot sample to other geographic areas and industries.

Getting from these criteria to an actionable approach involved a step-by-step process that evolved as we learned from the results of our efforts.

## Developing a Framework for Collaboration

As we formulated the criteria, we found we needed a clearer common understanding of the processes we would follow as we worked together. So we developed a project framework—a compendium of agreements on a range of issues related to group interactions, major tasks and project administration.

Clarifying expectations and working through potential issues laid a foundation for trust and gave us a deeper appreciation of our collective strengths and perspectives. As a result, many of the ground rules we established were ultimately superseded by freer flowing group dynamics. However, we continued to use the framework as a resource for resolving issues, and three understandings governed our collaboration from start to finish—confidentiality, decision-making by consensus and an agreement that any public statements about the project would be made by the Working Group as a whole.

## Establishing Compliance Guidelines for the Project

Any approach we developed had to be based on specific workplace standards. Thus, our next major task was to develop a set of compliance guidelines—the functional equivalent of a corporate code of conduct for the purposes of the project. The expectations established in the McDonald's and Disney codes had to be incorporated, since suppliers and licensees were contractually obligated to comply with the codes. But we wanted to take a broader view of the possibilities.<sup>12</sup>

We began by examining the two codes, other relevant codes of conduct and the core conventions of the International Labor Organization (ILO). We debated at some length what the guidelines should include and how expectations should be expressed. The final product—the Project Elements—is included here as Appendix B.

Our aim was not to translate our vision of an ideal code of conduct into specific standards. Rather, we sought to establish a platform for a compliance approach that could produce consistent, reliable results and continuous improvement. We, therefore, formulated a set of clear, reasonable expectations that were generally consistent both with the ILO conventions and with the McDonald's and Disney codes of conduct.

<sup>11</sup> For the purposes of the project, we defined "sustained compliance" as "maintenance of a working environment which operates within a pre-established range of tolerances over time." Definition of a specific range of tolerances would depend on various factors, e.g., the nature of the issue, the frequency with which it occurs, what would be required to address it effectively, how long corrective action would be likely to take.

<sup>12</sup> The intention was not to pave the way for modifications in McDonald's or Disney's code of conduct, nor should the Project Elements be understood as changing either code.

**THREE WORKERS' VIEWS OF THE PROJECT'S IMPACT**

*Implementation of the Dynamic Social Compliance System not only improves our working condition, but also our living standard. DSC has given more working opportunities to us and enhanced the communication between departments democratically. ... Under this program, we feel that the management has cared [about] us more than before and that we work very happily together.*

*We can see that the factory has installed a number of new facilities for workers to use, including computers and notice boards. We can access different information easily, at our convenience. We feel that the management of the company is more open and that they respect us.*

*Through the program, I came to understand that management welcomes workers' feedback and is eager to improve. What has impressed me most is that there has been improvement in temperature control in my shop. And since I joined the Canteen Committee, management of the canteen has improved. More workers are willing to dine at the canteen.*

**Engaging the Participating Factories**

We had decided early on to pilot whatever approach we developed in factories in southern China that produced products for the McDonald's System<sup>13</sup> and Disney licensees.

**Selecting the Factories**

We selected ten factories in the Pearl River Delta region of Guangdong Province in southern China. We focused on the Pearl River Delta region because a number of factories there manufacture items both for McDonald's and for Disney licensees,<sup>14</sup> and one of our selection criteria was that suppliers for both brands be represented. The other selection criteria were diversity in size, types of products produced and compliance history.

All ten factories produce products for Disney licensees—among them, McDonald's. They vary in size from approximately 450 to 17,000 workers. Two of the factories produce for Disney licensees and other customers. One manufactures apparel, the other footwear. The remaining eight factories produce not only Disney-licensed products, but also other premiums for McDonald's restaurants—principally, plush, plastic and electronic toys. McDonald's two principal agencies for premiums have, for many years, worked closely with these factories to improve compliance performance and management-worker communications.

The percentage of total production committed to the brands varies considerably—from less than 1% in one factory to 90% or more in four of the factories.<sup>15</sup> Two of the factories

have been producing for one or the other of the two brands for about five years. For two others, the relationship dates back more than 20 years. Two of the factories were selected to participate as part of a reinstatement process. Agreements with them had been terminated several years prior to Project Kaleidoscope because of systemic, unremediated code violations.

**The Engagement Process**

We worked continuously on refining the systems-based compliance approach. By mid-2003, we had defined major components it should include. Beyond this, we had more questions than answers.

We, therefore, decided to engage the factories as participants in the development of the approach, rather than have them serve only as test sites. This was an important mind-set shift—a kaleidoscope moment. We had begun by thinking about what we would do to effect changes in the factories. Now we were looking at the factory owners, managers, supervisors and workers as colleagues in a collaborative effort to achieve change.

A group of us met with the factory owners to explain our goals, our working concept and the role we hoped they would play. We assured them that compliance issues identified in the course of the project would not result in negative consequences, so long as they participated in good faith, and that their identities and the identities of their factories and employees would remain confidential.<sup>16</sup>

<sup>13</sup> The McDonald's System includes both company-operated restaurants and restaurants operated by franchisees and as joint ventures. The company's code of conduct and its compliance program cover suppliers that provide products or services for any or all of these.

<sup>14</sup> Under a license agreement with Disney, McDonald's sometimes uses premiums tied to Disney's brand properties.

<sup>15</sup> Appendix C presents the sample, with its diversification.

<sup>16</sup> To honor the agreement, this report identifies factories by a code we developed for project documents, rather than by name or exact location. For the same reason, quotations are provided without attribution.

It took time to build trust. We were, after all, asking factory managers to voluntarily disclose issues that could put relationships with customers at risk in the context of conventional audits. We were asking them to understand that we were interested in learning from mistakes and supporting continuous improvement, not in faulting them.

As the project progressed, factory owners and managers came to appreciate the ways our approach could strengthen their internal management systems and thus allow them to actively manage the compliance process.<sup>17</sup> The prospect of increasing worker satisfaction was also important to them.

This was—and remains—especially compelling because a variety of social and economic developments have contributed to high turnover and increased recruitment challenges in the Guangdong area.<sup>18</sup>

We, in turn, developed a better appreciation of the complexity of factory operations, the external environment that affects them and the programs the participating factories already had in place.

### Developing a Compliance History

Our next step was to develop a compliance history for the factories, using the findings of past audits. The history showed that, over the years, auditors had found a spectrum

of issues. These, we understood, had been addressed by corrective action plans. Yet they sometimes reappeared in succeeding years. Compliance may have been achieved at a particular point in time, but it was not consistently sustained.

The historical review also provided information about specific types of issues. For example, some types of issues, e.g., compensation inconsistent with the law, excessive working hours and insufficient rest days, were much more common than others. On the other hand, certain issues that, historically, had raised major concerns—notably, child labor and harassment—were not found at all.

We recognize that lack of findings is not the same as absence of issues. As discussed in Chapter V, conventional audits provide a “snapshot” of facility conditions. Thus, some issues may elude identification because they existed for only some limited period of time between audits and are not reflected in facility records. Others may be ongoing and reflected in facility records but not in the samples used for the audit process. Still other ongoing issues are unlikely to be identified unless raised in worker interviews. The approach we developed sought to address such limits through ongoing internal monitoring, robust feedback mechanisms and related internal record-keeping.

#### A FACTORY OWNER ASSESSES THE PROJECT

*The most impressive thing about Project Kaleidoscope and the DSC process is that the systems have helped foster a culture of communication and mutual respect. The systems encourage an interactive approach to management. Workers feel empowered because they feel that they can speak out and will be heard, especially when they see that efforts are being made to address their concerns. To the senior management team, the DSC process serves as an “advanced warning system” for managers, who can use the survey results to gauge employee satisfaction, identify problems they face and fix them before they become out of control.*

*It is also heartening to see real changes resulting from the DSC process and workers reaping tangible benefits. For example, accident rates have dropped, the quality of canteen meals is getting better and working conditions such as shop temperature and air quality have improved.*

*As the labor pool shrinks in southern China, workers demand more than a paycheck. I think this emerging culture of communication is helping us attract and retain the cream of the crop.*

<sup>17</sup> See Appendix E: Initial Factory Management Feedback.

<sup>18</sup> For a summary of all major advantages factory owners and managers reported, see Appendix H: Major Advantages and Challenges of Project Kaleidoscope Cited by Factory Owners and Managers Toward End of Project.

## Establishing a Baseline

We next had a special round of audits conducted to establish a baseline for measuring the factories' progress toward sustained compliance during the course of the project. They were conducted in October and November 2003 by the teams that regularly audit the factories for McDonald's and Disney and used the brands' standard audit tools.

The results reflected a range of issues in all major categories. However, except for working hours and, in one case, social insurance payments, specific issues in the particular factories differed from those identified in the reports we used for our historical review.<sup>19</sup> Thus, for most issues, the factories seemed able to correct specific problems but often unable to prevent other problems from occurring.

Auditors also noted that two factories had taken positive actions to address prior issues. These included a computer for employees to check their working time records and a wage verification area with calculators, instructions and employee training.

## Broadening the Collaboration

### Local Civil Society Organizations

We decided, at the outset, that we would need the participation of local civil society organizations (CSOs) to ensure credibility, cultural sensitivity and localized expertise in relevant issues, particularly those related to workers. We had relationships with some CSOs in southern China but decided to cast a wider net.

We engaged The Asia Foundation (TAF) to help us identify candidates. With a long history of work in China and past worker-related projects in the Pearl River Delta region, TAF had both relevant expertise and the requisite local network. Using criteria we provided, it used a three-phase process to identify and then screen potential candidates.

In the first phase, TAF interviewed individuals in twenty-two organizations with operations related to labor issues in Guangdong Province, Beijing and/or Hong Kong. Interviewees represented a wide range of organizations—academic institutions, CSOs, corporations and government agencies. They were asked a series of questions designed to identify a large pool of potential candidates with experience in one or more of the areas relevant to project needs.

The interviews and other research yielded an initial pool of thirty-seven individuals and organizations. Of these, nine individuals representing seven organizations were selected for further review. TAF conducted face-to-face interviews with the short-listed candidates, using a set of approximately twenty questions based on our selection criteria. They explored:

- The institutional capacities and resources of the organizations.
- Their direct experience with factories in southern China.
- Their familiarity with global labor issues and standards.
- Their relationships with factory owners and managers, the government, multinational companies and donor and other organizations involved in labor issues.
- Their current constraints, *e.g.*, staff capacity.
- Their willingness to work comfortably within project guidelines, *e.g.*, protection of confidentiality.

Working Group members conducted further interviews with top candidates. Based on everything we had learned, we decided to engage two local CSOs and, in a related decision, selected an in-country project coordinator. The final selections were:

- Professor Qu Ning of Guangdong Women's Professional Technical College, to serve as in-country project coordinator.
- Guangdong Participatory Development Appraisal Network (PDA Network), to conduct participatory rapid appraisal (PRA) workshops.<sup>20</sup>
- Zhongshan University, to develop and administer a survey of workers in the participating factories.<sup>21</sup>

The selection process did more than identify qualified local CSOs. It also gave us a better understanding of local CSO experience and capacities. We learned that the organizations tended to specialize in one type of activity or another and that relatively few had the expertise and resources to significantly expand their work. Increasing their involvement in social compliance efforts would depend on long-term capacity-building—something to which we could contribute.

<sup>19</sup> For more detailed results, see Table III in Chapter IX.

<sup>20</sup> The PRA workshops were intended both to facilitate communications and joint problem-solving in the participating factories and to provide us with a broader understanding of conditions in the factories. They are discussed in Chapter VII.

<sup>21</sup> On the recommendation of the in-country project coordinator, we later engaged the Center for Media and Social Change at Shenzhen University to conduct a final worker survey. Appendix D provides background on all participating CSOs and Guangdong Women's Professional Technical College.

**PEI BIN**  
**SENIOR PROGRAM OFFICER**  
**THE ASIA FOUNDATION (BEIJING OFFICE)**

*Since 1999, The Asia Foundation has provided training and other direct labor services for more than 300,000 workers through collaboration with local civil society organizations, academic institutions and the local government. By providing various services for workers, our local partners in Guangdong have gained a solid understanding of workers' needs and factory conditions.*

*Because of our expertise, we were asked to do an assessment of potential local partners for Project Kaleidoscope. After several rounds of interviews and other research, we recommended seven organizations that were found to be the most reputable and capable. Some of the organizations are strong in training, while others are strong in assessment or monitoring.*

*The Asia Foundation is very happy to see that Project Kaleidoscope is working with some of these local partners. The local partners have not only added value to the project. They have also gained enormous learning and growth during the process. The project has helped broaden their perspectives on workers' needs and factory conditions, and it has helped incorporate workers' participation into the whole compliance system. The broad-based stakeholder participation is a learning process for all, and the sum is more than the parts.*

**In-Country Project Coordinator**

As indicated above, TAF's research helped us select an in-country project coordinator—Professor Qu Ning of Guangdong Women's Professional Technical College. This choice proved to be one of the more critical success factors for the project. Through her past work, Professor Qu had earned a high level of respect for her commitment to workers' causes and her competency and independent

judgment, both locally and within the global labor rights community. Her involvement helped ensure both the credibility of the effort and relevant expertise.

On an ongoing basis, Professor Qu supervised the work of the local CSOs, helping to ensure relevance to project objectives and quick resolution of issues that could have jeopardized project completion. She was, for us, an ongoing source of valuable advice.

**PROFESSOR QU NING**  
**IN-COUNTRY PROJECT COORDINATOR**

*Project Kaleidoscope was a challenging project with an important goal—the healthy development of a valid, effective social responsibility management system. The involvement of diverse partners, especially workers and CSOs, offered transparency and multiple angles from which to observe and analyze problems.*

*It is really meaningful to participate in all these creative and constructive ideas and actions and to provide some valuable practical experience, along with help in achieving the objective of the project through effective organization, coordination and implementation. Participation has also been a process of exchanging learnings and enhancing capabilities.*

## V. DEVELOPING A SYSTEMS-BASED APPROACH

We had formulated criteria for our approach and some ideas about what it would include. The momentum that got us to a model we could pilot was set by our decision to make the approach systems-based. This was a key kaleidoscope moment—actually, a series of kaleidoscope moments as we developed the concept and then, with other participants, the tools for implementing it.

We began with two complementary analyses—an examination of the compliance processes used by McDonald's and Disney and an exploration of what we knew about factory environments, successful internal management systems and what can drive sustainable change.

### McDonald's and Disney Compliance Programs

The McDonald's and Disney code of conduct compliance programs have many components in common. These characterize a number of corporate compliance programs. They include:

- A code of conduct that establishes compulsory workplace standards for suppliers and subcontractor facilities.
- Requirements that the provisions of the code be communicated to employees in the local language.
- Training for suppliers, licensees and factory operators to develop an understanding of what is expected.
- Periodic external audits using specific criteria derived from the codes.<sup>22</sup>
- Development of corrective action plans to address issues identified by the audits.
- Follow-up during subsequent audits to determine whether the plans have been successfully implemented.

Except in cases of egregious violations, McDonald's and Disney both prefer to provide facilities with opportunities to remedy issues, and they work with them to this end or expect their suppliers and licensees to do so.

### Opportunities for Improvement

We sought to build on the McDonald's/Disney approach and, therefore, focused on opportunities to improve it. Some relate to the dynamics of the conventional compliance assessment process:

- Assessments are based on a “snapshot” of facility conditions—the situation at the time auditors are visiting.
- Audit reports indicate whether a facility complies with code requirements, according to certain objective tests. A violation of a standard during any part of the period under review will usually result in a negative finding, even if the issue has been resolved.
- Given the time lapses between audits and other inherent limits, *e.g.*, sampling, it is difficult to accurately measure progress over time—within a facility or a supply chain.
- For facility owners and their managers, the identification of a compliance issue is often perceived primarily as a potential threat to the customer relationship, rather than a stimulus to progress.



Our reviews of the participating factories' past audit reports had confirmed another type of limit in the existing approach—the uneven effectiveness of corrective action plans. We had seen that they could effectively address specific findings, but did not, in all cases, prevent recurrence of the same type of issue. We, therefore, concluded that sustainable solutions to systemic issues called for something more.

We began focusing on ways to encourage and support internal compliance management systems and effective two-way communications channels. Some participating factories already had components of internal compliance management systems and various two-way communications channels. But, at this point in the project, these did not reflect an alternative, comprehensive compliance approach.

<sup>22</sup> Disney also has audits conducted by staff specialists. McDonald's requires its suppliers to conduct internal audits of their facilities and subcontractor facilities that produce products for the System.

## The Systems-Based Alternative

Essentially, we wanted to foster effective internal compliance systems—to convert periodic, reactive responses to findings by external auditors into an ongoing process in which factories would find, fix and endeavor to prevent recurrence of compliance issues. This objective reflects certain basic premises.

- Working with suppliers, facility managers and other employees to develop and implement internal compliance management systems can more effectively engage them in affirmative efforts to achieve and sustain compliance than finding faults and demanding corrective actions within externally-imposed timeframes.
- Internal compliance management systems should:
  - Engage the entire factory community—workers and supervisors as well as owners and managers.
  - Enable responsible factory personnel to find, fix and implement strategies to prevent recurrence of compliance issues.
  - Be designed to anticipate, register and respond to the dynamic factory environment.
  - Be transparent so that those affected can monitor and help improve performance.
- Factories should be accountable for the internal management systems and their results.
- External audits should assess not only code compliance but the functionality of the internal systems and the accuracy of the records they produce.
- Factory employees at all levels should receive education and training so that they understand their roles and responsibilities, the outputs of the systems and how they can provide feedback.

- Factories have business interests in code of conduct compliance that can be tapped to engage active leadership by top management, *e.g.*, improved customer relations, reduced turnover and accident rates, increased productivity.
- Corporate customers can enhance the business advantages of code of conduct compliance by recognizing and rewarding factories for successful internal compliance management and continuous improvement.

In short, the systems-based approach seeks the same goals as the established approach—sustained compliance with the applicable code of conduct and continuous improvement. It also includes the same basic components—a code of conduct, training and external audits. However, the components serve enhanced functions because compliance is the result of dynamic, internal management systems, which include active participation by workers and supervisors, as well as owners and managers.



## VI. REFINING THE SYSTEMS-BASED APPROACH

### Defining and Implementing a System

Talking about systems was not enough. We had to define our concept in terms that would provide a framework for factory-level code of conduct compliance operations, supporting tools, training and external audits. We decided that, for the purposes of Project Kaleidoscope, a system would consist of six major components:

1. A law, industry standard or Project Element. (In no instance does a Project Element establish a lower standard than an applicable law or industry standard. Certain Project Elements do, however, go beyond legal requirements in most jurisdictions, *e.g.*, in the breadth of prohibited bases for discrimination.)
2. In-house documentation of the applicable requirements.
3. Relevant, documented internal processes and policies, including:
  - a. Processes for updating the documentation, as necessary.
  - b. Written policies that align operating procedures with the applicable requirements.
  - c. Written processes and procedures for implementing these policies.
4. Internal assessment procedures to ensure that actual practices are consistent with the applicable requirements.
5. Methods for communicating the applicable requirements to employees.
6. Systems for tracking compliance with the applicable requirements and the capacity to report on measurements and progress.



Specific implementation practices flow from the system components.

### SAMPLE KEY PERFORMANCE INDICATORS

$$\frac{\text{Year-to-date number of weeks in records reviewed with equal to or less than 60 hours}}{\text{Year-to-date number of weeks}} \times 100\%$$

$$\frac{\text{Year-to-date number of weeks in records reviewed with a rest day}}{\text{Year-to-date number of weeks}} \times 100\%$$

$$\frac{\text{Number of employees paid legal overtime rate}}{\text{Total number of employee records reviewed}} \times 100\%$$

$$\frac{\text{Number of employees confirmed voluntary work}}{\text{Number of employees interviewed}} \times 100\%$$

$$\frac{\text{Number of employees holding own personal documents}}{\text{Number of employees interviewed}} \times 100\%$$

As with other types of management systems, performance in a dynamic compliance system is measured and tracked quantitatively against key performance indicators (KPIs). In the course of the project, we and our partners in the field, developed a number of KPIs for use in piloting our approach.

## PROJECT ELEMENTS

### GENERAL PRACTICES

Manufacturers will maintain and implement processes that demonstrate:

- Current possession and understanding of all applicable laws and standards.
- Appointed individual accountable for maintenance and update of such laws and standards.
- Current possession of contact information to obtain updates and seek clarifications.
- Internal operational policies and procedures designed to ensure adherence to these laws and standards.

All business activities of manufacturers must conform to all applicable national and local legal requirements, customs and published industry standards pertaining to employment and manufacturing. If statutory requirements and published industry standards conflict, suppliers must, at a minimum, be in compliance with the one which, by law, takes precedence.

Manufacturers will maintain processes that provide continued and consistent operational adherence to governing laws and standards which, at minimum, will include:

- Training process which educates all staff, including management and supervisors, to understand and comply with applicable laws and standards.
- Ongoing development and implementation of operational policies and procedures consistent with applicable laws and standards.
- Maintenance of self-monitoring process which systematically verifies and documents effectiveness of existing policies and practices.
- Ability for customers to verify compliance with Project Elements, including but not limited to a) on-site inspections of manufacturing facilities and employer-provided housing, b) reviews of books and records relating to employment matters and c) private interviews with employees.

Manufacturers will maintain onsite all documentation needed to demonstrate compliance with these Project Elements.

Manufacturers will communicate their policies and procedures to all employees in an effort to create effective communication mechanisms between management and employees. Communication of policies and procedures includes, but is not limited to:

- Orientation and communication process to educate workers on such elements; communication must exist in various formats (*e.g.* pictorial, oral, written) to ensure worker comprehension.
- Maintenance of interactive communication mechanism(s) whereby employees may raise concerns with management. These mechanisms should provide workers with the option of communicating confidentially and/or working in a collaborative manner to address workplace issues.

Manufacturers will provide regular training for their employees and be able to provide documentation of their training programs.

When using subcontractors, manufacturers will:

- Fully disclose the use of subcontractors of any merchandise or components upon request.
- Ensure all subcontractors understand and adhere to applicable law, as well as all manufacturing and compliance expectations and requirements set forth in this document.
- Ensure that manufacturer maintains proper records and documentation of all subcontracted items, including adherence to the Project Elements.

**The Why and How of Dynamic Systems**

Work environments are inherently dynamic—continuously affected by a host of internal and external factors that can impact compliance status. A sudden spike in product demand or change in product specifications, a delay in the delivery of raw materials, a labor shortage, a power outage or flood—all these and more can exert pressures on a factory’s compliance with workplace standards.

When a factory has effective internal compliance management systems, processes that are characteristically centered in periodic external audits—data collection and analysis, issue identification, corrective action—become part

of ongoing operations. If dynamic inputs are dynamically managed, desired outputs, *i.e.*, documented code compliance, continuous improvement and transparency, should remain relatively constant over time.

**Inclusive Participation**

In the Project Kaleidoscope vision, the entire factory community participates in the compliance process and works to ensure its success. The factory owner and personnel at all levels have specific roles and responsibilities. These are complementary and often collaborative. Communications flow in all directions—bottom-up, top-down and laterally.

**TABLE I: ROLES AND RESPONSIBILITIES**

Facility leadership	<ul style="list-style-type: none"> <li>Policies to ensure compliance with applicable laws and code</li> <li>Budget allocations to support compliance</li> <li>Authorizations to conduct compliance activities</li> <li>Oversight of entire process and integrity of results</li> <li>Other actions to create a compliance culture</li> </ul>
Facility senior management	<ul style="list-style-type: none"> <li>Oversight and assessment of implementation</li> <li>Reports to facility leadership</li> </ul>
Facility compliance systems manager	<ul style="list-style-type: none"> <li>Overall guidance on planning, operations and resource allocations</li> <li>Documentation and updating of all system elements</li> <li>Oversight of system implementation</li> <li>Reports and recommendations to senior management</li> <li>Documentation of self-assessments for customers and external auditors</li> </ul>
Facility issue-area manager(s)	<ul style="list-style-type: none"> <li>Guidance for subordinate units on planning, operations and resource allocations</li> <li>Oversight of employee training</li> <li>Development of KPIs and measurement processes</li> <li>Find-fix-prevent activities</li> <li>Direction of line supervisor activities</li> <li>Assessment of internal monitoring reports and corrective action plans</li> <li>Communications with workers, worker committees and supervisors</li> <li>Periodic compliance reports</li> </ul>
Facility workers, worker committees and line supervisors	<ul style="list-style-type: none"> <li>Communication of concerns and complaints</li> <li>Suggestions for improvement</li> <li>Participation in factory self-assessments</li> </ul>

# IMPLEMENTATION OF SYSTEMS-BASED APPROACH: PHASE 1

## Initial Systems-Based Tools

We initially thought that factory managers could implement the systems-based approach if they just understood what we meant by “systems” and had tools to help them assess their compliance status and existing systems, if any. As discussed below, we soon learned that more would be necessary.

We created two initial tools—a self-assessment tool and a tool for potential use by external auditors.

The self-assessment tool presented the system components.<sup>23</sup> It then laid out a series of questions, indicating how each component would apply in each major issue area of the Project Elements. For each issue area, it also provided several performance measures—some numeric and others yes/no questions.

The audit tool provided a specific format for determining both compliance with the Project Elements and the existence of the system components that should be in place. For the system part of audits, we defined six “requirements,” each correlated to one of the major components in our definition of “system.”<sup>24</sup> As the extract indicates, the numbers were then used in the tool to identify the system requirements that should be in place for each compliance standard.

The tool was used for the next round of audits. It subsequently served as the foundation for a more refined tool, which was used for the remaining audits conducted within the lifetime of this project.

## Initial Training Workshops

In March 2004, we conducted interactive training workshops for participating factory owners and managers. We introduced the concept of systems, explained the major system components and discussed implementation steps. We gave participants the self-assessment tool and an initial opportunity to use it in a group exercise.

## Assessment of Results

In June and July 2004, McDonald’s and Disney’s auditors conducted another round of onsite audits. The reports indicated progress in certain categories—notably, wages and benefits—and persistent problems in others. For example, excessive working hours were found in six factories. In all but one of them, the same issue had been found in the baseline audits. Similarly, health and safety issues were found in all the factories where they had been found in the baseline audits.<sup>25</sup>

Auditors identified numerous positive actions factories had taken beyond what would be required to comply with our Project Elements. These included a wide variety of initiatives to promote worker health and safety, improvements in working and living conditions, enhanced communications with workers and recreational and personal development opportunities.

The findings on system requirements had more impact on project development. Auditors found some evidence of what could be classified as system components at eight of the ten factories—mostly equipment, training and other matters related to worker health and safety. However, they found monitoring system components at only two factories—one for wage payments and one for workshop temperatures.<sup>26</sup>

### EXTRACT FROM AUDIT TOOL

Freedom of Employment Questions	Practice	System Requirements
1. Is all work performed on a voluntary basis?	<input type="checkbox"/> Y <input type="checkbox"/> N	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5
1.1. TEST: Is there a system that provides employees the right to refuse overtime work?	<input type="checkbox"/> Y <input type="checkbox"/> N	
1.2. TEST: Can line quotas be achieved during a regular shift (not requiring OT to complete)?	<input type="checkbox"/> Y <input type="checkbox"/> N	

<sup>23</sup> See Chapter VI.

<sup>24</sup> This does not mean that all system requirements applied to all issue areas. For most issue areas, the tool identified the first five.

<sup>25</sup> For more detailed results, see Table III in Chapter IX.

<sup>26</sup> As indicated earlier, the baseline audits had identified partial wage payment systems at two other factories.

## IMPLEMENTATION PHASE I continued...

We concluded that the support we had thus far provided did not offer factory managers sufficient guidance in translating the systems-based approach into specific policies, procedures and programs. The self-assessment tool told them, in general terms, what auditors would find if a compliance system were in place, but it did not help them figure out how to implement such a system. This was another of our kaleidoscope moments.

We also had some questions about whether the auditors fully understood what systems audits involved and how audits should change under the systems-based approach. Again, we realized that we may have underestimated the need for more than an introduction to the systems concept and an assessment tool.

While we moved to translate these learnings into additional tools and training, we concurrently addressed the other primary component of our approach—enhanced bottom-up/top-down factory-level communications.

### Participatory Rapid Appraisal Process Our Goals for a PRA Process

We decided to use a PRA process to promote open, two-way management-worker communications.<sup>27</sup> We also looked to the process for a fuller understanding of the factory environments. Audit reports had been our main source of factory-specific information. Thus, worker input had been confined to the compliance-focused interviews that were part of the audits. With a PRA process, we could tap the perspectives and experience of employees at different levels and open up the discussion to a wider range of factory strengths and opportunities for improvement.

#### Background on PRA

PRA begins with the premise that the members of a local community are knowledgeable and creative and that their perspective has value. Applied in a factory setting, local community members are those involved in the day-to-day

operations of the factory, particularly workers.

PRA seeks to capture the value of workers' perspectives by converting top-down communications to a collaborative process. In this process, managers, supervisors and workers analyze issues from their differing perspectives and jointly develop, assess and refine solutions.

To initiate the process, a PRA facilitator uses group exercises to build trust, demonstrate the value of collective problem-solving, initiate engagement and introduce tools for issue identification, analysis and resolution.

#### The PRA Sessions

The PRA workshops for Project Kaleidoscope were two to four days in length

and involved a series of in-factory sessions. The PRA team selected participants, with guidance from the in-country project coordinator, who also oversaw the entire process. Selection criteria provided for balance by gender, job category and length of employment at the factory.

The workshops varied somewhat from factory to factory and, within a factory, from session to session. Generally speaking, the first session was with top managers, to introduce the project and the PRA process. It was followed by separate sessions with groups of employees at each level—top managers, mid-level managers, supervisors, workers and, in some factories, production line leaders. A final session brought representatives of all the participating groups together to review the results of the separate sessions and provide top management an opportunity to respond.

Most sessions centered on an exercise in which participants individually identified the advantages offered by the factory and the aspects that needed improvement and then, as a group, ranked the issues and discussed possible solutions.



<sup>27</sup> For further information on the PRA process, see Robert Chambers, *From PRA to PLA and Pluralism: Practice and Theory*, Institute of Development Studies, July 2007, <http://www.ids.ac.uk/ids/bookshop/wp/wp286.pdf>.

SAMPLE INFORMATION COLLECTED FROM WORKER REPRESENTATIVE SESSION AT FACTORY PK5	
What are the advantages of our factory?	Comfortable living environment <ul style="list-style-type: none"> <li>- Clean dormitory</li> <li>- Sufficient “green” [space]</li> <li>- 24-hour hot water supply</li> </ul> Pay on time No fine or deposit “Home of employee”—good facilities, a clinic, certain amenities Fixed rest day every week Get on well with supervisor
What are the aspects our factory needs to improve?	Unsatisfactory meal service <ul style="list-style-type: none"> <li>- Little choice on menu</li> <li>- Insufficient oil and lack of meat</li> <li>- Insufficient quantity for male workers</li> <li>- Some hygiene issues</li> </ul> Unsatisfactory meal regulation—meal ticket cost automatically deducted from paycheck Unclear how wages calculated Not clear on social insurance scheme Efficiency of feedback from communications channel
Source: PDA Network Report	

PDA staff used participants’ assessments and ideas, combined with their own observations and analyses, to develop conclusions identifying strengths and opportunities for improvement, sometimes with specific suggestions.

Copies of the reports were shared with us, as well as with factory management, and we learned a good deal from them. For example, at the outset of the project, a core question was whether the established Disney and McDonald’s compliance programs were identifying all the types of issues that might be present in factories like those in the pilot. We were particularly concerned about issues that might be difficult to discern through regular audit processes—impermissible disciplinary practices, for example. We thought the PRA process might surface such issues, but it did not. Indeed, workers in nine of the ten factories cited the way they were treated as an advantage of the factory.

As with audits, the fact that certain issues were not raised does not mean they did not exist. Moreover, at some factories, workers did raise concerns that indicated possible compliance problems. In three factories, including Factory PK5, workers spoke of hygiene issues in the canteen and, in two, of sanitation problems in the dormitories. A few complaints about the working environment also suggested possible compliance problems.

Most reports indicated certain common desires for improvement, as well as a number of factory-specific opportunities. To a marked degree, workers focused on their living conditions. Food issues and leisure-time opportunities ranked high on their “need to improve” lists. Compensation was the only type of issue that surfaced with greater frequency.<sup>28</sup>

Conversely, good living environments and leisure-time opportunities were cited as advantages at seven of the factories. Looking at programs the factories already had in place, we can see that many understood the extent to which worker satisfaction depends on living, as well as workplace, conditions. For us, however, understanding how important quality of life issues are for workers was another kaleidoscope moment.

Generally speaking, code of conduct compliance programs focus more on working conditions than living conditions. They may, like the McDonald’s and Disney programs, extend health and safety standards to living conditions. These, however, do not encompass all the quality of life issues that workers raised during the PRA sessions. Clearly, worker satisfaction calls for intelligent, responsive management practices that go beyond what any code can feasibly mandate. However, we believe that validation of a DSC system should include management responses to employee feedback.

<sup>28</sup> The majority of issues here related to wage structures, e.g., lack of differentials for salary or productivity, lack of monetary incentives for good performance.

**Participants' Responses to the Process**

Responses to the PRA process were basically positive. When factories provided initial formal feedback on Project Kaleidoscope, improved communications were cited more often than any other advantage.<sup>29</sup> Four of the factories specifically cited the PRA process as an advantage. These and two others subsequently adopted PRA methods for their own communications programs.

**A FACTORY MANAGER ASSESSES THE PRA PROCESS**

*The methodology used for the PDA [PRA] communication workshop was a vivid breakthrough. It collected abundant feedback and comments from factory employees from every level. The whole process, from the kinds of activities conducted to the final conclusions, was a revelation and an enormous help in making the factory's communication system more complete.*

When later asked about the process, workers said they liked the interactive aspects and felt the sessions gave them an opportunity to express their ideas and feelings openly.<sup>30</sup> They also said they found the sessions informative and believed the sessions improved communications. Workers in two factories credited the process with overall factory improvement.

**Results and Implications of the PRA Process**

Our later assessments of the project indicate that some factories moved to address specific concerns raised during the PRA sessions.<sup>31</sup> For example, in five factories, workers interviewed by the in-country project coordinator cited improvements in compensation and also in menu variety and/or sanitation in their canteen.<sup>32</sup> A canteen committee was established in an another factory where workers were not interviewed.

To fully assess the impact of the PRA process, we must look beyond the positive feedback and specific changes, important as these are. We believe the process may also have broader impacts arising from the methodology itself.

Specifically, the process of asking for suggestions and then compiling them for consideration communicates a message that can set the stage for changes in roles and relationships. It tells participants that their views are valued and can help improve factory conditions. It defines them as members of a community collaboratively focused on improvement, rather than solely by their operational functions. As they engage, they move from a passive role, in which they experience situations, to a potential active role in effecting change.

Thus, if integrated into factory operations, the process can lay a foundation for collaborative efforts to achieve sustained compliance with codes of conduct and continuous improvement. It does not, of course, spell an end to conflicts and disagreements. Rather, it offers a way to surface and address them productively by drawing on and, ideally, synthesizing the complementary experiences and roles of workers, supervisors and managers.

**THREE WORKERS' VIEWS OF THE PRA PROCESS**

*Everyone was open during this first occasion of face-to-face communications and enjoyed the games [group exercises]. Many ideas were put forward and highly valued by the factory, leading to great improvements.*

*The PRA activities are a good opportunity to raise issues. The method is very cooperative, interactive and informative. Every issue raised can be responded to for timely improvement. We will take part in more such activities, if any.*

*We like this form because we can raise issues directly in an intelligible way and gain more information.*

<sup>29</sup> We visited the participating factories in June 2005. During our visits, the factories made formal and informal presentations, including their views on the advantages and limits of the systems-based approach. For this feedback, see Appendix E. A tabulation of later feedback is provided in Appendix H.

<sup>30</sup> As part of our final assessment process, the in-country project coordinator interviewed workers at six of the participating factories. The information and quotations here are drawn from her reports. The interview process and results are discussed in more detail in Chapter IX.

<sup>31</sup> See Chapter IX.

<sup>32</sup> For a discussion of the interview process and additional results, see Chapter IX. See also Appendix G.

# IMPLEMENTATION OF SYSTEMS-BASED APPROACH: PHASE 2

The June–July 2004 audits told us that factory managers needed better implementation guidance. This kaleidoscope moment led to two major advances in project design—the development of a comprehensive dynamic social compliance (DSC) systems implementation manual and followup hands-on training at the factory level.

## Dynamic Social Compliance (DSC) Manual

We developed guidelines for the DSC manual, but the task of actually drafting it was assigned to Disney local field staff<sup>33</sup> and McDonald's agencies,<sup>34</sup> with the understanding that they would engage some factory owners and managers in the effort.

Both the development process and the outcome marked a further major evolution in the project.

- The process produced a comprehensive, fully articulated definition of the systems-based approach.
- The lead role played by individuals with factory operations experience helped ensure that the procedures were feasible, relevant and described in terms factory owners and managers could translate into action.
- The process engaged participating factory owners and managers—something we could build on and extend through further implementation activities.

The manual underwent a series of revisions. Ultimately, it included the Project Elements, overviews of the systems-based approach from several perspectives and issue-specific guidance. This detailed guidance is the heart of the manual.

For each issue area in the Project Elements, the manual has a chapter that:

- Reiterates in full the relevant Project Element.
- Provides specific language for the policy that will represent leadership commitment to the Project Element.
- Specifies the factory owner's responsibilities for ensuring adequate management understanding and authority.
- Describes procedures for implementing the policy, including methodologies and KPIs for periodic monitoring reviews and reports.



<sup>33</sup> Disney has an office in Hong Kong with ongoing responsibilities for implementation of its social compliance program in factories that produce for the company and its licensees throughout the Asia/Pacific region. It was staff in this office that participated in development of the manual and other project design and implementation activities. A second Disney office, in Guangzhou, is responsible for the company's extensive direct monitoring of factories in China.

<sup>34</sup> As previously indicated, McDonald's agencies had, for many years, worked closely with the factories to help improve compliance performance and internal communications. They had, for example, regularly provided onsite training in various areas and had worked with individual factories to develop corrective action plans. They had also developed educational materials for workers.

**EXTRACTS FROM DSC MANUAL  
FREEDOM OF EMPLOYMENT**

**7.1.1. Code**

Manufacturers will not use forced, bonded or prison labor. Manufacturers will not unnecessarily restrict movement of any kind. Manufacturers must ensure all work, including overtime, is optional and maintain processes which demonstrate worker selection.

**7.1.2. Policy**

All employees shall work voluntarily. The company shall not subcontract any work or services to any organization that uses forced, bonded or prison labor.

**7.1.3. Responsibility and Authority**

The company is responsible for ensuring that its management representatives have an adequate level of understanding and authority to ensure the following:

- That employees are hired on a voluntary basis
- That company policies are adequately disseminated throughout the company

**7.1.4. Key Procedures**

**7.1.4.1 Hiring**

At the time of hiring, the function responsible for this facility shall communicate the free employment policy to all new employees and ask them to sign the section within the employee contract or employee handbook or sign a voluntary work statement for regular and overtime work. If such documents are used, then they shall form part of the employees' employment files.

**7.1.4.2 Workplace Freedom**

The workshop supervisors will ensure that the workplaces are not locked during working hours. Employees are free to leave the workplace on a medical needs basis. Employees may leave the workplace for personal reasons with their supervisors' approval.

**7.1.5. Monitoring and Reporting**

The System Manager and Manager Representative shall assess on a regular basis the implementation of the key procedures using the following method.

Thirty employees or 5% of total employees (whichever is smaller) shall be randomly selected and their personal documents and payroll ledgers reviewed to see whether:

- A voluntary employment acknowledgement has been completed
- A voluntary overtime acknowledgement for the month is signed
- A valid labor contract is in place

These thirty or fewer employees shall be interviewed to see whether they have:

- Worked voluntarily, including overtime
- Understood their rights of freedom in employment, including free resignation
- Had free access to drinking water and sanitary facilities
- Could freely exit and re-enter the dormitory during non-working hours
- Held their own personal identification papers

**7.1.5.1 Voluntary Employment Statement**

Calculation:

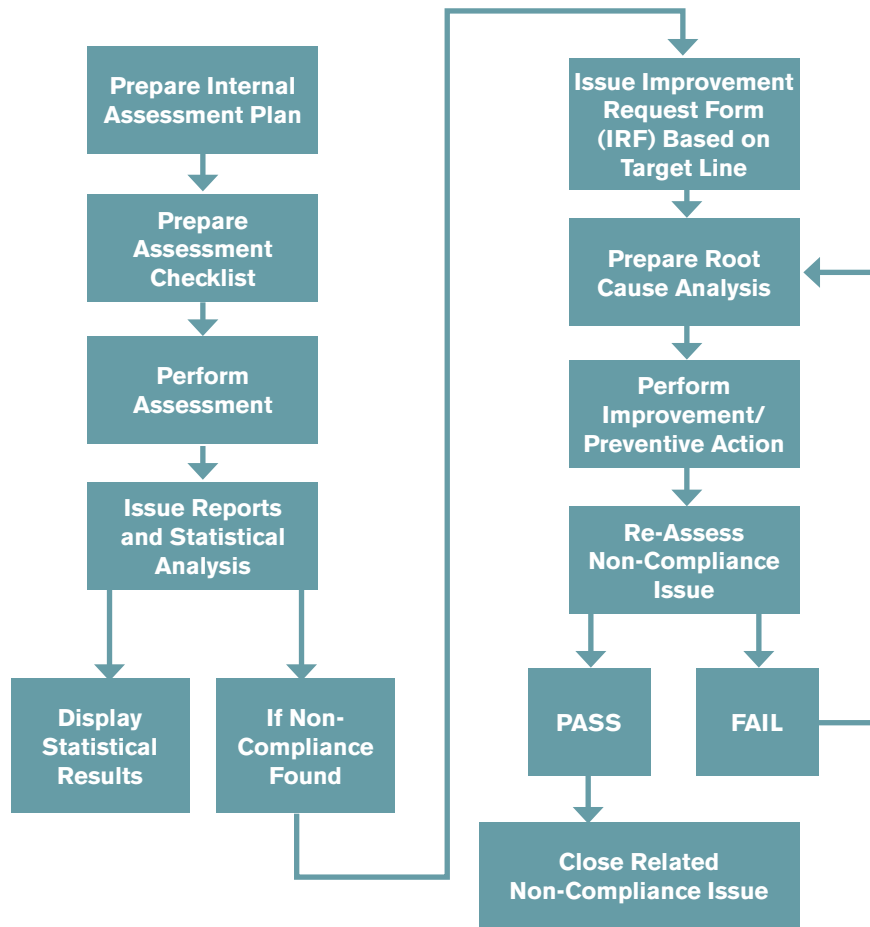
$$\frac{\text{Number of employees that have acknowledged the statement}}{\text{Number of employees reviewed}} \times 100\%$$

The factories received the manual in March 2005. It was intended—and generally understood—as a guide only, not a blueprint. Thus, the systems that factories established varied somewhat according to their existing structure, processes, resources and management preferences. However, the expectations established by the manual and the audit tool remained the same and applicable to all factories.

For example, one factory already had separate self-assessment processes for code of conduct compliance and employee health and safety. It integrated these and added steps to incorporate statistical analyses, periodic reports and display of the results for review by the entire factory community.

The manual is a living document, likely to evolve through further experience and factory feedback. For example, in their June 2005 feedback, several factories noted needs to eliminate what they viewed as duplicative or irrelevant KPIs. On the other hand, our experience also suggests that additional KPIs may be needed to alert factories to potential issues in certain areas, *e.g.*, performance of subcontractors and contract personnel.

**SELF-ASSESSMENT PROCESS PRESENTED TO WORKING GROUP BY FACTORY PK3**



### Hands-On Training and Other Support Responsibilities for Factory-Level Support

Each of McDonald's two agencies provided implementation support for the factories that produced the products it supplied to the McDonald's System. Disney field staff provided similar support for the factories that produced products solely for Disney licensees.

Each of the three groups developed its own implementation support program, and each adapted its program to address the needs of the individual factories and the systems and procedures they already had in place. Thus, each factory-level program was, to some extent, unique. However, all the programs reflect common goals, objectives and basic concepts.

#### Onsite Training Programs

We had integrated onsite, capacity-building training into our project design, so it was a major component of all the implementation support programs. Formal training programs began about the time factories received the implementation manual and continued, at intervals, for about three months.

For the factories in the Disney group, training was provided by TÜV Rheinland Group—an international certification, training and consulting services company. The two McDonald's agencies provided training for the factories for which they were responsible.

All the programs had certain common characteristics.

- For employees in all categories, the programs included an introduction to the systems-based approach, as defined in the DSC manual, and a review of workers' rights and protections under the Project Elements. In most, if not all instances, participants also received training in relevant provisions of national and local laws and regulations.
- The programs all involved curricula individually tailored to different levels and types of responsibilities within the factory.

- Training for supervisors covered essential implementation concepts, *e.g.*, performance indicators, self-assessments, communications methods and skills.
- For supervisors and/or the designated compliance teams, additional sessions dealt with the how-to's of the DSC process, *e.g.*, data collection and analysis, corrective action plan development and verification, worker interviews.
- In a number of factories, workers received additional training on health and safety issues and procedures.
- Training methods included illustrated classroom lectures, small group discussions and interactive exercises such as role playing.
- Learning generally was validated by a written or oral quiz and, for some factories, by followup evaluations of performance.

McDonald's agencies and Disney field staff have since provided followup training and focused assistance with problem-solving on an as-needed basis.

Intensive hands-on training is essential to the kind of capacity-building the systems-based approach requires—at least in facilities like those in our pilot. It also presents some challenges. For corporations and/or their licensees or agencies, it is a resource-intensive process. The investment may, however, be largely a start-up cost. Factories have their own employee training programs and so may develop the capacities to provide DSC-related training themselves. Indeed, all the factories in our pilot have integrated DSC into their existing training programs.

For factories themselves, scheduling is an issue, particularly for workers and line supervisors. A partial solution, suggested by techniques used in some of the Project Kaleidoscope training, may be to combine hands-on, interactive training with communications that minimize group time off the floor, *e.g.*, posters, internal broadcasts, online information systems.

## The Factories Implement the DSC Approach

By summer 2005, the factories were monitoring their compliance performance against at least some of the KPIs in the DSC manual. By fall, they were all reporting their results monthly to Disney field staff or the responsible McDonald's agency. They were not, however, all reporting results for all the KPIs in the DSC manual. Nor were they all calculating all results correctly. The reports nevertheless helped initiate the essential process of regular data collection and disclosure.

McDonald's agencies and Disney field staff say the reports have helped them focus on immediate needs for corrective action and that they have worked with the factories to develop solutions. This process further builds internal capacities, as well as short-circuiting potential systemic issues.

Ongoing internal communication of compliance performance, as measured by KPIs, is, in our view, a key to continuous improvement. If done effectively and in conjunction with appropriate training, it educates and engages workers and supervisors in the process and also helps ensure the integrity of the system. Beyond this, it helps effect—and communicate—a change in the company culture, as management becomes more open about matters that it

traditionally has not disclosed. The practice thus goes hand in hand with the training and other communications and feedback mechanisms that are essential components of our systems-based approach.

In June 2005, when the Working Group visited the factories, many were displaying results of their monitoring for a number of KPIs in areas frequented by workers. These displays varied and represented the different stages in an evolving process. In one factory, for example, a handwritten sign was posted in a workshop indicating the average hours worked there. In several others, sophisticated colored posters conveyed the full range of KPI data that were being collected. By mid-2006, all factories were displaying their monitoring results, providing an important new type of transparency for all personnel.

## Systems Training for Auditors

The June–July 2004 audit reports suggested more than the need for a different approach with the factories. We also saw a need to further educate auditors in our expectations for the factories and how to adapt their work to the systems-based approach. Therefore, at our request, the firm that was conducting the external audits for our project conducted a two-day workshop for its auditors. Subsequent audit reports clearly indicate that the auditors benefited from this training.

### A FACTORY FINDS, FIXES & PREVENTS CASE PROVIDED BY FIELD STAFF FROM WORK WITH FACTORY PK1

**Performance Indicator:** Employees confirming they understand their right to freedom of movement.

**Finding:** Three workers interviewed said they were not allowed to move freely during working hours.

**Root Causes:** Workers were new hires, and topic had not been covered in new worker training. Foreman had explained freedom of movement policy inaccurately.

**Corrective/Preventive Action:** Provide immediate training to all foremen and newly-hired workers. Add topic to new worker and new foreman training.

**Followup Assessment Result:** In next internal review cycle, all interviewees understood the freedom of movement policy.

## IX. ASSESSMENTS AND RESULTS

Data collection and analysis were core components of Project Kaleidoscope. From the outset, we sought to assess the impact of the project and its various components on compliance with the Project Elements, internal factory communications and feedback mechanisms, training related to code of conduct compliance and other improvements affecting workers.

As previous chapters indicate, we used various types of information and further developed our approach, based on what we learned. In this chapter, we discuss our data collection methods and present specific results. Our major conclusions about the project are presented in the following chapter.

### Data Sources and Uses

The following identifies and describes each of the data sets we used and, where applicable, its relevance to project evolution.

<b>Data Set</b>	<b>Description</b>
Baseline compliance data (October–November 2003)	Findings in reports of audits conducted shortly before project implementation. Provided a baseline for measuring progress during the lifetime of the project. Findings summarized in Chapter IV.
June–July 2004 compliance data	Findings in reports of audits conducted shortly after factories had been introduced to the systems-based approach. Indicated the need for more specific guidance and factory-specific, hands-on training. Findings discussed in greater detail in Chapter VII.
Reports on PRA sessions (September 2004/ April–May 2005)	Provided worker, supervisor and management views of factory strengths and aspects needing improvement. Increased our understanding of conditions at factories and what was important to workers. Results discussed in greater detail in Chapter VII.
Initial factory feedback (June 2005)	Presentations for Working Group during factory visits. Provided factories' initial views on advantages and challenges of the systems-based approach and PRA process. Feedback presented in Appendix E.
September 2005/ February 2006 compliance data	Findings in audit reports conducted after dissemination of DSC manual and intensive in-factory training. Indicated substantial progress toward DSC implementation but also, for most factories, further work to do. Results summarized and discussed below.
Factory responses to communications inquiry (December 2005)	Provided specifics about internal management-worker communications mechanisms and impacts of project on these. Discussed in more detail below. See also, Appendix F.
Final factory feedback (January–February 2006)	Provided factory management views on advantages and challenges of the systems-based approach after nearly a year of experience with implementation. Discussed in more detail below. See also, Appendix H.
Results of worker survey (February 2006)	Provided information on a range of issues important to the project, including workers' opportunities to raise issues, training they had received and their perceptions of their working and living conditions. Discussed in more detail below.
Reports on worker interviews (March 2006)	Provided more in-depth information about workers' views of factory conditions and their assessments of the PRA process. Discussed in more detail below. See also, Appendix G.
October 2006–October 2007 compliance data	Findings in reports of final set of audits conducted during the lifetime of the project. Results summarized and discussed below.

From various angles, these data:

- Provided information about conditions in the individual factories at different points in time.
- Indicated the impacts of certain project components on factory operations, management-worker communications and conditions for workers more generally.
- Allowed us to see if patterns existed across the ten factories as components of the systems-based approach were implemented.

## Progress Toward Sustained Compliance Audit Findings

Audit reports were our major source of data for assessing whether our systems-based approach promoted long-term sustained compliance and continuous improvement. We used findings in successive audits to track progress toward full compliance and, so far as possible, correlate changes in compliance status to the tools and training we provided and to implementation of DSC systems in the factories.

To perceive patterns across the ten factories, we tabulated audit findings in major categories, with a particular focus on certain key recurrent issues, *e.g.*, excessive working hours. Table III incorporates findings from audits discussed earlier in this report and adds to them findings from two later sets of audits—one conducted partly in September 2005 and partly in February 2006 and the other conducted October 2006–October 2007. These sets are particularly relevant because they reflect compliance status after the factories had received intensive training in implementing the DSC system and begun using the KPIs in the manual to monitor and assess their own performance.

In interpreting the audit findings, one needs to consider that apparent changes over time may reflect not only impacts of the DSC system and related guidance, but also successive refinements in the auditors' assessment tool and the related training they received.<sup>35</sup> As the project progressed and we refined our approach, the audit tools were changed. It is, therefore, possible that total findings in the baseline audits may not be altogether comparable to findings in the next set of audits or findings in those to findings in the last two sets of audits. The table below, therefore, indicates the tools the auditors used at different points in time.

For three major categories—Health and Safety, Other Employment Issues and Living Conditions—we have not provided issue-specific breakouts of the findings because the categories include a broad range of highly specific issues that generally were found only in one factory and rarely in successive audits.<sup>36</sup> Findings in these categories thus do not seem to present a meaningful pattern—either across the sample or across time. The “other” subcategories under Wages and Benefits and Working Hours likewise incorporate a range of highly specific, mostly non-recurrent findings, *e.g.*, diverse issues with employee leave, irregularities in working hour records.

**TABLE III: AGGREGATE AUDIT FINDINGS FOR PARTICIPATING FACTORIES<sup>37</sup>**

	<b>Wages &amp; Benefits</b>	<b>Working Hours</b>	<b>Workplace Health &amp; Safety</b>	<b>Other Employment Issues</b>	<b>Living Conditions</b>
Audits conducted using traditional tools used to conduct audits for the brands					
October–November 2003 (Baseline)	Issues found in 4 factories: -Inadequate insurance (2) -Wages inconsistent with law (2) -Other (1)	Issues found in 6 factories: -Excessive working hours (6) -Insufficient rest days (4) -Other (1)	Issues found in 2 factories	Issues found in 2 factories	No negative findings
Audits conducted using initial assessment tool developed by the Working Group					
June–July 2004	Issues found in 3 factories: -Wages inconsistent with law (1) -Inadequate insurance (1) -Other (1)	Issues found in 7 factories: -Excessive working hours (6) -Insufficient rest days (4) -Other (1)	Issues found in 7 factories	Issue found in 1 factory	Issues found in 2 factories
Audits conducted using assessment tool developed by audit firm based on Working Group assessment tool and DSC manual					
September 2005/February 2006	Issues found in 2 factories: -Wages inconsistent with law (1) -Other (1)	Issues found in 2 factories: -Excessive working hours (2) -Insufficient rest days (2)	Issues found in 4 factories	Issues found in 7 factories	Issue found in 1 factory
October 2006–September 2007	Issue found in 1 factory -Wages inconsistent with law (1)	Issues found in 2 factories -Excessive working hours (2) -Insufficient rest days (1)	Issues found in 3 factories	Issues found in 2 factories	No negative findings

<sup>35</sup> See the discussion of initial systems-based tools in Chapter VII and of systems training for auditors in Chapter VIII.

<sup>36</sup> Workplace Health and Safety, for example, includes diverse problems with fire extinguishers, lack of some particular type of protective guarding or personal protective equipment, missing or expired certificates of various kinds, *etc.*

<sup>37</sup> Numbers in parentheses represent the number of factories in which each type of issue was found.

### What the Findings Show

As Table III indicates, compliance issues in two major categories were found in considerably more factories in the baseline audits than in the final audits. The most noteworthy changes are the significant declines in findings of compensation inconsistent with the law, insufficient rest days and excessive working hours. These were among the persistent and/or recurrent compliance issues identified in the audits used for the historical review.

While workplace health and safety issues continued to surface, they too were significantly fewer at the end of the project than during earlier implementation stages. Moreover, they were generally issues that could readily be corrected, *e.g.*, a missing certificate for hazardous waste disposal, lack of protective guards on some production equipment of a particular type. This is not to minimize the importance of full compliance with workplace health and safety requirements, only to say that the deficiencies in any one factory were few and either technical or exceptions to otherwise satisfactory conditions.

As discussed in Chapters VII and VIII, auditors began reporting on system requirements, as well as substantive compliance requirements, after we introduced the DSC approach. The 2004 audits, conducted shortly after the initial factory training session, found only elements of what could become parts of internal compliance systems. The September 2005/February 2006 audits found progress in all factories, but at varied rates. In two factories, auditors found no system requirement issues. In six, they identified a few issue-specific data collection, data analysis and/or record-keeping issues. The remaining two factories still had substantial gaps in systems implementation. By the time of the final audits, only one factory still had not fully implemented the policies and procedures specified in the DSC manual.<sup>38</sup>

Our experience suggests that some facilities need more time and support than others to fully implement the DSC system. Five months after we issued the DSC manual, one factory's system still had numerous gaps. During the next five months, with intensive hands-on assistance, the factory implemented



major system components, leaving only one procedure and four KPIs left to address. By the time of the final audit, the factory had fully implemented the DSC system, though it had, for one month, suspended collection of data against KPIs for one issue.

### Assessing Internal Factory Communications

Effective and inclusive communications within factories are an essential part of our systems-based approach. The project

sought to enhance these through PRA workshops, in-factory training sessions and follow-up work with factory managers. We sought to assess the impact of these activities.

In early 2006, we asked the factories to provide us with reports identifying the communications mechanisms they had in place before the

project, any improvements they had made in those processes as a result of the project and any new processes they had initiated as a result of the project. Their responses indicated that a variety of improvements had been made in response to the project.

For example, six factories (not the same in each case) had:

- Initiated or expanded existing worker satisfaction surveys.
- Begun providing new opportunities for one-on-one feedback sessions for workers with senior or mid-level managers.
- Adopted PRA methods as part of their ongoing program.

Beyond these changes, factories reported a wide variety of other initiatives to engage workers and keep them informed about the factory itself and issues related to their welfare, *e.g.*, worker help lines, badges or cards identifying worker representatives and information display areas in dormitories.<sup>39</sup>

### The Perspective of Factory Workers

Worker engagement is a critical component of the systems-based approach. We thus sought to determine whether, by a late stage in the project, workers understood their protections under the Project Elements, had received related

<sup>38</sup> The problems here related failure to implement monitoring and reporting procedures for seven KPIs related to working hours and a procedure to ensure that all employees receive sufficient notice of the need for overtime work.

<sup>39</sup> Appendix F summarizes all the factories' responses.

training and had feedback mechanisms they trusted. We were also interested to learn whether they found their factory a positive place to work and whether improvements had been made since we introduced the systems-based approach.

In February 2006, the in-country project coordinator and a team from the Center for Media and Social Change at Shenzhen University administered a 19-item questionnaire at all ten factories. All but one of the questions were in a multiple choice format. Workers were told to choose all applicable answers. An “other” category in the survey format allowed them to provide additional or alternative answers. We were thus able to see whether respondents perceived alternative ways they could act in specific situations and multiple channels for communicating concerns or suggestions.

The questions addressed the following major issues:

- Whether workers perceived they had choices in certain situations, *e.g.*, when asked to work overtime if they did not want to.
- To whom, if anyone, they would speak if they had suggestions or concerns.
- How they understood the role of the Worker Committee and whether they would be willing to join it.
- What they would do in specific situations related to worker health and safety, *i.e.*, fires and accidents.
- Their general feelings about the factory, *e.g.*, whether they liked or disliked working there.
- Improvements in the factory during the past year.
- Whether they understood the relevance of charts displaying code of conduct requirements and had received training to help them engage in the compliance process.
- Whether they had participated in the PRA process or any other code of conduct-related activity.

Survey samples were diversified and extensive. Workers were chosen to represent the various shops and production lines within the factory. Except at the smallest factory, where the total workforce was less than 500, the sample size was 500 workers or 25% of total workers, whichever was larger.

The Center provided us with question-by-question analyses for each factory, indicating the percent of respondents selecting each multiple choice option. These gave us very detailed perspectives on a range of key issues related to our

objectives. The following are some highlights that speak to major emphases of our work.

- 80% to 99% of workers identified someone they would go to and/or another action they would take if they felt they were treated unfairly.
- At least 93% to at least 99% identified someone they would go to if they had a doubt about regular or overtime pay.<sup>40</sup>
  - At least 90% to nearly 100% identified someone at the factory to whom they would communicate a suggestion for improving working conditions.
  - At least 96% to at least 99% identified a course of action they would take if an accident occurred near where they were working.
  - 78% to nearly 100% said the factory had improved in the past year.

These responses, as well as others, strongly suggest that, by the end of the project, workers:

- Believed they had opportunities for feedback and were prepared to use them. More particularly, they apparently felt comfortable raising issues with their supervisors, either directly or through their worker representatives.<sup>41</sup>
- Had received sufficient information or training to prepare them to respond to certain urgent health and safety emergencies.
- Thought the factory had improved since our systems-based approach was implemented.

A separate question asked workers to indicate what had improved. Responses across the ten factories were fairly consistent. The most frequently selected options parallel certain priorities that had been indicated by worker input during the PRA sessions—better food, timely pay, living conditions and consideration for their feelings and concerns.

As indicated above, we were interested in whether workers perceived they had choices, particularly in situations



<sup>40</sup> As indicated above, most questions in the survey, including this one, provided an “other” option, which allowed workers to write in responses. We did not receive detailed accounts of all these responses and, therefore, could not include them in our summary tabulations. However, most of the detailed accounts we did receive included answers very similar to options in the survey.

<sup>41</sup> In a separate question about the role of the worker committees, the highest percentage selected “bridge of communication between workers and supervisor” as its function.

reflecting their awareness of and confidence in two-way communications channels. In all factories, survey respondents clearly believed they had more than one option for raising a concern or a suggestion. In each factory, the percentage of responses to the various options for a given question totaled well over 100% because many respondents chose more than one option. Moreover, with one exception, the percentage of respondents selecting the “don’t know/unclear” option was 10% or less. The following reflects the options respondents in three factories perceived in cases where they thought they were treated unfairly.

	PK1	PK7	PK9
Speak with worker representative	38%	80%	28%
Speak with union representative	16%	41%	36%
Speak with workers’ committee	20%	40%	24%
Speak with supervisor	56%	72%	49%
Speak with factory manager	40%	38%	46%
Speak with any visiting company brand representative	11%	5%	5%
Nothing can be done	14%	1%	4%
Not clear (or don’t know)	3%	<0.5%	1%
Other methods	5%	3%	2%
<b>TOTAL<sup>42</sup></b>	<b>203%</b>	<b>280%</b>	<b>195%</b>

**Focusing on Factory Improvements**

To enhance our understanding of workers’ perspectives on factory conditions, the in-country project coordinator conducted face-to-face interviews with groups of workers in six of the participating factories—the two that produce products solely for Disney licensees and two that produce products for each of McDonald’s two agencies.

She interviewed five workers in each factory—all former participants in the PRA process. The samples were diversified by gender, department, length of time working at the factory and role, *e.g.*, regular line position, foreman, worker representative.

Workers were asked what changes in the factory they had experienced or observed during the past three or four months and whether the changes had in any way improved their working or living conditions. They cited numerous and various improvements in their wages, working hours and working and living environments. They also indicated that they had received considerable training. In some factories, they spoke of improvements in management systems, including attention to workers’ interests, and of improved communications and opportunities for feedback.

Workers were also asked for their assessments of the PRA sessions in which they had participated and whether they could see some improvement in the factory as a result of the process. Representative responses to these questions are quoted in Chapter VII.

In the course of the interviews, the workers were asked to name the improvements that were most important to them. Appendix G provides the workers’ responses, by factory, along with comments by the in-country project coordinator.

<b>Types of Improvement</b>	<b>Number of Factories Where Cited</b>
Wages and benefits	5
Working hours and/or limited overtime	4
Communications	4
Safety	4
Management’s attitude toward workers	4
Working and living environments	2
DSC system	2

<sup>42</sup> As indicated above, totals exceed 100% because a number of respondents chose more than one option.

## Updating the Management Perspective

For the Working Group's June 2005 factory visits, we had asked the factories to include in their presentations the advantages of the systems-based approach and any reservations they had about it. In January–February 2006, we again asked for their perspectives on the approach, including advantages and challenges.

They cited a variety of advantages. Though the particulars varied, major themes were quite consistent.<sup>43</sup>

- **All the factories said the systems-based approach had improved their code of conduct compliance efforts.** Seven said it improved their ability to identify and address issues. Four spoke of the objectivity of the self-assessment tools and their capacity to monitor performance trends. Other advantages cited include clearer expectations, a clearer compliance process, more inclusive employee participation in compliance efforts and more opportunities for improvement.
- **Eight factories said the approach advanced their business interests.** Specific advantages cited included competitiveness in the labor market, improved relationships with customers and other stakeholders, greater employee engagement in the continuing development of the company and reductions in various cost-related areas, *e.g.*, turnover, accidents, product rejection and scrap rates.
- **Seven factories cited improvements in internal communications,** including greater transparency, better interdepartmental and management-worker communications, new worker feedback channels and more relevant worker input.

- **Six factories said the approach had improved management-worker relationships.** Responses focused on managers' increased ability to understand workers' needs and concerns and to promptly address worker satisfaction issues. One factory specifically noted improved worker morale, another a decline in worker complaints. A third spoke of workers' "sense of belonging to the organization."
- **Six factories said the approach had led to improvements in working and living conditions.** Three cited various specific improvements they had made. Two said the approach had helped create, as one put it, "happiness and a pleasant atmosphere."
- **Three factories said the approach had improved other management capacities,** such as the ability to forecast and plan or to strengthen programs in addition to their code of conduct compliance program.

As challenges, five factories cited the resources the approach required. Two of these spoke of the one-time human resource demands of implementing the DSC system, *e.g.*, establishing KPIs, reorganizing relevant data, setting targets and training employees. The other three spoke of ongoing resource demands. One factory referred to unspecified difficulties during the initial implementation stages, another to problems in meeting certain of the compliance targets. Five factories did not cite challenges. However, during the Working Group's visit to the participating factories in June 2005, several factories raised concerns about the number of KPIs in the DSC manual and suggested that some were unnecessary or redundant.<sup>44</sup>

### A FACTORY MANAGER'S PERSPECTIVE

*When I first learned about Project Kaleidoscope and DSC, I thought the systems were comprehensive, but I also felt a lot of pressure because of the mammoth task of collecting monthly data. Now I'm grateful that we're part of the initiative. The insights from the monthly DSC surveys are helpful to our managers, who can identify potential problems and make improvements. Indeed, DSC has already become a key management tool for us.*

*Many problems identified during the PRA workshop are being addressed. For example, food quality at our canteen has improved, and the number of workers dining there has risen from 700 to nearly 2,000 since we established a Canteen Committee last year.*

*What I'm most pleased about, however, is that we're seeing a drop in rejection and scrap rates. To me, this means that our workers and mid-level managers are aligned to help the company lower production costs, and "they love the factory as their own home," as the local saying goes.*

<sup>43</sup> Appendix H summarizes both the advantages and challenges cited, with key variations. It also indicates the number of times each major theme was addressed and the number of factories that addressed it.

<sup>44</sup> For more specific feedback on the KPIs during the June 2005 trip, see Appendix E.

### Learning From a Factory Episode

During the project, a serious worker disturbance occurred at Factory PK5 involving protests by employees alleging that the food served in the cafeteria was unsanitary and of poor quality and that they were forced to pay for meals they had not eaten. For the purposes of the project and this report, we chose to focus on the learnings from the episode rather than highlight the specific details.

We analyzed two independent external audits that were conducted to determine what had happened. These audits confirmed problems related to the freshness and quality of the food, payment for food and the conduct of the security force during the protests. At the factory, both food and security are sub-contracted operations. As previously indicated, one of the selection criteria for participating factories was diversity in compliance histories.<sup>45</sup> Factory PK5's compliance history included various problems related to wage payments.

The independent auditors also found that workers had previously raised concerns with factory management about food quality and the process for collecting meal fees, which resulted in charges for meals not eaten. These issues had also been raised during the PRA workshop at the factory.

We learned the following from the episode:

- As the PRA workshops indicated, food issues such as menu variety and sanitation are critically important to workers, as are other aspects of their living situation.<sup>46</sup>
- Factories have responded differently to workers' concerns about food. As indicated in Chapter VII, five factories initiated improvements in menu variety and sanitation after the PRA workshops. While Factory PK5 also made some changes after the workshops, larger scale changes that specifically addressed the freshness and quality of the food and a meal deduction system that charged workers for meals not eaten were implemented only after the disturbance.
- The incident offered another reminder that management responsiveness to worker feedback is an essential component of the DSC approach and one that warrants stronger emphasis. Encouraging factories to establish

communication channels is essential, but focusing attention on procedures for addressing what comes through these channels is even more critical. Some factories in our sample have recognized this and responded accordingly.<sup>47</sup> The need for systematic validation that management has effectively addressed worker feedback is an important learning.

- More generally, monitoring procedures and related KPIs should be subject to ongoing review in light of issues identified, including issues raised through worker feedback mechanisms. Internal systems should include a process for periodic assessments of KPIs, as well as of related internal procedures, including training.<sup>48</sup>

After the episode, Factory PK5 took a number of steps to address the issues. In consultation with worker representatives, factory management:

- Ensured that canteen workers began receiving additional health and safety training related to food storage and preparation.
- More than doubled the menu options and added a la carte items to the canteen's food offerings.
- Replaced the practice of deducting fees to cover employees' use of the canteen with a charge card, which is loaded at the beginning of each month and debited based on actual use. At the end of each month, employees may withdraw any money remaining on the card.
- Brought in a new security guard force and began communicating its roles and responsibilities to workers during meetings and through the factory's bimonthly newsletter.
- Instituted quarterly worker satisfaction surveys, including items related to food, security guards and dormitories. Results are published on bulletin boards and in the factory's newsletter.

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<sup>45</sup> See the discussion of factory selection in Chapter IV.

<sup>46</sup> See the discussion of PRA sessions in Chapter VII.

<sup>47</sup> See Appendix F.

<sup>48</sup> The current version of the DSC manual specifies that senior management should authorize individuals to review internal compliance efforts and institute changes where required. It does not, however, specifically address the possibility of making or recommending changes in the KPIs themselves.

## Conclusions

We set out to develop an alternative approach to promoting sustained compliance with corporate codes of conduct and continuous improvement in working conditions in hope it would better ensure essential protections for workers and advance the business interests of their employers and also of corporate customers and shareholders. Does the systems-based approach we piloted achieve these objectives? We believe substantive progress has been made. Only time will tell whether processes the factories initiated will be sustained and strengthened.

Looking at the final audit results, together with the surveys, interviews and factory feedback, we can conclude the following:

- The systems-based approach is becoming a regular part of business operations in the participating factories. They have:
  - Expanded and/or improved their systems for communicating with workers and receiving feedback. This is, indeed, one of the most marked impacts of the project.
  - Initiated periodic reviews of their compliance performance, using KPIs.
  - Reported the results of their reviews both internally, to employees, and to Disney staff or the McDonald's agency responsible for ensuring their compliance.
  - Used review results to find, fix and endeavor to prevent recurrence of compliance issues.
- Conditions for workers have improved in a number of areas they consider high priorities, as well as others.
  - Between 78% and nearly 100% of workers surveyed said conditions in their factories had improved since our systems-based approach was implemented.
  - Improvements they identified parallel some of the highest priorities indicated by their input during the PRA process—timely pay, good treatment by supervisors, congenial living environments.
  - Workers interviewed cited improvements in a wide range of areas. These again included areas parallel to priorities workers indicated during the PRA process.
- The factories see value in actively managing the compliance process. They:
  - Perceive its advantages for their business interests, *e.g.*, reduced worker turnover, increased productivity, enhanced competitiveness.
  - Appreciate the greater clarity of expectations and their ability to monitor and address potential problems.<sup>49</sup>
  - Have endeavored, by and large successfully, to carry out their responsibilities for monitoring and demonstrating compliance.
  - Have provided recommendations for improving the process, indicating their active involvement and their desire to make the process work.
- The factories have made progress toward full and continuing compliance with the Project Elements.
  - Systemic issues—notably, excessive working hours and wage payments inconsistent with the law—were found in far fewer factories at the end of the project than in early audits.
  - Failure to pay required insurance—another common issue—was not found in any factory during the last round of audits used for our assessments.
  - Most factories have adopted new technologies and/or instituted new programs to strengthen their internal monitoring processes for the long term.

## Major Learnings

Project Kaleidoscope evolved through an ongoing learning process. We have cited learnings throughout this report, as they affected our understanding of specific activities and our plans. Some of our most important learnings transcend any one part of the project. We believe they are the keys to an effort like ours.

- **Participation.** Active participation by various stakeholders advances efforts to achieve compliance and continuous improvement. Suppliers and licensees, factory owners and managers, workers and supervisors, local CSOs, other NGOs, shareholders and, of course, corporations themselves all have interests in code of conduct compliance and can contribute relevant perspectives.
- **Openness to Change.** Everyone involved in the process must be open to change—not only initially, to a new concept, but on an ongoing basis. Continuous improvement requires ongoing attentiveness to feedback and the lessons to be learned from results.
- **Trust.** Relationships built on trust are essential.

<sup>49</sup>A number of factory owners and managers have said, in various ways, that they like the systems-based approach precisely because it is so systematic. One factory owner likened it to the quality assurance system they were familiar with.

- **Clarity of expectations, specificity in guidance and relevance to facility operations are other keys to success.** Factory owners, managers, workers and supervisors all have to understand what compliance actually entails. Those with implementation responsibilities must also understand what compliance management systems should include and how they should function. Auditors need to understand specifically what they should be looking for and to what end.
- **Training and communications must go hand in hand with system implementation and ongoing internal compliance management.** Everyone involved has to understand the process, their roles and responsibilities and those of others. They need the capacity to participate and mechanisms that allow them to do so. They need ongoing information to monitor and contribute to progress.

### Questions for the Future

Like any learning process, Project Kaleidoscope raised questions that open opportunities for further exploration. The experience we gained through the project yields partial answers to some of them. For others, it suggests guidelines for how organizations might arrive at answers relevant to their particular supply chains and compliance programs.

- **Sustaining Progress.** Introducing significant change of any sort requires ongoing reinforcement, at least for some period of time. Once implemented, a change may, in time, become just the way things are done. But new habits are hard to form. What must corporations and other stakeholders do to ensure that new internal monitoring routines and feedback mechanisms are sustained?  
  
Though we have no definitive answers, we can tap a wealth of collective experience with corporate code of conduct compliance programs and other efforts to effect institutional change. To us, these suggest that changes will be sustained and further progress achieved through the combined impacts of worker engagement and feedback, actively sought and supported by management, ongoing external audits with a systems-based focus, further training as needs are identified and demonstrable links between performance and factory business interests.
- **Replicability.** Another question only further experience can answer is whether the approach we piloted can be effectively replicated in any supply chain anywhere in the world. This is not a simple question with a single answer because it involves many variables. However, a partial answer can be found in the nature of the approach itself.

The systems-based approach is a way for facilities to manage compliance with corporate workplace standards and engage in the process of continuous improvement. It must always be adapted to suit the particular situation. Thus, replicating the approach would involve adapting the project management process, tools, training programs and assessment instruments we developed for the specific conditions addressed in our pilot.

Implementation of the approach requires investments of time and resources by both the corporate customer and its suppliers. We, therefore, believe that replication is contingent on mutual expectations of an ongoing relationship. However, once the approach is implemented, suppliers may choose to maintain it because it serves business interests beyond their relationship with the particular customer.

Replication of the full approach is also contingent on a supplier's resources—specifically, the number of employees it can commit to implementation, the expertise they can bring to the task and the information systems the supplier has or can afford to purchase. Our experience suggests that small facilities will need extra support and that certain specifics of the approach may be challenging for them on an ongoing basis.

- **Timeframe.** For organizations considering a systems-based approach, one question is how long it would take them to implement it. We believe the process would probably take less time than it took us. We had to define basic objectives, concepts and standards, develop tools from scratch and rethink our implementation strategy along the way. Other organizations may be able to use the fruits of our and others' experience and thus progress more rapidly.  
  
Beyond this, the answer would depend on many factors. The most important, we think, relate to existing conditions within the supply chain and the organization's compliance program. Do the supplier facilities seem ready to embrace the objectives of a systems-based approach? What relevant procedures and capabilities do they already have? What resources can the organization marshal, internally and in the larger stakeholder community?
- **Cost.** Closely related to time is the question of cost—to corporations and to the facilities that produce products for them and/or their licensees. Here too, many factors are involved. They are basically the same as those related to time. How much change would implementation of a functioning systems-based approach involve? What existing resources could be used to support that change?

## The Big Picture

For many supply chains, corporate codes of conduct are standards for effecting significant change. Understood this way, compliance is a continuous process of learning and efforts to improve—for everyone involved in the process. So when we look at Project Kaleidoscope, what we finally ask are two basic questions:

- Did the systems-based approach we piloted show promise as a way to promote sustained compliance with corporate codes of conduct and progress toward their fundamental goal—improved working conditions?
- Did the project yield learnings that can make future efforts more effective?

We believe the answer to both these questions is “Yes.”

### PROFESSOR QU NING IN-COUNTRY PROJECT COORDINATOR

*Project Kaleidoscope was a creative experiment. Its most significant focus was an effort to establish, inside the participating factories, an effective, dynamic social responsibility management system in which all the stakeholders work together to promote sustained compliance with corporate codes of conduct. For the factories, the project involved both new methodologies and new communications channels.*

*The ultimate goals of the project require ongoing, persistent efforts. The year and a half since implementation began is only a first step. In my view, the main initial results are:*

- *The adoption of a positive concept of social responsibility management, i.e., mutual understanding among concerned parties and good-faith collaboration in facing problems and addressing them together.*
- *A change in the way the factories relate to code of conduct compliance. Instead of having a passive and obedient role, their interests and potential are being recognized and developed. This provides essential internal reinforcement for compliance.*
- *A new concept of the role of social responsibility management within the factories. Code of conduct compliance is not an isolated management behavior any more, but an integral part of the factories' internal regulations and operations.*
- *An enhanced concept of internal communications. Combined with the openness and transparency of the DSC system, this helps give workers effective channels for voicing their needs and thus, to a certain extent, improves their status.*
- *Improvements in the factories' training programs. These, however, are not consistent. Worker training needs further attention.*
- *Clear DSC system components and certain standardized requirements that have proved feasible. These may provide a model that could be replicated.*

*We found that the systems-based approach could be implemented. A crucial issue is whether the factories will maintain sufficient motivation to ensure effective operations of their systems over time. Multi-stakeholder participation and the engagement of workers are also still challenging issues.*

*July 2006*

## XI. Glossary

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**CSO.** Civil society organization. Any of a wide variety of non-governmental, nonprofit organizations that has a presence in public life, reflecting interests and values based on ethical, cultural, political, scientific, religious or philanthropic considerations.

**DSC.** Dynamic Social Compliance. The term coined by the Project Kaleidoscope Working Group for the internal compliance management system it developed and piloted.

**ILO.** International Labor Organization. The United Nations agency that formulates international standards for labor rights.

**Key Performance Indicator (KPI).** A numerical measure used to track performance according to predefined objectives.

**Licensee.** As used in this report, an independent company that produces trademarked products under a licensing agreement to the company holding the trademark(s).

**McDonald's System.** As used in this report, the McDonald's Corporation, its company-operated restaurants and McDonald's restaurants operated by the company's franchisees and joint venture partners.

**NGO.** Non-governmental organization. A nonprofit group or association organized outside institutionalized political structures to achieve particular social objectives or to serve a particular constituency.

**PRA.** Participatory rapid appraisal. A family of participatory processes that use group animation and exercises to facilitate information sharing, analysis and action among stakeholders. Also sometimes called participatory rural appraisal.

**Project Elements.** Compliance guidelines developed by the Project Kaleidoscope Working Group. The equivalent of a code of conduct for the purposes of the project.

**Root Cause Analysis.** A process for identifying the causes of operational problems in order to determine what can be done to prevent them from recurring.

**Supplier.** A company that, under contract, supplies products and/or services to another company.

**TAF.** The Asia Foundation. A nonprofit organization that supports programs in Asia to help improve governance and law and support economic reform and development, women's empowerment and international relations.

**Working Group.** The representatives of the investor and nonprofit organizations, McDonald's Corporation and The Walt Disney Company who directed and guided Project Kaleidoscope.

## APPENDIX A: CORE WORKING GROUP MEMBERS

### BRANDS

#### **McDonald's Corporation**

[www.mcdonalds.com](http://www.mcdonalds.com)

McDonald's is a foodservice retailer with more than 31,000 restaurants in 118 countries. Approximately 73% of McDonald's restaurants worldwide are operated by independent franchisees and other licensees. Major products for the restaurants are produced and distributed by independent suppliers that have been approved by the company and operate under quality, safety, employment and other standards established and monitored by the company.

McDonald's established its initial Code of Conduct for Suppliers in 1972. The Code has been substantially revised and updated several times, most recently in January 2005. McDonald's launched its formal Supplier Social Accountability program in 1998. Initially focused on premium vendors in China, the program now covers all product lines in all geographic areas. It is part of several broader cross-functional programs, including a comprehensive Socially Responsible Supply Initiative. As one of McDonald's major corporate social responsibility initiatives, the Supplier Social Accountability program is under the oversight of the Board of Directors' Corporate Responsibility Committee.

#### **The Walt Disney Company**

[www.DisneyLaborStandards.com](http://www.DisneyLaborStandards.com)

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. Products sold in its parks and resorts are manufactured directly for the company. A vast number of additional products using Disney brands and other intellectual property are manufactured and sold, under licensing agreements, by independent companies.

Disney established its Code of Conduct for Manufacturers and an International Labor Standards (ILS) program to monitor compliance in 1996. Since then, the program has conducted and contracted with external monitoring firms for thousands of factory visits to assess Code compliance. An executive committee representing major business segments of the company provides guidance to the ILS program. The program also has a functional reporting relationship to the Corporate Finance Department and regular communications with the Audit Committee of Disney's Board of Directors.

## INVESTOR AND NONPROFIT ORGANIZATIONS

#### **As You Sow Foundation**

[www.asyousow.org](http://www.asyousow.org)

As You Sow is a nonprofit organization dedicated to promoting corporate responsibility. Through its Corporate Social Responsibility Program, it represents the interests of socially concerned investors in dialogues with major publicly-held U.S. corporations. Its Labor Standards Initiative pursues dialogues with select companies on respect for employee rights in the workplace and the elimination of abusive labor practices. As You Sow also has several environmental initiatives and asks companies to address the labor-rights aspects of environmental issues. It works in conjunction with several broader-based associations and coalitions, including the Interfaith Center on Corporate Responsibility—another member of the Working Group. It is based in San Francisco, California.

#### **Center for Reflection, Education and Action**

[www.crea-inc.org](http://www.crea-inc.org)

The Center for Reflection, Education and Action (CREA) is a faith-based social economic research and education center that focuses principally on issues related to economic justice, sustainability and corporate social responsibility. The organization's work on sustainable living wages uses the Purchasing Power Index, which it created, to calculate the sustainable living wage/income anywhere in the world. CREA also provides services to investors and investment managers who are interested in socially responsible investing and corporate social responsibility. It joins with other investors in direct dialogue with corporations and in shareholder resolutions to promote positive change. CREA is located in Hartford, Connecticut.

#### **Connecticut State Treasurer's Office, Principal Fiduciary for the Connecticut Retirement Plans and Trust Funds**

[www.state.ct.us/ott](http://www.state.ct.us/ott)

In its capacity as principal fiduciary of the Connecticut Retirement Plans and Trust Funds, the Treasurer's office manages the investments that fund the pensions and pension guarantees for state and municipal employees who participate in the plans. The office uses its position as a major shareholder to encourage responsible corporate citizenship and has also testified on corporate governance issues before the U.S. Congress, the Securities and Exchange Commission and other regulatory bodies. The office is located in Hartford, Connecticut.

### **Domini Social Investments LLC**

www.domini.com

Domini Social Investments manages \$1.5 billion in assets for individual and institutional mutual fund investors seeking to create positive change in society by integrating social and environmental standards into their investment decisions. Two fundamental principles underlie the global investment standards that Domini applies to each of its investment products: the promotion of a society that values human dignity and the enrichment of our natural environment. Domini views these twin goals as crucial to a healthier, wealthier and more sustainable world. Domini is an SEC-registered investment advisor, based in New York City.

### **General Board of Pension and Health Benefits of the United Methodist Church**

www.gbophb.org

The General Board of Pension and Health Benefits of the United Methodist Church is a nonprofit administrative agency which supervises and administers the retirement, health and welfare benefit plans, programs and funds for clergy and lay employees of the United Methodist Church. In this capacity, it manages and invests more than \$16 billion in assets, making it the largest faith-based pension fund in the U.S. The Board invests according to socially responsible principles and uses its position as a shareholder to advocate for environmental, economic and social issues, including best practices in factory working conditions in developing countries. The Board is located in Evanston, Illinois.

### **Interfaith Center on Corporate Responsibility**

www.iccr.org

The Interfaith Center on Corporate Responsibility (ICCR) is an association of nearly 300 faith-based institutional investors, representing over \$100 billion in invested capital. ICCR members file shareholder resolutions and engage in dialogue with companies to promote responsible corporate policies and practices on a range of issues including health, human rights, environmental justice, climate change, militarism and supply chain responsibility. ICCR members bridge the divide between morality and markets by envisioning a civic economy that integrates ethical, environmental and social values. Inspired by faith, committed to action, ICCR members work to build a just and sustainable global community. ICCR is based in New York City.

### **Missionary Oblates of Mary Immaculate**

www.omiusajpic.org

The Missionary Oblates of Mary Immaculate is a Roman Catholic religious congregation consisting of Oblate priests and brothers working in more than 65 countries. The organization is a socially responsible investor and active shareholder advocate for corporate responsibility issues, including global labor conditions. It coordinates initiatives through the Interfaith Center on Corporate Responsibility and directly with other faith-based and socially responsible investors.

The organization has administrative offices in Washington, D.C. and Rome. Its Justice and Peace/Integrity of Creation office, which directs its faith-based investment program and serves as a resource for Oblate advocacy efforts in the U.S. and around the world, is located in Washington DC.

## **APPENDIX B: PROJECT ELEMENTS**

The Project Elements were developed by the Working Group to serve as a uniform code for the purposes of Project Kaleidoscope. They build on the codes of conduct issued and implemented by McDonald's Corporation and The Walt Disney Company. They also reflect the Working Group's consideration of other relevant codes of conduct and the core conventions of the International Labor Organization.

### **I. GENERAL PRACTICES**

#### **A. Retention of Applicable Laws & Standards**

Manufacturers will maintain and implement processes that demonstrate:

- Current possession and understanding of all applicable laws and standards.
- Appointed individual accountable for maintenance and update of such laws and standards.
- Current possession of contact information to obtain updates and seek clarifications.
- Internal operational policies and procedures designed to ensure adherence to these laws and standards.

#### **Effect of Prevailing Law**

All business activities of manufacturers must conform to all applicable national and local legal requirements, customs and published industry standards pertaining to employment and manufacturing. If statutory requirements and published industry standards conflict, suppliers must, at a minimum, be in compliance with the one which, by law, takes precedence.

#### **B. Compliance Assessment Process**

Manufacturers will maintain processes that provide continued and consistent operational adherence to governing laws and standards which at a minimum, will include:

- Training process which educates all staff, including management and supervisors, to understand and comply with applicable laws and standards.
- Ongoing development and implementation of operational policies and procedures consistent with applicable laws and standards.
- Maintenance of self-monitoring process which systematically verifies and documents effectiveness of existing policies and practices.
- Ability for customers to verify compliance with Project Elements, including but not limited to a) on-site inspections of manufacturing facilities and employer-provided housing, b) reviews of books and records relating to employment matters and c) private interviews with employees.

Manufacturers will maintain on site all documentation needed to demonstrate compliance with these Project Elements.

### **C. Communication to/from Employees**

Manufacturers will communicate their policies and procedures to all employees in an effort to create effective communication mechanisms between management and employees. Communication of policies and procedures includes, but is not limited to:

- Orientation and communication process to educate workers on such elements; communication must exist in various formats (e.g. pictorial, verbal, written, etc.) to ensure worker comprehension.
- Maintenance of interactive communication mechanism(s) whereby employees may raise concerns with management. These mechanisms should provide workers with the option of communicating confidentially and/or working in a collaborative manner to address workplace issues.

### **D. Training of Employees**

Manufacturers will provide regular training for their employees and be able to provide documentation of their training programs.

### **E. Subcontracting Requirements**

When using subcontractors, manufacturers will:

- Fully disclose the use of subcontractors of any merchandise or components upon request.
- Ensure all subcontractors understand and adhere to applicable law, as well as all manufacturing and compliance expectations and requirements set forth in this document.
- Ensure that manufacturer maintains proper records and documentation of all subcontracted items, including adherence to the Project Elements.

## **II. EMPLOYMENT PRACTICES**

### **A. Freedom of Employment**

Manufacturers will not use forced, bonded or prison labor. Manufacturers will not unnecessarily restrict movement of any kind. Manufacturers must ensure all work, including overtime, is optional and maintain processes which demonstrate worker selection.

### **B. Child Labor Protection**

Manufacturers will not use child labor.

Manufacturers will not employ workers under the age of 15 (or, where allowable by law, 14) or, if higher, the local legal minimum age for employment or the age for completing compulsory education. Manufacturers will adhere to all requirements for young and/or apprentice workers.

### **C. Working Hours**

Manufacturers will ensure that all employees will work in accordance with all applicable national and local laws and with published industry standards pertaining to the number of hours and days worked.

Except in extraordinary business circumstances,\* employees will not be required to work more than the lesser of:

- a) the limits on regular and overtime hours established by local law, or
- b) 48 hours per week and 12 hours of overtime.

Where the prevailing law or published industry standard does not limit the hours of work, the regular week (48 hours) plus 12 hours of overtime will prevail. Manufacturers must ensure all overtime work is optional.

In addition, employees will be entitled to at least one day off in every seven-day period. Additionally, employees will be entitled to all legally and physically required breaks during the day.

\*Extraordinary business circumstances will not exceed 72 hours a week for 4 months of the year (need not be consecutive), local and national law permitting.

### **D. Wages & Benefits**

Manufacturers will, at a minimum, comply with all applicable wage and hour laws and regulations, including those relating to minimum wages, overtime, piece rates and other elements of compensation, and provide legally mandated benefits. Education will be provided regarding the importance of wages and benefits in meeting basic needs.

Manufacturers will compensate employees for overtime hours at such premium rate as is legally required. Workers must understand their compensation, including overtime payments, bonuses and specified deductions, and sign for receipt of payment. Payment must be issued in method and frequency adhering to law and industry standards.

### **E. Disciplinary Practices**

Manufacturers will treat each employee with dignity and respect and will not use any form of corporal punishment, threats of violence or other forms of physical, sexual, psychological or verbal harassment or abuse. Manufacturers must have written policies and procedures for dealing with employee and/or contractor misconduct. This policy must include an avenue for employee and/or contractor grievances as well as a process to handle disciplinary procedures.

### **F. Protection against Discrimination**

Manufacturers will not discriminate in hiring and employment practices, including salary, benefits, advancement, discipline, termination or retirement, on the basis of race, religion, age, social or ethnic origin, sexual orientation, gender, political opinion or disability.

### **G. Freedom of Association**

Manufacturers will respect the rights of employees to associate and organize in a lawful and peaceful manner, without penalty or interference. In the absence of freedom of association laws, the manufacturer must facilitate parallel means to provide workers the option to communicate confidentially and/or work in a collaborative manner to address workplace issues.

### **III. SAFE WORKPLACE PRACTICES**

#### **A. Worker Training/Worker Committees**

Manufacturers will provide regular job-related and safety training to all employees, including but not limited to:

- Establishing written environmental, health and safety (EH&S) policies and procedures.
- Providing worker training for specific job functions, including safety training, PPE and potential health risks associated with specific job functions.
- Establishing an active EH&S committee that includes worker representation.

#### **B. Workplace Safety**

Manufacturers will ensure the entire workplace, including physical structure, operational equipment, manufacturing equipment, electrical equipment, transportation equipment and all other manufacturing-related equipment is in safe working condition. Manufacturers must ensure all machines, buildings, safety equipment and other related elements are inspected and maintained in adherence with legal and operational requirements or more frequently to ensure safety.

#### **C. Emergency Planning**

Manufacturers will have an emergency planning and preparedness process which will allow for evacuation, fire preparedness and adequate lighting. Manufacturers must ensure that all employees are aware of and trained to execute this plan in case of emergency.

#### **D. Workplace Health**

Manufacturers will provide employees with a safe and healthy workplace in compliance with all applicable laws and regulations, ensuring, at a minimum, reasonable access to

potable water and sanitary facilities, fire safety and adequate lighting, ventilation and temperature regulation.

Manufacturers will take into account the special health needs of young workers and/or pregnant workers. Manufacturers will also maintain procedures to handle medical emergencies, including policies relating to blood-borne pathogens, and ensure common medical treatment is available to all employees on site.

#### **E. Workplace Environmental Impact**

Manufacturers will comply with all applicable environmental laws and regulations. Manufacturers must maintain and implement written procedures to ensure a safe and healthy workplace environment and, wherever possible, to reduce the impact of their operations on worker health. Where manufacturers provide on-site housing facilities, these procedures must include these facilities.

### **IV. ON SITE LIVING PRACTICES**

#### **A. Dormitories**

Where applicable, manufacturers will provide employees with a safe and healthy housing facility which complies with all applicable laws and regulations, ensuring, at a minimum, reasonable access to potable water and sanitary facilities, fire safety, personal safety and adequate lighting and ventilation.

#### **B. Food Service**

Where applicable, manufacturers will provide employees with a safe and healthy eating environment which complies with all applicable laws and regulations governing hygiene and food preparation and food safety. Where manufacturers do provide employees food, recommended nutritional guidelines will also be followed.

## APPENDIX C: FACTORY SAMPLE

FACTORY #	BRAND <sup>1</sup>	PRODUCTS	% OF BUSINESS PROVIDED BY BRAND <sup>2</sup>	# WORKERS <sup>3</sup>
PK1	Disney	Garments	80%	450
PK2	Disney	Footwear	0.3%	17,000
PK3	McDonald's	Plastic toys	95%	2,750
PK4	McDonald's	Plastic toys & promotions	90%	2,050
PK5	McDonald's	Plastic toys & promotions	50%	8,000
PK6	McDonald's	Plastic & plush toys	60%	1,700
PK7	McDonald's	Plastic, electronic & plush toys	85%	1,400
PK8	McDonald's	Plastic toys & promotions	85%	3,400
PK9	McDonald's	Plastic toys & promotions	90%	6,500
PK10	McDonald's	Plastic toys & promotions	95%	1,960

## APPENDIX D: PARTICIPATING CHINESE CIVIL SOCIETY ORGANIZATIONS

### **Guangdong Participatory Development Appraisal Network**

The Guangdong Participatory Development Appraisal Network (PDA Network) is a group of Chinese social scientists and activist organizations affiliated with the Guangdong Human Resource Management Association. The mission of the organization is to support sustainable improvements in the lives and employment conditions of Chinese workers and to promote socially responsible corporate practices in compliance with Chinese labor and environmental laws. To this end, it focuses on applying participatory rapid appraisal (PRA) methodologies in Pearl River Delta factories. These methodologies raise awareness of workers' rights, health and safety and other factory environment issues and engage factory workers, supervisors and management in identifying problems and developing solutions.

### **Guangdong Women's Professional Technical College**

Guangdong Women's Professional Technical College is a nonprofit educational and public service organization affiliated with the Guangdong Provincial Women's Federation (a regional officially-constituted union). The faculty of the college's Women's Education and Development Research Center provides counseling and training services for migrant women workers in the Pearl River Delta area of South China. It operates through a network of sixteen town and municipal district centers, with facilities provided by the local government or the Provincial Women's Federation.

### **Shenzhen University**

Shenzhen University is a comprehensive university located in the Shenzhen special economic zone adjacent to Hong Kong. Founded in 1983, its mission is to train specialized personnel with both a firm theoretical foundation and strong application capabilities. It has thirteen colleges and several academic research centers and offers both bachelors and advanced degrees.

### **Zhongshan University**

Zhongshan University is one of China's major institutions of higher education. Located in Guangdong, 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 as well as liberal arts, science, technology and medical programs. The university's law school operates a legal aid clinic in which law students and faculty provide legal services and counseling to migrant and other factory workers. The university's Social Development Department conducts research and needs assessment activities related to migrant factory workers.

<sup>1</sup> The factories designated as "McDonald's" produce products for McDonald's restaurants. These sometimes include Disney trademarked promotional items. The factories designated as "Disney" produce Disney trademarked products for other licensees.

<sup>2</sup> The amount of business the brands provide varies continuously. The figures here are approximate percentages at or near mid-project.

<sup>3</sup> Factory workforce size continuously varies. The figures here reflect approximate workforce sizes during the late stages of project implementation.

## APPENDIX E: INITIAL FACTORY MANAGEMENT FEEDBACK ON PROJECT KALEIDOSCOPE <sup>1</sup>

COMPANY	ADVANTAGES	RESERVATIONS
PK1	<ul style="list-style-type: none"> <li>• High employee satisfaction</li> <li>• Fewer government-related issues (labor disputes, fire control, environmental protection, workplace safety)</li> </ul>	<ul style="list-style-type: none"> <li>• Longer production lead time (60 days vs. 14–21 days)</li> <li>• Uncompetitive costs (at least 8% higher due to labor-related increases)</li> </ul>
PK2	<ul style="list-style-type: none"> <li>• Self-control takes the place of audits by customer. Reduces audit costs, strengthens mutual trust between the customer and factory and establishes a good basis to develop partnership.</li> <li>• The factory can maintain a beneficial cycle of self-control and self-development through regular data collection and internal audits.</li> <li>• Develops factory's social compliance work, upgrades factory reputation, reduces turnover and increases production efficiency</li> </ul>	<ul style="list-style-type: none"> <li>• Not enough resources</li> <li>• Need for further support from and coordination with other departments</li> <li>• Not entirely applicable to factory:                             <ul style="list-style-type: none"> <li>- 23 indicators are not available for our factory.</li> <li>- We are asked to provide data on indicators monthly. But we think data would be more accurate after internal audits. Data are collected and conformed by our internal auditors, not departments that are audited.</li> </ul> </li> </ul>
PK3	<ul style="list-style-type: none"> <li>• A good practice to track information dynamically</li> <li>• Systematic way to reorganize data from our existing code of conduct (COC) and environmental health and safety (EHS) systems</li> <li>• Systematic way to analyze COC/EHS issues</li> <li>• Quantifies our measurements and compliance level</li> <li>• Helps us monitor trends in COC/EHS performance</li> <li>• PRA process:                             <ul style="list-style-type: none"> <li>- Engages all levels of employees</li> <li>- Allows management to understand concerns of employees at all levels</li> <li>- Enhances communication from top management to workers</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Participatory rapid appraisal (PRA) report and conclusions do not reflect the real situation</li> </ul>
PK4	<ul style="list-style-type: none"> <li>• More systematic and integrated tools</li> <li>• Results on a scale instead of just "black or white." Makes comparison and self-monitoring easier and more effective.</li> <li>• More like a quality system that factory is familiar with</li> <li>• PRA process:                             <ul style="list-style-type: none"> <li>- Helps factory to better understand employees</li> <li>- Employees express their opinions in a relaxed manner.</li> <li>- Factory learned some communications skills during the process.</li> <li>- Should only be used as supplementary information as results rely largely on employees' feelings or perceptions</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Refinement may still required after a period of use, <i>e.g.</i>, some duplicative areas.</li> </ul>

<sup>1</sup> The following table lists the advantages of and reservations about the project that the participating factories included in their presentations to the Working Group during its onsite visits in June 2005.

## APPENDIX E: INITIAL FACTORY MANAGEMENT FEEDBACK ON PROJECT KALEIDOSCOPE <sup>1</sup>

COMPANY	ADVANTAGES	RESERVATIONS
PK5	<ul style="list-style-type: none"> <li>• “Self-evaluating, self-finding, self-consummating”</li> <li>• Active and timely</li> <li>• Factory is moving toward more humanized management. System supports continuous development.</li> <li>• Decreases potential risk</li> <li>• Increases the competitive power of the enterprise (orders received and confidence of local government, customers and employees)</li> <li>• Makes for progress on safety, health and environment (decreasing rates of injury and occupational disease)</li> </ul>	<ul style="list-style-type: none"> <li>• Duplication of paperwork and manpower demands</li> </ul>
PK6	<ul style="list-style-type: none"> <li>• Way to comprehensively improve management system</li> <li>• Real time monitoring</li> <li>• Adopt PRA methodology</li> <li>• Can clearly demonstrate compliance and enhance client's confidence</li> <li>• Strengthens communication between factory and employees</li> </ul>	
PK7	<ul style="list-style-type: none"> <li>• Real time assessment and improvement</li> <li>• Factory management improves communication with employees and understands their needs.</li> <li>• Improves transparency of factory system to employees</li> <li>• Higher morale and better retention rate</li> <li>• Increases productivity and quality</li> <li>• Client satisfaction</li> <li>• PRA a good way to communicate with workers.</li> </ul>	<ul style="list-style-type: none"> <li>• PRA not a suitable factory evaluation tool</li> </ul>
PK8	<ul style="list-style-type: none"> <li>• A systematic approach to self-evaluation</li> <li>• Measurable goals</li> </ul>	<ul style="list-style-type: none"> <li>• Investment of resources</li> <li>• Workers' awareness and involvement<sup>2</sup></li> </ul>
PK9	<ul style="list-style-type: none"> <li>• Puts COC requirements in focus. Clearer definition of requirements.</li> <li>• Framework for tracking performance. Quantifiable data for tracking and monitoring performance and improvement.</li> <li>• Bottom-up, interactive approach. Values workers' input and assessment.</li> </ul>	<ul style="list-style-type: none"> <li>• Time consuming. Time needed to train staff members to run the Dynamic Social Compliance (DSC) system.</li> <li>• Internal communications. Takes time for workers to understand and accept new system. Information can be distorted.</li> <li>• Need for more flexibility. Indicators should be revised from time to time.</li> </ul>
PK10	<ul style="list-style-type: none"> <li>• Will encourage and provide manufacturers with the ability to achieve and demonstrate good employment practices, thus improve confidence of buyers and consumers</li> </ul>	

<sup>2</sup> Defined as a challenge, not a disadvantage.

**APPENDIX F: FACTORY-LEVEL COMMUNICATIONS WITH WORKERS <sup>1</sup>**

<b>FACTORY</b>	<b>ESTABLISHED COMMUNICATIONS AND FEEDBACK METHODS</b>	<b>IMPROVEMENTS IN ESTABLISHED METHODS AS A RESULT OF PROJECT</b>	<b>NEW METHODS INITIATED AS A RESULT OF PROJECT</b>
PK1	<ul style="list-style-type: none"> <li>Occasional meetings</li> <li>Suggestion box</li> </ul>	<ul style="list-style-type: none"> <li>Monthly “open day” with Vice President</li> <li>Documentation of and feedback on suggestions</li> </ul>	<ul style="list-style-type: none"> <li>Monthly employee interviews and responses to feedback</li> <li>Participatory rapid appraisal (PRA) training for mid-level managers</li> <li>Other new employee training programs</li> <li>Committee for recreational activities, with worker representation</li> </ul>
PK2	<ul style="list-style-type: none"> <li>Worker training on code of conduct and company policies</li> <li>Suggestion boxes</li> <li>Worker counseling center</li> </ul>	<ul style="list-style-type: none"> <li>Training on compliance performance indicators</li> </ul>	<ul style="list-style-type: none"> <li>Monthly posting of DSC performance monitoring results</li> <li>Monthly employee interviews</li> <li>Feedback to workers on self-assessment results</li> </ul>
PK3	<ul style="list-style-type: none"> <li>Code of conduct training</li> <li>Monthly meetings with worker representatives</li> <li>Worker relationship officers</li> <li>Surveys in connection with planned improvements</li> <li>Employee handbooks</li> <li>Various visual displays, <i>e.g.</i> posters</li> <li>Touch-screen factory information system</li> <li>Newsletter</li> <li>Internal broadcasting system</li> </ul>	<ul style="list-style-type: none"> <li>More interactive training methods</li> <li>New employee education tools</li> <li>Comprehensive worker satisfaction survey</li>   <li>Revision of touch-screen system to include DSC</li> </ul>	<ul style="list-style-type: none"> <li>Monthly posting of DSC performance monitoring results</li> <li>Worker help line</li> <li>PRA sessions for employees at all levels</li> </ul>
PK4	<ul style="list-style-type: none"> <li>Training programs</li> <li>Worker representative</li> <li>Suggestion box</li> <li>Various visual displays</li> <li>Videos</li> <li>Newsletter</li> <li>Internal broadcasting system</li> </ul>		<ul style="list-style-type: none"> <li>Monthly posting of select performance indicators</li> <li>“Communications corner” for workers to provide feedback</li> <li>Worker satisfaction survey</li> <li>PRA sessions for workers</li> </ul>

<sup>1</sup> The following table summarizes participating factory management responses to questions we posed about improvements in internal communications and feedback mechanisms that they had initiated as a result of their involvement in Project Kaleidoscope. Although not indicated here, all factories are displaying Dynamic Social Compliance (DSC) performance monitoring results.

## APPENDIX F: FACTORY-LEVEL COMMUNICATIONS WITH WORKERS <sup>1</sup>

FACTORY	ESTABLISHED COMMUNICATIONS AND FEEDBACK METHODS	IMPROVEMENTS IN ESTABLISHED METHODS AS A RESULT OF PROJECT	NEW METHODS INITIATED AS A RESULT OF PROJECT
PK5	<ul style="list-style-type: none"> <li>• Training programs</li> <li>• Regular meetings</li> <li>• Suggestion boxes</li> <li>• Manual and pamphlets</li> <li>• Notice boards</li> <li>• Internal broadcasting system</li> </ul>	<ul style="list-style-type: none"> <li>• Social accountability knowledge competition</li> </ul>	<ul style="list-style-type: none"> <li>• “Confiding room,” staffed by managers, for worker feedback</li> <li>• Worker satisfaction survey</li> </ul>
PK6	<ul style="list-style-type: none"> <li>• Training programs</li> <li>• Worker representative committee</li> <li>• Encouragement for workers to communicate with supervisors</li> <li>• Suggestion box</li> <li>• Manual</li> <li>• Posters and notices</li> </ul>	<ul style="list-style-type: none"> <li>• Encouragement for workers to use boxes for suggestions, as well as complaints</li> </ul>	<ul style="list-style-type: none"> <li>• Worker satisfaction surveys</li> <li>• PRA method to gain worker feedback, <i>e.g.</i>, on new policies</li> </ul>
PK7	<ul style="list-style-type: none"> <li>• Training programs</li> <li>• Worker representatives</li> <li>• Suggestion box</li> <li>• Posters and notices</li> <li>• Videos</li> </ul>	<ul style="list-style-type: none"> <li>• Suggestion box checked more often and regular feedback provided</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly posting of DSC performance monitoring results</li> <li>• Worker satisfaction survey</li> <li>• PRA sessions for workers</li> </ul>
PK8	<ul style="list-style-type: none"> <li>• Training programs</li> <li>• Regular meetings with employee committee</li> <li>• Work improvement team, with worker representation</li> <li>• Employee relationship officer</li> <li>• Suggestion boxes</li> <li>• Survey</li> <li>• Handbooks and pamphlets</li> <li>• Various visual displays</li> <li>• Daily briefings</li> </ul>	<ul style="list-style-type: none"> <li>• More video and animated methods</li> <li>• New employee education tools</li> <li>• Cards with employee representative contact information</li> <li>• Number of surveys increased and results posted</li> <li>• Code of conduct requirements and procedures added to notice boards</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly posting of DSC performance monitoring results</li> <li>• Worker help line</li> <li>• Employee information computer stations, including compliance requirements, performance indicator reports and individual work hours records</li> <li>• Team building “training camp”</li> </ul>

## APPENDIX F: FACTORY-LEVEL COMMUNICATIONS WITH WORKERS <sup>1</sup>

FACTORY	ESTABLISHED COMMUNICATIONS AND FEEDBACK METHODS	IMPROVEMENTS IN ESTABLISHED METHODS AS A RESULT OF PROJECT	NEW METHODS INITIATED AS A RESULT OF PROJECT
PK9	<ul style="list-style-type: none"> <li>• Training programs</li> <li>• Meetings with union committee</li> <li>• Other meetings (mainly related to policies, activity schedules, <i>etc.</i>)</li> <li>• Topic-specific seminars</li> <li>• Direct lines to department heads</li> <li>• Suggestion boxes</li> <li>• Notices and posters</li> <li>• Electronic display in each department</li> <li>• Internal broadcasts (for emergencies)</li> <li>• Handbook</li> </ul>	<ul style="list-style-type: none"> <li>• New visual and audio tools</li> <li>• Worker representative elections in workshops</li> </ul> <p>Seminars to analyze compliance performance data and develop corrective action plans</p> <ul style="list-style-type: none"> <li>• Additional suggestion box in canteen</li> <li>• Poster on calculating working hours</li> </ul>	<ul style="list-style-type: none"> <li>• Work-related injury graphs</li> <li>• Worker interview days in dormitory</li> <li>• Worker help line</li> <li>• Worker satisfaction surveys</li> <li>• Cards identifying communications options</li> <li>• PRA methods for management-worker communications</li> <li>• Brief daily meetings to explain workload</li> <li>• Computer stations for access to personal work-related information</li> <li>• New vehicles for company information, <i>e.g.</i>, video in canteen</li> <li>• Employee-elected food committee</li> <li>• Worker-controlled factory “post”</li> </ul>
PK10	<ul style="list-style-type: none"> <li>• Training programs</li> <li>• Code of conduct/EHS knowledge competition</li> <li>• Monthly meetings with employee representatives</li> <li>• Quarterly surveys (canteen/dormitory and overall employee satisfaction)</li> <li>• Suggestion box</li> <li>• Internal hotline to department heads</li> <li>• Handbook and code of conduct information card</li> <li>• Various visual displays</li> <li>• Computer for access to personal attendance records</li> <li>• Internal broadcasting</li> </ul>	<ul style="list-style-type: none"> <li>• Video introduction to DSC, in workers' hometown languages</li> <li>• Employee personal health seminars</li> <li>• New training tools</li> <li>• Postings of meeting records</li> <li>• Symbols on uniforms identifying employee representatives and first aiders</li> <li>• Separate code of conduct policies manual</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly posting of DSC performance monitoring results</li> <li>• Room for weekly feedback opportunities</li> <li>• Help line to DSC manager or executive</li> <li>• Computer for checking personal training records</li> <li>• All-employee general knowledge quiz</li> <li>• Exhibition room for employee/company information</li> </ul>

**APPENDIX G: WORKER INTERVIEW REPORTS**  
**RESPONSES TO QUESTION REGARDING MOST IMPORTANT CHANGES<sup>1</sup>**

FACTORY	MOST IMPORTANT CHANGES	INTERVIEWER COMMENTS/INTERPRETATION
PK1	<ul style="list-style-type: none"> <li>• The working environment, in respect of production efficiency and worker health and safety</li> <li>• “Humanized management,” because people have a strong sense of humanity and there is greater market competition</li> <li>• Communication. Critical to understanding and morale. It is important to keep learning and improving.</li> </ul>	
PK2	<ul style="list-style-type: none"> <li>• Well-controlled overtime</li> <li>• Better pay for workers and management</li> <li>• Improved management, because production flows and Dynamic Social Compliance (DSC) system have been implemented</li> </ul>	<p>Some respondents said there were fewer orders and less overtime. Since the factory did not provide free board and lodging, they thought the wages were low. Quite a few compared their factory with another factory in the same compound that produced for another brand. They thought the other factory received large orders with a single product specification from regular customer, which made it easy to achieve the production target. Their factory received a variety of orders for low quantities of products and with complicated specifications. These, they said, made it difficult to achieve the target.</p>
PK3	<ul style="list-style-type: none"> <li>• Management values workers highly</li> <li>• Working and living environment</li> <li>• Wages, working hours and benefits programs</li> <li>• Communication</li> <li>• Safety</li> </ul>	<p>The respondents thought these issues were directly concerned with workers' interests. They wanted to make money happily and under no pressure. If the factory valued workers' interests, the workers would view the factory as their home. Factory management values the workers highly.</p>
PK4	<ul style="list-style-type: none"> <li>• Increased wages, because important to workers' livelihood</li> <li>• Improvements in health and safety</li> </ul>	<p>The health and safety improvements were most important to migrant workers.</p>
PK7	<ul style="list-style-type: none"> <li>• Increased wages and bonus</li> <li>• Reduced overtime</li> <li>• Management has changed its manner and is kinder</li> <li>• Management is communicating better with workers</li> </ul>	<p>Respondents' greatest wish is to earn more money and be respected. They don't want so much overtime and hope they can be better paid. All respondents said the factory was the best in the vicinity and did well in code of conduct compliance.</p>
PK8	<ul style="list-style-type: none"> <li>• Personal/workplace safety</li> <li>• “Reasonable system”</li> <li>• Wages, working hours and benefits programs</li> <li>• Communication</li> <li>• The DSC system</li> <li>• “Humanized” management, because it is directly associated with workers' morale and attitude and must be properly maintained.</li> </ul>	

<sup>1</sup> In March 2006, the Project Kaleidoscope in-country project coordinator interviewed workers at six of the participating factories. Five workers per factory were interviewed—all former participants in the PRA process. Workers were asked to cite changes that had occurred in the factories within the last three or four months. In the course of the interviews, they were asked to name the most important changes. The following table lists their answers, as reflected in the interview reports.

**APPENDIX H: MAJOR ADVANTAGES AND CHALLENGES OF PROJECT KALEIDOSCOPE  
CITED BY FACTORY OWNERS AND MANAGERS TOWARD END OF PROJECT<sup>1</sup>**

<b>MAJOR ADVANTAGES</b>	
	Number of Times Advantages or Disadvantages in Category Cited (Number of Factories Citing)
<p><b>Business Interests</b></p> <ul style="list-style-type: none"> <li>• Competitiveness in tight labor market</li> <li>• Improved relationships with customers</li> <li>• Improved relationships with other external stakeholders, <i>e.g.</i>, government</li> <li>• Improved competitiveness as a business</li> <li>• Foundation for ongoing enhancement of company</li> <li>• Greater employee engagement in future development of company</li> <li>• Improved quality and productivity</li> <li>• Reductions in various cost-related areas, <i>e.g.</i>, turnover, product rejection and scrap rates</li> </ul>	9 (8)
<p><b>Improvements in Code of Conduct Compliance Efforts</b></p> <ul style="list-style-type: none"> <li>• Clearer expectations</li> <li>• Supports improvement of compliance work</li> <li>• Easier to operate than previous compliance system</li> <li>• Improved ability to identify and address issues</li> <li>• Greater incentives for identifying and resolving issues</li> <li>• More opportunities for improvement</li> <li>• Ability to monitor compliance and performance trends</li> <li>• Ability to know whether meeting compliance standards</li> <li>• Helps avert negative monitoring review findings</li> </ul>	20 (10)
<p><b>Other Improved Management Capacities</b></p> <ul style="list-style-type: none"> <li>• More effective forecasting and planning</li> <li>• Gives top management an ability to foresee issues</li> <li>• Complements other management improvement processes, <i>e.g.</i>, TQM</li> <li>• Provided model for managing other aspects of operations</li> <li>• Strengthened employee health and safety programs</li> </ul>	4 (3)
<p><b>Improvements in Internal Communications</b></p> <ul style="list-style-type: none"> <li>• Greater transparency</li> <li>• Better interdepartmental communications</li> <li>• Better management-worker communications</li> <li>• Specific improvements in worker communications and feedback mechanisms</li> </ul>	10 (7)
<p><b>Improvements in Management/Worker Relationships</b></p> <ul style="list-style-type: none"> <li>• Better understanding of worker needs and concerns</li> <li>• Ability to identify and address worker satisfaction issues</li> <li>• Enables employees to participate in decisions affecting their lives</li> <li>• Improved worker morale/fewer complaints</li> </ul>	10 (6)
<p><b>Improvements in Working and Living Conditions</b></p> <ul style="list-style-type: none"> <li>• Overall improvement in working conditions</li> <li>• Specific changes in compensation systems, based in part on employee input</li> <li>• Specific workplace improvements, <i>e.g.</i>, new equipment, ventilation systems</li> <li>• Specific improvements in living conditions, <i>e.g.</i>, canteen and dormitory, more leisure-time opportunities</li> <li>• Happier factory environment</li> </ul>	11 (6)

<sup>1</sup> The following table summarizes the responses of the participating factories to January–February 2006 requests for feedback on the advantages and challenges of the Project Kaleidoscope approach.

**APPENDIX H: MAJOR ADVANTAGES AND CHALLENGES OF PROJECT KALEIDOSCOPE  
CITED BY FACTORY OWNERS AND MANAGERS TOWARD END OF PROJECT<sup>1</sup>**

<b>MAJOR CHALLENGES</b>	
<p><b>Resources Required</b></p> <ul style="list-style-type: none"> <li>• Initial manpower demands to establish performance indicators, collect and/or reorganize data</li> <li>• Initial resource demands for employee training</li> <li>• Ongoing manpower demands</li> <li>• Other costs, <i>e.g.</i>, communications</li> </ul>	6 (5)
<p><b>Other Challenges</b></p> <ul style="list-style-type: none"> <li>• Unspecified difficulties in initial implementation</li> <li>• Some unrealistically high targets<sup>2</sup></li> <li>• Duplicative assessments, with different monitors and standards<sup>3</sup></li> </ul>	3 (2)

<sup>2</sup> Respondent apparently views the formulas for calculating key performance indicators in the Dynamic Social Compliance manual as establishing performance targets, rather than as a method to track progress toward targets.

<sup>3</sup> For verification, the factory was reviewed according to the established monitoring process following a systems-based review.



*Many individuals contributed to the development, implementation and assessment of Project Kaleidoscope and to the completion of this report.*

**We are deeply indebted to:**

Former Working Group members Dan Chally and Jill Scandridge, who both played critical roles in developing, guiding and implementing the project.

Lisa Kantor, who also helped develop the original project concept and subsequently facilitated Disney's contributions to the initial implementation phase.

Professor Qu Ning, who provided us with wise advice on countless occasions, oversaw the work of our local civil society organization partners and conducted the worker interviews that form part of our project assessment.

For all their insights, expertise and hard work, we also thank our partners in China:

Jim Leung, who oversaw in-country implementation on Disney's behalf, and Tony Lowe, who worked with him to help develop the DSC manual, the monitoring approach and the factory engagement process.

Gina Lee, in Disney's Hong Kong office, who provided invaluable project management and translation services.

**Thanks also to:**

Monika Kraus-Wildegger of TÜV Rheinland for her interest and her commitment to developing a factory-oriented tool for implementing sustainable labor standards.

Professor Wang at the Center for Media and Social Change, Shenzhen University, who directed the February 2006 worker survey, and Professor Liu Linping, Zhongshan University, who led the team that conducted an earlier survey at some of the participating factories.

Zhou Wei Dong of PDA Network for his efforts to adapt the PRA process to the project and the participating factories.

Stewart Webster, who provided expert guidance in improving the external audit process.

Kathryn Baer, who served as principal writer for this report.

And all the many people who read and commented on drafts of this report.

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