

# EXECUTIVE SUMMARY

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

