Creating Continuous Improvement in the Workplace

Review of ICTI CARE Process Activities 2008/9
Letter from the Leadership

Dear Friends,

As leaders of the ICTI CARE Process, we are both excited by and proud of the advances that our team has made during the past two years in working toward our goal of improving treatment of toy factory workers. As so often is the case when working to accomplish anything worthwhile, the more progress we make, the more we see that still needs to be done. Ours is indeed a Continuous Improvement Process. In this, our second biennial report, we want to share our enthusiasm, explain what we have accomplished in 2008-2009 and outline what we see as the task before us.

Our focus through our first two years of operation (2006-2007) was on building and strengthening the ICTI CARE Process's monitoring function, bringing more factories into the program, and broadening toy brand, retailer, and licensor acceptance of the ICTI CARE Process as the sole monitoring system for the toy industry. During the past two years (2008-2009), we continued that effort while beginning to dedicate a significant portion of our attention to education and training — capacity building — among factory workers, factory managers, and auditors. ICTI CARE Foundation Asia, Ltd., was established and staff was augmented to meet the needs of our expanded programs.

We also identified opportunities for improvement in the ICTI CARE Process, as we looked further into the issues we needed to resolve. Two key ones stood out:

- Our pass/fail system for awarding a Seal of Compliance was not providing sufficient incentive for improvement in the area of wages and working hours. We developed, tested, and put into practice a Continuous Improvement Process that allows otherwise compliant factories to work on a tight schedule toward complete compliance with wages and hours requirements. We continue to work to improve this initiative.

- We saw the need to work with the independent auditing community to assist in its efforts to achieve greater professionalism in the conduct of audits and reporting. We are working with them on the development of an audit integrity program that includes a professional association. This too is a work in progress.

More details on these and other programs are to be found in the body of this report.

None of what we have learned and accomplished could have been achieved without the help of many people and organizations; and we look to them for ongoing support. In particular, we are grateful to the Government of the People's Republic of China and its quality control and inspection organizations for their understanding and support; to the ICTI member associations, particularly the China Toy Association and the Hong Kong Toys Council, for their valuable advice and counsel; to our brand, retailer, and NGO partners for their commitment, and to our Governance Board and Technical Advisory Council members for their tireless contributions to improving and expanding ICTI CARE Process policies and programs.

Most of all, we want to thank our staff for their dedication to our mission and for their hard work and long hours devoted to accomplishing it.

Like so many of you, we believe completely in the mission of the ICTI CARE Process and are committed to continually improving our capacity to accomplish it. Although our aspirations may be global, we are keenly aware that change will ultimately take place locally and one factory at a time. To a large extent, our success continues to depend on the full involvement of our stakeholders. We thank you for your support.

Sincerely,

Alan Hassenfeld
Maria Livanos Cattai
Christian Evert
President and CEO
The ICTI CARE Process Mission

...to enable the worldwide toy industry to assure consumers that its products are manufactured in safe and humane conditions by providing education and training for toy factory employees and enforcing a thorough and consistent monitoring program for toy factories...

Evolution of the ICTI CARE Process

2001/2
Focus on ethical manufacturing by companies, governments, media, NGOs, consumers
  • ICTI Code of Business Practices adopted by all toy association members

2003
Industry-wide consensus building for factory auditing and monitoring protocol
  • ICTI CARE Process (ICP) auditing system established and monitoring protocol agreed upon

2004
ICTI CARE Process governance development
  • ICTI CARE Foundation and independent Governance Board established

2005
Stakeholder engagement and program development
  • Auditor accreditation, Date Certain commitment, convergence of codes, training seminars, website
  • Fundraising
Governance and Management

- **ICTI**: The International Council of Toy Industries, consisting of 22 national associations, promotes member adherence to its Code of Business Practices and conducts a variety of initiatives of which the ICTI CARE Process is one.

- **ICP**: The ICTI CARE Process is the name of the toy industry’s ethical manufacturing program. CARE is an acronym for “Caring, Aware, Responsible, Ethical.”

- **ICF**: The ICTI CARE Foundation was chartered in the USA in 2004 as an independent, non-profit organization with 501.c.3 status to oversee implementation of the CARE Process.

- **ICFAL**: ICTI CARE Foundation Asia Limited, chartered as a public charity in Hong Kong, is the operations company responsible for managing the ICTI CARE Process compliance monitoring and capacity-building programs in Asia.

- **The ICTI CARE Foundation Governance Board** governs the ICTI CARE Process. It is an independent, multi-stakeholder board, incorporating industry, civil society and intergovernmental organizations.

- **TAC**: The Technical Advisory Council is an independent body, comprised of industry-appointed volunteers from all levels of the supply chain, that provides technical advice and is under the aegis of the Governance Board’s Oversight and Appeals Committee.

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**2006/7**

- Auditor and factory manager training, factory worker education
  - IRCA Accredited Auditor Training
  - BSR/ICTI Training Program
  - 37,000 Factory Worker Information Cards distributed

**2008**

- Capacity building and productivity training
  - Auditor RFP; Accreditation and Refresher training
  - Group and individual
  - Intensive factory training courses

**2009**

- Continuous Improvement Process policy development
  - New Wages and Working Hours Policy and auditing criteria created

**2010/11**

- Factory worker and buyer training designed and delivered
  - Pilot worker train-the-trainer project
  - Retail buyer training support
  - Audit Integrity Program
  - Issue RFP to audit firms
## 2008/9 Highlights

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<th>Operations</th>
<th>Training and Education</th>
<th>Capacity Building</th>
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<tr>
<td><strong>619 brands</strong>&lt;br&gt;representing 75% of global toy business committed to Date Certain Program, up from 316 in 2007</td>
<td><strong>136 accredited auditors</strong>&lt;br&gt;monitoring the ICTI CARE Process received IRCA certified training to improve ICP audit quality</td>
<td><strong>2,339 factories</strong>&lt;br&gt;enrolled in the ICTI CARE Process, up from 1,347 at end 2007</td>
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<td><strong>31 countries</strong>&lt;br&gt;represented (22 national toy associations plus 9 non-member countries) supporting the Date Certain Program</td>
<td><strong>210 factory reps</strong>&lt;br&gt;participated in the first Continuous Improvement Training for the Toy Sector course</td>
<td><strong>1.7 million factory workers’</strong>&lt;br&gt;lives improved, up from 1.2 million in 2007</td>
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<td><strong>51 factories</strong>&lt;br&gt;dropped from ICTI CARE Process due to unethical behaviour</td>
<td><strong>15 factories</strong>&lt;br&gt;received Intensive Continuous Improvement Productivity Training</td>
<td><strong>15 factory meetings</strong>&lt;br&gt;held by ICFAL staff on average each month to discuss compliance and the Continuous Improvement Process</td>
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<td><strong>8 audit firms accredited</strong>&lt;br&gt;through RFP process to monitor ICP factories, up from 6 in 2007</td>
<td><strong>18-month Public Private Partnership (PPP) agreed with GTZ,</strong>&lt;br&gt;a German Government-owned corporation, to implement a pilot train-the-trainer program for factory workers and managers in eight factories. ICP works through DVSi, the German Toy Association</td>
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<td><strong>5 new staff</strong>&lt;br&gt;added to ICFAL’s Hong Kong operations office, which now totals 15</td>
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“The initiative by the toy industry that has become the ICTI CARE Process is a brilliant innovation showing how business – in alliance with civil society, labor and governmental interest – can address difficult and often sensitive issues concerning its operations, particularly its supply chain. The Governance Board has not shied away from the hard debates, the difficult decisions and the constant need to review and renew implementation as circumstances develop. Its members represent very different interests and views, but all have established together a consensus on objectives to attain. For me, it is an honor to be associated with this courageous endeavour and the dedicated people of the ICTI CARE Process.” —Maria Livanos Cattau, Co-Chair of the ICTI CARE Foundation and former Secretary General of the International Chamber of Commerce.
What We’ve Done

Improve compliance with ICP standards

Capacity Building
A significant part of the work we do includes the monitoring of health, safety, and labor conditions that pose the greatest risk to factory workers. Research and experience have shown, however, that the monitoring/corrective action plan/re-audit model we have been using did not achieve the kind of sustainable improvement we were looking for in wages and working hours, and that a new framework was needed to effectively address the issues we were finding in our audits. Rather than continue with this rigid pass/fail approach, we learned from our experience and decided to complement our auditing with training, adopting a new capacity-building framework as a core strategy of the ICTI CARE Process.

To achieve this, our ICFAL operations team worked with our accredited auditors and factories, and consulted other stakeholders, to develop a program that will provide factory managers/owners with intensive training. The goal is to help them build the management skills and systems needed to identify the underlying problems, and to prevent them from occurring in the first place. Other key elements of the capacity-building framework include regular factory briefings on ICP requirements, assisting factory management to develop Corrective Action Plans; updating and improving our auditing, education, and training programs; and making sure we have sufficient capacity to deliver them.

Continuous Improvement Process
Fair treatment in terms of wages and working hours remains one of the most difficult areas of compliance for Chinese factories. It was clear that factories were not meeting wages and working hours requirements and that our pass/fail system too often led to incorrect reporting. To improve compliance and increase transparency, a Continuous Improvement Process (CIP) was developed by ICTI CARE Process technical staff and advisors. It was approved by the Governance Board in June 2009.

The “pass/fail” system was replaced with a new Working Hours and Wages Policy. Assuming that factory management commits to full transparency about current practice and that there are no other serious violations, a factory can undertake a Continuous Improvement Program. This means it can make gradual, monitored, progress, over a fixed period of time, toward full compliance with Chinese law. So long as a factory makes steady progress toward its goal, achieving it in the time specified, it will avoid audit failure and will be given a graduated Seal of Compliance. This Continuous Improvement Process is now being used in all initial and annual ICTI CARE Process audits. It will be carefully evaluated and updated as needed. We have already begun to see progress in terms of correct wage payments.

“For example, a Quality Control audit carried out in a factory that had been granted an ICTI CARE Process (ICP) Seal of Compliance identified health, safety, working hours, and wages issues. Closer cooperation between ICFAL team members and factories in implementing corrective actions resulted in the payment of back wages to a total of 1,321 workers from four non-compliant factories. In addition, 72 workers whose ID cards had been retained by one of the factories had them returned.”

— Arnie Rubin, President, International Council of Toy Industries (ICTI)
Strengthen the audit system

We continually review and evaluate ICTI CARE processes and services to ensure that they meet the standards to which we hold ourselves. Based on our assessment, several steps were taken to strengthen the capacity, consistency, and quality of the audit system, and to improve its overall effectiveness.

- **An RFP (Request for Proposal) process completed in 2008 resulted in the appointment of eight audit firms, three of them new to the ICTI CARE Process, thereby increasing both our auditing capacity and the quality of the firms we utilize. The RFP process will be repeated in Q3 of 2010.**

- **A new system for Audit Reporting Procedures** was implemented in May 2009 requiring all auditors to fax to us their on-site report, or Corrective Action Plan (CAP), before leaving the factory. This makes it possible to take immediate action on serious violations, such as underage workers or forced labor.

- **The Factory Database** on the ICP website was enhanced to cover all factories in the ICP program and to provide much more online information than in the past. In addition, the ICFAL database that is available only to ICP and those granted permission by the audited factories, will receive a major upgrade as part of the new information technology system now being bid out.

**Audit Firms Accredited to the ICTI CARE Process (2009)**

- Benchmarks Co. Ltd.
- Bureau Veritas (BV)
- Intertek Testing Services (ITS)
- Level Works Limited (LW)
- Sercura
- SGS Ltd.
- Social Compliance Service Asia (SCSA)
- Specialized Technology Resources (STR)

**Increase factory engagement**

The ICTI CARE Process obligation to protect factory workers goes beyond monitoring the work environment and requiring corrective action programs. The ICFAL team wants to understand the issues that keep manufacturers from complying with the code and is working more closely with them, both to gain that understanding and to develop processes and programs to encourage better compliance.

In instances of serious violations, investigatory and quality control audits, followed by meetings with the factories, are held to diagnose the issues and provide guidance in correcting them. In some instances, we work with Chinese labor-focused NGOs, working outside the factories, to help identify and assess issues so that factories may add this input to their plans to improve performance and auditors may also work to improve. As a result, factories are becoming more transparent about their practices, and audit results are improving.
Achieve industry-wide support through the Date Certain Program

Significant progress was achieved in our efforts to win industry-wide support of the ICTI CARE Process through the Date Certain Program, which seeks commitments from toy brands that, as of a specific, future date (“Date Certain”), their buyers will only contract products manufactured by factories that are active participants in the ICTI CARE Process in China. So far, 75% of the global toy business has made this commitment. The year 2008 started with 316 committed companies and ended with 513, representing an impressive 62% increase. In 2009 we ended with 619, representing a further 21% increase largely due to a commitment by the national associations of Denmark, Germany, Sweden, and the USA, to make Date Certain a condition of membership. Other associations are now moving in the same direction. As of end-April 2010, the Date Certain number stands at 622. A regularly-updated list appears on our website (www.icti-care.org).

Increase certification sharing through the Convergence Process

The Convergence Process, which seeks retailer/licensor acceptance of ICP Certification in place of their own, achieved important milestones as well. Memorandums of Understanding (MOUs) recognizing acceptance of ICP Certification are now in place with many of the world’s largest retailers and licensors. Of these, seven were added during 2008-2009. A complete list appears on our website (www.icti-care.org).

Grow Operations team as needed

As the ICTI CARE Process has grown dramatically, we have of course needed to keep pace by increasing our Operations Team. Over 2008/2009, we upgraded the leadership team to include a new Vice President for Operations as well as a new person in the existing Director of Operations position and a new Social Compliance Manager. The addition of these highly qualified individuals has increased the management and technical expertise of the Operations team. Future plans look for growth-based expansion of staff in the areas of training and quality control.

“I come to the ICTI CARE Process with the International Youth Foundation’s mission in mind – that is, to realize the power and promise of young people. A decent job or a sustainable livelihood is the most basic way young people can build their futures. And yet, with the demographic “youth bulge,” the world needs a billion new jobs. I see the ICTI CARE Process dealing directly with the dual challenge to promote broad based economic growth while promoting the quality of work, rights and education.”

—William S. Reese, President and CEO, International Youth Foundation
ICP Training and Education Programs

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<th>Training need</th>
<th>ICP response</th>
<th>Value created</th>
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<tr>
<td>Build capacity of factory managers/owners to improve unsatisfactory management practices and factory working conditions in order to meet ICP health, safety, and labor standards.</td>
<td>Conduct <strong>Continuous Improvement Training for the Toy Sector</strong>, a comprehensive cost-effective group training program, consisting of five modules carried out in collaboration with China Training Institute (CTI).</td>
<td>Factory managers/owners are better able to meet ethical sourcing requirements, carry out CSR management, oversee workplace health and safety, improve productivity, reduce overtime, and employ best practices.</td>
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<td>Address the causes of excessive working hours in factories.</td>
<td>Provide <strong>Intensive Continuous Improvement Productivity Training</strong> as co-projects with the Hong Kong Productivity Council, INFECT, and Factory Solutions.</td>
<td>This highly successful program helps factory owners and managers identify sustainable solutions that address excessive working hours.</td>
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<td>Increase factory worker knowledge about health, safety, and labor standards and provide a confidential method for reporting violations.</td>
<td>Implement the pilot train-the-trainer <strong>Factory Worker Education and Capacity Development program (2010)</strong> with GTZ and expand it in future.</td>
<td>Workers have increased access to training and information to protect their labor rights under Chinese law and to report violations.</td>
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<td>Build the pool of auditors employed by ICP-accredited audit firms qualified to carry out ICP audits.</td>
<td>Provide a three-day <strong>IRCA-certified Auditor Accreditation Training course</strong>, adding an ethics module.</td>
<td>Auditors acquire a better understanding of current ICP monitoring and ethics requirements and practices, and the ICP pool of accredited auditors is expanded.</td>
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<td>Ensure that auditors understand the updated auditing requirements for the new Working Hours and Wages Policy (adopted July 2009).</td>
<td>Conduct three <strong>IRCA-certified Auditor Refresher Training courses</strong> for accredited auditors in Shanghai and Shenzhen (2009).</td>
<td>Auditors are able to effectively incorporate the new Wages and Working Hours policy in their auditing programs.</td>
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“The German toy association has been very pleased to partner with the ICTI CARE Foundation to secure and carry out a Public Private Partnership (PPP) with the German Government (GTZ) for an initiative to educate and train factory workers and managers in China. Assuming its success, this pilot program may well be expanded throughout China.”
—Ulrich Brobeil, Deutscher Verband der Spielwaren-Industrie e.V. (DVS!)
Meet the specific training and education needs of factory managers, workers, and auditors in China

During 2008/2009 the ICTI CARE Process team initiated new training programs and, based on experience gained as we went along, made improvements to those programs in each training area.

Training factory managers/owners

The ICTI CARE Process (ICP) has initiated a range of training activities for which it has gained recognition, so that it is no longer regarded solely as a “monitoring” initiative. During 2008/9, the ICP team worked in close collaboration with partner organizations, i.e. the China Training Institute (CTI) of Business for Social Responsibility (BSR), the Hong Kong Productivity Council, INFACT, and Factory Solutions to design and deliver a range of group and factory-specific training programs aimed at improving factory sourcing and productivity. Based on participant feedback from the initial group training, steps are being taken to improve the programs by adding more case studies, limiting the number of participants, and scheduling sessions so as not to conflict with the peak manufacturing season.

Auditor Training

To maintain sufficient auditing capacity and a high standard of quality, the ICTI CARE Process requires auditors from all eight accredited firms to attend International Register of Certified Auditors (IRCA) Auditor Accreditation training programs, and to participate in annual ICP Refresher Courses to be updated on new developments and changes in monitoring criteria for the ICP like the new Wages and Working Hours Policy. As part of our own Continuous Improvement Process, we found some weaknesses in the area of auditor integrity and have added an ethics module to our auditor training program.

Educating and training factory workers

Education and training efforts aimed directly at factory workers are an important tool for increasing worker access to information so as to protect their rights under the updated Chinese labor law. The factory workforce consists mostly of unskilled or low-skilled migrant laborers, the majority of them young women. Factories do provide functional, job-specific training, but instruction on health and safety standards and basic labor rights is almost non-existent. Reports of worker-rights violations are all too common. In many cases, local labor inspectors are inadequately trained; factory managers are unaware of the details of their legal responsibilities and how to meet them; and workers are unaware of health, safety, and labor standards, and how to exercise their rights. As part of our mandate to reach out to all stakeholders in the supply chain, we developed two ICTI CARE Process initiatives to increase factory workers’ access to information.

“We have been under the ICTI CARE program for 5 years. Not until recently we realized that the program is not to penalize factories. In fact it is always the intention of ICTI CARE to help the factories to correct and meet the standard. The key is transparency. Once we are willing to open our books, admit our inappropriate practices and correct our past actions, the ICTI CARE Process is always there to give us a second chance. I strongly recommend the factories work closely with the ICTI CARE Process and we are a good example to benefit from such open communication.”
— Dongguan Tianyu, Toys Co. Ltd.

“我们已参加了‘关爱’程序五年了, 最近我们才明白‘关爱’程序并不是要惩罚工厂。其实‘关爱’程序的目的是要帮助工厂去改正并达到要求, 重点是透明坦诚。只要我们愿意提供真实的文件, 承认不妥之处并进行改正，‘关爱’程序都会给我们机会的。我很推荐工厂更密切地与‘关爱’程序合作, 我们工厂就是在这坦诚沟通中得益的一个好例子。”
— 东莞天宇玩具厂
ICTI CARE Process pocket-size worker information cards
These cards, highlighting worker’s labor rights, have been updated and re-titled “What You Should Know.” They include a toll-free hotline service, provided in tandem with our OHRC NGO partner, a special Chinese SMS service to ask questions and lodge complaints, and a Chinese-language workers section on the ICP website. The cards will be sent to about 1,100 factories by the end of 2010 for printing and distribution to all workers. Plans are to expand this initiative to all ICTI CARE Process factories by mid-2011 and to make their distribution a condition of compliance certification.

ICTI CARE Foundation
国际玩具工业理事会“关爱”基金

ICTI CARE Worker Helpline: 800-6300 321
(Toll free for landline calls)
Dial from Mobile: 020-8154 8562
(You may need to pay for the call)
QQ: 1425 884 619
(For Local Labor Standards enquiries only)

Please also feel free to visit our website:
http://www.icti-care.org/
audience/chinese/factory-workers.htm
and send email to us at asia@icti-care.org

ICTI CARE Process
appreciates your participation in the toy industry and the information below will help you understand your rights. If you have queries please call our helpline at 800-6300 321, or call the local labor bureau.
Your basic rights include (but are not limited to):
1. You have the right to refuse overtime work.
2. You have the right to refuse overtime work.
3. You have the right to refuse overtime work.
4. You have the right to refuse overtime work.
5. You have the right to refuse overtime work.
6. You have the right to refuse overtime work.
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Pilot “train-the-trainer” program
The ICTI CARE Foundation Asia Ltd. (ICFAL) agreed in 2009 to partner, via the German Toy Association (DVSI), with Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ), a German Government-owned corporation in the field of international cooperation for sustainable development, for the purpose of carrying out an 18-month Public Private Partnership (PPP) project in China in 2010-11. This pilot program furthers our joint objective of increasing worker access to information, training, and support. The Chinese Ministry of Commerce (MOFCOM) and the China Toy Association (CTA) are also partners in the project. Eight toy factories will initially be qualified to provide regular in-house training to workers, using innovative videos and providing workers access to a confidential hotline service. Upon successful completion of this pilot, the train-the-trainer program will be rolled out, over time, to more and more factories in the ICTI CARE Process. ICFAL is working with three local NGOs to provide these services — Occupational Health Resource Centre (OHRC), Labor Education Service Network (LESN) and Cultural Communications Centre for Facilitators (CCCF).
Improve and expand communication

Engaging our key stakeholders was essential as we built and improved the ICTI CARE Process over its initial four years. Accordingly, our communications focus has been inward, toward those stakeholders that are direct participants in and builders of our programs, with less outreach to the broader universe. This focus was continued throughout 2008/2009 and will begin a more outward expansion in 2010/2011.

We have employed a number of media to reach our audiences of ICTI’s national toy associations, our Governance Board, our brands, licensors, retailers, factories, auditors/audit firms, NGOs, and regulatory agencies, as well as a limited number of specialist press. Primary among these were our website (www.icti-care.org) and the various databases it contains that enumerate the factories that participate in the ICTI CARE Process, the brands and retailers that have committed to a Date Certain, the retailers and licensors that have agreed to accept our audit results through the convergence process, and the many donors who provided the seed funding that launched and have sustained us during the early years until the ICTI CARE Process becomes self-funding.

We also communicate through monthly news flashes that reach all of these audiences directly and through our website. We have communications vehicles that reach out to specific stakeholders with information they need, including: policy and procedures guidance to factories and auditors; the ICTI Code, Audit Protocol and Guidance documents for factories and auditors; general information leaflets for factories; letters from the President of the ICTI CARE Process to national toy associations and the Governance Board; brochures for broader use at toy industry events and with interested parties; and this biennial Review of Activities. We also provide one-on-one responses to interested journalists.

Direct, in-person outreach is a very important avenue of communications and we use it extensively. The ICTI CARE Foundation President and other senior team members participated in approximately 75 stakeholder meetings and industry events over the past two years, in addition to factory meetings. These included presentations and meetings at major toy fairs (Hong Kong, New York, Nuremberg, Shanghai); member briefings at annual general meetings of national toy associations; presentations at conferences related to corporate social responsibility and at supply chain conferences (e.g., Ethical Corp., Intertek); constructive engagement with the NGO community (China Labor Watch, Fair Spiel, SACOM, Swedwatch); meetings with Chinese, German, and US Government officials; and many meetings with toy company representatives.

If social compliance monitoring is the heart of the ICTI CARE Process, then communications is the lifeblood that reaches out to and coordinates all the many stakeholders that are essential to its effectiveness and growth.
# How We Engage Key Stakeholder Groups

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<th>Overview</th>
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<td><strong>Academia</strong></td>
<td>Through our Governance Board member relationships we engage in dialogue with top universities (e.g., Dartmouth College, Harvard University, Babson College) to draw upon their expertise and to gain important insights on best practices in the area of social compliance. We worked with the University of San Francisco School of Law and the East China University School of Politics and Law in Shanghai in the development of labor education programs. A joint collaboration with Babson College is taking place in 2010 to produce a case study about the ICTI CARE Process.</td>
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<td><strong>Auditors</strong></td>
<td>Monitoring activities are of course key to our success and we work closely with audit firms and technical advisors to ensure we have the right quantitative and qualitative tools to measure compliance with ICTI CARE Process health, safety, and labor standards. We work with audit firms to maintain the integrity of the ICTI CARE Process.</td>
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<td><strong>Brands Retailers/Licensors</strong></td>
<td>Companies and associations let us know how the business context is changing and help us stay abreast of industry challenges. The ICTI CARE Foundation President engages often with these audiences at toy fairs, annual general meetings of national and local toy associations, and CSR conferences. He also holds individual meetings with stakeholders to obtain their insights on improving the program and to generate more support for the ICTI CARE Process.</td>
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<td><strong>Brands Retailers/Licensors</strong></td>
<td>Within China, we work with both the national toy associations (China Toy Association – Beijing; Hong Kong Toys Council and Toy Manufacturers Association of Hong Kong) as well as the regional toy associations in Dongguan and Shenzhen.</td>
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<td><strong>Factories</strong></td>
<td>ICFAL Operations staff meets regularly with individual factory owners/managers to understand their concerns better and to offer information about more sustainable solutions for achieving ICP compliance. Multi-stakeholder seminars have been co-organized by ICFAL and the Chinese and Hong Kong national toy associations to address factory concerns.</td>
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<td><strong>Governance Board Members</strong></td>
<td>Our board members represent the views of a cross section of organizations, help us to prioritize issues, provide strategic guidance, and interface with international organizations relevant to the ICTI CARE Process, such as the International Labor Organization and the International Organization for Standardization.</td>
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<td><strong>Governments</strong></td>
<td>We continually talk with local and national Chinese Government officials from AQSIQ (the General Administration of Quality Supervision, Inspection and Quarantine), the China National Administration of Certification and Accreditation (CNCA), and the Ministry of Commerce (MOFCOM), to stay informed about local economic and labor conditions and policy changes, and to share ICP program developments. A joint public-private partnership project was agreed through the German Toy Association (DVSI) with a German development agency (GTZ) in 2009 to implement a pilot train-the-trainer program for factory workers and managers in 2010/11.</td>
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<td><strong>NGOs/Civil Society</strong></td>
<td>NGO and civil society organizations, and their views, are represented on the ICF Governance Board. We participate in relevant information-sharing exchanges with NGOs, such as those mentioned above, to remain informed on current issues and to share good practices. One joint project included the independent verification of our audit findings in ten ICTI CARE Process factories, obtained through external audits carried out by an NGO partner. Together, we are leveraging our expertise to strengthen the monitoring process.</td>
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<tr>
<td><strong>Social Compliance Organizations</strong></td>
<td>Our partners conduct research projects. For example, INFACF carried out an electronic survey among 1,200 (480 replies) factories to assess their understanding of the ICTI CARE Process. It covered a wide variety of subjects, such as wages, working hours, payment methods, program advantages, disadvantages, and perceived benefits, non-compliance, etc. The full findings will provide valuable insights into the effectiveness of the ICTI CARE Process.</td>
</tr>
<tr>
<td><strong>Technical Advisors</strong></td>
<td>Industry-appointed volunteers from the Americas, Europe, and Asia provided ongoing counsel and technical advice to the ICP team on key issues such as our wages and working hours and child and juvenile labor policies, as well as our auditor training program. The former Technical Advisory Board (TAB) became the newly structured Technical Advisory Council (TAC) during the second quarter of 2010. It will have a direct relationship with the ICTI CARE Foundation through the Governance Board's Oversight and Appeals Committee and its Operations team.</td>
</tr>
</tbody>
</table>
## Our Priorities 2010/11

<table>
<thead>
<tr>
<th>Area of Opportunity</th>
<th>Objective</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operations/Factory monitoring</strong></td>
<td></td>
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<tr>
<td>Full factory participation</td>
<td>Increase number of factories enrolled to 2,600 in 2010, 2,800 in 2011.</td>
<td>Increase effectiveness of outreach to factories, brands, and retailers.</td>
</tr>
<tr>
<td>Environmental health and safety</td>
<td>Increase monitoring focus on this area.</td>
<td>Develop more in-depth environmental auditing criteria.</td>
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<tr>
<td>Brand and retailer commitment</td>
<td>Demonstrate Date Certain compliance to reinforce factory and NGO support.</td>
<td>Establish and implement annual Date Certain Continuous Improvement Program in 2010.</td>
</tr>
<tr>
<td>Factory transparency</td>
<td>Improve wages and working hours practices in factories.</td>
<td>Continue to implement new Continuous Improvement Process (CIP).</td>
</tr>
<tr>
<td>Audit quality</td>
<td>Improve accredited auditor performance and ICP audit criteria.</td>
<td>Revise audit checklist content and implement training course requirements Q1-Q3 2010.</td>
</tr>
<tr>
<td>Audit integrity</td>
<td>Put in place an Audit Integrity Improvement Program to increase quality control and tackle audit integrity issues.</td>
<td>• Evaluate audit firm performance Q2 2010. Issue RFP Q3 2010.</td>
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<td>• Hold bi-monthly meetings with technical managers and quarterly meetings with audit firm directors.</td>
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<tr>
<td>Human resources</td>
<td>Increase ICFAL headcount to meet increased factory auditing and training requirements.</td>
<td>Hire two China-based auditors in 2010.</td>
</tr>
<tr>
<td><strong>Education and training</strong></td>
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<tr>
<td>Ethical manufacturing</td>
<td>Build awareness of factory owners and managers to encourage compliance with ICP health, safety, and labor standards.</td>
<td>Conduct Continuous Improvement Group Training, Tailor Made Training.</td>
</tr>
<tr>
<td>Audit quality</td>
<td>Ensure ICP accredited auditors are maintaining ICP standards and auditing requirements.</td>
<td>Schedule regular Auditor Accreditation Training and Refreshment Training courses.</td>
</tr>
<tr>
<td>Factory worker empowerment</td>
<td>Design and deliver pilot train-the-trainer Public-Private Partnership project in cooperation with GTZ, DVSI, and China Toy Association.</td>
<td>Implement training and education program in 8 medium-sized factories in 2010-2011 including: 3 training videos, hotline service, worker information cards, and audits to monitor impact and results.</td>
</tr>
<tr>
<td>Purchasing practices</td>
<td>Participate in at least one major retailer buyer training program.</td>
<td>Develop ICP training material that educates buyers about impact of purchasing practices on manufacturing.</td>
</tr>
<tr>
<td><strong>Capacity building</strong></td>
<td></td>
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</tr>
<tr>
<td>Factory education</td>
<td>Disseminate ICP information via China Toy Association publications and membership meetings.</td>
<td>Initiate bi-monthly ICP update e-mails for factories, delivered via associations and regular ICP sessions at association meetings.</td>
</tr>
</tbody>
</table>
Facts and Figures

Number of Accredited Auditors

Growth in Factory Audits Conducted 2007-2009

Audits and Man-Days

QC Audits

Seals of Compliance Issued

Number of Factories Awarded a Seal of Compliance 2007-2009
Number of Factories in the ICTI CARE Process 2007-2009

Annual Income (US$)*

Program Breakdown

2008

- Communications: 12%
- Education & Training: 25%
- Stakeholder Engagement: 13%
- Auditing: 50%

2009

- Communications: 12%
- Education & Training: 23%
- Stakeholder Engagement: 15%
- Auditing: 50%

*Income from all sources
Governance Board Members

Co-Chair: Alan Hassenfeld
Chairman of the Executive Committee of the Board of Directors of Hasbro, Inc.

Co-Chair: Maria Livanos Cattaui
Member of the Board of Directors, Petroplus Holdings; former Secretary General of the International Chamber of Commerce (ICC)

Amir Dossal
Executive Director of the United Nations Fund for International Partnerships (UNFIP)

Peter Eio
Former President of LEGO in the Americas and former Chairman of the Toy Industry Association

Gary Hutchens
Former President of the Australian Toy Association; former President of the International Council of Toy Industries

George Irwin
Chairman and CEO of IToys Inc.

Geoff Massingberd
Senior Vice President, Corporate Responsibility, Mattel

Alan Munn
Former President and CEO of Tomy Europe; former Chairman, Toy Industries Europe (TIE) and British Toy and Hobby Association (BTHA)

Jane Nelson
Senior Fellow and Director of the Corporate Social Responsibility Initiative at the Kennedy School of Government, Harvard University; Director, Business Leadership and Strategy at the Prince of Wales International Business Leaders Forum (IBLF)

William Reese
President and CEO of the International Youth Foundation

Paul Rice
President and CEO of TransFair USA

Arnie Rubin
Chairman of the International Council of Toy Industries (ICTI) and Chairman of the Toy Industry Foundation

Pär Stenbäck
Former Minister of Foreign Affairs of Finland; former Secretary General of International Federation of Red Cross and Red Crescent Societies; founding Executive Board member, International Crisis Group; Founder and Chairman of the Finnish Children and Youth Foundation

Kenneth Ting Woo-Shou
Chairman of Kader Industrial Company Limited

T.S. Wong
Managing Director of Jetta Company Ltd, Honorary President of Hong Kong Toys Council and Toys Manufacturers’ Association of Hong Kong
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The ICTI CARE Foundation gratefully acknowledges the gifts given to our organization. The generosity of our friends has allowed us to continue our work, setting the highest industry standards for ethical manufacturing by the worldwide toy industry.

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BRO
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China Toy Association

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Kenneth Ting
T.S. Wong
“The ICTI CARE Process is continually seeking new ways to advance health, safety and labor standards in the factories where we manufacture our products. We view our commitment as an opportunity to improve the lives of the workers who produce the toys enjoyed by children around the world.”

—Governance Board members of the ICTI CARE Foundation
