LICENSEE CAPABILITY ASSESSMENT PROGRAM

Since 2012, Disney has used a licensee pre-assessment program, developed by the human rights NGO Social Accountability International (SAI), to help evaluate the capability of prospective licensees to manage labor standards in their supply chains. This assessment takes place before agreements with Disney are finalized and a license to produce Disney-branded products is granted. This assessment program is different from the on-site facility monitoring program that has been part of Disney's International Labor Standards (ILS) Program requirements since 1996. While the ILS Program assesses facility conditions in their current state, this licensee pre-assessment program is meant to measure how well licensees are prepared to manage labor standards within their supply chains in a more systematic way. Currently, prospective licensees in North America and Southeast Asia must be qualified under this pre-assessment program in order to move forward with their licensing agreements.

Guided by the principles of scalability, credibility, and practicality, the licensee capability assessment for labor standards has become an integral part of the licensee vetting process – as important as capabilities in product design, retail or distribution expertise, financial stability, product integrity and general business viability. By helping Disney identify those prospective licensees that are most capable in managing labor standards, this program may help reduce labor standards violations where Disney-branded products are produced.

Starting in North America, the process has so far evaluated the capabilities of more than 200 companies across nine dimensions:

- Policies and Procedures
- Internal Social Performance Team
- Management of Supply Chain
- Integration of Compliance and Sourcing
- Complaint Management and Resolution
- External Verification and Stakeholder Engagement
- Training and Capacity Building
- Risk Assessment and Monitoring
- Corrective Action Plan

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Now fully integrated into our North American and Southeast Asian licensing operations, the assessment program is in the process of expanding to licensing operations to all regions within Disney's licensing operations.

Key results and learnings from this program so far are:

- Some prospective licensees, particularly smaller companies, had little prior exposure to or experience with labor standards in their supply chains. This was taken as an opportunity to educate more businesses about good practices with respect to responsible supply chains. It also identifies the need for small- and medium-sized enterprises to have greater access to practical, user-friendly tools to help build their capability to work with their suppliers on labor standards.

- Scores in the category of "Risk Assessment and Monitoring" were the highest, reflecting the fairly well-developed field of social compliance auditing.

- Scores in the category of "External Verification and Stakeholder Engagement" were lowest, suggesting limited understanding of who and how to engage relevant groups in sourcing markets.

- There was little difference in the scores of prospective licensees across different product categories, from fashion, home goods, personal care and other products.

- The data also reveals that larger companies achieved higher scores, suggesting that the larger the company, the more infrastructure, staffing and management systems are in place to address a range of business needs.

Additional information on SAI and the Social Fingerprint® program can be found at www.sa-intl.org.

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