

VIOLENCE FOR SALE: RETAIL GUIDELINES FOR THE SALE OF VIOLENT VIDEO GAMES

Members of the Interfaith Center on Corporate Responsibility (ICCR), a coalition of 275 faith-based institutional investors with combined assets over \$110 billion, are encouraging all video game retailers to adopt and enforce video game sales policies that reflect good practices in the industry to ensure that Mature (“M”)-rated video games for audiences ages 17 and older, containing graphic violence, strong sexual content and racist themes, are not sold to minors. Socially responsible shareholders encourage retailers to implement and monitor these guidelines in order to diminish reputational risk and preserve and enhance the value of our shares.¹

Research on violent media that is interactive suggests that it has a stronger and more lasting effect on behavior than violent movies and television programs. As awareness of the effects of these games grows, several recent studies have shown the ease with which minors are able to purchase violent games. Although games labeled “M” require purchasers to be 17 years or older, many retailers do not routinely enforce this standard. The sale of violent video games to young people has generated negative media attention, demands for legislation, and in some cases lawsuits, potentially harming retailers’ reputations and causing consumers to question the ability of retailers to enforce age requirements.

Recommendations for Retailers

Socially responsible shareholders recognize that the sale of appropriate video games to children requires the cooperation and collaboration of the entire video game industry, including game developers and producers, the ESRB, government, as well as consumers and parents in ensuring that their children are purchasing and playing age-appropriate video games. Retailers also have a critical role to play, by adopting and enforcing the industry’s guidelines. After working effectively with major retailers that have policies and programs in place, including Best Buy, Target, Wal-Mart, and Circuit City, ICCR shareholders pulled together the “best practices” from these policies into one cohesive set of guidelines, and now call for their strict implementation. Shareholders also challenge those retailers who have not yet done so, to create strong and effective policies, using the guidelines as model.² The guidelines call on retailers to:

- ✓ Educate shoppers through signage and brochures that explain the store video game sales policy and the ESRB rating system;
- ✓ Train staff to ask for identification from customers purchasing “M” rated games who appear to be under 30;
- ✓ Devise monitoring mechanisms through the use of mystery shoppers to ensure implementation of policies;

¹ The “Mature” or “M” rating is one of several ratings created by the Entertainment Software Ratings Board (ESRB). The ESRB provides information about game content and can inform purchase decisions. The ratings consist of a symbol to suggest age appropriateness for the game, and content descriptors to indicate elements in a game that may have triggered a particular rating and/or may be of interest or concern. ESRB states that it independently applies and enforces ratings, advertising guidelines, and other principles adopted by the computer and video game industry. Because most major retailers do not sell Adult Only games - - games that should only be played by persons 18 years and older, according to the ESRB - - shareholders’ focus is on Mature-rated video games

² The information provided is current as of November 1, 2005 and is accurate to the best of our knowledge.

- ✓ Confirm the age of online purchasers to complement in-store identification checks; and
- ✓ Report the results of policy implementation in annual corporate social responsibility reports and on company websites to enhance the credibility of these programs and educate consumers about them.

Components of a Responsible Video Game Sales Policy

Based on our discussions with major retailers, we have found that an effective, responsible and well-monitored video game sales policy and/or program should:

1. Describe implementation of the company's video game sales policy;
2. Designate accountability;
3. Outline enforcement of company policy;
4. Create monitoring mechanisms;
5. Incorporate enforcement of the overall industry-created video game ratings system; and
6. Report on performance.

By providing information about these elements of the company's video game sales policy and program, retailers can build credibility with customers and provide information to stakeholders, such as congressional leaders, parents, shareholders, and community members who may be critical of retailer efforts to date.

We are aware of publicly disclosed video game sales policies at the following retailers:

Best Buy:

<http://www.bbycommunications.com/newscenter/docs/SaleofMratedgames.pdf>

Target: http://www.target.com/gp/browse.html/ref=sc_fe_l_2_1042122_2/601-9246795-5509756?%5Fencoding=UTF8&node=14306571

Circuit City: <http://www.circuitcity.com/rpsm/cat/-13223/edOid/120424/rpem/ccd/lookLearn.do>

Wal-Mart: <http://www.wal-martfacts.com/keytopics/merchandising.aspx#a162>

Protecting Shareholder Value

Given our role as shareholders in many of the retail firms that sell and rent these video games, the report is focused on how retailers can better address the risks posed by the sale of violent video games to minors and how sales of these games to those under 17 could impact the value of our investment. We are therefore calling on the retailers to proactively create and implement clearly formulated, well-monitored and effective policies to ensure the sale of age-appropriate video games to consumers.

These policies can help retailers be better neighbors in the communities that they serve, can diminish legislative, legal, and reputational risks, and in turn more adequately protect shareholder value. The spate of bills that have been or are being proposed throughout the country attest to the legislative risk that exists - - for example, the Gov. of Michigan recently signed a package of games bills into law which could impose heavy penalties on retailers caught selling or renting violent games to minors, while a bill in California would require that a business manager who lets a minor view or play a violent game face up to 93 days in jail and/or a fine of up to \$25,000.

Shareholder Concerns Regarding Implementation

Presently, retailers self-monitor their performance when it comes to ensuring that M-rated video games are only purchased by those 17 years and older. While many major retailers now say they have a video game sales policy, there is room for improvement when it comes to implementation. As a recent example, the National Institute on Media and the Family's 2005

MediaWise Video Game Report Card found that in 46 attempts, children between the ages of 9 and 16 were able to buy M-rated video games 44% of the time. They rated retailers' enforcement of their policies a "D-".³ Although the sample size was small, these results raise concerns about successful policy implementation. An exception was Best Buy, whose policy and enforcement were found to be "flawless" by the report card.

A similar report produced by The New York City Council in 2004 found that three-quarters of unaccompanied children ages 13–16 were able to buy violent games for mature audiences.⁴

The Federal Trade Commission (FTC) also reports on the performance of the video game industry. Its 2004 report on the marketing of violent entertainment to children, including video games, encouraged retailers to provide better disclosure of ratings and more widespread implementation and enforcement of sales policies.⁵ Regarding the electronic game industry's marketing and advertising of Mature-rated games in popular youth-oriented media, including game enthusiast magazines popular with teens, the FTC's report also recommended that the video game industry (as well as the movie and music industry) improve their efforts to avoid advertising restricted or labeled products in venues popular with under-17 audiences.

Creating and Strengthening Policies

Members of ICCR plan to continue their discussions with retailers, including Best Buy, Circuit City, Target, Toys"R"Us, and Wal-Mart, as well as step up engagement with the many retail companies that do not appear to have video games sales policies, about implementation, accountability, enforcement, monitoring, and reporting.⁶ Retailers that strengthen these elements have the potential to gain credibility with important stakeholders, decrease reputational risks, including loss of consumer confidence, and improve their reputation while minimizing the potential for regulation and legislation. As socially responsible investors, we believe that risks could largely be averted through meaningful communication and interaction with affected stakeholders and through effective implementation and enforcement of video game sales policies and procedures that are sensitive to the issues presented by the sale of violent, mature-rated video games to minors.

³ "10th Annual MediaWise Video and Computer Game Report Card," *National Institute on Media and the Family*, November 2005. <http://www.mediafamily.org>

⁴ "Parental Advisory: Violent Video Games are Not Child's Play," *The Council of The City of New York*, December 2004.

⁵ "Marketing Violent Entertainment to Children: A Fourth Follow-Up Review of Industry Practices in the Motion Picture, Music Recording & Electronic Game Industries: A Report to Congress," *The Federal Trade Commission*, July 2004.

⁶ Shareholders seek dialogue with other key retailers in the future, such as Sears/K-Mart and GameStop.

Elements Of An Effective, Responsible, And Well-Monitored Video Game Sales Policy

I. Make it Easy for Customers to Know your Policy

a. Post the Video Game Sales Policy in Easy to Find Locations:

- ✓ Post the policy in the employee break room.
- ✓ Display the policy in-store by the M-rated games and by cashier stations.
- ✓ Include the policy online on the video game page and as a pop-up or link when an M-rated game is being reviewed or purchased.

Examples: Best Buy and Target reported to shareholders that their video game sales policy is posted in employee break rooms. In addition, Best Buy, Circuit City, Target and Wal-Mart have placed their policy on their websites.

It is recommended that retailers place their policies in the video game section of their website, as does Circuit City, Target and Wal-Mart. Best Buy's policy could only be found on the corporate section of its website and required much maneuvering before it was located.

Game Stop, Costco, Sears, K-Mart⁷, Toys"R"Us, GameFly, and many other retailer that sell or rent M-rated video games did not appear to post policies on their websites.

Good Practice: Shareholders are aware of publicly disclosed video game sales policies at Wal-Mart, Best Buy, Target, and Circuit City. These retailers represent the best practice by having and disclosing a policy to stakeholders.

All retailers are strongly encouraged to create policies and to place them prominently in-store, and in clearly designated and easy to find locations that are part of the online sales website in addition to the corporate section of the website.

Wal-Mart, Target, and Circuit City's online policies are easy to locate and can be found on the main page for Video Games. Target has also included its policy in its Corporate Responsibility Report, which can also be found online.

A full description of the ESRB ratings and content descriptors was provided on the websites of Best Buy, Circuit City, Target, Toys"R"Us, Hollywood Video, Blockbuster, Gamestop, and Wal-Mart. The full ESRB ratings display was not apparent or difficult to find on Sears, GameFly, Costco, and Kmart websites.

b. Prominently Display Signs and Brochures To Raise Awareness:

- ✓ Post signs by the video game section and by cashier stations that alert customers to the age requirement for M-rated games and that identification will be requested upon checkout.
- ✓ Display signs and brochures that explain to consumers the overall video game rating system.

⁷ Sears and K-Mart are operating as separate stores at the time of the writing of this report.

Good Practice: Best Buy's signage clearly states that IDs will be checked for M-rated video game purchases and defines the 17 year old age limit. In addition, Best Buy does not place M-rated video or computer games on its in-store interactive displays. Target runs public service videos on a periodic basis that explain the ESRB rating system.

c. Restrict Advertising of M-rated Games in Youth-oriented Media:

- ✓ Do not advertise M-rated games in television or print advertisement geared to audiences under 17 years of age.
- ✓ Improve rating information disclosure by over-sizing or otherwise emphasizing "M" ratings in circulars and on websites.

Good Practice: Wal-Mart will not advertise Mature-rated games in its circulars, the strongest policy on circulars that we are aware of. Target advertises M-rated video games in its circulars with an oversized M-rating symbol for easier identification, and its video game sales policy states that it "does not place advertisements for M-rated games in publications specifically targeted to teens or younger audiences." Best Buy states in its policy that it does not advertise M-rated games on television.

d. "Check IDs" Online:

- ✓ Implement stronger protections to restrict sales to M-rated games by minors *online*.
- ✓ Require online purchasers to confirm that they meet the age requirements necessary to buy M-rated games.
- ✓ Allow customers to shop online for video games by rating to encourage age-appropriate purchases.

Good Practice: Circuit City and Wal-Mart allow customers to "shop by rating," a feature that can help consumers align purchases with the age of the video game recipient. Toys"R"Us has a "Kids Safe Zone" on its web site for games rated "E" (Everyone-ages 6 and older) and "EC" (Early Childhood- ages 3 and older) and places other games in its "R Zone" section.

Wal-Mart's website automatically displays a warning to customers attempting to purchase an M-rated game that the purchaser must be 17 years of age or over. Potential purchasers are then required to click on an icon to verify their age and continue with the transaction. This can be an important first step and a complementary effort to the ways in which it restricts access to minors of mature-rated games at its store locations. From Walmart.com:

Warning: You must be 17 or older to purchase this item.

This product is intended for mature audiences only. By ordering this item you are certifying that you are at least 17 years of age.

If you agree to the above terms and conditions, click "I Agree."

 I Agree

e. Provide Information In Your Policy and Share Results:

- ✓ Let stakeholders know about the various elements of your video game sales program directly in the policy.
- ✓ Relay results to senior managers and employees of mystery shops, the number of employees trained, and other elements of the video game sales policy.
- ✓ Establish a process to collect, analyze, and report on data collected.
- ✓ Publicly communicate results, enforcement and implementation efforts to inform and build trust with stakeholders and demonstrate the seriousness with which the company is implementing its policy.

Good Practice: Best Buy and Target provide the most comprehensive information about their video games sales program directly in their policy so that readers are aware of the way policies will be implemented. For example, both Target's and Best Buy's policies mention training, signage, register prompts, advertising, and compliance. In addition, Target's policy mentions training employees "to talk with parents about video game/software content, playing habits and age-appropriate titles." Best Buy's policy is distinguished by referring to audits and disciplinary action.

Retailers should provide information to stakeholders every six months with results from their efforts to restrict access of M-rated games. Since most retailers' policies have been in place for at least six months, this creates an opportunity for retailers to provide even short-term results about policy implementation to stakeholders. While there may be concerns about confidentiality, retailers can provide general information to indicate improvements or if additional, intensified training is warranted. We believe this could enhance credibility and instill greater confidence in the present system that relies on retailers to monitor their own performance.

Best Buy has stated that internally its stores "review and report compliance quarterly to ensure that all employees adhere to the policy."

II. Implement and Enforce the Policy

a. Train Employees On The Video Games Sales Policy:

- ✓ Fully train staff on the company's video game sales policy, ensure they are aware of the age requirements for M-rated games, and that they convey to shoppers that identification will be requested when purchasing these games.
- ✓ Educate new employees and refresh the knowledge of current employees on a continuous basis to account for employee turnover.
- ✓ Emphasize training during peak sales periods, such as the holiday season.
- ✓ Provide video game sales staff with training to be able to suggest age appropriate videos to shoppers.

Best Buy, Circuit City, Target, Toys"R"Us and Wal-Mart have incorporated their policies on video game sales into their employee training materials.

Good Practice: As noted in Target's video game sales policy, members of the electronics department must complete a video game product knowledge training to enhance awareness of the ESRB rating system and the types of games available for each gaming platform based upon their age-appropriateness. Best Buy states in its policy that it "reviews its policies and initiatives with employees to emphasize their importance. The company's training videos include the carding policy for M-rated video and computer games." Circuit City's policy says that it "has taken an active role in educating our associates and the public on the sale of movies, music and video games with mature content."

b. Create a Sense of Shared Responsibility:

- ✓ Reward employees who receive favorable ratings on mystery shopper audits and who consistently comply with policies to help staff feel responsible for successful implementation of the video game sales policy.
- ✓ Initiate disciplinary action for non-compliance to demonstrate the seriousness with which the company takes implementation of its policy.
- ✓ Assign senior level managers with responsibility for overall compliance with the video game sales policy.
- ✓ Tie the compensation program of senior managers to criteria associated with improvements in implementation of the video game sales policy.

Good Practice: Best Buy receives a signed agreement from its employees confirming that they have read and agree to implement Best Buy's policy, including its video game sales policy. Further, the company clearly states in its policy that disciplinary actions will be taken if employees fail to follow the policy and the company has also implemented a program component to reward excellent results.

c. Program Cash Registers:

- ✓ Program registers with "prompts" that remind cashiers to verify the age of customers purchasing "M"-rated games.
- ✓ Provide cashiers with information, either through the register or another method, so that they can know quickly and easily the birth dates eligible to purchase M-rated games.

Most of the major retailers, including Best Buy, Circuit City, Target, Toys"R"Us and Wal-Mart have register prompts in place.

Good Practice: In addition to prompting cashiers to request identification from potential purchasers of M-rated games, Target also requires cashiers to enter the birth date of a purchaser who appears to be under 30 years old.

d. Conduct Internal Audits:

- ✓ Monitor compliance with the company policy by auditing cashiers using a “mystery shopper” program to make sure they are asking for ID from any customer who appears to be under 30 years of age and is attempting to buy mature (M-rated) video games.
- ✓ Incorporate a commitment to enforcement in video game sales policies and note the use of audit mechanisms.

Some retailers conduct internal audits, but the scope and breadth of these programs vary. Only Best Buy mentions in its policy that it will monitor enforcement using audits.

Good Practice: Best Buy conducts its internal audit program frequently. The company’s policy states: “To ensure compliance with its video and computer game sales policy, Best Buy has implemented an aggressive store audit program. “Mystery shoppers” are sent to more than 100 stores each month to determine how well cashiers are complying with the company’s policy. These random audits allow the company to take appropriate action to correct problems immediately, if any are found.” We are not aware of any other retailer that conducts audits at so many of its stores or with this frequency.

e. Differentiate M-Rated Games:

- ✓ Set apart M-rated from other video games by placing them in a separate location in the video game area.
- ✓ Place a brightly colored or large “M” sticker on M-rated games so that purchasers are aware that the game they are purchasing is for only people 17 and older. While M-rated games have an “M” in the lower left hand corner of the video game box, it is a small icon that could be overlooked.
- ✓ Identify M-rated games by emphasizing the M-rating icon online or in circulars.

Conclusion

Video games can offer a creative and potent venue for advancing positive learning experiences and for entertainment. They can also contain violence and sexual content unsuitable for children. Game developers and retailers can help by following the standards that their industry has created to help restrict access by minors to M-rated video games. With this report, shareholders have provided guidelines and noted good practice by retailers. Full compliance of these guidelines would convey a clear statement from retailers to consumers: “protecting children from the excessively violent and sexual content of some video games is a priority for our company.” It would also convey an important message to investors. Implementation and enforcement would protect a retail company from legal, legislative, reputation, and bottom line risks. ICCR members will continue working with retailers to prevent children’s access to violent video games and to develop a positive system for people to enjoy age-appropriate entertainment.

About The Interfaith Center on Corporate Responsibility (ICCR)

For over thirty years ICCR has been a leader of the corporate social responsibility movement. ICCR's membership is an association of 275 faith-based institutional investors, including national denominations, religious communities, pension funds, endowments, hospital corporations, economic development funds and publishing companies. ICCR and its members press companies to be socially and environmentally responsible. Each year ICCR-member religious institutional investors sponsor over 100 shareholder resolutions on major social and environmental issues. The combined portfolio value of ICCR's member organizations is estimated to be \$110 billion. www.iccr.org