

MIMCO

**MATTEL INDEPENDENT MONITORING COUNCIL
FOR GLOBAL MANUFACTURING PRINCIPLES**

AUDIT REPORT 2002

MATTEL JAKARTA DUA (MJD) - INDONESIA

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MIMCO AUDIT REPORT

Mattel Jakarta Dua (MJD) – Indonesia

Introduction

This report is based on the field audit of the MJD plant that was conducted by the MIMCO team on May 7, 2002. This was the second comprehensive audit of the MJD facility. The first such audit of the plant was conducted by MIMCO on April 8-10, 1999.

The MJD plant is located in the Cikarang Industrial Estate, in Jakarta, Indonesia. It is 100% owned by Mattel. The MJD plant is dedicated to the production of “Barbie” and “fashion” dolls.

It should be noted here that at the time of this audit, MJD was in the process of being consolidated with MJS. Henceforth, there would be one general manager, one set of staff and line managers for the combined facility.

MJD – WORKER PROFILE, 2002

The plant currently employs approximately 3900 workers. Of these 98% are direct labor (manufacturing) and the remaining 2% are administrative and clerical staff. The MJD workforce is predominantly female, with an average age of 22.50 years. Most of the workers have completed high school and some even have attended college level courses. The plant started operations in 1999. For a majority of the workers, MJD is their first job and place of employment. Average length of employment for plant workers is approximately 3.0 years.

AUDIT FINDINGS

Worker Hours, Wages and Benefits

MJD operates on the basis of 6 days per week. Each normal day (or shift) consists of 7.5 hrs. of work and 30 minutes of lunch break for a total of 8.0 hrs. Saturday consists of overtime of 7.5 hours and 30 minutes of lunch break. Sunday is considered a rest day.

Indonesian Labor Law stipulates a maximum of 54 hours per week. The company has received an authorization letter from the Department of Manpower allowing overtime to be worked to a maximum of 66 hours per week and 11 hours per day. However, based on GMP standards, MJD caps the maximum number of hours at 60 hours. per week, with additional hours permitted on an exception basis justified by urgent maintenance or production requirements.

The plant normally operates on a 3-shift basis for all machine-based processes, e.g., injection molding. The sewing operation, which employs the largest number of workers, operates on a 2-shift basis.

Under Indonesia's labor law, minimum wage is Rp. 575,500 per month. MIMCO's analysis of the payroll data indicated that no worker received less than legally mandated minimum wage. There were no violations of overtime hours or rest days. All overtime hours were paid as legally required. The minimum wage paid to workers at the MJD plant exceeded the regional wage mandated by the labor law. Overtime work is paid on the basis of 1.5 – 2.0 times normal hourly wages. Rates for rest days and holidays vary from 2 to 4 times normal hourly wages.

MIMCO's analysis of workers' payroll data indicated that MJD was in compliance with regard to minimum wage and overtime pay rates. Actual hours worked during the month of June (the period covered under the audit) did not exceed 176 hours and were well below the maximum hours for which MJD had received approval from the Indonesian government.

MJD has a relatively developed structure of social benefits, which is understood and appreciated by the workers. The plant provides a broad range of benefits to its employees. These include a government mandated Worker Social Insurance Program, Medical coverage, life and accident insurance. Female employees are eligible for 90 days of maternity leave. All workers interviewed confirmed that they were receiving social security insurance and compensation for workplace accidents. An overwhelming majority of the workers interviewed by MIMCO, indicated that they participated in the company's retirement plan (92%), and received severance pay benefits (88%).

In addition, MJD workers received a variety of allowances including shift allowance, bonuses for good performance, attendance, productivity and special skills. Over 88% of the workers interviewed by MIMCO indicated that they earned at least one type of performance bonuses. When asked as to the types of bonuses earned, over 34% of the interviewed workers indicated they received bonus based on individual performance, 11% indicated receiving group performance bonuses for meeting production quotas. Another 27% received bonuses on the basis of line performance, and 56% stated that they received good attendance record bonus. This figure is an improvement over the previous audit of the MJD plant in February 1999, when 42% of the interviewed workers indicated receiving good attendance record bonus. To verify the accuracy of payroll

data, MIMCO conducted one-on-one personal, confidential interviews with a randomly selected group of workers, constituting a representative sample of the plant's entire workforce. Trained interviewers, employed by MIMCO, conducted these interviews in the workers' native language. The interviewers were generally similar in age and gender categories of the plant workers.

Approximately 4% of the interviewed workers indicated that they personally had been required to work overtime against their will or when they were sick or had other personal reasons. In addition, 8% stated that they knew of other co-workers who had been subjected to forced overtime. MIMCO believes that these numbers are symptomatic of a larger problem at the plant, namely, that workers are often pressured by their supervisors to work overtime when they are otherwise reluctant to do so. This observation is confirmed by other responses from the workers who were randomly selected by MIMCO for one-on-one confidential interviews. An indirect manifestation of this situation can also be found in the fact that according to factory records, a large proportion of worker visits to the factory clinic were attributed to 'exhaustion'.

The pattern of involuntary overtime found in MJD is similar to the one found in the case of MJS. It suggests that the plant management is aggressive in pursuing a policy of workload and overtime hours in order to meet production quotas.

Recommendations

Our recommendation here is the same as in the case of MJS. Now that the two plants have been consolidated in one integrated facility and under one General Manager, we would expect that the new management would move swiftly to remedy this situation. MIMCO recommends that MJS-MJD review its policies and procedures with

regard to establishing production quotas and scheduling overtime. In particular, management should remind plant-floor supervisors and line leaders to ensure that all overtime must be voluntary and that under no circumstances should workers be asked to work overtime when sick or otherwise indisposed.

MJS-MJD should also set up procedures where workers can file complaints when they have been required to undertake involuntary overtime. Moreover, these procedures should emphasize that no worker would be penalized in terms of continued employment, promotion, work assignment, or performance bonuses because of the worker's refusal to do forced overtime.

We would also recommend that Mattel's internal audit group undertake an unannounced follow-up study – using a significantly larger sample - within 60-90 days of the issuance of this report to assess the effectiveness of the management's corrective measures. The findings of this study should be made available to MIMCO. In case it is deemed necessary, MIMCO may also choose to undertake a follow-up visit at a future date.

Management Response

In its response, MJD management stated that it concurred with MIMCO's finding that workers sometimes feel pressured by their supervisors to work overtime. MJD states that all workers are required to undertake automatic 8 hours of overtime (in a normal week of 48 hours). Workers accept this requirement as a condition of their employment. According to MJD management, "Informal interviews conducted by management do indeed give an impression that both peer and leader pressure play a role in encouraging workers to work overtime. Modulation of this pressure needs to be

effected via direct coaching of the leaders and the establishment of complaint mechanism to allow workers to seek relief should the pressure be perceived as excessive. We have already incorporated the counseling process in our daily meetings with leaders. Separately, using both the information kiosks and internet facilities in dorms and plants in the coming month, we will provide direct access to the General Manager's office via e-mail. This mailbox will afford the workers the option of maintaining anonymity, but at the same time provide a means to process worker complaints of any kind, identify the source of any potential coercive pressure and request a personal meeting the GM or Department Director with whom the workers feel most comfortable to discuss their complaints.”

MJD management found MIMCO's finding troublesome with regard to workers' complaints of being pressured to work overtime when “tired or sick”. Management has offered a variety of records, e.g., workers reporting sick or tired at the plant's clinic, and workers being given paid absence from work when there is documented evidence of sickness, etc. MIMCO accepts the veracity of management's documentary evidence. However, this is precisely the reason why MIMCO undertakes confidential, one-on-one interviews of a randomly selected group of workers. It reveals the workers' own experiences regardless of whether they coincide with the management's assessment of the situation. These findings call for additional effort to ensure that documentary evidence reflects existing facts reported by the management and also as they are experienced by the workers.

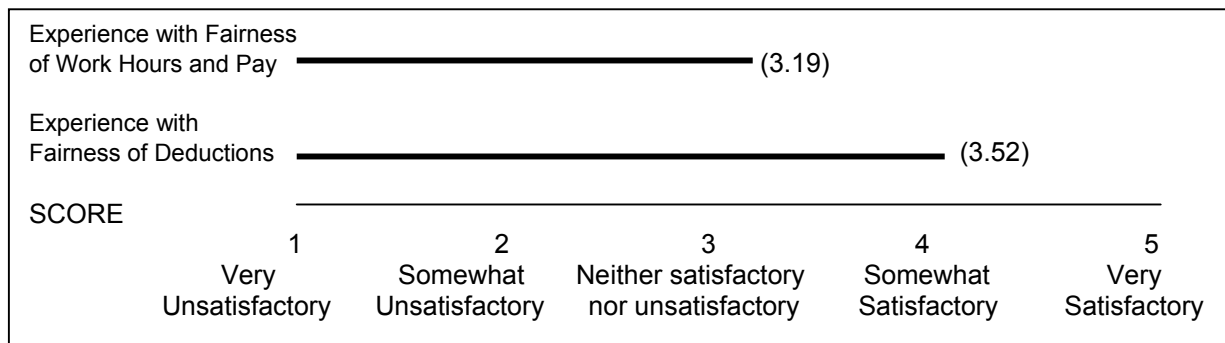
Understanding the Pay-Stubs and Check-Ins

MJD uses bar-code system of recording hours worked. Employees are obliged to punch their time cards upon arriving and when they leave the plant. This practice was unanimously confirmed by worker interviews. However, over 7% of the workers also stated that they had occasionally worked without punching the time card.

Most of the workers interviewed by MIMCO (96% and above) indicated that they understood their pay stubs and the calculations with regard to regular and overtime hours worked, paid holiday, tax and other deductions.

When asked for their overall assessment as to the fairness of working hours, pay and deductions, the workers ranked MJD at 3.19 and 3.52 on a scale of 1 through 5 (Figure 1).

Figure 1



Patterns of Recruitment and Initial Hiring Experience

Over 58% of the workers got their jobs by directly applying at the plant site while the remaining 42% of hires were referred by friends, relatives, and current employees.

MJD has a systematic worker orientation program starting from classroom and then continuing with on-the-job training. All new hires receive a written employment contract. They must also undergo a medical examination (provided at plant's clinic)

unless they can provide evidence, e.g., doctors certificate, of having received a medical examination at another facility within 6 months of their being hired at MJD.

MJD puts strong emphasis to ensure that workers are not denied employment based on gender, age, ethnicity, pregnancy or existing illness, provided they can perform the tasks generally assigned to the workforce at large. According to MJD's management, "This is a stark differential enjoyed by Mattel workers over other factory workers in Indonesia. In fact, at any given time, the company employs several hundred pregnant workers, along with substantia number of individuals with physical challenges of one form or another."

With regard to medical check-ups, MJD states, "This is the first complete physical examination they [workers] have received. Given the extraordinary prevalence of Tuberculosis, Typhoid, Hepatitis-B and Anemia among Indonesian workers, health screening and initiation of treatment are critical to both their productivity and their potential impact on the workforce at large. The medical examination, which is repeated annually, includes a basic physical, chest x-ray, urinalysis, blood screening for anemia and Hepatitis-B, a dental exam and vision test. Vaccinations for Hepatitis-B and Typhoid are provided (unless refused by the worker) and treatment commences for any illnesses detected in the initial screening, fully paid for by the company-funded managed care program."

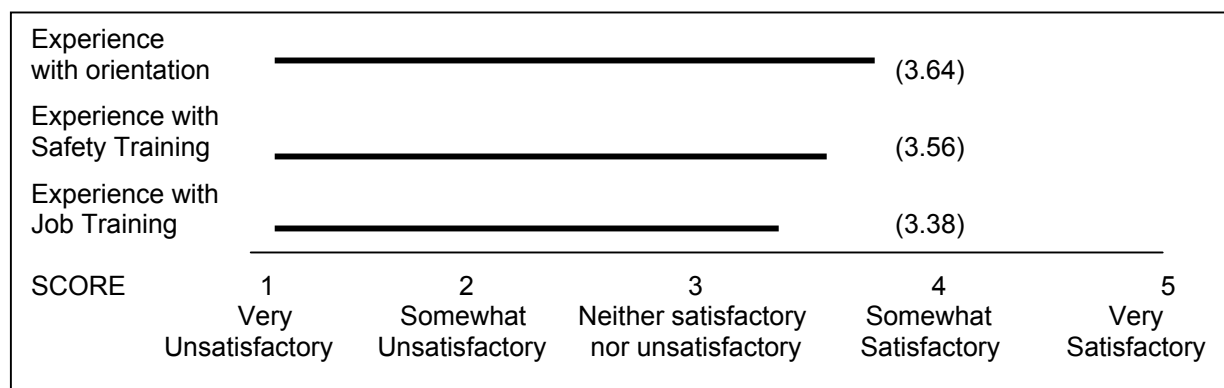
All new workers serve a probationary period of 3 months during which they receive wages and overtime pay similar to permanent workers. Workers achieve permanent status upon satisfactory completion of the probationary period and provided there were vacancies in the ranks of permanent workers.

All new hires receive one day of training. It includes in-class lectures pertaining to wages, working hours, factory rules and procedures, safe handling of hazardous materials. They also receive training on specific machines to which they would be assigned for work.

Overall, the workers were quite satisfied with the thoroughness of their orientation at the time of initial employment. Workers, almost unanimously, confirmed that they received information on wages and overtime polices, normal and overtime working hours, bonuses, benefits and deductions, grievance, procedures, disciplinary measures and guidelines, and new rules of conduct. They were given tour of the plant and dormitories, and had informal meetings with other workers. They also indicated having addressed by senior management. Finally, the workers indicated that they received training in the operation of machinery to which they were assigned, and also the use of personal protective equipment (PPE).

When asked to describe their overall feelings and experience with regard to initial hiring and orientation, the interviewed workers rated their experience as falling between neutral and somewhat satisfactory (Figure 2). In their un-structured, qualitative responses, a majority of workers expressed the need for receiving instructions on a regular basis on the operation of machinery and other plant-related safety measures.

Figure 2

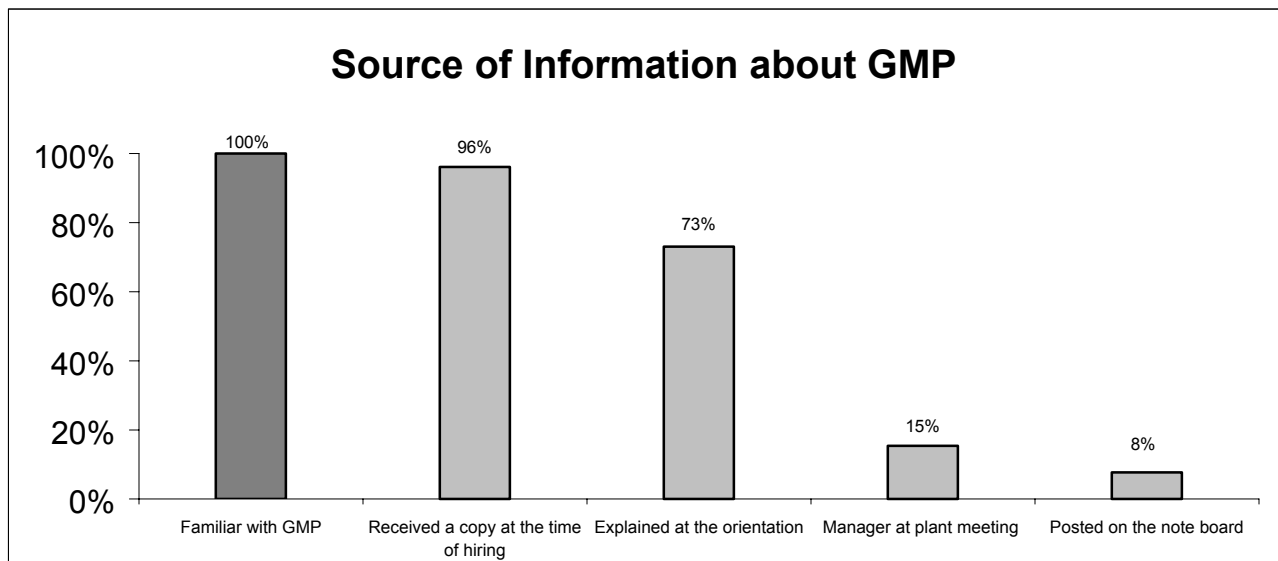


Awareness of the GMP

The MJD plant management puts a lot of emphasis on promoting Global Manufacturing Principles (GMP).

Workers' responses in MIMCO interviews indicated that a very large majority of them was familiar with GMP and received GMP-related information through multiple sources (Figure 3).

Figure 3



Workplace Discipline of Workers

According to management, majority of infractions are handled through verbal or written warnings. Among the interviewed workers, 15% mentioned that either they or someone they knew had been disciplined at work. Among the major reasons for disciplinary actions reported by the interviewed workers were issues pertaining to defective work, and slow work. When asked to rate personal experience with regard to workplace discipline, workers gave satisfactory response by giving rating of 3.73.

Worker Treatment

Workers interviewed by MIMCO expressed great satisfaction about the helpfulness of the line leaders (96%) and also mentioned that workers are treated fairly and with respect (96%).

Work Environment of Manufacturing Operations and Related Facilities

The MJD is air-conditioned and provides a comfortable and safe environment. The plant keeps detailed and up-to-date records, which meet the GMP requirements.

Workers interviewed by MIMCO mentioned that the factory was generally clean (100%), and adequately ventilated (96%). Workers indicated that they were very satisfied with general hygiene conditions, bathroom and toilet facilities, and availability of drinking water at the plant. The major exception was the lack of availability of towels where 83% of interviewed workers found the situation unsatisfactory (Figure 4). It is important to note that there has been no improvement in this matter as compared to last audit observations.

Figure 4



MJD agrees with MIMCO's findings. According to the management, "paper towels and/or air dryers will be added in all canteens, clinics and plant restrooms, before the year-end. In dorm rooms, workers will continue to utilize their personal towels. For the most part, this is already in place."

A small group (19%) among the interviewed workers expressed some concern with regard to safety hazards and noise level in the factory. Workers mentioned that noise from machinery, chemicals used for cleaning, and odors from the sprays caused their work environment to be unhealthy. Over 50% of the interviewed workers felt reluctant to report incidents of harassment or injury.

MJD management does not completely agree with this finding indicating that while individual workers are entitled to their own perception of the safety or "healthiness" of their work environment, "We normally rely on objective industrial hygiene sampling conducted both by internal and external audit teams. According to most recent samplings we do not have any potentially unhealthy chemical or particulate exposure findings that are not adequately controlled by PPE. With regard to noise levels, particularly in rotocast, local management is currently processing investment requests with corporate headquarters to bring noise levels within GMP limits."

MIMCO respects MJD's assertions but does not agree with its conclusions. The "objective records" might be accurate, the fact still remains that workers find the noise and dust conditions uncomfortable, and as such the issue must be addressed. In case the management believes that is a question of perception, then it seems to us that better communications with and education of workers should resolve the issue.

MJD also claims that their data on worker injuries and the frequency of worker reports to the plant clinic do not support the notion of workers' reluctance or fear to report incidents of injury. Instead, MJD suggests that this fear might simply be "malu" (embarrassment) which is highly likely given local culture. MIMCO does not agree. If it were a question of "malu" then workers should be equally reluctant to report this matter to an "outsider" rather than 50% of them reporting that they were afraid to report incidents of harassment or injury.

Notwithstanding this difference of opinion, we appreciate the fact that MJD management has agreed to integrate this facet of worker concerns in its overall complaint handling procedures that were alluded to in a previous section.

Use of Personal Protection Equipment (PPE)

During the confidential one-on-one interviews by MIMCO 96% of workers expressed satisfaction of receiving safety equipments. Furthermore, 84% of workers use the safety equipment regularly while 15% use occasionally.

Living Conditions and Dormitories

The dormitories consist of buildings with no more than 32 workers per room. Dormitories are situated very close to the plant. Each room is equipped with 4 toilets and 6 bathrooms. Over the coming two years, management plans to incrementally increase shower/bath cubicles to 8 per dorm room.

Workers in the dormitories are provided with individual lockable storage space, private beds for each occupant, phone, television, and Clinics. The workers handle

housekeeping and cleaning arrangements for dormitory rooms. Dormitories have library, canteen, mini market, telecommunication center, boutique, saloon, laundry facility and garden. They have 24-hour security.

According to MJD's management, approximately 61% of the MJD worker population currently lives in the dormitories with the remaining 39% living in local housing. Outside housing locations are integrated into the existing MJS bus routes to facilitate workers' transportation to the factory.

The dormitories are designed to accommodate 30 workers per room, although, at present the average occupancy rate is 26. While the dormitory space allocated to each worker meets GMP guidelines, it exceeds GMP guidelines in terms of the total number of workers assigned to individual rooms.

When asked to rate the quality of dormitory facilities and amenities, the interviewed workers rated their dormitory facilities at 3.24 on a scale of 1 to 5, which puts it between `indifferent` and `somewhat satisfactory`. When asked to elaborate, most of the workers gave negative responses, indicating that the rooms were overcrowded, there were no individual reading lamps, and bathroom facilities were considered inadequate.

In response, MJD management stated that it was in the process of rebalancing dorm loading. According to MJD, "These rooms were built to applicable standards and as demonstrated in the informal audit team visit to peer worker homes, are vastly superior, cheaper and safer than public housing available to workers living in the local community."

MJD management also took notice of the workers' complaints with regard to conditions of cleanliness and indicated that it would investigate the issue and where necessary take corrective action.

Canteen and Eating Facilities

MJD provides 30 minutes lunch break. A canteen manager supervises all operations. The meals are provided free of charge.

Among the interviewed workers, some felt that the 30-minute was quite short, when one considers the time needed for eating and for prayers. Moreover, they also mentioned that insufficient canteen facilities created long queues and further resulted in loss of time.

Workers by a two-third majority indicated that they were satisfied with the quality and quantity of food. However, when asked to rate the quality of food and canteen facilities, workers gave them a rating of 3.0 on a scale of 1 to 5, placing it in the category of "neither satisfactory or unsatisfactory".

Freedom of Association and Access to Management

We asked workers a series of questions designed to elicit information about their experience pertaining to (a) freedom of speech and the right to organize, and (b) the extent to which workers felt that they had access to various levels of management with regard to grievances and whether or not their views were taken into consideration on issues that affected their working and living environment.

According to MCR, MJD's workers were not represented by a union. However, 31% of the interviewed workers mentioned that workers were represented by some kind

of union and 11% indicated that workers are required to be a member. A majority of workers (who mentioned that union existed) did not have any idea what is the function of union and what it is for. 19% of the workers mentioned that they knew somebody against whom adverse action had been taken by the plant management for union-related activities.

According to MJD, this is a developing issue and plant management is making every effort to handle it in a delicate manner. “Given the nascent explosion of unionization since Indonesia’s adoption of the ILO Conventions in the late 90’s, considerable confusion about the structure and role of unions exists today. In accordance with the law we are allowing it to evolve freely. The more we attempt to clarify, the more we may be accused of interfering with its development.”

Workers interviewed by MIMCO unanimously stated that they could freely talk to their line leaders. However, when it came to seeking helpful information, the sources listed were Notice Board at the plant (100%), Line Leader (100%), Notice Board at Dormitory (85%), Co-workers(19%) and HRM people(8%). On a scale of 1 to 5, the interviewed workers gave the plant management a rating of 3.52 for effectiveness of communications between the plant management and workers. When asked to elaborate, interviewed workers indicated that they would like more interaction with supervisors at all levels of management. They also suggested that management should reduce the response time to solve workers’ problems.

Non –Job Related Skill Enhancement Programs

According to MCR, MJD offers a variety of non-job related skill enhancement programs, e.g., English language courses, computer training, cooking, sewing and health related education. 80% of the interviewed workers expressed knowing about the availability of these programs; 23% reported taking active part in them; and, 72% mentioned that a large number of workers participated in these programs.

MIMCO found great enthusiasm among the workers for these programs. Some workers requested that management should consider modifying the timing of these programs to coincide them with shift changes.

Recreational facilities

MJD provides recreational facilities like soccer, badminton, and karaoke near the factory and dormitories. Also television and radio are provided

Community Outreach Programs

MJD has continued its effort to organize social outreach programs to help communities in the neighborhood. Current focus is education where in they have organized program named “LCCS (Lets Care Cikarang School)”.

One of the more innovative out-reach programs, and the one that is highly appreciated by the workers, is the visits to workers’ homes by MJD’s senior management. This takes place on a regular basis where management representatives, including invariably the general manager, visit a worker’s home where his/her family and a host of neighbors – who also generally work at the factory – meet together and talk about the plant, work situation, workers’ families, and “everything else under the sun”. MIMCO members accompanied MJD’s General Manager on one of these trips and

found it to be quite pleasant with workers showing a willing to challenge management and ask for more concrete answers, and even suggest solutions. These visits appeared to be constructive, valued by the workers and their families, and build a bond between the workers and managers.

Overall Observations and General Recommendations

We commend MJD management for maintaining a productive, relatively clean, and efficiently operated plant facilities. MJD management has also demonstrated a high level of concern for the workers' welfare at the plant site, in dormitories, and even in their homes among the workers who do not live in the dormitories. Where certain shortfalls were noted, management has expressed a willingness to take necessary corrective action in terms of monitoring the situation and alleviating the problem.

Our observation, analysis and worker interview with regard to certain areas of plant's operations have been mentioned in various parts of the reports and are being summarized here.

1. The plant's physical environment needs further improvement. Even in situations where the plant's records indicate absence of a problem, the fact of workers' experience with regard to chemical odors, dust, and noise, need to be given further scrutiny and remedial action. A relatively high percentage of interviewed workers mentioned that workers were afraid to report incidents of harassment or minor injury. MJD management has questioned the substantive nature of this finding. Nevertheless, we urge MJD management to look into this matter and take further steps that would create confidence in

the workers' mind and encourage them to report any kind of harassment or injury.

2. A small number of workers also mentioned that some employees were pressured to work overtime when they were sick or tired, or when they did not wish to work during off-days. Some workers also gave the indications of verbal abuse from the line leaders. We commend the management for taking additional steps to investigate these issues, and where necessary, alleviate the problem through better supervisor training, and encouragement of workers to anonymously report their concerns to the top management of the plant.
3. MJD provides a 30-minute lunch break. While some time is lost in prayers and some while waiting in queue, we feel that the time for lunch-breaks is too short – a fact noted by a number of workers during MIMCO's confidential interviews. This issue was also raised by the workers during MIMCO's previous audit of the MJD facility in 1999. According to MJD management, both plants (MJD and MJS) "have conducted significant survey samplings and open discussions. In sum, neither workers nor the company favors altering the lunch break length as it could adversely impact either starting times or quitting times. It will also increase the difficulty of maintaining a competitive level of production. After recent consultations, however, we have begun the practice of adjusting break times to more closely align with Islamic prayer timing which varies slightly according to the lunar phases."

4. Interviewed workers mentioned crowding in the dormitories and also issues with regard to cleanliness. MIMCO believes that MJD has satisfactorily responded to these issues and we await report on the implementation of the changes indicated by MJD's management and mentioned in an earlier part of this report.
5. We applaud MJD's efforts in providing job-related and non-job-related skill enhancement programs. These programs are extremely popular among the workers. We recommend that these programs be continued and expanded to take into consideration workers' request for more flexible time. MJD management has already taken steps to improve on the current situation. Courses with high demand such as English and Internet Training are now running two shifts to allow workers to come in early or stay late to attend classes, with free bussing provided between the dorms and plants of both locations to optimize availability of classes between the four sets of training facilities. Outside of the company conducted programs, MJD is also exploring opportunities for extending training in cooperation with two recently established Technical Schools in order to generate better academic accreditation for MJD's burgeoning adult student population.