

MIMCO

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

AUDIT REPORT 2002

MATTEL BANGKOK LTD. (MBK) - THAILAND

Copyright © 2002 by MIMCO

**MIMCO
C/o Zicklin School of Business
Baruch College - CUNY
17 Lexington Avenue
New York, N.Y. 10010**

AUDIT REPORT

MATTEL BANGKOK LTD. (MBK) – THAILAND

Introduction

The following report is based on an analysis of field audit of Mattel Bangkok Ltd. (MBK), which was conducted by MIMCO on May 9, 2002. This was the second formal audit of the MKB plant by the MIMCO team. The first MIMCO audit was conducted in April 1999. The plant is located in the Bangpoo Industrial Estate Export Zone in Samutprakam outside Bangkok. It is a wholly owned Mattel facility and is dedicated to the exclusive production of “Hot Wheels” toy cars.

WORKER PROFILE - 2002

MBK currently employs approximately 1350 people. Of these, 80% are direct labor while the remaining 20% are comprised of clerical, administrative and supervisory staff. Almost 98% of the workforce is female. The entire workforce is over 18 years old, and the average age is 29. The level of education of the workers employed by the plant is relatively low and averages between 6-7 years of formal education, which is equivalent to slightly above primary school. For a majority of workers, employment at MBK is their first job. The average length of employment at MBK is 4.5 years.

AUDIT FINDINGS

Workers Hours, Wages and Benefits

Thailand's labor law mandates a normal work-week to consist of 48.0 hrs., and a maximum of 36hrs/week overtime. The law also provides for Sunday to be the rest day. Workers are entitled to 13 public holidays in a year.

The legally mandated basic minimum wage during a normal working day is 165 Bht. or 20.625 Bht. an hour. The overtime pay depends on the day worked. During the normal working day the overtime pay is equal 1.5 of normal pay. On rest days, the overtime rate is twice the regular rate. Public holidays are paid at triple the regular rate. Sampled workers' payroll audits confirmed that MBK was in full compliance with the local laws and GMP standards regarding wage payments.

According to MBK's Management Compliance Report (MCR), the maximum hours worked does not exceed 60 hours per week or 270 hours per month. Employees are eligible for paid vacation of 6 days per year upon completion of their first full year of employment. Female workers are allowed to take 90 days maternity leave. Eligibility starts at the first day of employment.

MIMCO's analysis of the payroll data of a randomly selected representative sample of the plant workers indicated that MBK was in general overall compliance of Thailand labor laws and GMP standards with regard to payment of wages for both normal and overtime working hours. There was, however, one exception to this general level of compliance. Our audit of the payroll data indicated that in our sample, 7% of the audited workers had exceeded the maximum allowable number of total work-hours by up to 6 hours during the audited 15-day pay-period. MBK management indicated that

this was due to extraordinary conditions, which involved a national holiday during which most workers were off. The management also indicated that all overtime work was voluntary and that workers were paid overtime wages appropriate for the holiday work – a fact that was confirmed by the MIMCO audit.

MIMCO's confidential one-on-one interviews with MBK workers provided further confirmation of the accuracy of the wages paid for regular and overtime work. There was also no pressure put upon workers to do overtime except on a voluntary basis. A vast majority of the interviewed workers (70%) stated that the production quotas were almost always met. Furthermore, in the event that production fell short of quota, no action was taken by the plant management to require mandatory overtime. A minority (18%) of the workers, however, admitted to occasionally having to put in overtime hours to finish work and ensure that the quote was reached.

MBK provides a variety of benefits to workers. For example, all employees are covered for Social Security. Employees also reported by vast majorities that they received workplace accident benefit (97%), severance pay (76%), and, participate in the company provided retirement plan (56%).

Nearly 83% of interviewed workers acknowledged that they received some type of bonus from the company. Of the workers who answered positively, 65% had received good attendance bonus, 25% named individual performance, and another 25% mentioned annual bonus equal to one month's wages.

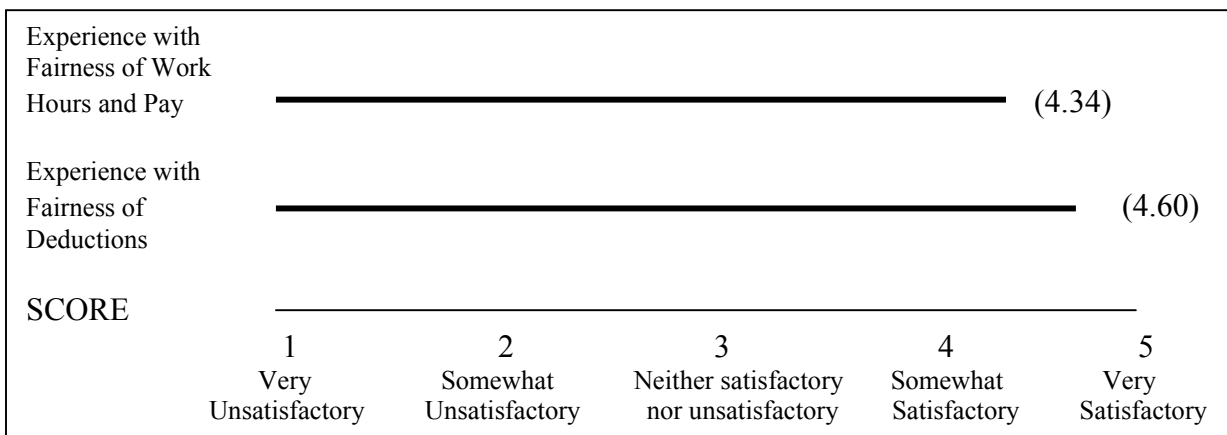
Understanding the Pay-Stubs and Time-cards

The one-on-one confidential interviews with MBK workers indicated that all workers were familiar with their pay stub calculations. They also unanimously confirmed their understanding and accuracy of base wage, regular, overtime and holiday hours worked, and total payments received. All workers interviewed were equally satisfied with the company’s responses with regard to questions pertaining to their pay-stubs.

MBK uses time clocks to record work time. When asked as to who punched the time card, all of the interviewed workers indicated that they punched their own time card. However, one-third of the interviewed workers reported that sometimes they worked without their time card being punched.

Overall, the workers had a positive response to questions regarding their wages, deductions, work-hours and benefits at the MBK plant (Figure 1).

Figure 1



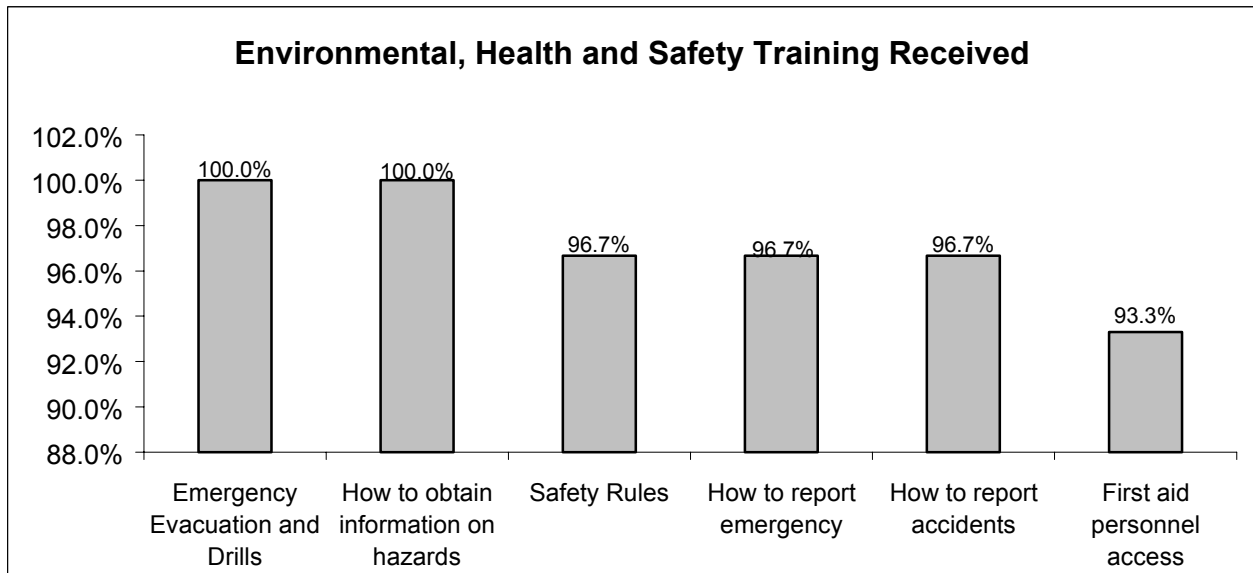
Patterns of Recruitment and Initial Hiring Experience

A large majority of MBK workers found employment at the MBK either by applying directly at the recruitment office located at the factory site, or through recommendations from current employees and friends. MBK has a well-organized program of worker orientation at the time of initial hiring. Among the workers interviewed by MIMCO, over 93% indicated that they received a signed employment contract. A similar majority of workers stated that they were given a general medical examination before starting work at the MBK plant.

Employee orientation covered such issues as employment contracts, grievance procedures, disciplinary measures and guidelines, overtime and pay policies, rules of conduct, type of work assignments, wage, deductions, transportation services to/from the factory, plant facilities amenities, informal meetings with other workers, and a speech from a senior manager. Approximately two-third of the interviewed workers stated that they were given a tour of the plant.

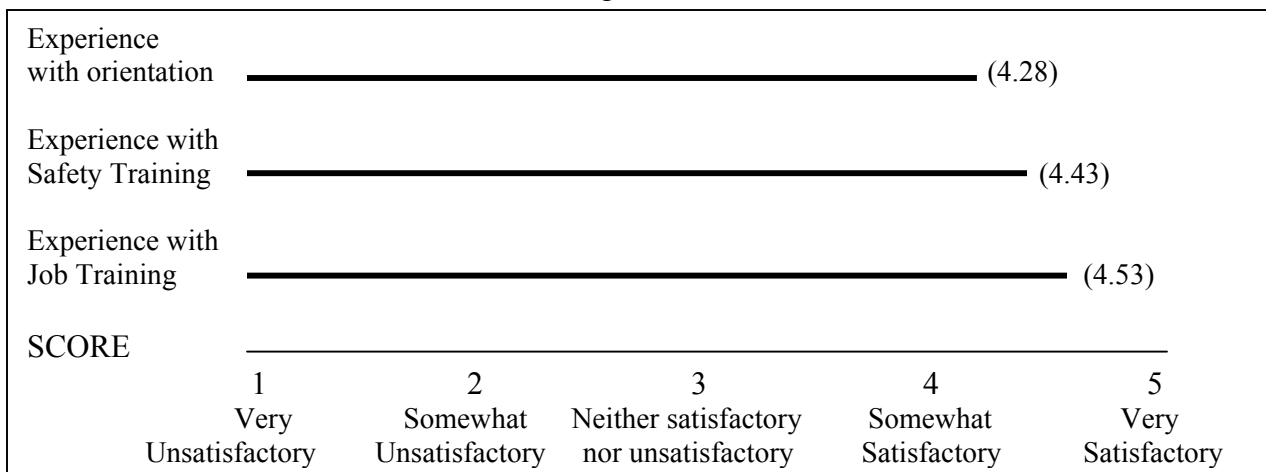
Employee orientation also included specific job-related training. All workers interviewed by MIMCO confirmed that they received training in issues pertaining to environmental, health, and safety (EHS), which provided them with detailed information regarding safety rules and policies (Figure 2).

Figure 2



When asked to rate their experience with orientation, safety and job training on a scale from 1 (“very unsatisfactory”) to 5 (“very satisfactory”) interviewed workers showed generally high level of satisfaction with the offered programs (Figure 3).

Figure 3



Probation Period

All new hires undergo a mandatory probation period of four months. While on probation, employees receive regular wages for normal work hours, and overtime wages for overtime work. According to MBK management, both the normal and overtime wages meet the minimum levels mandated by the Thailand's labor law. Among the interviewed workers, there was unanimous consensus that they received overtime wages for overtime work. However, a small minority (13%) of interviewed workers stated that their normal wages during the probation period were lower than regular wages paid to other workers for normal working hours.

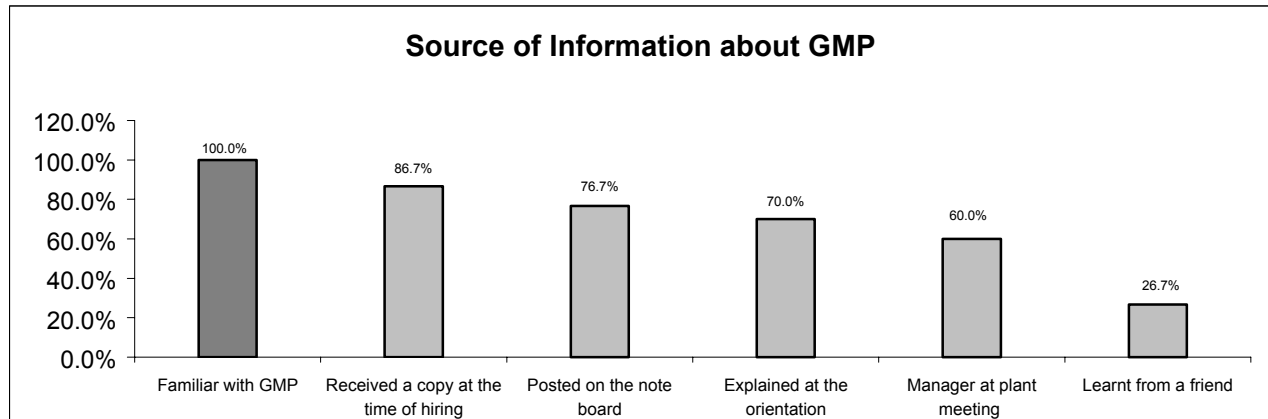
Areas of Potential Concern and Recommendations

MIMCO recommends that Mattel's internal audit department re-visit this issue. In there are workers who received less than the mandated minimum wage while on probation, action should be taken to pay these workers back wages for that period. Moreover, MBK should institute procedures to prevent recurrence of this problem in the future. MIMCO would also like confirmation from Mattel's internal audit department indicating the steps that had been taken to implement this recommendation.

Awareness of the GMP

MBK's management is committed to familiarize all factory workers with Global Manufacturing Principles (GMP). Interviewed workers almost unanimously stated their familiarity with GMP. In contrast, only 57% of the workers had acknowledged their familiarity with GPM polices during the 1999 audit (Figure 4).

Figure 4



Workplace Discipline of Employees

MBK management strives to minimize the need for disciplinary action against workers through constant training and education. There are no cash fines imposed on workers. There are written procedures on employee discipline. All workers are familiarized with these procedures during orientation at the time of initial hiring. Workers are informed about the relevant actions that are taken against undesired behavior. The most common disciplinary measures include warning letters in case of absenteeism and suspension without pay for disruptive behavior or fighting.

Confidential one-on-one interviews conducted by MIMCO revealed that 13% of the workers acknowledged to having been personally disciplined, or knew someone else who had been disciplined at work. Most of the disciplinary cases dealt with defective work, missed quotas, or slow work.

Workers interviewed by MIMCO expressed satisfaction with the disciplinary measures at the plant and considered them to be fair and reasonable. On the scale from 1 to 5, they ranked their experience with regard to workplace discipline at 4.66, which is close to being “very satisfactory”.

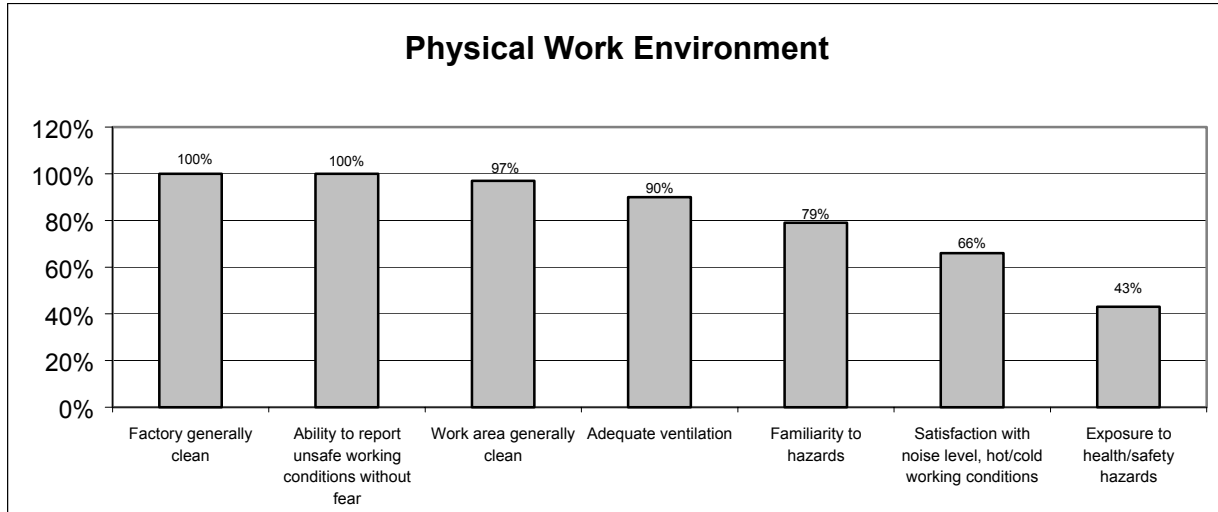
Work Environment of Manufacturing Operations and Related Facilities

MBK's management conducts annual monitoring of working conditions at the plant. According to Management Compliance Report (MCR), in hot seasons temperature in factory facilities exceeds country and Mattel standards. Therefore, particular attention is paid to ventilation and heat stress programs to ensure employee comfort and safety.

In general, all of the interviewed workers considered the factory to be clean and well maintained. An overwhelming majority (97%) also found their specific work areas to be clean and free of hazards (Figure 5). However, among the workers interviewed during the MIMCO visit, a significant percentage of workers (34.5%) acknowledged that they were exposed to some discomfort at the workplace. Most of the blame for such discomfort was placed on excessive noise and heat. Overall, workers considered ventilation and air circulation at the plant to be adequate. Some workers commented that temperature levels were often too high and that some ventilation and cooling equipment did not always work properly.

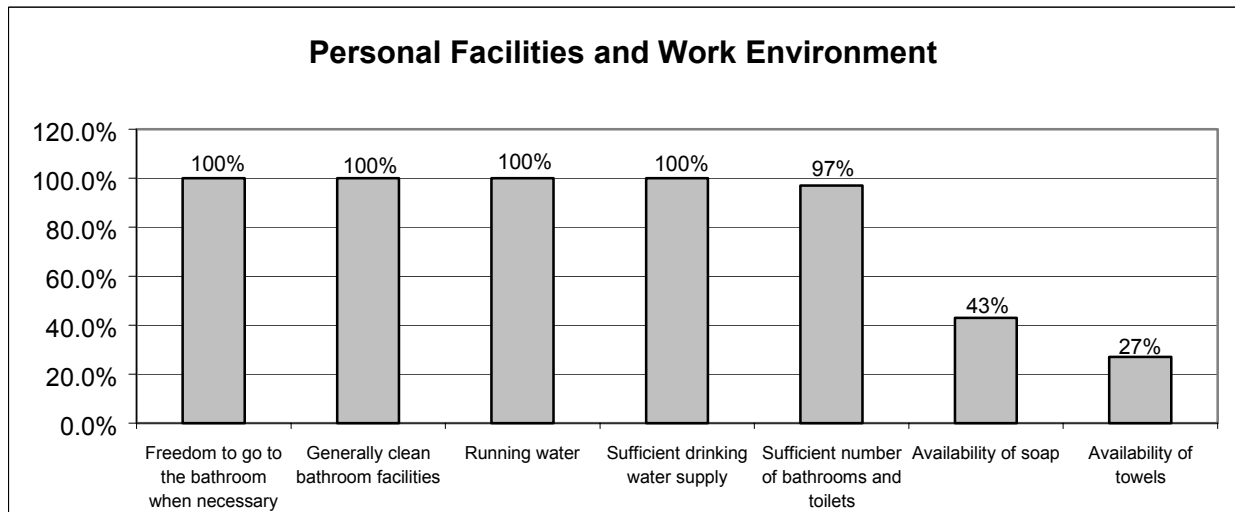
According to the MCR, during the first six months of 2002, a total of 166 workers visited the clinic due to incidents at the factory or the dormitory. The report also listed three processes where most of the injuries occurred. These were: assembly, pack-out and die-casting. The interviewed workers unanimously confirmed that factory employees had no fear of reporting incidents of harassment or injuries to the management.

Figure 5



In general, interview results suggest that workers find personal facilities and work environment relatively satisfactory (Figure 6).

Figure 6



Interviewed workers gave the plant a highly satisfactory rating of 4.53 on a scale of 1 to 5, ranging from very unsatisfactory to very satisfactory.

Use of Personal Protective Equipment (PPE)

MBK factory provides free safety equipment to the workers and facilitates proper usage of it through continual training programs.

The success of MBK's effort in this regard is confirmed by the fact that over 90% of the interviewed workers indicated that they were familiar with the safety equipment and used it on a regular basis.

Freedom of Association and Access to Management

MIMCO 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 the 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 by the management on issues that impacted their working and living environment.

MBK's workforce is represented by a union. Worker participation in the union is voluntary. All of the workers interviewed by MIMCO acknowledged that they were aware of the union, and 70% of them belonged to the union. A small percentage (17%) of interviewed workers indicated that they knew of some workers against whom actions were taken as a result of being involved in union activities. However, none of the workers indicated any knowledge of the type of abuse taken against those workers. This notwithstanding, we would urge MBK management to strengthen its efforts to ensure that employee freedom toward union participation is respected and protected. As small as the percentage may seem, we urge MBK management to ensure that no hint of such practices are tolerated in the future.

Protection from Harassment

At the MBK, most of the workers (97%) considered themselves to be treated fairly and with respect by their supervisors. They also found their line leaders to be helpful at work.

MBK has a set of formal written procedures – working rules and regulations – to ensure no discrimination in hiring, promotion or other practices occur at the workplace due to sex, age, ethnic origin or other related factors. Human Resource department reviews the procedures and makes sure the hiring and promotion practices are fair. Factory's MCR states that for the 12 month prior to the MIMCO inspection there were no cases of discrimination at the plant. Interviewed workers indicated that there was no sexual harassment or any other type of worker abuse at the plant.

The level of satisfaction among the interviewed workers was expressed in their overall ranking of 4.53 on a scale of 1 to 5, which falls between “somewhat satisfactory” and “very satisfactory”.

Food and Canteen Facilities

A thorough inspection of the canteen, kitchen and cooking facilities by MIMCO found them to be clean and well maintained. MBK management indicated that the entire canteen area was cleaned four times a day after each meal, and garbage was picked up twice daily.

Workers' opinions were highly favorable with regard to canteen facilities and the quantity and quality of food provided by the factory. They almost unanimously (97%) stated that they preferred to eat at the canteen either all the time or most of the time. A

small minority (17%) indicated that they occasionally buy food from outside or bring their own food.

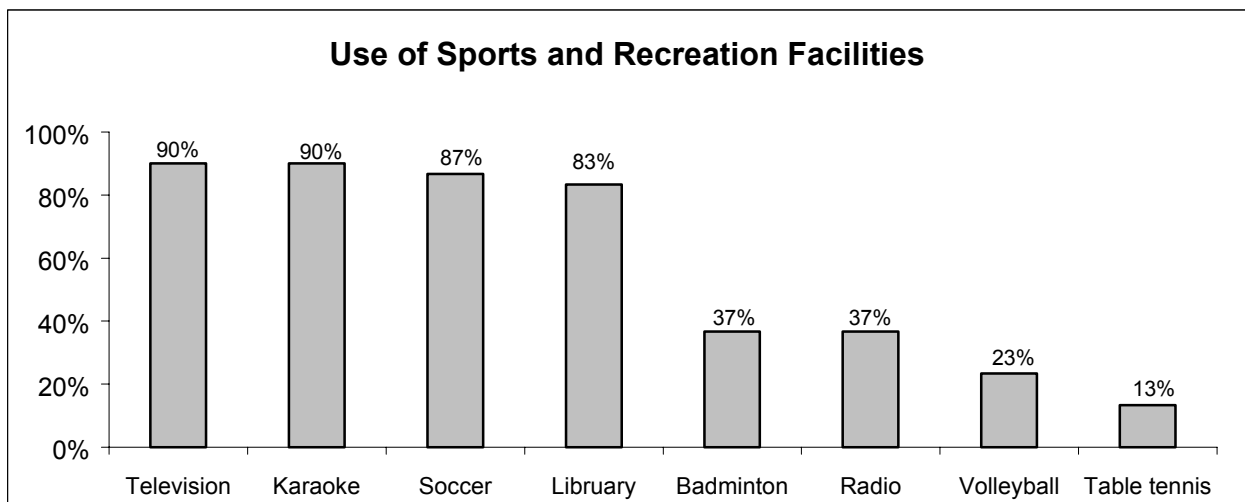
One meal at the factory cafeteria costs around 11 Bht., out of this amount 8 Bht. are subsidized by the company in the form of food coupon. Lunch break lasts 40 minutes. In addition, workers are given a 20-minute break during their shift hours. Most of the employees found the lunch break to be sufficiently long for them to eat lunch and return to work.

Workers' overall satisfaction with eating facilities, maintenance and quality of food was quite high and ranked at 4.24 on a scale from 1 to 5.

Recreation Facilities

The MBK plant provides a variety of recreation facilities at the factory premises. Among the most popular of these are television, karaoke, library and radio. A number of sports facilities also available to workers in between work hours (Figure 7).

Figure 7



Non-Job-Related Skills Enhancement Programs

MIMCO's one-on-one interviews with MBK workers indicated a high degree of awareness (93%) of non-job-related training programs provided by the company, and an equally high level (86%) of participation in these programs. These training programs also covered health related issues, e.g., birth control, HIV/AIDS, drug addiction, etc. The programs were offered several times a year.

Community Outreach Programs

The MBK plant is involving its workers in a wide range of community outreach programs. Community Centric Program has a budget of 140,000 Bht. and involves 53 employees, 96 workers are participating in Blood Donation Program for Thai Red Cross. The MBK is also supporting Flood Relief program.

Overall Observations and General Recommendations

MIMCO team, as a result of its audit of May 9, 2002 has found MBK to meet GMP standards in all substantial areas and is pleased with management's overall efforts towards ensuring fair treatment of its workers. The plant management has made considerable effort in successfully implementing the GMP. This can be seen in the generally high overall rankings received by the employees in all areas of its operations. We commend MBK management for their efforts to meet GMP standards, to ensure a safe, healthy, and fair work environment to its workers, and maintaining a well-ran plant.

There are however, a few minor points that require attention on the part of MBK's management:

1. Although MBK is very sensitive to heat discomfort in the work areas and particular attention is given to heat stress reduction programs, some workers continue to feel discomfort when ventilation systems fail.
2. Despite MIMCO's audit findings that give a general clean bill of health to pay systems and practices at MBK, some workers' statements concerning work done while time-cards are not punched is troublesome and need to be addressed.
3. As indicated in the body of this report, some interviewed workers reported that their wages during probationary period were less than the mandated minimum wage. We recommend that back-wages be paid to those affected, and immediate steps taken to prevent recurrence of this problem in the future.
4. Also, as mentioned in our report, a small number of workers' statements that indicate MBK management's unfavorable attitude towards union activity should be looked into, and the reasons for the exceptions identified. As MBK management has shown no adverse attitude towards union activity at the plant, we believe that it will wish to ensure that no exceptions take place in the future.

Management Response

We are pleased to report that MBK management's response to our overall observations and recommendations has been positive and constructive.

With regard to the excessive heat in certain operations areas, management has indicated that it would institute further preventive maintenance and operational

procedures, staff training, and continuous monitoring to ensure that heat stress management programs are effective. Management will further encourage employees to use “suggestion boxes” to alert management to any potential problems so that corrective action may be taken promptly.

With regard to the issue of “no clock-out”, MBK management indicated that the problem occurred because of a changeover in the system. This has now been corrected.

MBK management also maintains that the plant has always been in full compliance with the national minimum wage laws. It indicates that the confusion may have arisen because of certain statutory deductions, e.g., union dues and social security payments, which the employees may have misinterpreted.

MBK management also emphasizes its commitment to respect workers’ right with regard to participation in union activities. To the extent that some workers may have felt a negative attitude on the part of the management, additional efforts would be made to demonstrate management’s positive attitude in this regard.

We respect the veracity of management’s responses and its commitment to renewed efforts in improving the situation on the issues noted in this report. Nevertheless, MIMCO feels that Mattel’s internal audit department:

- a. Verify the issue of “deductions” and “minimum wage” paid during the probation period through an examination and analysis of relevant payroll data.

- b. Review MBK's additional efforts with regard to "heat stress management programs" and ensure their effectiveness through confidential discussion with workers.
- c. Also query employees on a confidential basis on the issue of management attitude toward unionization.

MIMCO would also recommend that Mattel's internal audit department complete their inquiries within 60-90 days and provide MIMCO with a report of its findings.