



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

AUDIT REPORT 2002

MATTEL MALAYSIA SDN. BHD. (MMSB)

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MIMCO AUDIT REPORT

Mattel Malaysia Sdn. Bhd (MMSB)

Introduction

This report is based on the field inspection of the MMSB plant that was conducted by the MIMCO team on May 10-11, 2002. The official audit of the MMSB plant represents the second formal audit of this facility by MIMCO. This plant was first audited on February 8-10, 1999 and received a highly satisfactory report in terms of the plant's overall compliance with GMP standards.

The MMSB plant is located in the Prai Free Trade Zone area outside Penang, Malaysia. The plant is 100% owned by Mattel. The MMSB plant is a completely dedicated facility for the production of "Hot Wheels" toy cars.

MMSB – WORKER PROFILE, 2002

The plant currently employs approximately 3000 workers. Of these, over 90% are direct labor (manufacturing) and the remaining 10% consist of non-manufacturing labor, i.e., administrative and clerical staff. In terms of national origin, 80% of the workers are Malaysians and 20% are Indonesians. The gender composition of the workforce is 78% female and 22% male. The workforce is quite mature with an average age of 34 years. Most workers have an average of 8 years' of basic schooling, which is equivalent to the middle school level of education. Turnover among the regular workers is fairly low with an average work-tenure at the plant of 5.36 years.

AUDIT FINDINGS

Workers Hours, Wages and Benefits

MMSB operates on the basis of 48.0 hours per week spread over 6 days with Sunday being a rest day. The maximum hours per week are 60.0 hrs, and maximum overtime per day cannot exceed 4.0hrs. These regular plus overtime work hours are well below the maximum hours allowed under Malaysia's labor laws. The plant also provides performance and productivity bonuses and shift allowances.

Malaysia does not have a legally mandated minimum wage for the manufacturing sector. MMSB provides its workers with a minimum wage, which is above the prevailing rate in the local area. The company also provides a broad range of benefits to its employees. These include group life and personal accident insurance, healthcare, hospitalization, and dental care coverage. In addition, the company offers emergency loans and loans for major appliance purchases, e.g., computers. Free transportation is provided between the dormitories and the plant. The company's policies for annual leave and maternity leave are in accordance with Malaysian labor laws. It meets all other requirements of the local labor laws in terms of national holidays, and maternity leave, to name a few.

A thorough analysis of the workers' payroll data indicated that MMSB was in complete compliance with the Malaysian Law and GMP. This was true for both regular and overtime hours worked. The payroll records were complete, current, and understandable.

Analysis of the payroll data indicated that all workers on probation received basic wages and overtime pay similar to permanent workers. The workers also unanimously confirmed this finding during one-on-one confidential interviews.

The audit findings of verification of workers' regular and overtime hours, normal and overtime wages, benefits and allowable deductions, are based on a randomly selected and statistically valid sample of workers, which represented the plant's total workforce.

These interviews were conducted on a confidential one-on-one basis by trained interviewers employed by MIMCO. All interviewers were generally similar in age and gender categories of the plant workers and spoke the language of the workers.

The interviewed workers uniformly stated that wages and overtime pay were in accord with the actual hours worked by them. They also satisfactorily demonstrated their understanding of the pay stub. When asked to verify the contents of their most recent pay stub, the workers unanimously confirmed their accuracy.

Interviewed workers indicated that neither they nor anyone they knew was ever required by the plant management to work overtime against their will, when they were sick, or had other personal reasons for not working overtime. On the other hand, a significant number of workers expressed a desire for more overtime work.

All workers indicated that they punched their own time. However, a third of the workers interviewed (34%) mentioned that they also worked when the time card had not been punched.

During normal work-days, the plant pays overtime pay to all workers for the actual hours of overtime worked subject to the maximum allowable overtime of 4.0 hrs.

On rest days, the plant pays every worker overtime pay for 4.0 hrs. since no worker is allowed to work more than 4.0 hours of overtime. All workers doing overtime during normal workdays punch clock at the time they quit work. However, when an entire shift is worked on a rest day; MMSB does not require the workers to clock-out as the plant management feels that it would be redundant to punch clock under these circumstances.

Nevertheless, this practice is a violation of GMP and is recognized by the management as such. MIMCO does not believe that punching clock at the conclusion of overtime work adds unnecessary burden on the workers or the management. MIMCO recommends that the plant reinstitute the practice of punching clock upon completion of overtime work to maintain the accuracy and integrity of time records.

Interviewed workers were asked to rank their overall experience with regard to accuracy and fairness of wages, working hours, overtime pay, performance bonuses, and payroll deductions. The rankings were scored on a 5-point scale from very satisfactory (5) to very unsatisfactory (1).

The interviewed group of workers expressed a high level satisfaction with the plant's wages and working hours policies by giving it an overall rating of 4.24 which fell between somewhat satisfactory (4) to highly satisfactory (5).

Workers' Experience with Hiring and Initial Employment Conditions

MMSB has an excellent system of worker orientation, including initial classroom and on-the job training. According to the information provided by the management in its Management Compliance Report (MCR), all full time employees received a written

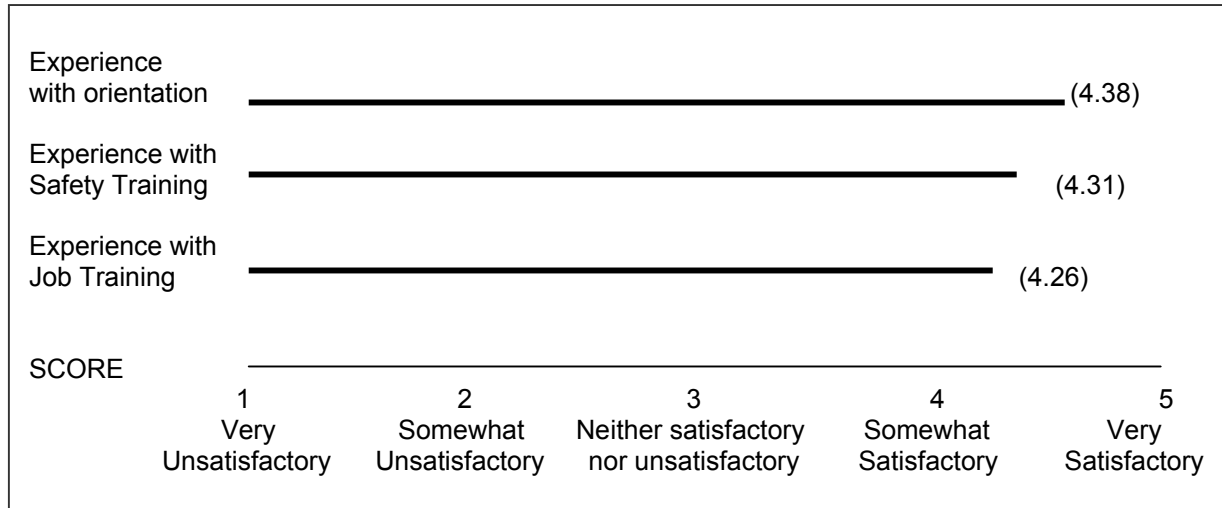
employment contract. MMSB is a preferred employer with most employees getting their jobs through referrals from current employees or by directly applying for job through “walk-in” to the plant’s office.

All new workers must serve a probationary period of three months during which they receive wages and overtime pay similar to permanent workers. They achieve permanent status upon satisfactory completion of probationary period. All new hires receive one day of training including in-class lectures pertaining to wages, working hours, factory rules and procedures, safety training and use of personal protection equipment (PPE), safe handling of hazardous materials, and, training on specific machines to which employees would be assigned for work.

These findings were overwhelmingly confirmed by the randomly selected group of workers during one-to-one confidential interviews and ranged between 93% - 100% of the interviewed workers. Furthermore, 94% of the interviewed workers indicated having received a medical examination at the time of hiring; 98% indicated having received training with regard to environment, health and safety standards; safety rules (100%); grievance procedures (98%), and disciplinary measures and guidelines (100%).

When asked to describe their overall feelings and experience with regard to initial hiring and orientation, the interviewed employees gave a highly positive response (Figure 1).

Figure 1

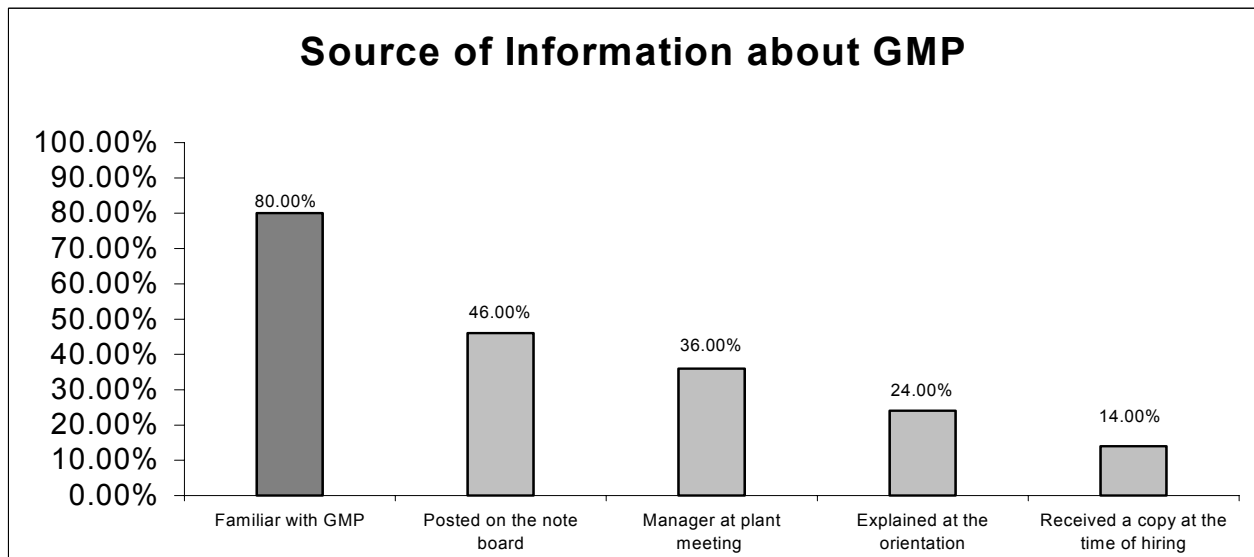


AWARENESS OF THE GMP

MIMCO had noted in its first audit report (February 1999) that the MMSB plant management devoted considerable attention and energy to making all levels of workers familiar with various aspects of GMP. MMSB has continued with this emphasis to ensure that all new employees become familiar with GMP and understand management’s responsibilities and employees’ rights enunciated in the GMP document.

Workers’ responses in MIMCO interviews indicated a high degree of familiarity with the GMP and received GMP-related information through multiple sources (Figure 2).

Figure 2



A disappointing note in otherwise positive approval rating was the fact that only 14% of the interviewed workers indicated having received a copy of GMP at the time of hiring and orientation. We recommend that MMSB should make greater effort to ensure that all workers receive a copy of GMP, in local language, at the time of hiring and initial orientation.

Work Environment of Manufacturing Operations and Related Facilities

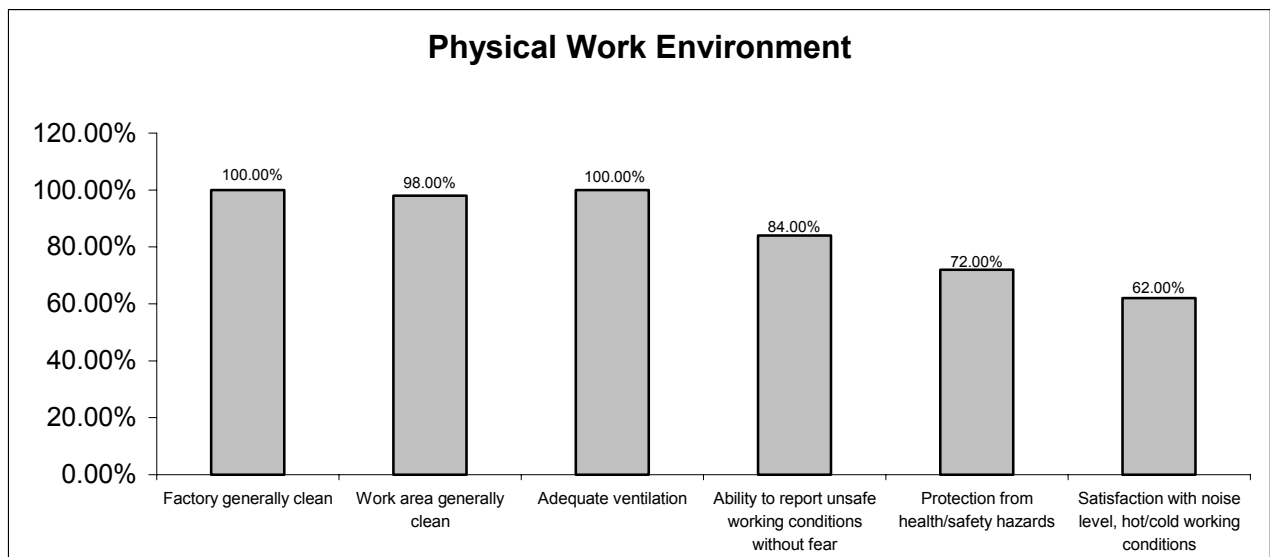
MMSB is an efficiently laid out and well managed plant facility. The plant maintains detailed and up-to-date records on plant maintenance, air filtration system, noise control, fire prevention, and safe storage and handling of hazardous materials.

The plant safety and maintenance conditions were also confirmed by the MIMCO audit team experts through an extensive “walk through” of the plant facilities and review of the company’s records with regard to environment, and health and safety requirements stipulated in the GMP.

The walk-through inspection of the plant showed it to be in a good operating condition. Work areas were clean with no oil spills and use of personal protective equipment by workers appears to be strictly enforced in all areas of operation. Environmentally, the plant has good sewage treatment facilities, air-filter systems and process water treatment and collection sump. The paint dilution room and other toxic storage facilities are closely monitored for spills and other hazards.

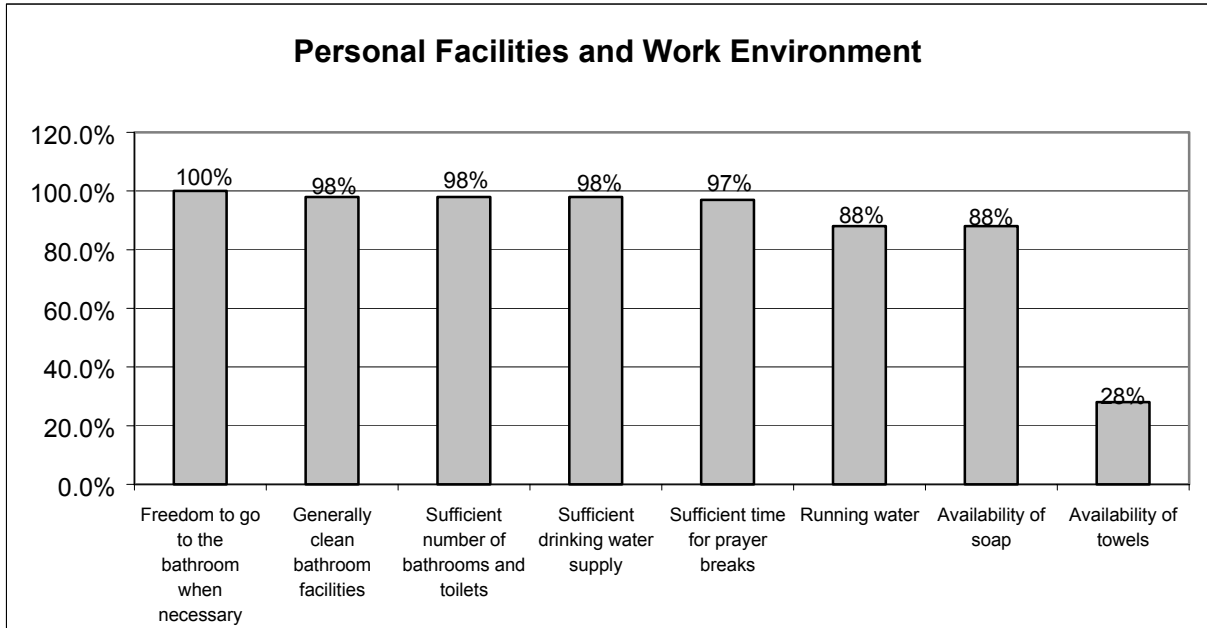
Workers interviewed by MIMCO also confirmed by large majorities, their satisfaction with physical work environment (Figure 3).

Figure 3.



During the confidential, one-on-one interviews by MIMCO, workers also expressed a large measure of satisfaction with regard to the training they received in safe handling of machinery, safe handling and exposure to hazardous materials, availability of clean bathrooms, drinking water, and time for prayers, to name a few (Figure 4).

Figure 4



Use of Personal Protection Equipment (PPE)

Among the interviewed workers, 98% indicated that they could operate their equipment free of hazard to themselves and to the facility. 90% of the workers indicated that they were provided with safety equipment to prevent accidents.

When asked about the usage of safety equipment, 89% of interviewed workers reported using the equipment regularly and 11% indicated that they use safety equipment occasionally or never. When asked the same question with regard to their co-workers, 91% of interviewed workers reported their co-workers used safety equipment regularly and 9% reported co-workers used equipment occasionally or never.

Living Conditions and Dormitories

At MMSB, the dormitories and living conditions are perhaps the best, home-like, and on a more human scale, than any other facility visited by MIMCO among the Mattel-owned and operated plants. Moreover, these employee quarters are far superior to any dormitory facilities operated by Mattel's vendors and audited by MIMCO. In terms of the density in living space, and also in relative level of comfort, these facilities provide a good benchmark to be emulated by other plants.

The dormitories consist of apartment complexes with no more than 16 workers per apartment house and a maximum of 8 in each living unit, which meets GMP guidelines. Each unit is equipped with cooking facilities, including a rice cooker, refrigerator and electric iron, two bathrooms, running water, and washing facilities. The units also have private lockers and reading lights. The dormitories have separate TV room, library and visiting room. They have 24-hour security. There is also free transportation from the dormitories to the manufacturing plant.

At MMSB, all single-female female workers live in the dormitories. MMSB management considers it necessary for the safety and security of workers. Among the interviewed workers, employee satisfaction with various elements of dormitories and living accommodation ranged between 91% and 100%.

MIMCO "walk-through" examination also showed that the dormitories and surrounding areas were clean, contained no scattered trash, and had the appearance of regular maintenance.

In informal discussions with workers during MIMCO's visit to the dormitories, workers expressed tremendous pride in their living accommodations. Each unit was

decorated with personal items and gave the impression of private home-like atmosphere.

Canteen and Eating Facilities

MMSB provides a 30-minute lunch- break and a 15-minute tea break during each shift. The workers interviewed by MIMCO confirmed availability of these breaks unanimously.

MMSB has well maintained and clean cooking facilities. The kitchen staff is employed by an independent contractor, and canteen operations are under the supervision of the plant's Human Resources Department.

The factory serves three meals a day. All workers receive a meal-subsidy from MMSB, which they can use to eat at the company cafeteria or at street vendor stalls outside the plant. If they choose to bring in their own lunch, they can keep the subsidy as cash.

Among the workers interviewed by MIMCO, 84% indicated that they ate their meals in the factory's canteen while the remaining 16% either brought their own food or bought it from the outside vendors. There was general satisfaction with the quantity and quality of food provided to the workers. However, a small minority expressed a desire for greater variety in the meals served to them. Some workers also indicated that the cash subsidy was insufficient to buy food from outside vendors. In response, the plant management indicated that this was a deliberate policy to reduce the chances of employees getting sick from eating food that could be prepared in sub-standard sanitary conditions.

In terms of overall measures of satisfaction, employee satisfaction with dormitories received a rating of 4.73 from a possible of 5. In contrast, the workers gave a rating of 3.86 in terms of their satisfaction with canteen facilities and food services.

Freedom of Association and Access to Management

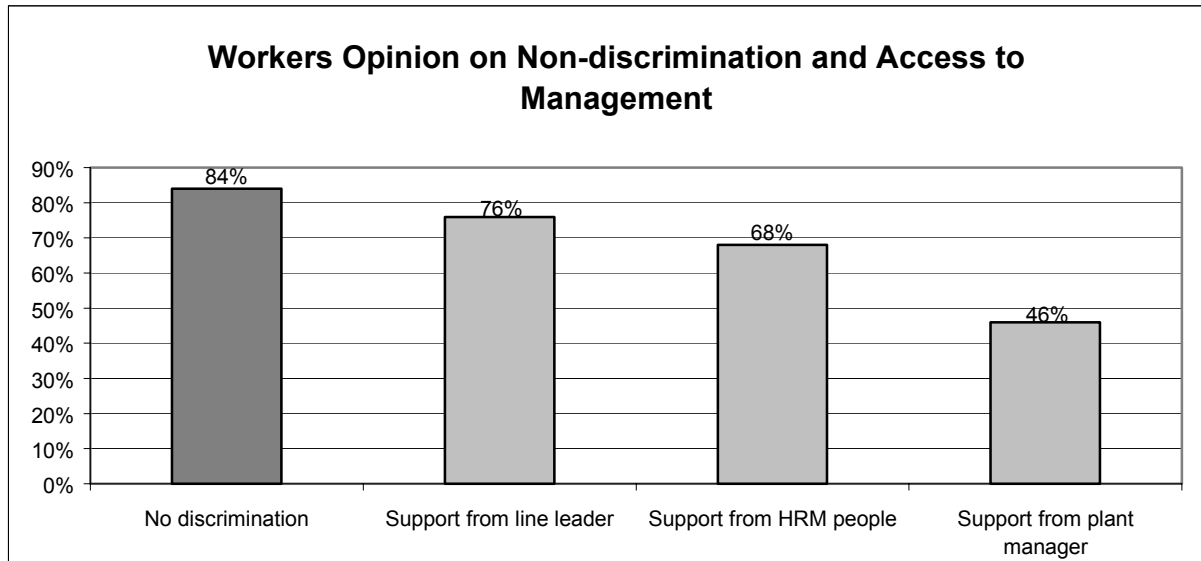
We asked workers a series of questions designed to elicit information about their experiences pertaining to (a) freedom of speech and the right to organize, and (b) the extent to which the workers felt that they had access to various levels of management with regard to grievances and whether or not their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

Workers at the MMSB plant are not represented by a union. Workers were unanimous in their view that there was no harassment in the plant for union-related activity and, to the best of their knowledge, no worker was ever fired or demoted for union-related activity.

Workers, by a large majority (83%), expressed the belief that there was no discrimination in hiring and promotion practices based on race, religion, gender, ethnicity, or region of origin. A majority also expressed a desire to move up to line leader position and felt that such promotions were based on merit.

The workers also gave exceptionally high marks in having access to all levels of management and that they received strong support and advice from various supervising levels (Figure 5).

Figure 5



Non-Job Related Skill Enhancement Programs

According to MMSB Management Compliance Report, the factory provides employees with several non-job related training programs, including English language courses, Windows-98 computer literacy training and sewing classes. The availability of these programs and their usage by the employees, however, recorded some of the lowest positive responses from the workers. Among the interviewed workers, only 18% indicated some awareness of these programs while a mere 4% indicated that they had actually participated in one or more of these programs.

All in all, interviewed workers appeared to have low level of satisfaction with regard to their experience with non-job related training, giving it only 3.27 points out of a possible 5. Over half of the interviewed workers (54%) expressed desire for more frequent scheduling of these programs.

Recreational Facilities

MMSB provides a wide range of recreational facilities. When asked their opinion, a large number of employees interviewed by MIMCO team listed television (66%), badminton (62%), and soccer (46%). Besides those, the factory also has radio outlets, volleyball playground, and a library.

Community Outreach Programs

MMSB participates in a wide range of community outreach programs. In the field of education, MMSB supports Young Enterprise Program and School Assistance Program. The factory also works on bringing toys to children in the rural areas and participates in Cheshire home sales/Recycle paper program. Additionally 95 employees of the plant are members of blood donation drive.

Overall Observations and General Recommendations

In MIMCO's view, MMSB's top management has done an excellent job in terms of maintaining plant facilities, health and safety standards, wages and working hours, treatment of workers, and employee access to all level of management, and encouragement of employees to share ideas and concerns with the management without fear. In all substantive areas of GMP, MMSB's management has satisfactorily met and even exceeded GMP requirements.

The plant management has made considerable effort in successfully implementing the GMP as can be seen in the generally high overall rankings received by the employees in all areas of its operations.

In a small number of issues where MIMCO felt the need for corrective action, MMSB management has been quite responsive and has agreed to undertake all necessary action to satisfy MIMCO's concerns. In particular, MIMCO has asked that:

1. Efforts should be made to provide each worker with a copy of the GMP, in local language, at the time of initial hiring. MMSB management has indicated that all new employees receive copies of GMP in their local language at the time of their hiring. The reason why some interviewed workers indicated otherwise was due to the fact that they were hired prior to GMP implementation.
2. MIMCO recommends that the plant reinstitute the practice of clocking-out upon completion of overtime work to maintain the accuracy and integrity of time records. MMSB management has agreed to reinstitute clocking-out after overtime work.
3. More effort is called for in making workers aware of the availability of various skill enhancement programs. Management should look into the current scheduling process with a view to finding alternatives that would improve employee access to these programs. MMSB management concurs with this suggestion and agreed to increase employees' awareness of training programs as well as encourage increased participation.