



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

**AUDIT REPORT 2002**

**MATTEL TOOLS SDN. BHD. (MTSB)**

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# **MIMCO AUDIT REPORT**

## **Mattel Tools Sbn. Bhd. (MTSB)**

### **Introduction**

This report is based on the field inspection of the MTSB plant that was conducted by the MIMCO team on May 12, 2002. The official audit of the MTSB 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 MTSB plant is located in the Prai Free Trade Zone area outside Penang, Malaysia. MTSB is a wholly owned subsidiary of Mattel, Inc. It is a tool and die manufacturer, which supports Mattel plants worldwide.

### **MTSB – WORKER PROFILE, 2002**

The plant currently employs approximately 180 workers. Of these, 70% are direct labor (manufacturing) and the remaining 30% consist of non-manufacturing labor, i.e., professional administrative and clerical staff. The gender composition of the workforce is 94% male and 6% female. The workforce is quite mature with an average age of 37 years. Most workers have an average of 10 years' of basic schooling. Turnover among regular workers is fairly low with an average work-tenure at the plant of 9 years.

## **AUDIT FINDINGS**

### **Workers Hours, Wages and Benefits**

MTSB operates on the basis of 40.75 hours spread over 5 days per week. Saturday is considered an off day while Sunday is considered a rest day. The workweek is comprised of 9.00 hours on Monday through Thursday and 4.75 hours on Friday. Overtime is limited to 2.0 hours per day during Monday through Thursday and total hours worked, including overtime hours, cannot exceed 60 hours per week. These regular plus overtime work hours are well below the maximum hours allowed under Malaysia's labor law.

Malaysia does not have a legally mandated minimum wage for the manufacturing sector. MTSB provides its workers with a minimum wage, which is above the prevailing rate in the local area. The company provides a broad range of benefits to its employees. These include group life and personal accident insurance, healthcare, hospitalization, and dental care coverage, and maternity leave. Workers are also eligible for performance and productivity bonuses and shift allowances. Furthermore, to assist employees, MTSB provides small loans to cope with personal emergencies.

A thorough analysis of the workers' payroll data indicated that MTSB 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.

The audit findings of verification of workers' regular and overtime hours, normal and overtime wages, benefits and allowable deductions, are based on a scientifically selected random 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. MTSB requires that all workers punch clock at the starting as well as quitting time, which was unanimously confirmed by the workers interviewed by MIMCO.

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 highly satisfactory (5) to highly unsatisfactory (1).

The interviewed group of workers expressed a moderate level of satisfaction with the plant's wages and working hours policies and fairness of deductions by indicating an overall rating which fell between indifferent (3) to somewhat satisfactory (4). (Figure 1)

Figure 1



Workers' Experience with Hiring and Initial Employment Conditions

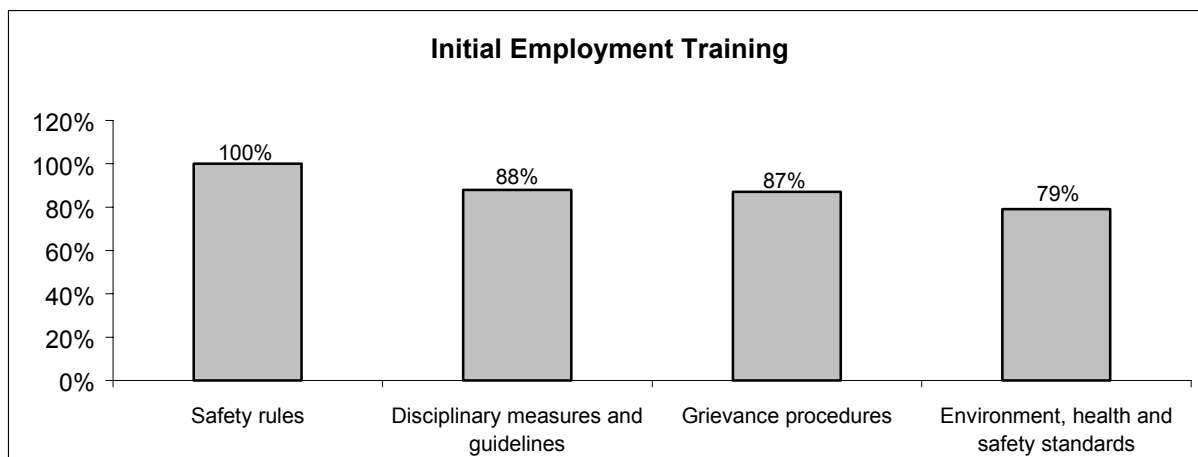
MTSB has an excellent system of worker orientation, including initial classroom and on-the job training. According to the information provided by the management in its Management Compliance Report (MCR), all full time employees received a written employment contract. MTSB is a preferred employer with most employees getting their jobs through referrals from current employees or by directly applying at the plant's office.

All new workers must serve a probationary period of three months during which time 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 of an specific machines to which employees would be assigned for work.

These findings were confirmed by the randomly selected group of workers during one-to-one confidential interviews. In terms of medical examination, 90% of the workers

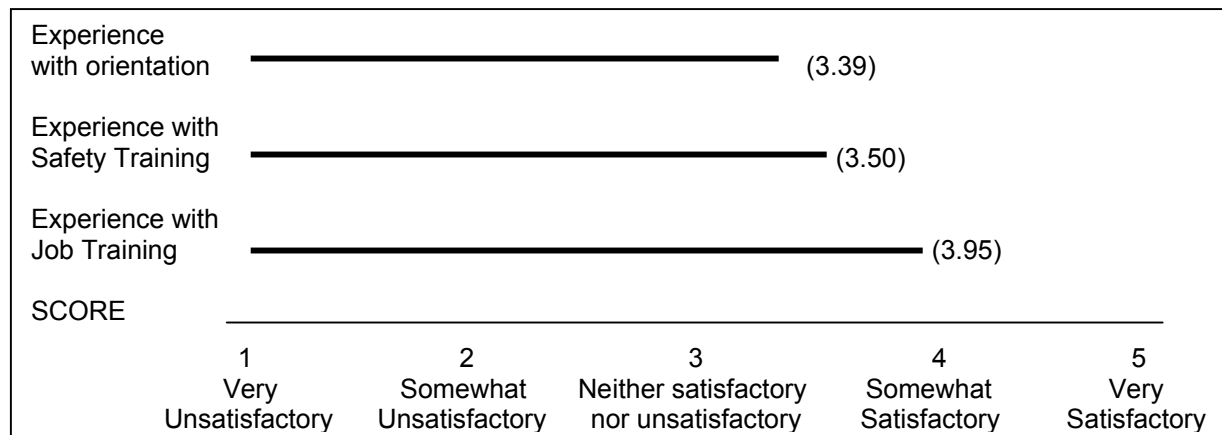
indicated having received a medical examination at the time of hiring, with the remaining 10% having received a medical examination at another approved location within six months of joining MTSB. By large majorities, they also indicated receiving training with regard to environment, health and safety standards; safety rules, grievance procedures, and disciplinary measures and guidelines (Figure 2).

Figure 2



When asked to describe their overall feelings and experience with regard to initial hiring and orientation, the interviewed employees gave a moderately positive response (Figure 3).

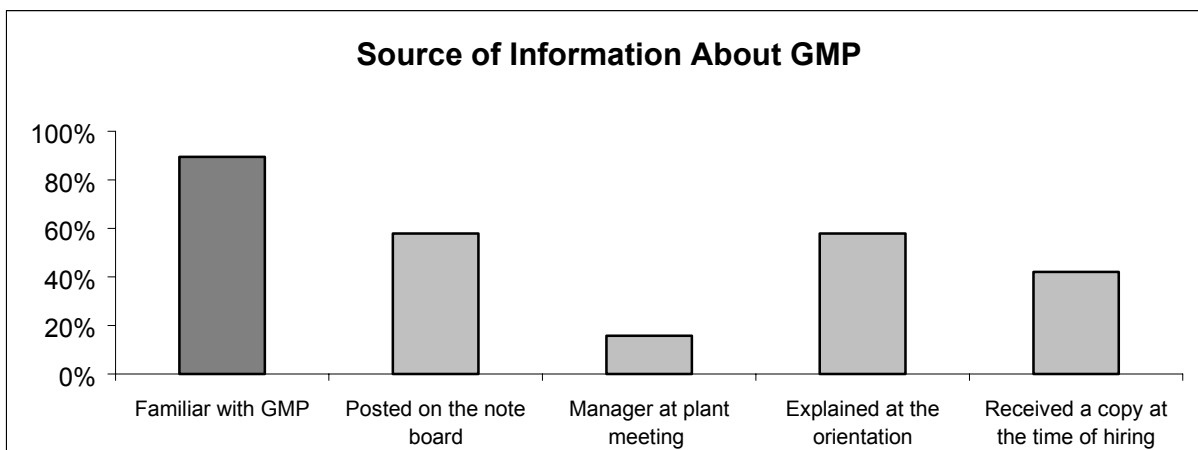
Figure 3



## **AWARENESS OF THE GMP**

MIMCO had noted in its first audit report (February 1999) that the MTSB plant management devoted considerable attention and energy to making all levels of workers familiar with various aspects of GMP, which is treated as a living document and is incorporated in all aspects of the plant's operations and especially the company's responsibilities to its employees and surrounding community. MTSB 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 that a very large majority was familiar with GMP and received GMP-related information through multiple sources. (Figure 4)

Figure 4



It should be noted that these response rates are above the levels recorded during MIMCO's 1999 audit of MTSB. We commend MTSB in their sustained efforts to disseminate GMP awareness.

## Work Environment of Manufacturing Operations and Related Facilities

MTSB is an efficiently laid out and well managed plant facility. The plant is completely air-conditioned. The factory 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 the factory to be in a good operating condition. Work areas were clean with no apparent oil spills. MIMCO also noted workers were using appropriate personal protective equipment in all areas of operations and the requirement of PPE usage appeared to be strictly enforced by floor supervisors. Environmentally, the plant has good sewage treatment facilities, air-filter systems, and mopping water treatment and collection sump. Workers interviewed by MIMCO expressed overall satisfaction with their physical work environment. Nevertheless, some workers have continued to complain about excessive noise and dusty air. These problems were also noted in MIMCO’s previous audit in 1999.

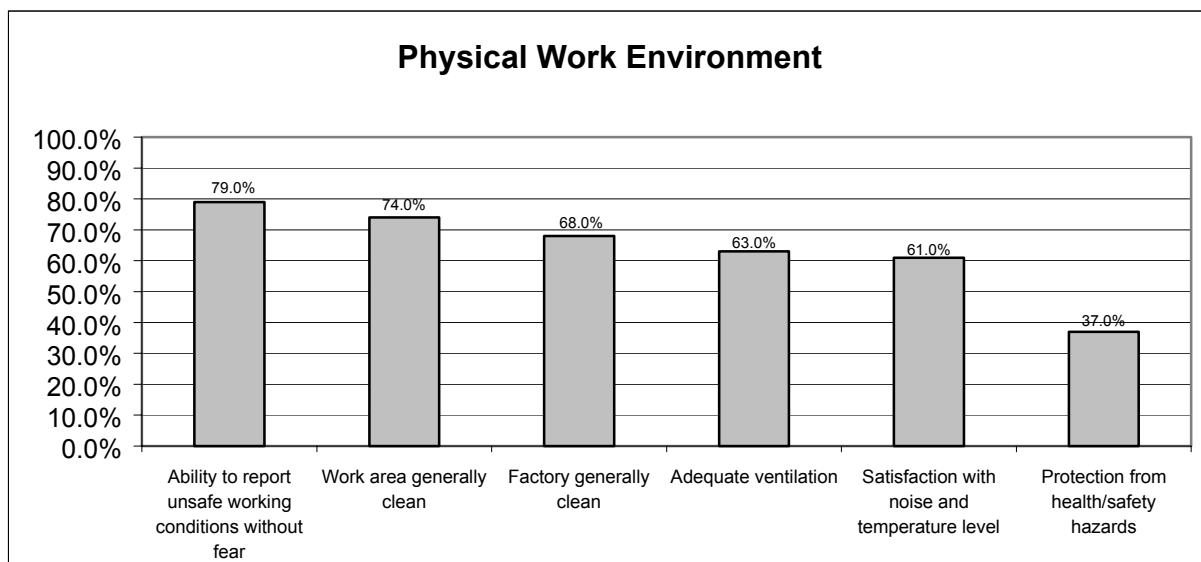
In response, MTSB management indicated that it conducted a test of noise level in August 2001. This test revealed that PPE in the form of hearing protection should be required for all workers in certain areas of high noise. Since then, the PPE requirement has been stringently enforced. MTSB management is also continuing with other efforts to reduce employee exposure to noise.

MTSB also conducted tests in August 2001 to measure the level of personal exposure to airborne particulate matter. Air sampling tests conducted in August 2001 revealed that in only one area, namely, the woodworking area, MTSB had exceeded the Mattel personal exposure limits for airborne particulate matter. The plant immediately took corrective action to remedy the situation. A follow-up test was conducted in October 2001. It showed that the amount of particulate matter in the woodworking area had fallen “far below the Personal Exposure Limit.”

It should be noted here that these tests, and remedial actions indicated by the MTSB management were taken approximately 7-8 months prior to MIMCO’s current audit visit in May 2002. Therefore, we must conclude that notwithstanding MTSB’s actions, worker complaints about these issues have continued to persist.

. MIMCO’s findings, based on the observations of workers interviewed, indicate continued worker discontent and concern about the plant’s physical environment (Figure 5). These issues were also emphasized by the workers in their responses in the one-on-one confidential interviews when asked for their general qualitative comments.

Figure 5.



### Areas of Potential Concern and Recommendations

The persistence of worker complaints on the part of a significant minority is troublesome. MTSB management maintains that it has systematically measured, and where necessary, taken appropriate action to remedy shortfalls in the workers' physical environment. MTSB also generates and sends periodic reports to Mattel's internal EHS audit group, together with remedial actions taken by the plant management. While MTSB management considers this protocol to be a satisfactory response and corrective mechanism, workers' continued complaints remain unanswered. We urge MTSB management to revisit the entire issue and identify the sources of the problem as felt by the workers.

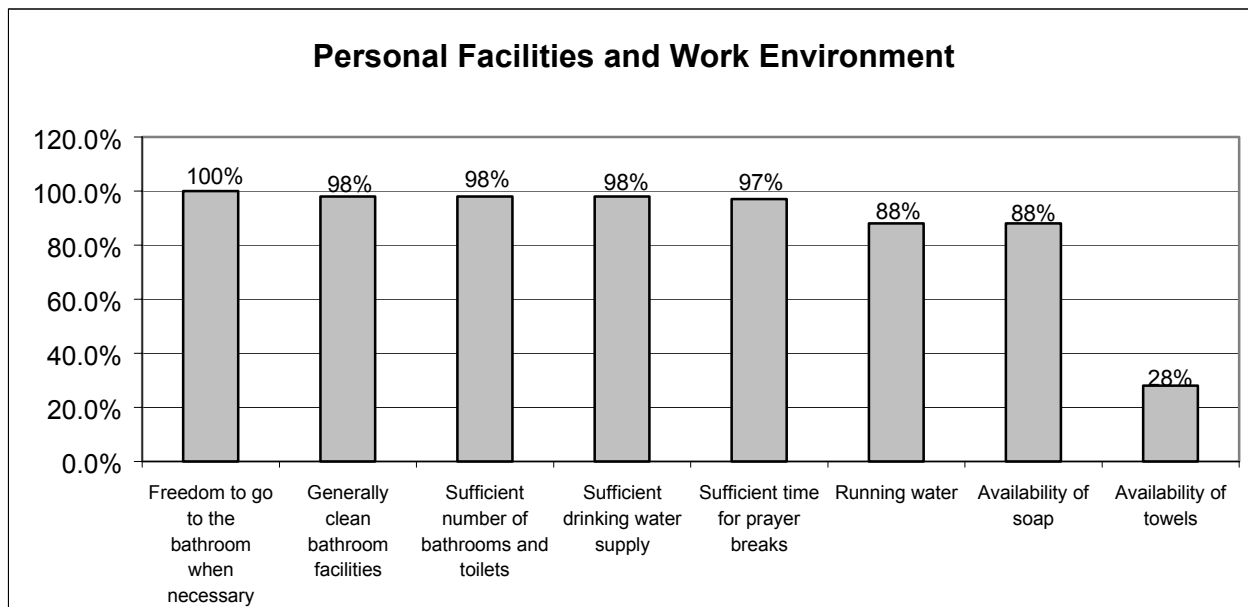
### Drinking Water and Personal Hygiene Facilities

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 6).

### Living Conditions and Dormitories

MTSB does not have any dormitories. Workers make their own living arrangements.

Figure 6



Canteen and Eating Facilities

MTSB provides a lunch break of 30 minutes. In addition, two 15-minutes breaks are provided (at the company’s expense) one each in the morning and in the afternoon.

MTSB has well-maintained and clean cooking facilities. The kitchen staff is employed by the factory and canteen operations are under the supervision of Human Resources Department. The factory serves three meals a day. MTSB provides a subsidy to the canteen, which allows workers to buy higher quality meals at lower costs than, would be available from outside vendors. Workers may also choose to eat outside the plant or bring their own food in which case they do not receive individual cash subsidies.

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. Workers’ satisfaction with canteen facilities and

food were mixed. A little over one-half (55%) of the interviewed workers stated that they were satisfied with canteen food. However, a large number of them also expressed a desire for greater variety in the meals served to them. In terms of overall measures of satisfaction, employee satisfaction with canteen facilities and food services received a rating of 3.21 on a scale of 1 to 5.

#### Use of Personal Protection Equipment (PPE)

All workers interviewed by MIMCO unanimously indicated that they had received training and could operate their equipment free of hazard to themselves and to the facility. They also confirmed receiving the necessary, PPE for use in the work area and indicated (100%) that they regularly used their PPE.

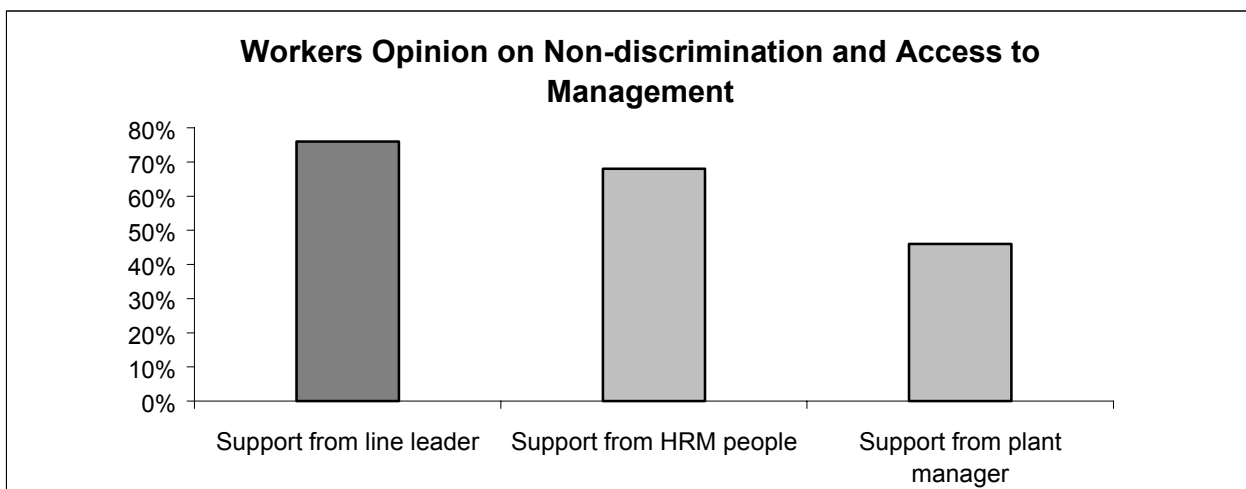
#### Freedom of Association and Access to Management

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 MTSB plant are not presented by a union. However, the interviewed 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. A large majority (83%) 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 supervisory levels (Figure 7).

Figure 7



There was, however, one disconcerting factor. A majority of the interviewed workers (55%) expressed the belief that there was discrimination in hiring and promotion practices based on race, religion, gender, ethnicity, or region of origin.

#### Areas of Potential Concern and Recommendations

A high level of workers' perception about discrimination should be cause for serious concern to the MTSB management. MTSB workplace tends to be technologically proficient and its dissatisfaction can adversely effect productivity. Moreover, the small size of the workforce ensures that instances of any real or perceived discrimination would become immediately known to the entire workforce. We recommend that MTSB management take immediate steps to remedy the situation because it has the potential of causing greater problems further down the line. In particular, top management should:

1. Hold one or more general meetings of all the workers and supervisors where it should emphasize that any form of discrimination would not be tolerated. Furthermore, those who were found to have engaged in such practices would be subjected to appropriate disciplinary measures.
2. Conduct one or more training programs to sensitize all levels of supervisors about handling these issues.
3. Undertake confidential investigation to pinpoint the source of this problem and take necessary action.

In response, MTSB has agreed to conduct leadership training exercises to further sensitize middle management to the issues of harassment and discrimination and how best to deal with them as well as employing various approaches that can be effectively used to counteract the situation. However, as far as the need for a plant wide investigation, MTSB would be guided by Mattel's head office in El Segundo.

4. MIMCO recommends that Mattel's internal audit department undertake a plant-wide investigation and where necessary work with the MTSB management to institute necessary corrective measures. MIMCO would like to receive a report of Mattel's corrective actions within 90 days of the release of this report. It should be noted that MIMCO might also undertake a follow-up inquiry if it feels that further action is required.

#### Non-Job Related Skill Enhancement Programs

According to MTSB Management Compliance Report, the factory provides employees with several job related training programs, including CAD/CAM, engineering, IT, and safety classes. The availability of non-job related programs and their usage by

the employees recorded some of the lowest positive responses from the workers. Among the interviewed workers, only 21% indicated some awareness of these programs while 17% 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 a rating of 2.94 on a scale of 1 to 5.

### Overall Observations and General Recommendations

MTSB management deserves high marks for maintaining a clean and efficiently operating facility. Employees are well-trained, take pride in their work and there is a high level of rapport between the management and workers.

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.

There are, however, certain areas where greater attention and specific action on the part of MTSB management is called for. The first issue pertains to the condition of excessive noise and dusty air prevailing in certain areas of the plant despite the fact that MTSB management has already taken a number of corrective measures. The second one pertains to the real or perceived concern of discrimination against workers based on ethnicity, religion or other factors. This is a serious problem and requires prompt and decisive action on the part of the MTSB management. MIMCO's recommendations with regard to these issues have been made in the relevant sections of this report.