

MATTEL, Inc.

Escobedo and Mabamex Plants, Mexico

COMPLIANCE WITH MATTEL’S GLOBAL MANUFACTURING PRINCIPLES (GMP)

Report of the Independent External Audit

Prepared by

International Center for Corporate Accountability, Inc. (ICCA)

A non-for-profit, educational-research organization
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ICCA AUDIT REPORT of MATTEL’S MEXICO

OPERATIONS

(ESCOBEDO AND MABAMEX PLANTS)

This report is based on the audit of Mattel’s operations in Mexico. It covers the Escobedo and Mabamex plants. The two plants are wholly owned by Mattel, and produce toys only for Mattel. The Escobedo plant, based in Monterrey, was audited on April 14, 2003. The Tijuana based Mabamex plant was audited on April 16, 2003. These audits were performed under the supervision of International Center for Corporate Accountability (ICCA). ICCA audits are designed to independently verify plant compliance with Mattel’s Global Manufacturing Principles (GMP) and the measurement standards incorporated therein.

A. ICCA’S AUDIT PROTOCOLS

1. Pre-Audit Preparation

Prior to the site audit, ICCA requests information from the plant management regarding plant practices. This standard document is called the *Management Compliance Report (MCR)*. It is completed by the plant management and contains a summary of the key aspects of Mattel’s Global Manufacturing Principles (GMP) and the plant management’s own statements for compliance with GMP standards, details of any shortfalls, and plant

management’s plans for corrective action. ICCA also reviews reports of all previous audits conducted by Mattel’s Internal Audit Department.

2. The Field Audit

A typical audit consists of four parallel activities. The first is an audit of a randomly selected sample of the personnel files and payroll data of a group of workers representing the plant’s entire workforce. Professional auditors retained and supervised by ICCA conduct this audit. These professionally trained accountants have extensive knowledge of host country labor laws and local practices with regard to wages and benefits, working hours, government-controlled deductions and related matters. The intent of this audit is to ensure that all workers receive wages for regular and overtime work as mandated by law, operate in accordance with legal and GMP standards as to regular and overtime hours, and receive benefits as mandated by law and GMP standards.

The second facet of ICCA’s audit involves confidential, one-on-one interviews of the same group of workers who were earlier selected for the payroll and personnel file audit. This practice allows for comparison of the information contained in the plant’s payroll records and personnel files, and the information provided by the workers through their confidential one-on-one interviews. The questionnaire is prepared by ICCA’s experts and is designed to elicit information, both quantitative and qualitative, on all aspects of the workers’ working and living conditions at the plant. Professional interviewers, retained independently by ICCA, and generally meeting the age, gender, and regional profile of the workers, conduct these interviews in the workers’ local language and under the direct

supervision of a senior ICCA advisor. The objective here is to ensure that workers are guaranteed complete confidentiality, which is critical for engendering trust among the workers toward the ICCA audit.

The third element of the audit is a thorough examination of the plant’s practices and policies with regard to environment, health and safety issues. Trained engineers, retained by and under direct supervision of an ICCA professional, carry out this phase of the total plant audit. Plant’s records are further verified by a thorough “walk-through” of the plant’s facilities by ICCA’s experts. General maintenance of the manufacturing facilities, storage and handling of hazardous materials, treatment and disposal of contaminated waste materials, hygiene conditions in toilets and bathrooms, kitchen and eating facilities are examined to ensure safe and healthy operations. The “walk-through” also includes a thorough inspection of the dormitories and recreational facilities in terms of hygiene, adequacy of space, worker comfort, privacy and security, and other related matters as deemed appropriate.

The final element of the ICCA audit is a series of briefing sessions between ICCA’s audit advisors and the plant managers. These sessions serve to confirm and clarify issues in the MCR submitted prior to the field audit and elaborate on the plant management’s practices regarding issues that emerge during the field audit.

3. Post Audit Activities

All raw data collected at the audit site are brought to ICCA’s offices in New York for analysis and their findings are incorporated in ICCA’s audit report. The

draft report is first made available to Mattel for comment. However, Mattel cannot require ICCA to make any changes in the report except for factual errors, which have been recognized and verified by ICCA. The final report containing both ICCA’s independently derived findings and Mattel’s responses and proposals for corrective action, are formally released to public.

B. AUDIT FINDINGS- Consolidated Summary

ICCA’s audit of Mattel’s Mexican operations covered two facilities: Escobedo in Monterrey and Mabamex in Tijuana. The two plants offer certain common characteristics in terms of living practices, worker profile, management of the workforce in terms of regular and overtime hours, peak-load work scheduling, etc. These reflect both the socio-cultural characteristics of the Mexican labor markets, and labor practices in the areas of the two plants’ operations. At the same time, the two plants display distinct characteristics in terms of plant maintenance and upkeep, management-employee relations, and human resources policies and practices.

1. Workforce Profile:

Workers in Mattel’s Mexican facilities are generally older than comparable facilities in other countries. Due to the production loading requirements at both plants, a small group of core employees are retained on a permanent basis. The rest of the workforce consists of workers with 1-6 month contracts. Another distinctive characteristic of the Mexican workforce is that its temporary

component comprises of students during the summer period, and housewives during the fall and winter periods.

2. GMP Awareness

Both facilities have established effective means of communication and training programs to ensure that all workers have a good understanding of Mattel’s GMP. ICCA has found these efforts to be quite effective.

3. Hours, Wages, Benefits

The two plants have an easily understandable system for recording hours, calculating wages, and all other related payroll and personnel matters. All workers receive wages that are more than the government mandated minimum wage rates as well as the prevailing area wages. Amenities provided to workers include: transportation in urban areas, cafeteria facilities, maternity and annual leave. These policies comply with the national laws, and in many instances, factory benefits surpass customary practices.

All workers, with few exceptions, work no more than 60 hours per week as stipulated in Mattel’s GMP. The only exceptions are a handful of maintenance employees, who occasionally may have to work longer hours to meet urgent maintenance needs. However, it should be noted that the current excess overtime hours scheduled by the two plants do not violate Mexican Labor Laws.

In response Mattel has indicated that it is re-examining its overtime work policies and plans:

It has modified the GMP standard with regard to Mexico to 72 hours per week during peak production periods. Mattel has incorporated a formal statement to this effect in its GMP “checklist”.

There are also certain work-related issues, specific to individual plants, that require follow up. Mattel has agreed to re-examine all these issues and where necessary, take appropriate action in consultation with ICCA.

During one-on-one confidential interviews with workers, some workers at the Escobedo plant indicated that they were required to work overtime on holidays and even when tired or not feeling well. Mattel has indicated that it regards this finding at odds with the company’s strict policies, which forbid such practices. These include not only electronically maintained payroll and work hours data but also records for visits to the medical clinic. Both factories have strict policy, which dictate that all overtime work must be voluntary. No employee is forced to work if sick. This policy has been communicated to all supervisors during training and is strictly enforced. Notwithstanding, based on the responses of a small percentage of workers who expressed concerns in this area, Mattel will investigate to ensure that company policy is being strictly followed.

An examination of the payroll records of the Mabamex plant revealed that the data processing system was set up in such a manner that workers on the ‘mixed shift’ (i.e. swing shift) were not paid their proper overtime wages. Mattel workers are paid on a daily wage basis. The payroll system treats the swing shift as an 8-hour shift to calculate corresponding hourly wage rates even though the workers actually work 7.5 hours. When overtime work is involved, this method of

calculation results in a lower hourly base wage rate, which is the basis of payment for the overtime hours worked.

In response, Mattel indicates that its current system of calculating wages for the “swing shift” is similar to the practices followed by other factories in the area. However, Mattel has re-examined the issue when ICCA brought it to Mattel’s attention. Mattel has determined that ICCA’s position is technically more accurate. Consequently, the company has modified its payroll data software to reflect the revised basis for calculating overtime rates for the swing shift. The new system should be in operation by April 1, 2004. Mattel has also decided that it will re-calculate wages of all affected workers and pay them back wages starting from January 1, 2003 through April 1, 2004 when the new system of calculating wages will be in effect.

ICCA has since been notified by Mattel that the new pay system has been put in place as of March 31, 2004. Furthermore, all workers affected by the old system have been paid back wages with effect from January 1, 2003. ICCA is very gratified with Mattel’s prompt response. ICCA intends to verify the implementation of the new system in a planned follow-up visit in June 2004.

4. Plant Facilities

Both facilities are generally well managed with regard to environmental health and safety issues. Our audit did not identify any major issues with regard to general plant maintenance.

5. Medical Facilities

Both Mabamex and Escobedo plants have well maintained medical facilities, which are staffed with medical doctors, and are quite adequate to meet the medical related needs of the two plants’ employees.

6. Freedom of Association and Access to Management

The two plants have written procedures with regard to employees’ right to freedom of association. These procedures are disseminated to the employees through new workers’ orientation program, employee handbook, postings on boards and the intranet. Interviewed workers confirmed their awareness of these policies and felt that they could talk freely to their line leaders, co-workers and human resources department about work related issues of concern to them.

7. Protection From Harassment

Most workers in the two plants believe that they are treated fairly and with respect by senior management. However, ICCA’s interviews with workers revealed a sense of displeasure on the part of the labor force, by the way they are treated by their co-workers and line supervisors. ICCA interviews revealed that some workers were verbally abused and sexually harassed by fellow workers. Workers also indicated that they considered their supervisors to be

insensitive to their concerns and complaints. The real or perceived harassment of female workers was found at both plants. In response, Mattel has re-affirmed that it takes employee concern with regard to harassment by fellow workers quite seriously. The general managers of both the plants have redoubled their efforts toward sensitivity training programs for their supervisory level personnel, and open forum meetings with all employees to stress the importance of respect for fellow employees and the absolute need to maintain a hassle and fear-free workplace. The management of both the plants have also indicated their determination to take strong measures to eradicate this situation. Among the measures currently under way of enforcing a policy of “zero-tolerance” where both the employees and the supervisors failing to curb such practices would be subject to disciplinary action and termination from employment.

In response, Mattel has indicated that both plants have conducted training sessions for all employees on maintaining a respectful work place. This is an ongoing course so that new employees are indoctrinated to the culture of a respectful workplace. Furthermore, since this audit occurred there have been disciplinary actions and terminations of employees not following the policies. ICCA is satisfied with these efforts but plans to revisit the situation including worker interviews if considered necessary, by July 1, 2004.

8. Overall Conclusions

Mattel’s Mexico operations have shown significant overall improvement in plant facilities and workplace management since ICCA’s last audit of the two facilities: Escobedo and Mabamex in November 2001 and August 1999

respectively. ICCA is also pleased with Mattel’s prompt and proactive responses to the remaining issues which were mentioned to in the previous pages. As indicated, ICCA plans to revisit the two facilities in June 2004 to ascertain the effective implementation of Mattel’s initiatives in these areas.

C. The Escobedo Plant (Montoi S.A. de C.V. Planta Escobedo)

I. INTRODUCTION

The following report is based on the field audit of Montoi S.A. de C.V. Planta Escobedo (henceforth called Escobedo throughout this report). The plant is located in Escobedo, Nuevo Leon, Mexico. It is a wholly owned facility and is entirely dedicated to the manufacturing Mattel and Fisher Price products. This is the fourth audit of this facility and was conducted on April 14, 2003. The three previous audits were conducted in August 1999 and November 2001.

II. WORKER PROFILE

Escobedo currently employs approximately 990 workers. Of these, 84% are direct labor and the remaining 16% are administrative and managerial personnel. Average age of workers is 29 years. The average education level of the workers is 9 years of formal schooling and the average length of employment at Escobedo is 2.4 years. For almost 30% of the interviewed employees, Escobedo was their first job. During the peak production period, the number of direct labor employees double to almost 1800. During 2002, 1264 workers left the factory while 2008 new workers were recruited.

Escobedo facility relies heavily on temporary workers to respond to changes in production demands. Of the total workforce, 33% is considered permanent with no stated expiration date in the workers’ contracts. Other workers are given temporary contracts of 1-6 months’ duration.

III. FINDINGS

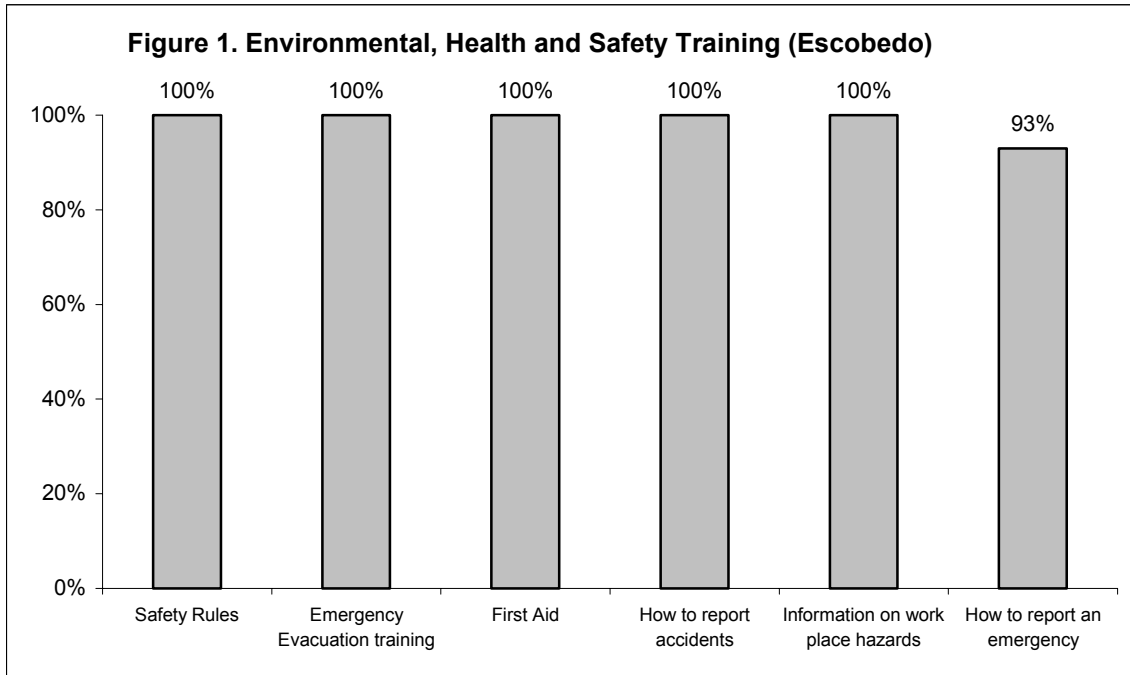
1. Recruitment and Hiring

Over 75% of the workers got their jobs through a referral or “walk in”. Recruiting agencies accounted for 7% of new hires.

The company provides orientation to all newly recruited workers on their first day. The orientation program takes about seven (7) hours. Among other issues, it covers the employment contract, rules of conduct, wages, benefits and overtime policies, grievance procedures, GMP, transportation services, and a tour of the factory. In addition, workers receive training in environmental health and safety (EHS) issues. EHS training includes safety rules, emergency evacuation training and drills, first aid personnel access, means of reporting accidents, information on work place hazards, and reporting of an emergency (Figure 1). New hires also undergo a medical examination, which includes general check-up, vision test, ear test and blood pressure. A very small number (6%) of workers mentioned that they were given pregnancy test as well.

Mattel has responded by stating that the plant does not test for pregnancy, nor is the Plant Doctor permitted to ask questions regarding pregnancy. This process is clearly understood and followed by the Plant Doctor. However, based on the comments of a small number of workers, Mattel will investigate to ensure that the policy stated above is clearly understood and strictly enforced. Plant management will also undertake to improve workers’ awareness of this and other

policies pertaining to worker rights and responsibilities by putting extra emphasis on them during worker orientation at the time of initial hiring.



Workers’ Contracts: Upon employment, each worker receives a signed contract from Escobedo. The document describes the duration of the contract, hours to be worked, wages, and benefits involved in the workers’ employment.

2. GMP Awareness

Escobedo provides GMP information through the orientation program and a variety of other sources. GMP is made available to the workers in the local language. Plant management devotes considerable attention to creating worker awareness of GMP – a fact confirmed by 97% of the interviewed workers.

3. Working Hours, Wages, and Benefits

Workers at the Escobedo plant earn between 10 and 39 Mexican Pesos per hour. The first nine hours of weekly overtime are paid at double time, overtime hours beyond nine are paid at triple time. Sunday work hours command a 25% premium over the double wage rate. These practices are in full compliance with the labor laws of Mexico.

Work Hours: All interviewed employees confirmed that time cards are used to record work hours. Mexican labor law does not stipulate any limitation on the maximum number of hours that workers may work during a specified time period. However, regular hours for wage calculation purposes are defined as 48 per week, for a six-day workweek. At the Escobedo plant, all workers, with few exceptions, work no more than 60 hours per week as stipulated in Mattel’s GMP. The only exceptions are a handful of maintenance employees, who occasionally may have to work longer hours to meet urgent maintenance needs. However, it should be noted that the current excess overtime hours scheduled by the two plants do not violate Mexican Labor Laws.

Escobedo plant’s policy with regard to work hours is to limit the percentage of workers who work in excess of 60 hours per week, to 25% of the workforce. Hence, some special job classification workers, such as maintenance workers, may be required to work for up to 72 hours per week when needed. It should be noted that GMP’s Mexico checklist limits maximum work hours to 60 per week. As such, The Escobedo facility is currently in non-compliance with Mattel’s GMP code. However, this practice does not violate Mexican labor laws.

As indicated in the Consolidated Summary, Mattel modified its GMP standard to allow 72-hour workweeks during peak production periods. Mattel has incorporated a formal statement to this effect in its GMP “checklist”.

Probation Period: Most workers undergo a probation period. According to the interviewed workers, the length of the probation ranged between 1 week to nearly 1 year. Of the interviewed workers, 56% mentioned that their pay during the probation period was different than that of regular workers.

Mattel has responded that for entry-level operators the daily wage for the first six weeks is 82.29 pesos compared with 93.27 pesos (which is the normal regular wage) starting the seventh week. Therefore, the overtime wage rates (being a percentage of normal wage rates) will be lower for entry-level workers during the first six weeks of their employment.

Involuntary Labor: Of the interviewed workers, 13% mentioned that they were required to work overtime on holidays. Another 10% also mentioned that they had seen their co-workers being asked to work overtime even when they were not well or felt tired. Workers mentioned that worker feeling ill is sent to the infirmary and upon receiving treatment, sent back to work. Workers reported that supervisors would allow a worker to go home only if the worker’s condition looked bad.

Mattel responded to this finding from the interviewed workers by stating that Mattel’s policy at the Escobedo facility strictly prohibits involuntary overtime. Escobedo’s management was unaware of any instances of forced overtime. Nor

had it received any complaints through multiple communication channels between workers and the management. Nevertheless, based on the comments of the workers interviewed, Mattel will further investigate to ensure that the company policy of no forced overtime is clearly understood and strictly enforced.

In regard to workers’ statements about forced work while feeling indisposed, Mattel indicated that all Escobedo employees had the right to visit the plant Infirmary whenever they felt ill or indisposed. They simply have to advise their group leader that they needed to go to the infirmary. The infirmary is staffed 24 hours per day, 7 days per week. The doctor or nurse who attends to the employee makes a decision as to whether or not the employee is able to return to work. Where an employee is deemed unable to return to work, transportation arrangements are made to take the employee home. In case the nurse/doctor feels that the employee is capable of returning to work, but the employee states that he/she is unable to return to work, transportation arrangements are made to take the employee home. The employee’s supervisor has no role in this process. This is the stated policy of Escobedo and plant management has no knowledge of any deviation from this stated policy.

Familiarity with the Pay Stubs: Workers were unanimous in confirming the accuracy of their pay stubs in terms of their understanding of work hours, wages, pay rates, and other pertinent information reported on their bi-weekly pay stubs.

Benefits: The Escobedo facility provides its workers with benefits that exceed regional practices. The plant has contracted a transportation company to provide bus service that picks up workers along several routes in the city. In addition, Escobedo management provides a variety of other incentive bonuses, e.g., punctuality, good attendance, etc.

The company provides maternity leave of 84 days (42 days before child birth and 42 days after), which complies with social security regulations. This was confirmed by a large majority of the interviewed workers (80%). They also stated that women workers received the same pay rates upon their return to work from maternity leave.

Personnel Records: Each worker at the Escobedo plant has a signed contract on file. In addition, company records include illness and injury reports, disciplinary action reports, medical examinations, and maternity leave reports.

ICCA is concerned with the inconsistency in impressions expressed by the interviewed workers as to the circumstances where workers are required to do overtime and the management’s contention that this was not the case. Mattel’s management has expressed its determination to investigate this matter further and take corrective action where needed. ICCA is satisfied with the approaches being taken by the management and would like a report of the company’s efforts and resultant findings by May 31, 2004. ICCA also plans to re-assess the two plants by July 31, 2004 to independently verify the effective implementation of these efforts.

4. Workplace Discipline of Employees

Escobedo has written policies with regard to employee discipline. Workers are informed about these policies and procedures during the orientation period. Most offenses are handled through verbal and written warnings. In cases of repeated misconduct, the employee may be terminated. Workers have a right to appeal their disciplinary action to the human resources department. The plant does not impose any cash fines as a disciplinary measure.

About 60% of the interviewed workers were disciplined at work for various reasons. Among the most common were: not using safety equipment (47%); tardiness (43%); loss of safety equipment (30%); defective work (23%); missed quotas (13%); and slow work (10%).

5. Work Environment of Manufacturing Operations and Related Facilities

This is a very large plant with 675,000 square feet of floor space. An additional 200,000 square foot extension is under construction. It is a comparatively new plant with the first phase completed in 1998, the second in 2001, and the third phase was completed in 2003.

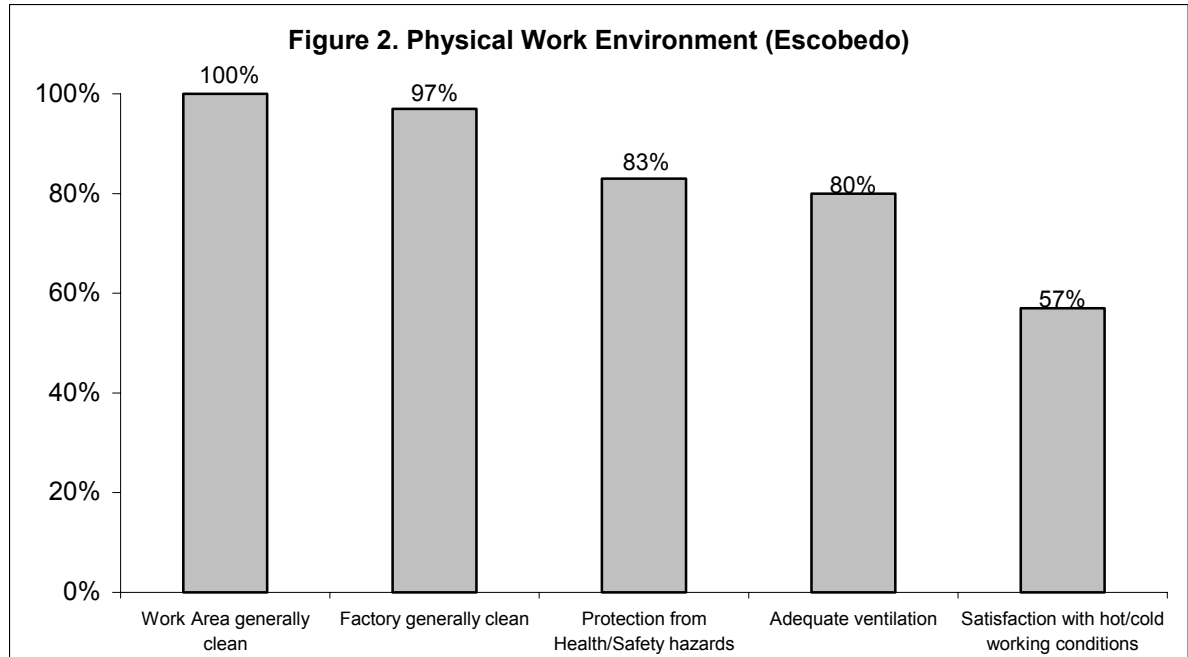
Overall the plant is in very good operating condition except for the few items noted below.

- i. Maintenance Parts Room (pump room): This room needs to be reorganized. It contains scrap, paint cans, miscellaneous pipes, etc. As such, it represents a hazardous condition.

- ii. Compressor Room: The machines are leaking through their seals and need maintenance.
- iii. Blow Molding: This area consists of large machines with up to 180-ton capacity. There is oil leakage and scraps lying about. The area needs improved house keeping.

Responses from interviewed workers indicated a high level of overall satisfaction with physical plant facilities (Figure 2). The only exception to this situation was that of noise. Although, workers had been provided with earplugs, they felt that the earplugs were not adequate. It should be noted that noise was also an expressed concern of workers in ICCA’s previous audit of 2001.

Mattel responded by stating that the Escobedo facility was in full compliance with the agreed upon GMP policies and procedures concerning noise and noise abatement. While Mattel continues to evaluate ways to minimize and eliminate noise, there were certain areas where this would not be possible. In those areas, Mattel would continue to enforce its policy requiring the use of earplugs for hearing protection.



6. Use of Personal Protective Equipment

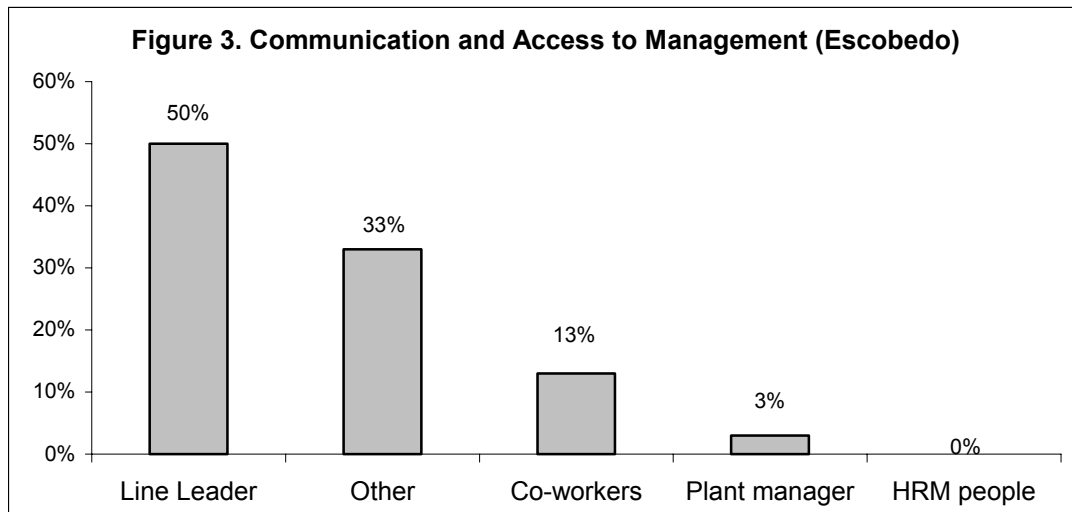
The plant provides Personal Protective Equipment (PPE) to the workers based on the evaluations of the safety department. The use of PPE is enforced through supervisors, communications, safety audits and disciplinary actions. Among the interviewed workers, the level of PPE usage was quite high (83%).

7. Freedom of Association, Discrimination and Access to Management

A union represents Escobedo plant workers, although worker awareness of union representation is low (23%). However, all of the interviewed employees stated that neither they nor anyone they knew had been intimidated, harassed or fired for union-related activity.

The plant has an elaborate plan of employee communications. An important component of this plan is weekly meetings, which are held with small groups of employees to discuss common problems, and to solicit employee

suggestions on all issues of concern to them. The program includes a feedback loop to ensure that employee suggestions and concerns are addressed in a timely manner. Almost 90% of the interviewed workers confirmed that in the past year, there had been several occasions when the plant manager, supervisors or human resource managers had talked to all the workers in general meetings. Interviewed workers expressed divergent views with regard to access to different levels of management. For example, 50% of the interviewed workers stated that they were able to discuss job-related issues and concerns with their line leaders. However, none of the interviewed workers felt that they could talk to someone in the HR department with the regard to their job related concerns (Figure 3).



8. Medical Facilities

Escobedo has an on site clinic which is staffed with 4 nurses and 1 physician. Basic health care is provided free of charge. The clinic also maintains proper records for accidents and other health care data for workers. Overall, it is an excellent facility and meets GMP standards.

9. Protection from Harassment

Mattel has specific policies and guidelines regarding harassment in the workplace. These policies are widely communicated to all employees and staff. There was consensus among the interviewed workers that senior management treated workers fairly and with respect. This consensus, however, did not extend to treatment from fellow workers. In particular, female employees expressed problems in terms of harassment from their fellow workers and line supervisors. Among the interviewed workers, 30% stated that co-workers or plant supervisors verbally abused either them, or their co-workers. In addition, 13% of the interviewed workers reported that they were aware of sexual harassment cases at the plant. Some workers actually narrated specific incidents along with the names of abusers. Workers also stated that offenses like whistling when women workers pass were commonplace and generally ignored by the management. A similar situation was found in the case of reporting of workplace injuries. One-third of the interviewed workers indicated that they were afraid to report incidents of harassment or injury for fear of losing their jobs.

In response, Mattel management reiterated its commitment to maintaining a harassment-free work environment in its facilities. The company takes the issue of harassment very seriously. As part of Mattel’s GMP and Mattel’s Code of Conduct, Montoi management has a specific list of behaviors that must be avoided by managers and supervisors. This list is communicated on a regular basis and the communication comes directly from the Plant Manager to each of the supervisors and managers. This code of conduct specifies that the following

behaviors would result in immediate termination: sexual harassment or pursuit; pornography or obscenities with e-mails; any physical abuse; and, intentional misreporting of hours worked by an employee. Furthermore, the code states that a supervisor will be placed into corrective action program, with a specific timeframe for implementing the necessary change where the supervisor is found to have resorted to verbal abuse or treated employees with lack of proper respect. Finally, during the past year, there had been two cases resulting in the termination of a supervisor.

ICCA agrees with Mattel that harassment issue is a serious one. However, ICCA believes that current efforts by the company have not been completely effective and the issue of workplace harassment – especially as it pertains to female employees – would require additional measures to improve overall effectiveness. Therefore, ICCA would like periodical reports - over the next 12 months - from the plant management of its new measures and their impact in eliminating this problem.

10. Dormitories and Living Quarters

All Escobedo workers commute to the plant from their own homes. The plant does not have dormitories for workers.

11. Food and Canteen Facilities

The factory provides one meal per shift for employees. Employees who work in the canteen are given physical examinations twice a year. Garbage pick up is done on a daily basis.

On an average, lunch break is of 30 minutes, which according to 30% of interviewed workers is not enough considering the long queues. 97% of interviewed workers eat in the canteen.

The cafeteria menu is set for a six-week period to avoid repetition. Two different meal options are offered each day to all employees, this menu changes on a daily basis. 27% of the interviewed workers expressed their dissatisfaction with the quality and quantity of food served. A majority of the interviewed workers expressed a desire for wider variety of food served in the cafeteria.

With regard to the length of the lunch break issue, Mattel management responded that this was identified as an issue during Mattel’s Employee Opinion Survey conducted in 2002. As a result of this survey, the lunch break was extended to 35 minutes. With the latest expansion of the facility in 2003, Mattel management feels that the lunch break will have to be extended further simply due to the walking distance between the cafeteria and the production areas. A plan is being developed.

12. Recreational Facilities

At the Escobedo facility, there is a covered court that is used for tournaments (basketball and volleyball) and events such as dances. Escobedo also has an enclosed soccer field with artificial turf for soccer tournaments. Other recreational facilities include outdoor barbecue area located between the soccer court and the basketball court.

In addition to the onsite facilities, Escobedo utilizes two external parks for the plant sponsored two 5k races that are held each year. The plant also makes use of a Sesame Street Amusement park for employee activities.

Plant sponsored community events include a dance every three months for employees and their spouses/friends. The two largest events of this type are the September 16th Independence Day dance and the Christmas Party. Escobedo also holds a Children's Day celebration at the plant site for workers' families every May.

13. Non-Job Related Skills Enhancement Programs

Escobedo has established training programs for first aid, how to make cards, flower arrangements, etc. Most of the employees expressed a desire to have classes in English as a second language and computer training classes.

IV. OVERALL ASSESSMENT

The plant management deserves credit for operating a well-maintained physical facility. The factory also has an above average record of employee safety and healthy working conditions. The plant's basic wage policies, benefits and incentive bonuses meet, and in many cases, exceed Mexico's labor laws, local area practices.

However, results of employee interviews suggest the existence of worker abuse and harassment, and especially of female workers from co-workers, and assembly floor supervisors. We look forward to Mattel's report with regard to additional measures that Escobedo plans to implement, and the results of such

efforts in eradicating this problem. ICCA would like a report from the plant management on this issue by April 30, 2004. ICCA may also revisit the plant in June 2004 to assess the situation including interviews with workers.

D. The Mabamex Plant (Mabamex S.A. de C.V. Planta Mabamex)

I. INTRODUCTION

The following report is based on a field audit of Mabamex S.A. de C.V. Planta Mabamex (Mabamex). The plant is located in Tijuana, Mexico. At present, 100% of plants capacity is dedicated to the production of Mattel and Fisher Price products. The field audit was conducted by ICCA on April 16, 2003. This was the second audit of the facility. The previous audit was conducted in 1999.

II. WORKER PROFILE

Mabamex currently employs about 2250 workers. Of the total workforce, 91% constitute direct labor and the remaining 9% are managerial and administrative personnel. The average age of workers in the plant is 24 years, and the average level of education is 6 years of formal schooling. The average number of years worked in the plant is 3 years. For about one-third of the workers, Mabamex was their first place of employment. There were no workers employed under the age of 17 years. The legal minimum age in Mexico is 16 years.

The Mabamex facility relies heavily on seasonal workers to adjust to changing peak production requirements. Approximately one-third of the workforce is considered permanent with no stated expiration date in the workers’ contracts. The remaining two-thirds of the workforce is given temporary contracts, which range between 1 through 6 months.

III. FINDINGS

1. Recruitment and Hiring

A majority (59%) of the workers got their jobs through walk-in to the plant; 15% through referral by their friends; 5% through recruitment services; and the remaining 11% used other means to gain employment at the factory.

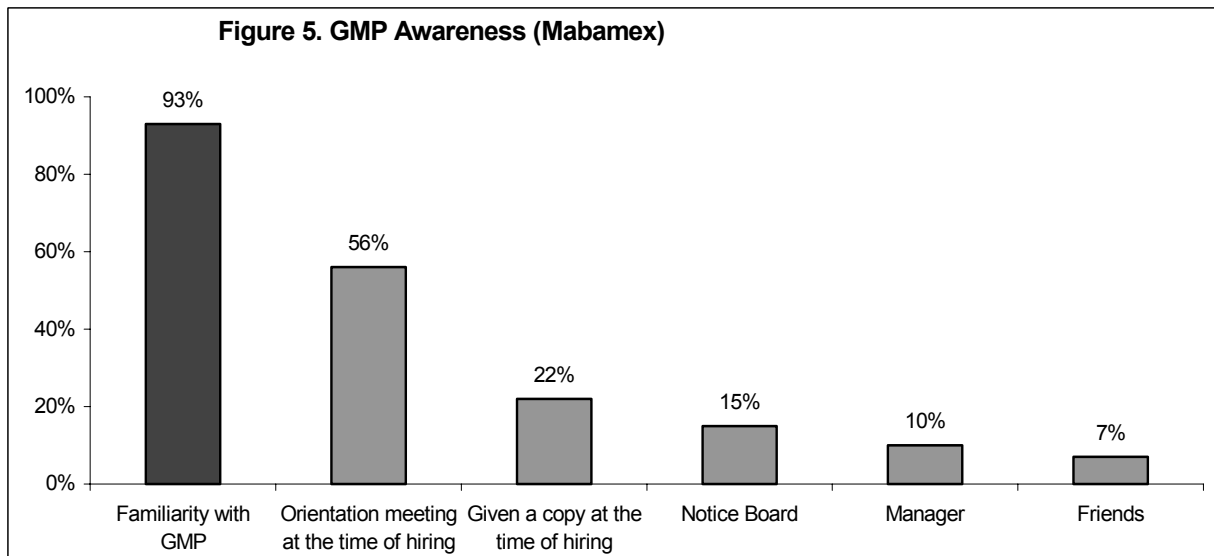
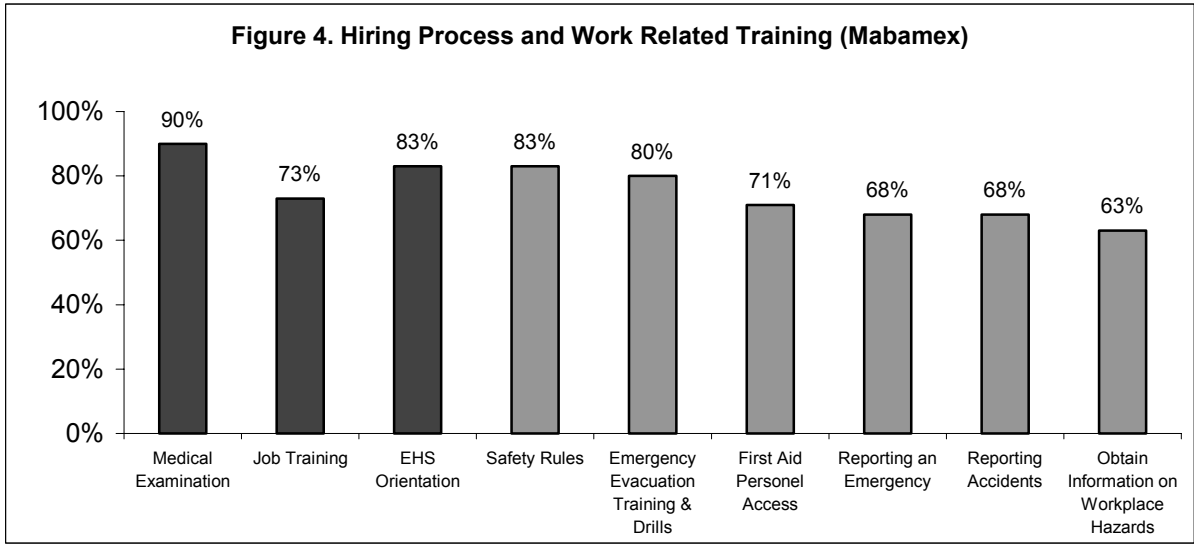
All workers go through a general company orientation at the time of hiring. It covers issues such as the employment contract, rules of conduct, disciplinary measures, grievance procedures, wages deductions and overtime pay policies, transportation services, facilities, amenities and a tour of the factory. In addition, workers are given training in Environmental, Health and Safety practices (EHS Orientation). Workers are also given medical examination at the time of hiring. Finally, workers receive job-related skills training with an average length of 9 days (Figure 4).

Workers’ Contracts: Management Compliance Report (MCR) stated that all workers received their signed employment contracts at the time of hiring. The workers also confirmed this during one-on-one confidential interviews.

2. GMP Awareness

According to plant management, information on Mattel’s Global Manufacturing Principles is provided to all employees and is available in local language. The Plant Manager plays a key role in communicating GMP information to supervisors and employees, which is also disseminated through

various sources such as employee handbook, notice boards and the company intranet (Figure 5).



3. Working Hours, Wages, and Benefits

Workers at the Mabamex plant earn at least 43.65 (Mexican Peso) per hour. All overtime is paid at double the rate of normal wages, up to 9 overtime

hours each week. Any hours in excess of 9 per week are paid at triple rates. Sunday work hours command a 25% premium over the double wage rate. These practices are in full compliance with the labor laws of Mexico. Time cards are used to record work hours. Interviewed workers were unanimous in stating that they punched their own time cards.

Hours and Wages: According to the Mexican Federal labor law, work performed between 6 a.m. and 8 p.m. is deemed to be day work and 8.0 hrs are considered maximum daily hours of work. Work performed between 8 p.m. and 6 a.m. is deemed to be night work and the maximum daily hours of work is seven. “Mixed hours of work” means hours of work containing both day and night work between 2:30 p.m. and 10:30 p.m. and the maximum daily hours of work is seven and a half.

Mabamex operates a day shift (Shift 1) from 6:00 a.m. to 2:30 p.m.; “mixed hours” shift (Shift 2) from 2:30 p.m. to 10:30 p.m., and a night shift (Shift 3) from 10:30 p.m. to 6:00 am.

Examination of the payroll records of the Mabamex plant revealed that the data processing system was set up in such a manner that workers on the ‘mixed shift’ (i.e. swing shift) were not paid their proper overtime wages. Mattel workers are paid on a daily wage basis. The payroll system treats the swing shift as an 8-hour shift to calculate corresponding hourly wage rates even though the workers actually work 7.5 hours. This method results in establishing an hourly base wage rate, which is lower than the corresponding hourly rate if the workday were defined as 7.5 hours. The lower corresponding hourly base rate becomes

relevant when overtime work is involved during swing shifts; workers are paid their overtime wages based on a rate lower than the applicable rate.

In response, Mattel indicates that its current system of calculating wages for the “swing shift” is similar to the practices followed by other factories in the area. However, Mattel has re-examined the issue when ICCA brought it to Mattel’s attention. Mattel has determined that ICCA’s position is technically more accurate. Consequently, the company has modified its payroll software to reflect the revised basis for calculating overtime rates for the swing shift. The new system should be in operation by April 1, 2004. Mattel has also decided that it will re-calculate wages of all affected workers and pay them back wages starting from January 1, 2003 through April 1, 2004 when the new system of calculating wages will be in effect.

ICCA has since been notified by Mattel that the new pay system has been put in place as of March 31, 2004. Furthermore, all workers affected by the old system have been paid back wages with effect from January 1 2003. ICCA is very gratified with Mattel’s prompt response. ICCA intends to verify the implementation of the new system in a planned follow-up visit in June 2004.

Mexican labor law does not stipulate any limitation on the maximum number of hours that workers may work in a specified period. However, for wage calculation purposes, regular hours are defined as 48 per week for a six-day workweek. At the Mabamex plant, all workers, with few exceptions, work no more than 60 hours per week as stipulated in Mattel’s GMP. The only exceptions are a handful of maintenance employees, who occasionally may have to work longer

hours to meet urgent maintenance needs. However, it should be noted that the current excess overtime hours scheduled by the plant does not violate Mexican Labor Laws.

As we have indicated in the Consolidated Summary, Mattel has modified its GMP standard to allow 72-hour workweeks during peak production periods. Mattel has incorporated a formal statement to this effect in its GMP “checklist”.

Mabamex’s policy regarding work hours is to limit the percentage of workers who work in excess of 60 hours per week to 25%. It should be noted that GMP’s Mexico checklist limits maximum work hours to 60 per week. As such, The Mabamex facility is currently in non-compliance with Mattel’s GMP code. However, this practice does not violate Mexican labor laws. As stated in the earlier part of this report, Mattel has aligned its GMP standard to provide for a maximum of 72 hours per week for all direct labor.

Probation Period: Among the interviewed workers, 41% stated that they had undergone a probation period where their wages were different from the wages paid to regular workers. At Mabamex, wages for temporary employees start with an entry level wage and are adjusted after 3 months of service. After this time, wages to all the employees are the same. These practices are in accord with the Mexican labor law.

Familiarity with Pay Stubs: All interviewed workers confirmed that they understood their pay-stubs and were satisfied with the accuracy of records with regard to regular and overtime hours, wages paid and other deductions.

Benefits: Mabamex provides several types of benefits to all its workers. These are based on their tenure with the company and their temporary/permanent status.

- Annual Leave: The Mabamex facility provides 6 days of paid leave for its workers. As a supplement, permanent workers are also paid 50% of their base pay as bonus when on vacation; temporary workers get a 25% bonus when on vacation. For workers who wish to take vacations before they complete a full years’ service with the company, annual leave length is adjusted proportionally.
- The company provides free transportation to all workers. 49 different bus routes are established throughout the city, transporting workers to and from the factory.
- Cafeteria costs are subsidized for meals served at the factory. Workers pay 9 Pesos per day (two meals) where the plant management has stated that the actual cost is 26.36 pesos. Workers are also provided with free coffee and bakery products during their daily coffee breaks.
- As Christmas bonus, permanent workers receive 30 days of base pay while temporary workers are paid 15 days of base wages. If, at Christmas time, a worker has not completed a full year’s service with the company, the bonus is adjusted proportionally.
- Workers are provided with maternity leave of 84 days in compliance with the Mexican Labor law. Of these, 42 days are given before delivery and the remaining 42 days are given following the birth of the child. However,

worker interviews revealed that 59% of the employees were aware of the maternity leave policy, and 46% knew that they could return with the same pay after leave.

Personnel Records: Each worker at the Mabamex plant has a signed contract on file. In addition, company records include illness and injury reports; disciplinary action reports; medical examinations and maternity leave reports.

4. Work Environment of Manufacturing Operations and Related Facilities

Mabamex is a large plant consisting of one building with 432,000 square feet. The plant was constructed between 1997 and 1998 with a major expansion in 2003.

The EHS survey was conducted during the slack season while the factory was only partially operational. Many production lines were down and various molding machines, mask spray booths, etc., were not in operation. Notwithstanding, there was enough sustained activity in the plant to enable us to evaluate its operations with regard to environmental health and safety issues.

The plant is arranged on a product basis as opposed to a functional basis, outside of molding operations, with approximately 300,000 square feet of assembly area. As an example, individual mask spray booths are part of the assembly line whereas in a functional design they would be a completely separate function in a separate area.

All documentation requested concerning air quality, water quality, waste disposal, etc., was presented and seemed to be in order. The record keeping in this area is very good.

The physical plant is in good shape except for the items noted below:

- The high voltage cage on the assembly floor was unlocked. It could lead to a dangerous situation and Mabamex management states that it was attended to immediately.
- In the molding maintenance shop, there is a set of grinding wheels without protection, an open solvent drum and oil soaked rags in many places.
- Gauges and meters throughout the plant need calibrations and an established calibration schedule.

The interviewed sample of workers was almost unanimous in expressing their high level of satisfaction with the cleanliness of the factory as well as their work areas. However, 24% of the workers interviewed found the ventilation inadequate and 22% admitted to being exposed to health and safety hazards or discomfort. Confidential worker interviews addressing EHS issues in the plant, indicated that 44% of the workers expressed significant level of concern with discomfort with high temperatures in the plant during the summer months. A majority of interviewed workers (51%) expressed problems of high noise levels, chemical smells, and air pollution caused by dust extraction, and slippery oil from the machines and various chemicals.

Employees were quite satisfied with their access to drinking water. They were almost unanimous in confirming that bathrooms were clean and properly

maintained, and that workers were allowed to use bathroom facilities whenever necessary with adequate number of bathrooms. There were generally enough towels, running water and soap in the bathrooms.

The Mabamex plant is a first rate facility that needs some corrective action noted above. This should be easily fixed with greater attention to routine maintenance. ICCA appreciated the fact that the plant was not 'sanitized' for the benefit of the ICCA team but observed as it is in 'real' time.

5. Use of Personal Protective Equipment

The factory provides all relevant Personal Protective Equipment (PPE) to the employees without charge. The use of PPE is required of all employees on the production floor. Workers, by large majorities, indicated they used PPE and that floor level supervisors encouraged and enforced the requirements of proper PPE usage. ICCA’s EHS experts also confirmed this practice during their plant “walk-through”.

6. Medical Facilities

Mabamex has an infirmary on the premises. It contains a reception area and two examination rooms. Two doctors take turns so that medical personnel are available 24 hours a day. There are four nurses on staff, which provide complete coverage at all times. There is also a hospital within one mile of the plant. Record keeping in the infirmary is of high quality and accident information is posted for all to see. The clinic provides health care for any work related accident free of charge. Other health care is covered by the government system.

Workers in the confidential questionnaires acknowledged being given medical examination at the time of hiring (90%). The medical examinations included general tests, vision test, and hearing and tattoo checks. The employees are not being charged for medical treatment.

7. Food and Canteen Facilities

The dining area at the factory canteen is very attractive. Colorful paintings, natural light through large windows and TV for entertainment makes the dining room a pleasant environment. There is also an eating area outside for those who wish to eat or smoke outside.

Employees are served two meals for a nominal amount. There are two menu choices. One may also purchase food from a concessionaire's stand in the dining room. The menus change each day. Microwave ovens are available for those who bring their food from home. Employees expressed a high level of satisfaction with all aspects of canteen and food services.

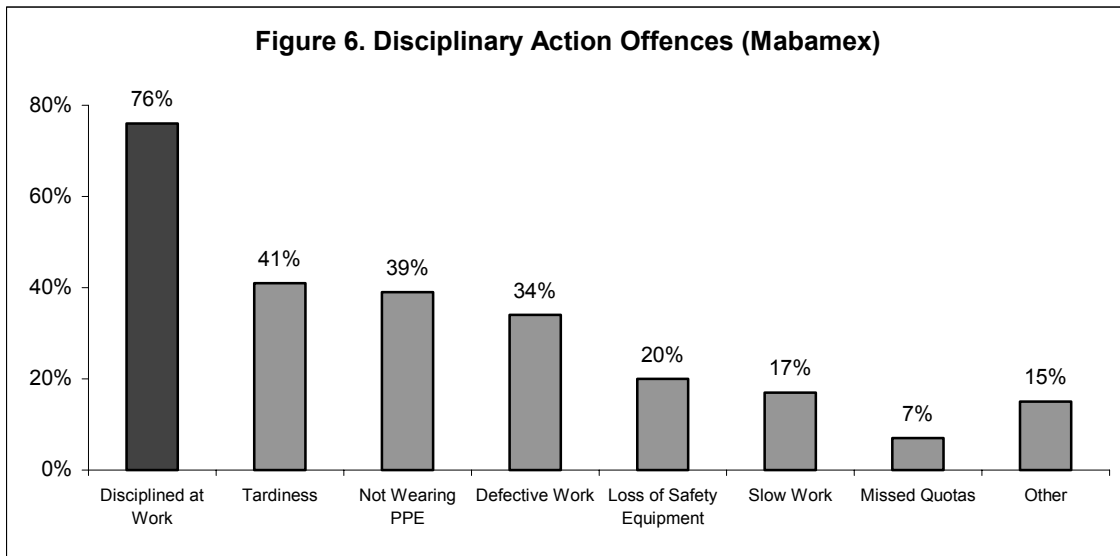
The kitchen staff appeared to be well trained. The kitchen area was clean and all workers were wearing proper clothing. Small lockers are available for the staff to store a change of clothes. Food is refrigerated or stored as required. Leftovers discarded each meal. The kitchen area, immediate outside area, garbage disposal, and drains seemed to be clear and clean. The garbage is picked up daily.

8. Workplace Discipline of Employees

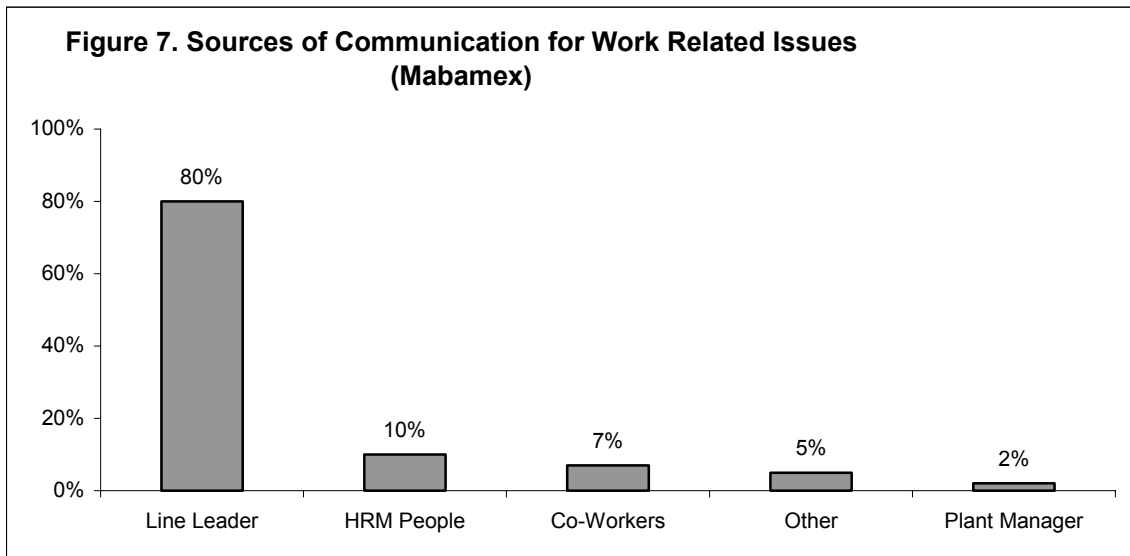
Mabamex plant has written procedures on employee discipline. According to the Management Compliance Report, disciplinary policies and procedures are communicated to all employees at the time of hiring. Information is also posted, on a permanent basis, on the factory area notice board. Workers, who are late to work, who fail to use their PPE, or are absent frequently, receive written warnings. The factory does not impose any cash fines as a disciplinary measure. Workers interviewed indicated by large majorities (73%) that they considered the reasons for disciplining workers, and the penalty imposed, to be generally fair and proper (Figure 6).

9. Freedom of Association and Access to Management

Mabamex has formal written procedures to ensure strict enforcement of the company’s policies with regard to hiring, promotion and other workplace practices related to sex, age, ethnic origin or other factors. No discrimination cases were noted in the last twelve months.



The plant management also has written procedures on Freedom of Association. All information pertaining to these procedures is disseminated to the employees through new hires orientation program, employee handbook, postings on boards and the intranet. Most of the interviewed workers (85%) felt free to talk to their supervisors as well as other managers without fear (Figure 7).



10. Protection From Harassment

Workers were unanimous (98%) in their belief that the workers were treated fairly and with respect by the plant management. However, one-fifth of the interviewed workers indicated that they had witnessed co-workers being subjected to verbal abuse. Some employees also reported witnessing fellow workers harassing female employees. Another disconcerting finding from the confidential interviews with the workers indicated that 34% of workers admitted that they were afraid to report incidents of harassment or injury.

11. Recreation Facilities

The plant provides a variety of sports facilities. Workers indicated that they generally participated in these activities including: playing soccer, volleyball, basketball, baseball, and softball as well as billiards, athletics, summer outings and dances, at the plant site.

12. Non-Job Related Skills Enhancement Programs

Mabamex provides a number of non-job related training programs to employees. These include: formal schooling programs, first aid, and programs explaining core values, drug prevention conference and family planning to all employees. Most employees mentioned a desire for increasing these programs and to include: nursing, computer training, English language, and, machinery courses.

IV. OVERALL ASSESSMENT

The general findings of the ICCA audit of April 16, 2003 are mostly favorable. Mabamex has a number of sound managerial practices and procedures in place that ensure workers’ health, and safety. ICCA was impressed by the transparency of recordkeeping and the ready availability of information. ICCA commends Mabamex management for operating a first-rate facility and for having an enlightened and yet efficient, human resources management program.

The issues that raise serious concern relate to lower and mid-level management. As in the case of Escobedo, approximately one-third of the

workers at Mabamex indicated that they were afraid to report incidents of harassment or injury for fear of losing their jobs. Furthermore, while the proportion of workers expressing incidents of sexual harassment was comparatively fewer, the issue calls for further action. Mabamex management has reaffirmed its commitment to eradicating this problem and has outlined a plan of action, which includes increased sensitivity training at all levels, open communication channels, and strict enforcement of non-harassment policies including disciplinary measures, and, where appropriate, termination of offending employees. ICCA finds these measures a good start and would like a report from the plant management by May 31, 2004 as to the success of these measures. ICCA will revisit the plant to review the situation, including, if necessary, worker interviews in June 2004.