

ICCA REPORT

FOLLOW-UP AUDIT OF MATTEL MEXICO OPERATIONS

Conducted in June 8-11, 2004

I. Short Summary of the Original Audit Report

ICCA's formal, full-fledged independent external audit of Mattel's facilities in Mexico was conducted in April 14-16, 2003. The audited facilities consisted of two plants. The Escobedo plant, based in Monterrey, normally employs around 1,000 workers, which may almost double during peak production periods. The Mabamex plant, located in Tijuana, employs around 2,200 workers – a number which may also significantly increase during periods of peak production.

The two plants received generally satisfactory evaluation and overall met or exceeded the requirements of Mattel's Global Manufacturing Principles (GMP), Mexican labor laws, and prevailing industry practices in the regions of their operations. The issues covered by the GMP audit included, among others, wages, normal and overtime working hours; job-related skill training and non-job related skill enhancement; worker health and safety; safe operating conditions; freedom of association; and protection from harassment. GMP also has standards pertaining to macro environmental issues, e.g., waste water treatment, air emission, and storage and disposal of hazardous materials. The two plants also provided extensive facilities for extra-curricular activities including sports, e.g., soccer, education for healthy living, and audio-visual entertainment.

There were, however, two areas where the plants fell short of GMP Standards and ICCA's expectations.

1. An examination of the payroll records of the two plants revealed that plants' payroll processing systems were set up in such a manner that workers on the second and third shifts did not receive the appropriate overtime compensation. ICCA's inquiries indicated that this practice is common for the country.

To ensure that the interpretation was correct, both ICCA and Mattel sought independent legal advice, which confirmed ICCA's original interpretation of the Mexican law. Mattel agreed to: (a) immediately remedy this situation by making necessary changes in its payroll management system; and (b) to recalculate wages of all the affected workers with effect from January 2003, and recompense all those workers who were adversely affected by the practice.

2. The second issue pertained to workers' protection from harassment. Although, most workers in the two plants believed that they were treated fairly and with respect by senior management, Approximately 30% of ICCA's interviews with workers revealed a sense of displeasure on the part of the labor force by the way they were treated by their co-workers and line supervisors. Workers also indicated that they considered their supervisors to be insensitive to their concerns and complaints.¹

Mattel indicated that the company took its responsibility very seriously toward maintaining a respectful and harassment-free work environment. The

¹ For complete details of these issue, please see ICCA's 2004 Mexico Audit Report by visiting our website www.ICCA-CorporateAccountability.org

management of the two plants indicated their determination to take strong measures to eradicate this situation. Among the measures to be undertaken was enforcing a policy of “zero-tolerance” where both the employees and the supervisors failing to curb such practices would face disciplinary action and potentially termination of employment. The management of the plants also agreed to undertake more proactive measures by conducting sensitivity training for all employees, and making these issues an integral part of employee orientation and training.

II. Findings of the Follow-up Audit

This follow-up audit was conducted to evaluate the success of these measures at the two plants. It was carried out during the period of June 8-11, 2004 with a short notice to Mattel's management. This was necessary to ensure that the two plants were in full operation during the audit visit and that ICCA had full access to all workers and supervisors at the two plants.

1. Changes in the Payroll System

- ICCA confirmed that changes in the two plants' payroll system had corrected the situation with regard to payment of overtime rates for the second and third shifts.
- All workers who were affected were paid the balance of their correct wages one year retroactive from February 2003 for the Escobedo plant and March 2003 for the Mabamex plant.

2. Protection from Harassment

At the time of the follow-up audit (June 8-11, 2004), over 90% of the line leaders, floor supervisors, and other managers had received initial sensitivity training of approximately 1/2 day. The remaining employees were scheduled to undergo similar training during the next two months.

ICCA conducted in-depth focus-group interviews with a cross-section of supervisors. Each group consisted of between 5-6 supervisors and included both male and female supervisors representing a mix of departments and supervisory levels. Group discussions were led by two senior ICCA team members and lasted between 45-60 minutes. A total of ten focus group sessions were conducted at the two plants.

Focus group discussions indicated an almost universal recognition of the need and importance of sensitivity training on the part of supervisory level personnel. The majority of the supervisors indicated their increased awareness of how certain comments and gestures could be construed as demeaning and threatening by the targets of those comments. There was frank recognition that such comments had been made in the past. It was also stated that while some of these gestures may have had bad intent, most of these comments were made innocently and were a normal social interaction.

The focus group members were almost unanimous in indicating that this training should be repeated regularly at least twice a year to reinforce its

essential message. It was also suggested that some part of this training should be conducted jointly with workers.

The response of the workers toward the outcome of the sensitivity training and other measures implemented by the plant management was positive, although somewhat reserved. ICCA conducted one-on-one confidential interviews with a random and statistically representative sample of the plants' female workers. However, to provide a complete picture, this sample was enhanced by 15% by adding randomly selected male workers in the interviewee pool.

At the time of the original audit in April 2003, among the interviewed workers at the two plants, almost 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. Workers also stated that offenses like whistling when women workers pass were commonplace and generally ignored by the management.

During the follow-up audit the situation had shown improvement. Over 90% of the workers reported that they were treated with respect by their fellow workers and plant management. The only exception was the case of line supervisors, where 15% of the female workers reported to being verbally abused by the line supervisors (compared to 30% at the time of the original audit). Similarly, the number of female workers who reported being subjected to sexual harassment by line leaders declined to 5% from 13% at the time of the original audit.

During the follow-up audit, there was recognition on the part of supervisors interviewed by ICCA, that while serious offenders are immediately rooted out, it would take more time and effort to continue to reduce such practices at the factory level. These behavior patterns were common in the outside-the-plant culture and socialization process, and the two cultures could not be completely isolated. However, they all felt confident that the plant culture would be more hospitable for all employees and especially the female employees as a consequence of this training and a more aggressive disciplinary stance taken toward those engaged in unacceptable conduct by the management.

In the case of female workers, the interviewed workers stated that the situation with regard to protection from sexual harassment was about the same as three months ago. It would appear that the effectiveness of sensitivity training would take somewhat longer to evaluate.