

Audit Report

Mattel Bangkok Ltd. (MBK)

Compliance with Mattel's Global Manufacturing Principles

Conducted by

International Center for Corporate Accountability



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Mattel Bangkok Ltd. (MBK)

1. INTRODUCTION

The report details the findings of a field audit of Mattel Bangkok Ltd. (MBK), performed by International Center for Corporate Accountability (ICCA). The plant is located in the Bangpoo Industrial Estate Export Zone in Samutprakam outside Bangkok. It is a wholly owned Mattel facility and is dedicated to the exclusive production of “Hot Wheels” toy cars.

The purpose of the audit was to evaluate all aspects of MBK operations and to ascertain their compliance with Mattel’s Global Manufacturing Principles (GMP). The field audit was conducted on April 25, 2005. The implementation of Mattel’s GMP audit is carried out according to detailed standards covering various principles of GMP. These are tailored to meet the specific legal requirements of each country as well as Mattel’s GMP. Where local regulations are either non-existent or lower than Mattel’s standards, the higher Mattel standards are considered applicable.

As a part of Mattel’s independent monitoring program, ICCA audits of Mattel facilities follow a three-year cycle. This is the third such audit of the MBK plant. Previous ICCA audits were conducted in April 1999 and May 2002.¹

2. ICCA’S AUDIT PROTOCOLS

ICCA’s audit protocols are designed to verify plants’ compliance with GMP standards in a manner that is comprehensive, objectively measured, interpreted in a meaningful manner, and independent of any other consideration except the compliance standards specified in the GMP.

The first step in this process is the plant management’s own description of its compliance with GMP. This document is called the Management Compliance Report (MCR) and is submitted to ICCA at least 30 days prior to the field audit. The field audit is comprised 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. The second element of the audit involves confidential, one-on-one interviews with the same group of workers who were previously selected for the payroll and personnel file audit. This allows for comparison of the information contained in the plant’s payroll records and personnel files and the information elicited from the workers. The third element of

¹ ICCA’s audit reports for MBK and other Mattel owned plants, as well as some of Mattel’s largest vendors, are available at both ICCA’s and Mattel’s web sites: www.ICCA-corporateaccountability.org and www.mattel.com.

the audit is a thorough examination of the plant's practices and policies with regard to environment, health and safety issues. Plant's records are verified by inspection of relevant documentation as well as a thorough "walk-through" of the factory floor and related facilities. The final element of the ICCA audit is a series of meetings between ICCA's audit team members and various plant managers responsible for different aspects of a plant's operational facilities, employee supervision and other human resource management activities, dormitories and canteen facilities and operations, and plant and dormitory security functions, to name a few.

All data and information generated by the field audit is brought to the New York offices of ICCA for detailed analysis and preparation of audit reports. The findings are first provided to Mattel so that the company may respond to the audit findings. Where the company can show a material error on the part of ICCA with regard to specific findings, ICCA revises the draft report before making it public. Where Mattel provides information with regard to corrective action and commitments, ICCA takes cognizance of these actions and indicates the extent of follow-up to be undertaken by ICCA to ensure full and timely compliance on the part of individual factories. The audit report records both the initial findings of the audit and the specifics of Mattel's responses through corrective actions. In the event of a disagreement between ICCA and Mattel as to the nature of findings or the adequacy and timeliness of corrective measures, ICCA makes public its findings and the company's responses without any editing by ICCA or Mattel.

3. PLANT AND RELATED FACILITIES

MBK manufacturing facilities are comprised of 16 buildings that are located in a contiguous area, divided by open-area walkways and aisles. The plant's major product is Hot Wheels cars. Primary production processes include die-casting, injection molding, tampon-printing, spray painting, and assembly/packing operations. Most operations are conducted on two shifts, Monday through Saturday during regular operations, and Sunday work is scheduled only during peak periods.

The plant operates canteen facility which accommodates approximately 1000 people per day. It also runs five different food shops selling variety of meal choices.

MBK does not have any dormitories. Workers live in private housings in the area surrounding the plant. MBK provides free transportation for workers to get to and from the plant.

4. COMPOSITION OF THE WORKFORCE

MBK currently employs approximately 1400 people. Of these, 80% are direct labor while the remaining 20% are comprised of clerical, administrative and supervisory staff. Almost 98% of the direct labor workforce is female. The entire workforce is over 18 years old, and the average age is 35. Nearly 70% of the workforce has completed middle school while 28% have high school diplomas, and the remaining 2.5% have post-high school education. MBK experiences a relatively low turnover of its workforce, with approximately 16% of workers replaced on a yearly basis. Average employment term for MBK workers is over 6 years.

5. AUDIT FINDINGS

5.1 Recruitment, Orientation and Initial Training

MBK hires workers initially on a probationary basis for four months, after which the employees are considered permanent. ICCA's audit of personal record confirmed that each worker has an employment contract on file, which outlines the terms of employment, pay, work hours, benefits, and all other relevant company policies regarding employer-employee relations, rights, and responsibilities. Workers receive a signed copy of their contract on their first day of work.

The one-on-one confidential interviews with plant workers showed that 47% of the workers have signed contract, which does not state any defined length of employment. Another 50% of the interviewed workers responded that they did not remember signing a contract with the plant. However, as indicated above, this observation is inconsistent with ICCA's examination of the same workers' personal files.

Each worker, upon employment, receives factory orientation, which outlines terms of employment, wages, benefits, deductions, and other rules and regulations that govern employee relations with plant management. Regarding wages, hours, and benefits, the orientation also serves as a review of the pertinent clauses of the workers' employment contract as well as Mattel's GMP. In addition, workers undergo safety training on general safety issues such as fire prevention, evacuation, spill management, etc. Plant management also provides printed material about Mattel's GMP and information sessions on a regular basis.

5.2. Regular and Overtime Working Hours

In 2004, Mattel revised the GMP requirements with regard to regular and overtime working hours. The objective was to unify worldwide practices across all plants that manufacture its products, Mattel has incorporated a series of provisions regarding work hours policies.²

The revised GMP requirements are:

- Workers will not be scheduled to work more than 60 hours per week on non-peak production weeks;
- Workers will not be scheduled to work more than 72 hours per week on peak production weeks;
- The number of peak production weeks will not exceed 17 per year;
- Workers will not be scheduled to work more than 13 consecutive days, without a rest day in between.

MBK has installed computerized management systems to ensure that each employee's work hours conform to Mattel's GMP. This system checks every day's work schedule to make sure that GMP provisions are adhered to. ICCA audit team was given a demonstration of this system's functionality. At this point, ICCA confirms that the MBK plant is in full compliance with regard to their systems that control overtime hours worked by each worker and department throughout the year.

Workers use their ID badges to swipe in when they report to work. If there is no overtime involved that day, they are clocked out automatically by the computerized system. If overtime is scheduled, workers swipe out manually.

Audit of randomly selected workers' actual work schedules show that the above rules are implemented without exception. ICCA auditors conclude that MBK complies with all stipulations of Mattel's GMP are with regarding work hours.

Voluntary Overtime

When overtime is authorized in a particular department, workers are asked to volunteer by signing their names on a list. When the entire factory announces overtime schedules during peak periods, those workers who do not wish to work overtime inform the management by signing their names on a

² It should be noted here that Mattel's GMP standard on this topic does not strictly adhere to local laws in certain countries, e.g., China, where a great many other factories schedule even longer work days. This approach, however, makes the practice more transparent and eliminates the wide gap that otherwise exists between proclaimed working hours against actual working hours.

'decline' list. The workers interviewed by ICCA team unanimously confirmed that they can decline overtime anytime they wish and that they did not fear any adverse repercussions from the plant management.

5.3. Wages, Bonuses and Deductions

MBK pays its workers on a bi-weekly schedule. Workers are paid their wages via bank transfers within 7 days of the pay-period end. The applicable daily minimum wage for MBK workers is 175 Baht for an eight-hour workday. Overtime work is paid @ 1.5 times of hourly rate.

Examination of payroll records reveals that MBK workers actually receive 190 – 275 Baht per day as their basic wage. ICCA auditors have confirmed that all workers are compensated properly for their normal and overtime work hours.

Every worker at MBK is entitled to a bonus based on their seniority as well as their work performance. Yearly bonuses range from 5 to 45 days of wages for workers. MBK provides the following benefits and bonuses which exceed the GMP compliance standards:

- Monthly Diligent allowance (for the employees who do not take leaves except annual leave, and come to work punctually)
- Weekly smart point (based on the weekly plant performance measurements, all the employees will receive the points which can be accumulated till the end of year and exchanged with rewards such as bicycle, toaster, gas oven, etc.)
- Night shift allowance (for the employees who work at night shift)
- 5 & 10 years service award

All annual leave records are kept in each worker's personnel file. Workers are entitled to at least 6 days of paid leave per year, which they can choose to take as vacation, receive equivalent wages instead, or carry unused days forward to future years. The ICCA audit concluded that all workers are properly compensated for their annual leaves.

MBK deducts a monthly charge of 192 Thai Baht (~\$5.00) for employee meals. Most workers take two meals at the company canteen. The average cost of providing meal service to MBK is reported to be 360 Baht per worker per month. Consequently, MBK subsidizes the cost of meals by 168 Baht each month for all workers. Other deductions include fees for union members (30 Thai Baht), social security (5% of monthly pay), and retirement fund (3% of monthly pay) contributions. These deductions are within the maximum limits set by applicable Thai laws as well as Mattel's GMP.

Workers' personnel files contain all pertinent information about each worker's employment history. Each worker receives a yearly medical exam. All workers have a record of their probationary period upon their initial employment, indicating their applicable wages and benefits.

Workers' union at MBK provides a loan service to those employees who encounter temporary hardships and need to take a loan. The loan is provided by the union, but administered by MBK in the form of payroll deductions. By policy, MBK management does not allow deductions exceeding 1/3 of a worker's take home pay. A majority of the workers, interviewed by ICCA during the field audit, confirmed that they had taken personal loans of 3,000 – 5,500 Thai Baht from the factory. All of these workers are satisfied with the terms of the loans.

Work Stoppage for Internal Reasons and Compensation for Lost Time

Thailand's labor law states that in the event a factory has to suspend operations because of internal reasons, the factory must give advance notice to the workers and also pay 50% of the workers' regular wage for time lost.

MBK follows this policy by giving workers' a 7-day advance notice of partial or total factory shut-down. It also pays 50% of each worker's normal hourly wage for the lost time up to 8.0 hrs. of regular shift. ICCA's analysis confirmed that MBK had only one work shutdown during the period January 1, 2004 – April 30, 2005. This occurred on April 19, 2005. The workers were given advance notice of one week as per company policy and also paid 50% of their individual hourly rates for 8.0 hours. Workers interviewed by ICCA confirmed that they had indeed been compensated for the factory shutdown on April 19, 2005 @ 50% of their hourly normal wage rate.

In the event of work interruptions, where no advance notice was possible, MBK policy states that the factory would compensate workers at their normal hourly rates for the time during which they could not work. This would also include regularly scheduled 2.0 hrs. of overtime, if the workers had previously signed for overtime work on the date of the work interruption. ICCA's examination of factory records indicated that no such work interruption took place between January 1, 2004 and April 30, 2005.

5.4. Employee Relations, Workplace Discipline, Freedom of Association, Protection from Harassment, and Communications with Management

Management – Employee Communications

There is extensive and formalized communication system in place at MBK, which facilitates two-way communications between the employees and different levels of management. Plant management informs workers of upcoming events

and developments via daily Production meetings of the senior staff, morning talks between line leaders and workers, weekly human resources meetings, and daily employee communication committee meetings. As the plant is unionized, employees also receive information from their union representatives on a formal as well as informal basis.

Freedom of Association:

MBK employees are represented by a union whose membership is voluntary. There is a standing union committee, which is responsible for facilitating daily communication between workers and plant management. Workers in annual elections elect their union leaders.

Our interviews with factory workers confirmed the voluntary nature of union membership. All of the workers interviewed by ICCA indicated that they were aware of the union and acknowledged that they could choose to become members of the union without any fear to their job. Among the workers interviewed by ICCA, 60% stated that they were members of the workers union. At the same time, among the workers who were union members, almost 20% indicated that they did not know how the union leaders were selected, and nearly one-third could not specify the activities in which the union was engaged on behalf of the workers.

Workplace Discipline

MBK has a formalized system of workplace discipline which is in accord with the MBK-Union contract and also falls with GMP guidelines. It is also progressive starting with verbal and written warnings, to suspension without pay and eventual dismissal. Work rules and regulations are provided to workers in written form as well as during initial employment orientation. Rules and regulations also outline the process by which employees may file grievances. The plant does not impose any fines as disciplinary action.

Workers interviewed by ICCA revealed that the disciplinary procedures were lightly used. None of the interviewed workers reported being disciplined during 6 months prior the audit. Workers also showed high level of awareness of disciplinary policies. Over 90% of the interviewed workers confirmed that they were knowledgeable about the company's disciplinary policies and procedures, and 80% expressed familiarity with the procedures for filing grievances grievance in cases where they felt of being disciplined unfairly.

Protection from Harassment

MBK has established clear rules that govern employee and all levels and are designed to protect them from all types of physical and verbal abuse as well as sexual harassment. These policies are communicated to the workers during

initial hiring and orientation as well as through regular and frequent communications from the management. Workers are encouraged to report instances of mistreatment through formal complaint channels. ICCA's confidential, one-on-one interviews with employees unanimously confirmed that that workers did not experience any verbal or physical abuse, or sexual harassment from their fellow workers, line supervisors, other staff personnel. .

Discrimination

Workers interviewed by ICCA, were also unanimous (97%) that there was no discrimination at MBK toward salary increases, promotions, or other incentives and benefits, based on religion, race, ethnicity or region of origin. The factory has several locations with suggestion boxes for employees to make an anonymous complaint or provide a suggestion.

5.5. Employee Services

Medical Facilities and Health Care

The plant houses a clinic with three beds, staffed by a doctor and a nurse. There is no charge for the medical services, or medicines provided to workers. Employees are given annual health examination, also free of charge.

Food Services

The factory serves three meals each day to all workers. Most employees take two meals each day. When overtime is involved, the factory provides a third meal. MBK subsidizes 47% of the cost of meals. The remaining portion of the cost is deducted from employees' pay. A typical meal includes rice, 2 or three curry dishes, and noodles. In addition, workers may purchase other food items from one of the five food shops selling a variety of goods.

Dormitories

MBK has no on-site residential facilities. All workers live at home or make their own living arrangements.

Employee Education

Educational programs are provided to employees about health and nutrition, hygiene and sanitation, and on other topics of personal care.

5.6. Environment, Health and Safety

On site inspection of MBK's plant and related facilities, including examination of factory's record, by ICCA's experts confirmed that MBK is a clean, well-planned and maintained facility. MBK maintains up-to-date records including but not limited to industrial hygiene, respirators, asbestos, hazardous materials including MSDS, hazardous waste, air emissions, noise control, electrical systems, evacuation drills, local exhaust ventilation (LEV) and fire prevention.

ICCA's professional engineering audit team undertook an extensive "walk through" of the factory and related facilities with a view to appraise the factory's environmental health and safety practices and their compliance with appropriate country laws and GMP requirements.

The "walk through" inspection of the plant showed the factory to be in good operating condition. All work areas were clean and free of oil spills and litter. ICCA also noted, where applicable, employees were using the proper personal protective equipment (PPE) in all areas of the operation. The usage of PPE appeared to be strictly enforced by floor supervisors. Tool and machine guards are being properly used and are in place as required by usage.

The plant has an effective fire prevention plan which includes among others, evacuation exercises, use of fire extinguishers, inspection of electrical system, an evacuation plan, accident prevention, hot work, lockout/tagout, explosion proofing, ventilation (measured annually against a Mattel standard of 0.51 meter per second which is the minimum capture velocity for the local exhaust ventilation. Effective safeguards also exist for compressed gas cylinder storage, underground storage tanks, and above ground storage tanks. There are records of PCB survey, lead based paint survey, noise conservation and abatement, medical aid (provided by an in-house clinic), wastewater treatment, hazardous waste handling, and handling and quantification of air emissions. Interviewed workers by ICCA unanimously confirmed that they had received specific instructions about what they should do in case of a fire. Elevated ambient air temperatures, as noted in ICCA (MIMCO) 2002 report, are still a problem and contribute to employee discomfort during peak summer months.

The toys are manufactured from molten zinc. A process that is by its nature generates heat and adds to the problem of elevated ambient temperatures. Increased ventilation has helped to alleviate the problem partly. ICCA suggested to the plant management that it should consider the use of reflective roofing coating as an added measure of helping to reduce the in-plant ambient temperature.

The kitchen and eating areas are hygienically clean. Grease collecting areas such as ventilation hoods were clean and free of contamination.

ICCA's confidential one-on-one interviews with workers indicated overall satisfaction with the working conditions at the plant. Although, a large number of workers stated that in-plant temperatures were often quite high during the summer months, they also acknowledged that the factory provided them with fans and drinking water. However, 20% of the workers suggested that the factory should install more fans or even an air-conditioner at the plant.

In terms of Personal Protective Equipment, about 87% of the interviewed workers stated that they were required to use the PPE. Workers also indicated that they used the PPE on a regular basis. All required PPE is provided by the factory free-of-charge to the workers, and replaced when necessary. Interviewed workers also acknowledged that the bathroom facilities were sufficient and were generally clean and well-maintained. There was also plenty of drinking water outlets located conveniently and available to the workers.

5.7. Extra Curricular Activities³

MBK supports a number of professional level skill enhancement programs for its employees. In 2005, program offerings included training in Ergonomics, Plastic Injection Molding, Printing Operator Certification, and Industrial Engineering (IE) skill training. Non-job related skill enhancement programs included Thai language training for expatriate employees, and educational assistance to master degree programs. Additionally, MBK organizes an annual environmental health and safety program.

MBK organizes special events to celebrate local festivals with the employees. It also organizes Sports Day, special celebrations and outings (i.e. contests, games, planting trees etc.) as incentives and to foster employee relationships. It also provides for emergency loan assistance, wedding gifts, and scholarships for employee and employee children to study abroad etc.

5.8. Good Corporate Citizenship and Community Outreach Programs

At MBK, the principal focus of these programs to improve living standards for the local people, and increased educational opportunities for the children of the communities. While MBK provides resources and management expertise, a large part of fieldwork is undertaken through voluntary participation on the part of employees.

³ These programs are not required by Mattel's GMP. Instead, information on these programs is provided here to indicate ICCA's assessment of MBK's activities toward improving the quality of life of its employees, and also to demonstrate voluntary commitment on the part of MBK and its employees to be good corporate citizens and responsible members of the community.

In 2004 MBK allocated US\$ 10,000 for community outreach programs and 100 employees participated in such programs. The budget allocation for the year 2005 is US\$12,500.

In 2001, MBK adopted a local school (WatKotharam) in 2001 and continues to support the school with book donations, year-round voluntary teaching programs in the area of computer, arts, environment, health and safety awareness, personal healthcare programs etc. MBK also sponsored 24 educational scholarships at WatKotharam school. MBK has also approached Mattel Children Foundation in the U.S. to provide help toward building a new school in the North-East region of Thailand. A large number of MBK's workers originate from this region.

MBK also organizes visits to the plant for HIV infected children from the local Mercy Center, and has donated toys to Blind children school, Rotary club, and during the National Children's day.

In early 2005, MBK reached out to help rebuild the damaged regions after the Tsunami hit parts of Thailand. It organized religious ceremonies and fund raisers. It also contributed through toy donations to the American Chamber of Commerce, Tsunami Natural disaster-relief fund raising and organized Blood donations for the Thai Red Cross Society.

6. OVERALL OBSERVATIONS AND GENERAL RECOMMENDATIONS

ICCA's audit of MBK's payroll data system, including analysis of wages paid to the workers, the number of hours worked by individual workers and the entire plant, confirmed that MBK was in overall compliance with all the pertinent provisions of GMP.

This high level of continued compliance provides a strong signal that both Mattel and its managers in overseas factories take seriously their commitments to uphold the operational standards mandated in Global Manufacturing Principles and thus provide their workers with a safe, discrimination free work environment and at wages that meet and often exceed local labor laws and prevailing industry practices.