

Audit Report

Mattel Development & Tooling Sbn. Bhd. (MDT)

Compliance with Mattel's Global Manufacturing Principles

Conducted by

International Center for Corporate Accountability



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Mattel Development & Tooling Sbn. Bhd. (MDT)

1. INTRODUCTION

This report presents the findings of the field audit of Mattel Development & Tooling Sbn. Bhd. (MDT), performed by International Center for Corporate Accountability (ICCA). The purpose of the audit was to evaluate all aspects of MDT's operations and to corroborate the plant's compliance with Mattel's Global Manufacturing Principles (GMP). The field audit was conducted on April 27, 2005. As part of Mattel's independent monitoring program, ICCA audit of Mattel facilities follow a three-year cycle. This is the third such audit of the MDT plant. Previous ICCA audits were conducted in April 1999 and May 2002.¹

The MDT plant is located in the Prai Free Trade Zone area outside Penang, Malaysia. MDT is a wholly owned subsidiary of Mattel, Inc. It is a tool and die manufacturer, which supports Mattel plants worldwide.

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 statistically valid and 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 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;

¹ ICCA's audit reports for MDT 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.

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

MDT has two factory buildings totaling of 4902.65 sq. meters. MDT manufactures tools and dies for Mattel's other plants. It also undertakes development work for Mattel's new products. The plant is a well-laid out facility and is efficiently managed.

4. COMPOSITION OF THE WORKFORCE

MDT employs 173 workers. Of these, 76% are direct labor (manufacturing) and the remaining 24% are non-manufacturing labor, i.e., professional administrative and clerical personnel. The workforce consists of highly skilled technicians, and professionally trained tool and die makers. Most workers have 11 years' of basic schooling. Turnover among regular workers is quite low with the average work-tenure at the plant of 13 years. The gender composition of the workforce is 93% male and 7% female. The workforce is quite mature with an average age of 37.7 years.

5. AUDIT FINDINGS

5.1. Hiring and Initial Employment

Given low turnover rates, MDT's hiring needs are limited. Most employees (70%) got their jobs through referrals from current employees or by directly applying at the plant's office.

All new workers receive a thorough medical examination before being hired. They are also required to serve a probationary period of three months during which time

they receive wages and overtime pay similar to permanent workers. Workers attain permanent status upon satisfactory completion of their probationary period. There is no difference in benefits between permanent and probationary workers. All new hires receive training including in-class lectures pertaining to wages, working hours, factory rules and procedures, safety training and use of personal protection equipment (PPE), safe handling of hazardous materials, and, training on specific machines to which employees would be assigned for work.

All employees are given a signed contract once they have completed their probationary period and acquire full-time status. The contract includes details pertaining to their terms of employment, pay, work hours, benefits, and all other relevant company policies regarding employer-employee relations, rights and responsibilities. A signed copy of the contract is kept in each employee's personal file. Employees also receive information on Mattel's GMP during the orientation period. They are provided with manuals and additional briefings by the Human Resources department. Workers interviewed by ICCA unanimously confirmed having received such training and also acknowledged their familiarity with GMP.

5. 2. Regular and Overtime Working Hours

In 2004, Mattel revised its 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 in peak production weeks;
- The number of peak production weeks will not exceed 17 per year;
- Workers will not be scheduled to work more that 13 consecutive days, without a rest day in between.

MDT 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 strictly adhered. Workers swipe in their ID badges at the time of starting their work and also when they complete their shift, including overtime hours. ICCA's audit of actual work schedules of the randomly selected group of workers confirmed that these procedures were followed in every case.

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.

ICCA confirms that MDT is in full compliance with all provisions of GMP with regard to regular and overtime working hours.

Worker interviews conducted by ICCA audit team showed that a normal working week at MDT consisted of 40 hours, comprising of a daily shift of 8 hours with one or two hours of overtime. Approximately one-third of the interviewed workers stated that they did not work overtime at all, while another 10% stated that they sometimes worked more than two hours of overtime.

All overtime is voluntary. Overtime request is on a serial process basis, e.g. when a job in a key process needs additional attention, supervisors ask for overtime work. However, employees are free to choose if they want to sign up for the overtime work or not. Interviewed workers were almost unanimous in stating that they could refuse overtime at any time by informing their supervisors.

5.3. Wages, Bonuses and Deductions

Workers at MDT are highly skilled and technically qualified employees. They receive wages far exceeding market rates for hourly workers. Malaysian law does not stipulate a minimum wage rate for workers. MDT workers' monthly base salaries range from RM 1500 to 3800 for a 41 or 42 hour workweek, spread over a 5 or six-workday week depending on their specific job requirements. Overtime wages are 1.5 times the regular rate for normal workdays, double the base wage rate for rest days, and triple for any hours exceeding 8 on a rest day. These wages are 4-10 times greater than typical direct labor workers in Mattel's other production facility (MMSB) or similar factories in Malaysia. MDT pays its workers on a monthly schedule. Workers are paid via bank transfers within 1 to 7 days of the pay-period end.

In the event where the factory has to stop work during the normal work-day for reasons such as material shortages or scheduling conflicts, workers are paid 100% of their wages for the duration of the work stoppage.

Employees receive bonuses for perfect attendance and special skills as well as night shift allowances. In addition, employees earn year-end bonuses, when they have worked at the plant for at least ten preceding months. Employees who have completed one month of service are also eligible, however, the amount of bonus would be prorated for all those with less than one year of service. Workers are entitled to at least 8 days (up to 18 days, increasing with seniority) of paid leave per year, which they can choose to take as vacation, or receive equivalent wages instead. All annual leave records are kept in each worker's personnel file. MDT allows for 60 days of paid maternity leave to all of its workers, which is in accordance with the Malaysian labor laws. By law, workers are required to pay for social security, retirement fund contributions, and income tax. These are deducted from the workers' paychecks.

ICCA's examination of MDT's payroll data confirms that all workers are compensated properly for their normal and overtime work hours. We also confirm that all bonus payments and other benefits are paid in accordance with government requirements and applicable GMP standards. All workers are properly compensated for their annual leaves.

5.4. Employee Relations

Management – Employee Communications

There is an extensive and formalized communication system in place at MDT, 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 review meetings. Workers were almost unanimous (94%) in stating that they would seek advice on personal problems from the line leaders or supervisors.

Freedom of Association

MDT does not have a union in the factory. However, workers have been provided with multiple avenues for expressing their opinions and seek redress for any complaints. During ICCA's one-on-one confidential interviews, workers overwhelmingly expressed confidence and trust in MDT management and their ability to have access to various levels of management and discuss issues of concern to them either individually or collectively.

Workplace Discipline

MDT has a formalized system for managing workplace discipline, which is in accord with GMP guidelines. Disciplinary measures are progressive, starting with verbal and written warnings and escalating to suspension without pay and ultimately dismissal. Work rules and regulations are provided to workers in written form as well as during initial employment orientation. Rules and regulations outline the process by which employees may file grievances. Workers interviewed by ICCA confirmed (90%) that they were familiar with the company's disciplinary policies. A majority of the workers also confirmed their belief that they could file complaints without fear of reprisal from their supervisors.

Protection from Harassment

MDT has established clear rules with regard to verbal or physical abuse, including sexual harassment. These rules apply to all employees, staff personnel, and management. They are communicated to the workers during initial hiring and orientation as well as through regular and frequent communications. Workers are encouraged to report instances of mistreatment through formal complaint channels.

ICCA's confidential, one-on-one interviews with employees confirmed that overwhelming majority of workers (90%) did not experience any physical abuse or sexual harassment from their fellow workers, line supervisors, and other staff personnel.

Discrimination

ICCA's confidential one-on-one interviews with workers revealed a measure of unhappiness on the part of workers. Almost 40% of the interviewed workers felt that there was favoritism and unfair treatment in employee appraisal for promotion, and also assignment for overtime work.

Mattel Response

MDT management is addressing the issue of discrimination by completing the following:

- Review work hours for all employees to verify consistent application of OT policy in place. Where inconsistencies are found, they will be addressed and communicated to workers.
- Educate workers on OT requirements, which are based on seniority and skill sets needed to complete a specific project. The perceived unfairness may be a result of specific skill sets needed to complete a project.
- Complete a job analysis for all shop workers. This analysis will define and document specific skill sets for each level of worker employed at MDT. Communicate to the workers the results of the job analysis. Educate workers on each job analysis so that they understand what skill sets are needed to be considered for the next promotional opportunity at the facility.

5.5. Employee Services

Medical Facilities and Health Care

MDT shares a clinic with MMSB, and all MDT workers have full access to these facilities. MDT keeps first aid boxes on its premises for immediate first aid treatment. There is no charge for medical services or medicines provided to workers.

Food Services

Food in the factory canteen is provided by a contracted caterer and costs on average RM 1.5 – 3.5, paid in cash, per meal. The canteen serves 4 meals a day throughout all shifts (breakfast, tea break 2 times and lunch) each day to all workers. A typical meal includes rice with fish, meat, vegetables, noodles, salad, and fruits. In addition, workers may bring their own food or purchase meals outside. The lunch break is on average 45 minutes.

Food handlers are required to undergo annual physical checkup. Garbage pick up is done on daily basis. The canteen is cleaned everyday and proper hygienic care is taken in handling and storing food.

Interviewed workers acknowledged their familiarity with the policies related to canteen service. There was, however, significant amount of dissatisfaction expressed by almost 40% of the interviewed workers with regard to both the quality and quantity of food provided to the workers and also the general cleanliness of the canteen.

Mattel Respons

Feedback was solicited from workers on their dissatisfaction with the canteen services. Based on this feedback, MDT management has changed the service provider for the canteen. An additional satisfaction survey will be conducted to assess the new providers services.

Dormitories

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

5.6. Environment, Health and Safety

The environmental health, safety and maintenance conditions at the plant were inspected by ICCA's professional engineering audit team through an extensive "walk through" of the plant and a review of the plant's records with regard to environment, health, and safety requirements stipulated in the GMP. The facility maintains detailed and up-to-date records on plant maintenance, air filtration systems, noise control, fire prevention and safe storage and handling of hazardous materials among others.

The "walk-through" inspection of the plant showed that the factory was in good operating condition. Work areas were clean and the floors, including the machine shop space, were free of oil spills. ICCA also noted that employees were using the proper personal protective equipment (PPE) in all areas of the operation and the requirement of PPE usage appeared to be strictly enforced by floor supervisors. In addition, signs were posted indicating PPE requirements in applicable areas. Tool and machine guards were being properly used and were in place as required by usage. Interviewed workers unanimously confirmed that they are required to use PPE. Those who fail to use PPE are subjected to verbal warning, followed by warning letter for repetitive non-compliance. Interviewed workers also confirmed that they had received training on fire drills and accidents handling.

The plant has good sewage treatment facilities, air filter systems, and waste water handling including a collection sump. Compliance is in progress for local exhaust ventilation with air sampling tests scheduled for April 2005 (results not available as of

date of audit) and exhaust ventilation hoods. Full compliance with emergency evacuation, fire prevention, electrical systems, accident prevention, hot work, lockout/tagout, machine servicing, use of respirators, industrial hygiene, asbestos, hazardous chemicals and materials, compressed gas cylinder storage, PCB survey, medical aid, wastewater discharge and hazardous wastes requirements are in place.

Excessive noise problems noted in ICCA's (MIMCO) previous audit in 1999 and covered in the 2002 audit have been fully addressed. In all areas with sound levels greater than 85 dBa (8hour TWA), the facility has implemented a full program to prevent injury to the effected employees. The program includes but is not limited to audiometric testing, training in the proper use of PPE, and signs. However, about 20% of the interviewed workers, indicated that earplugs were not sufficient to protect them from excessive noise.

The plant is completely air conditioned and if properly maintained with minimum shut down time, there should be no environmental temperature problems even when ambient temperatures reach 32 C (90 F).

A small number of workers mentioned certain health/safety hazards at the work areas, i.e., danger from grinding machine and its dust, irritation caused by coolant for cutter, and hazardous handling of EDM oil and plastic material. In this regard, interviewed workers made a number of constructive suggestions. These include moving grinding machines to a separate room, providing hand gloves and masks, realigning machine distance, provision of longer sleeve for welding staff, more fans in assembly area, and increasing safety training classes.

At the present time, the physical plant is in excellent shape from an EHS perspective, although it is 15 year old facility. The use of glass partitions instead of walls has increased the feeling of openness and acts to encourage good housekeeping even in difficult areas such as the machine shop. It should be noted that there is a tentative plan to move to new smaller but more compact facility in the near future. In this case, MDT will be an even more desirable place to work from an EHS point of view.

Mattel Response

MDT is moving into a different facility and the health and safety improvements suggested by the workers will be incorporated into the design of the new work space.

5.7. Extra Curricular Activities, Good Corporate Citizenship, and Community Outreach Programs³

Good Corporate Citizenship and Community Outreach programs

MDT service committee organizes joint community outreach programs with MMSB plant. On average, 1-2 projects are arranged every month. These projects include employee visits to hospitals, schools, special children homes, orphanages etc.

Employee Outreach programs

MDT has a well-developed program of sports activities for the benefit of its workers. These activities include: bowling, fishing on a regular basis. The plant also offers skill enhancement programs, e.g., training in safety, line leader and ISO 9001 programs. In addition, the plant provides non-job related training, which includes English language and computer literacy classes.

Educational programs are provided to employees on health and nutrition, hygiene and sanitation, and on other topics of personal care. The plant has organized an Anti Smoking Campaign (Slogan Competition) and Safe Driving campaign for the employees.

6. OVERALL OBSERVATIONS AND GENERAL RECOMMENDATIONS

ICCA wishes to compliment MDT management for operating an excellent facility, which is in overall compliance with GMP policies and standards. This is especially true in the areas of plant maintenance and a safe and healthy work environment. MDT has also done a good job in terms of implementing worker-friendly policies with regard to communications with management and payment of appropriate wages and benefits. MDT, however, needs certain corrective measures and a better implementation of its policies with regard to employee treatment.

1. MDT management should review and re-evaluate its procedures to change a perception of unfair treatment held by a large number (40%) of workers. ICCA would like to be informed about the changes instituted by MDT management in this regard.
2. MDT management may also wish to consider the suggestions made by some workers about improving the safety in the work area surrounding grinding machines.

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

ICCA is satisfied with the actions taken to date by MDT's management in response to ICCA's audit findings. These actions have been incorporated and highlighted in the report.