

Audit Report

Mattel Malaysia Sdn Bhd (MMSB)

Compliance with Mattel's Global Manufacturing Principles

Conducted by

International Center for Corporate Accountability



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Mattel Malaysia Sdn Bhd (MMSB)

1. INTRODUCTION

This report presents findings of a field audit of Mattel Malaysia Sdn Bhd (MMSB), performed by International Center for Corporate Accountability (ICCA). The purpose of the audit was to evaluate all aspects of MMSB operations and to corroborate the plant's compliance with Mattel's Global Manufacturing Principles (GMP). The field audit was conducted on April 26, 2005. As 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 MMSB plant. Previous ICCA audits were conducted in April 1999 and May 2002.¹

The plant is located in the Prai Free Trade Zone, Province Wellesley, Penang. It is a wholly owned Mattel facility and is dedicated to the exclusive production of "Hot Wheels" die-cast toy cars with an installed capacity of 165 MM cars per year.

ICCA's 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, Mattel's higher standards are deemed applicable.

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

¹ ICCA's audit reports for MMSB 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.

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; 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 office 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

MMSB is a medium-to-large scale manufacturing facility that occupies a 348,480 sq. ft. plot and 295,167 sq. ft. of built-up area. The plant's major product is Hot Wheels toy cars. Primary production processes include die-casting, plastic injection molding, vacuum metallization, tampon printing, hand spray painting, Ransburg painting and assembly/packing.

Most operations are conducted on a three-shift basis, Monday through Saturday. Sunday work is scheduled only during peak periods. However, since the second half of February 2005, the plant has been operating on a 4-day week schedule, Monday-Thursday, due to normal slow down in the business cycle.

The plant provides dormitories and canteen facilities for its workers. Details of the dormitory operations, canteen facilities and food services are provided in latter part of this report.

4. COMPOSITION OF THE WORKFORCE

MMSB currently employs approximately 2730 workers. Of these, 91% are direct labor while the remaining 9% are comprised of clerical, administrative and supervisory staff. Over 80% of the direct labor workforce is female. All workers are over 18 years of age and the average age for the workforce is 32 years. Over 48% of the workers have completed middle school (11 years of education) with a small number completing high school (13 years). The remaining workers have education levels of 9 years or less. MMSB experiences a relatively low turnover of its workforce with approximately 13% of workers replaced on a yearly basis. Average employment tenure for MMSB administrative/management staff is over 16 years.

5. AUDIT FINDINGS

5.1. Recruitment, Orientation and Initial Training

MMSB initially hires workers on a probationary basis for three months, after which employees are considered permanent. ICCA's audit of personnel records confirmed that each worker had an employment contract on file, which outlined the terms of employment, pay, work hours, benefits, and all other relevant company policies regarding employer-employee relations, rights, and responsibilities. Workers received signed copies of their contracts on their first day of work.

Each worker, upon employment, undergoes initial orientation, where workers are provided information about the terms of employment, wages, benefits, deductions, and other rules and regulations that govern employee relations. Workers also receive information about Mattel's GMP and what it means for them with regard to their employment and working conditions at the plant.

During the initial orientation phase, workers also receive training on general safety issues such as fire prevention, evacuation, spill management, etc. Plant management also provides printed material about Mattel's GMP and conducts information sessions on a regular basis.

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 than 13 consecutive days, without a rest day in between.

MMSB 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. When there is no overtime involved, they are clocked out automatically by the computerized system. ICCA's audit of actual work schedules of the randomly selected group of workers confirmed that these procedures were followed in every case. ICCA confirms that MMSB is in full compliance with all provisions of GMP with regard to regular and overtime working hours.

Voluntary Overtime

All overtime is voluntary. The factory announces its overtime needs one month in advance, and employees sign a list indicating their willingness to work overtime. Those workers who do not wish to work overtime inform the management by . Workers interviewed by ICCA were almost unanimous in indicating that all overtime work was performed voluntarily and that workers could decline to work overtime without fear of retribution by the factory management.

5.3. Wages, Bonuses, Benefits and Deductions

At MMSB, the minimum monthly wage for workers is RM 408 (~107 USD) per month based on a 6 days, 48-hour workweek. However, the actual monthly wages range between RM 570 – 1100 per month. These include overtime wages, bonuses, allowances, and deductions. Workers are paid on a bi-weekly schedule via direct transfers on their personal bank accounts.

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.

Malaysian law does not stipulate a minimum wage rate for workers. 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. 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 at least 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. By law, workers are required to pay for social security, retirement fund contributions, and income tax. These are deducted from the workers' paychecks. 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. MMSB allows for 60 days of paid maternity leave to all of its workers, which is in accordance with the Malaysian labor laws.

In the event where the factory has to stop work during the normal workday for reasons such as material shortages or scheduling conflicts, workers are paid 100% of their wages for the duration of the work stoppage. When normal workweek is curtailed due to reduction in demand, employees are paid 50% of their wages for days when the factory is closed. The factory gives advanced notice of this action to the Malaysian Department of Labor as well as the plant's workers. Plant management also allows workers to use their annual leave days, thereby accommodating a full basic take home salary in times of curtailed workweeks.

MMSB also provides a loan service to those employees who encounter temporary hardships and need to take a loan. These loans are paid back via bi-weekly deductions from workers' earnings.

ICCA's examination of MMSB'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.

5.4 Employee Relations

Management – Employee Communications

MMSB has created an extensive and formalized communication system, which facilitates two-way communications between the employees and different levels of management. Plant management informs workers of upcoming events and business developments pertaining to production schedules, etc., via daily meetings of the senior staff, morning talks between line leaders and workers, weekly Human Resource department meetings, and daily employee

communication committee meetings. Additionally, plant's top management organizes two formal meetings per year where substantial issues impacting MMSB's operations, and also issues that deal with long-term issues with regard to employee welfare, are raised and frankly discussed. Less formal meetings occur during "Chit Chat" and "Tea Talk", allowing active participation from workers.

Freedom of Association:

There is no union at the MMSB facility. However, as stated before, workers have been provided with multiple venues 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 MMSB management and their ability to have access to various levels of management and discuss issues of concern to them either individually or collectively. Over 70% of the interviewed workers stated that they did not have any fear of lodging a complaint about any issue of concern to them. However, a small minority (17%) of the workers stated that they were afraid to voice complaints for fear of reprisal from their supervisors.

Workplace Discipline

MMSB has a formalized system of 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 revealed that the disciplinary procedures were lightly used. Less than one in five workers reported to being been disciplined just once during 6 months prior the audit. The reasons cited for disciplinary actions were related to quality of work (33%), absence (33%), and failure to wear personal protective equipment (PPE) when required (33%). All the cases stated receiving only warning letters as disciplinary action. Workers also showed high level of awareness of disciplinary policies. MMSB has no policy of imposing cash fines or other punitive measures.

Protection from Harassment

MMSB has established clear rules with regard to verbal or physical abuse, including sexual harassment. These rules apply to all employees and management staff. Senior management at the plant is assiduous in communicating these policies and expectations to employees. 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 confirmed that workers did not experience any physical abuse or sexual harassment from their fellow workers, line supervisors, and other staff personnel.

Discrimination

Among the interviewed workers, there was almost unanimous (89%) agreement that workers were not discriminated in terms of 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 four beds, staffed by 2 State Enrolled nurses. There is no charge for medical services or medicines provided to workers. Employees with 15 years and above service have the benefit of free annual health examination. Workers interviewed by ICCA were unanimous in expressing their satisfaction with medical facilities. They also confirmed that all medical services were provided to them free-of-charge. It was also confirmed that when workers get medical assistance at hospitals outside the factory, their expenses were reimbursed by the plant.

Food Services

The plant operates two canteens accommodating approximately 1,800 workers per day. It also runs two hawker stalls selling wide variety of meal choices. The factory serves 2 meals each day to all workers (1 light and 1 main meal for the 3 shifts). A typical meal includes rice with fish, meat, vegetables and salads, noodles, bread, fruits, drinks.

The plant pays workers a food allowance of RM 3.2 per day. Cost of food in the factory canteen is RM 2-2.5, paid in cash, per day. Workers who bring their food from home are still entitled to the bi-weekly paid meal allowance.

The lunch break is 45 minutes. Workers overwhelmingly (92%) responded that lunch break was long enough for them to finish their meal. The majority of workers (92%) also expressed satisfaction with the quantity and quality of food provided to them.

Dormitories

MMSB provides dormitories for female workers with a maximum capacity of 1,100 employees. The dormitory building is 6 km away from the factory. A maximum of 16 employees can be accommodated comfortably in each unit, which is equipped with individual beds, toilets, shower, secure lockers, and living room. Common areas include gym, sewing room, cooking room, volleyball court, etc. Dormitory living is entirely voluntary and workers may choose to live in private housing. Among the interviewed workers, approximately 20% stated that they lived in the dormitories. All of them were very satisfied with their accommodations and with their security arrangements (including curfew).

Dormitory deductions are RM 25 (~6.50) per month, and monthly utility charges for each unit are subsidized up to a maximum of RM 30 per month, any amount over which is the workers' responsibility. For those workers who live in dormitories, the factory provides cooking facilities to meet the workers' other meal needs.

As previously noted in ICCA's (MIMCO) 2002 report, the dormitories and living conditions are excellent and far superior to those found in most other factories audited by ICCA. The kitchen and mess facilities are in very good condition being free of both grease and litter. They are neat and inviting and certainly exceed basic hygienic standards. The food service areas and dormitories presently are as good if not better than when observed in 2002.

5.6 Environment, Health and Safety

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. MMSB 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.

The plant is in compliance with the March 2005 MCR including but not limited to a: fire prevention plan, use of fire extinguishers, inspection of electrical systems, an evacuation plan, accident prevention, hot work, lockout/tagout, explosion proofing, ventilation, compressed gas cylinder storage, underground storage tanks, above ground storage tanks, PCB survey, lead based paint survey, noise conservation, medical aid (provided by an in-house clinic operating

on a 3 shift basis), waste water treatment, hazardous waste handling and quantification of air emissions.

ICCA also noted that, 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 paint mixing room and other hazardous material storage facilities were closely monitored for spills and other hazards.

A large portion of the production facility is air conditioned. In other areas where heat can become oppressive, there is a temperature reduction program in place that uses a water evaporative ventilation system. It was suggested to management by ICCA that it might consider the use of a reflective coating as a further way of helping to reduce the in-plant ambient temperature.

MMSB is an excellent facility with EHS as a major priority. It has very good management especially considering the type of plant, the range of processes used and the degree of sophisticated technology employed.

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

MMSB 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.

Employees are provided with assistance in dealing with personal and family related issues. A program called "bring a guest to work" allows employees to bring their school-going children to the plant for a day (specific days, randomly selected employees). The children have games, a plant tour and lunch with their parents. The plant provides assistance with school for some employees and help open a savings account for Muslim employees for pilgrimage to Mecca. In the area of education, employees can take classes in English, use of computers, cooking, and sewing.

MMSB management and employees have made a concerted effort to become involved in activities that enhance the quality of life of the people living in the area surrounding the factory, which most of its employees and their families call home. The modus operandi for these programs is for MMSB to provide

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

resources and management expertise, while a large part of fieldwork is undertaken through voluntary participation on the part of employees.

One of the most important community outreach programs is the Prai Tamil School Project that was adopted by the plant management and employees. MMSB continues to support the school with books donations, furniture, school supplies, and other informational materials. In the early 2005, a major focus of the community outreach activities involved support of the Tsunami Relief effort. The plant distributed food and drinks to an affected village of Kuala Muda. Collected old clothes from employees, did a dollar-to-dollar match on employee contributions etc.

6. OVERALL OBSERVATIONS AND GENERAL RECOMMENDATIONS

ICCA wishes to compliment MMSB management for operating an excellent facility that devotes equal attention to efficient operations, safe working conditions and employee welfare. The plant has an excellent overall record of compliance with national labor laws and GMP standards. There are no outstanding issues that require corrective action. This high level of continued compliance provides a strong signal that both Mattel and its managers in overseas plants take seriously their commitments to uphold the operational standards mandated in the Global Manufacturing Principles.