

December 23, 2007

A Toy Maker's Conscience

By JONATHAN DEE

With just a few weeks to go until Christmas, the sensory onslaught inside the Times Square Toys “R” Us was well into its merciless ratchet upward. The infrastructure of aggression — the indoor Ferris wheel, the roaring animatronic T-rex, the woman who blocks your path as you enter the store to snap a picture of you that another employee will try to sell to you on your way out — was augmented by the holiday tension on the ground: mothers on cellphones, seasonal employees in the store’s dark blue shirts pushing carts full of inventory, children banging away at the sample electronics. It seemed as loud as a factory floor; but that is only because most of us cannot imagine how loud a factory floor actually is.

Prakash Sethi, though, didn’t really see any of it. Instead, standing before a vertiginous wall of toys while shoppers eddied around him, the 73-year-old business-school professor and grandfather saw only what the tens of thousands who march through here every Christmas season fail to see, which is how all these toys came to be here in the first place.

He considered an item called the Smart Cycle, a stationary bike for young children that plugs directly into a television and controls the on-screen action. Manufactured by Fisher-Price, a subsidiary of [Mattel](#), it bears on its box a small legend — the company would no doubt make it smaller if it could — that says Made in China. Made how? And by whom? “Have you ever seen an injection-molding machine?” Sethi said. “It could be as big as this whole area. At one end you have a funnel, where you pour in these plastic pellets, about the size of a grain of rice. These are melted and then forced by tons of pressure into carbon-steel molds. The molded plastic is hot, and excess material called flash often has to be cut off by hand with a small sharp tool. Unlike most assembly operations, injection molding invariably runs 24/7, because a machine

that makes a product like this one could have cost anywhere from 3 to 10 million dollars new, so you want to make constant use of it.”

It's impossible to say who made that Smart Cycle. But the profile of an average worker at Mattel's plant in Guanyao, China, for example, is a woman in her 20s who earns \$175 a month for a 60-hour week. Having traveled a long way from her rural home, she lives in a company dormitory and eats in a company cafeteria, the costs of which are deducted from her salary. She returns home with the money she saved after no more than two or three years — or much less than that; the yearly turnover at some factories runs as high as 200 percent — “because, let's face it,” Sethi said, “these are dead-end jobs.” She will also work as much overtime as she can get, routinely more than Chinese law allows, because toy-production cycles are seasonal and tend to end in massive layoffs.

The work is hot and loud and exhausting and hazardous and underpaid. But it is also, at least for the 60,000 to 80,000 (or many more, according to Sethi) Chinese factory workers employed directly or indirectly by Mattel, measurably less so than it used to be, and that is in large part the achievement of Sethi himself. A career academic, he is the founder and president of the idealistically named International Center for Corporate Accountability, an operation run out of a two-room faculty office at [Baruch College](#) in New York. It may be a reach to style a University Distinguished Professor of Management at Baruch's Zicklin School of Business as a radical, but in that academic context, at least, he's something of a flamethrower. He has suggested that multinational companies with manufacturing bases in China and elsewhere not merely raise the pathetically low wages of their factory employees but also pay them restitution for years past. When asked why more companies don't take steps to monitor wages and working conditions, he once answered “bigotry.” This sort of bluntness makes it less than completely surprising that the I.C.C.A. doesn't have a long list of clients for its monitoring

services. “I don’t work with very many companies,” Sethi says equably. “They don’t want me.”

Ten years ago, in the midst of a controversy over conditions inside its factories, Mattel executives tried a novel response to a gadfly like Sethi. They hired him. To this day, Sethi and a handful of associates are personally tasked with monitoring working conditions inside the 13 factories Mattel owns and operates in China (and Thailand, Malaysia, Indonesia and Mexico) and 20 to 30 others with which Mattel does business. And now — after its recent recall of toys with lead paint and the public-relations beating that followed — Sethi’s influence over the way Mattel makes toys is about to increase.

If Mattel were simply a greedy or sloppy company that got caught doing something it shouldn’t and paid the price, its story, and Sethi’s, would be a lot less interesting. But the fact is that Mattel — largely under Sethi’s direction — has gone further than any other company to be a good corporate citizen with regard to its Chinese operations. For the last decade its factories have operated under an unparalleled degree of oversight, at least concerning wages and working conditions. And it still wasn’t enough. The past several months have provided an object lesson in the inherent limits — its sterner critics would say the fundamental hypocrisy — of Mattel’s efforts to lessen the bad side effects of its global search for cheap labor and maximum profit.

In 1996, the notion of a “corporate code of conduct” was not the fashionable idea it is today, but Mattel had been drafting such a set of ethical principles for more than a year. Sean Fitzgerald, the vice president of external communications, had been on the job barely a month when the NBC newsmagazine show “Dateline” broadcast an undercover segment showing Mattel toys being assembled by under-age workers in an Indonesian factory. Whatever step Mattel took after that, Fitzgerald says, “needed to mean something. It needed to be several steps beyond what everyone else was doing.” He started talking to

various activist groups inside and outside the business community, and in the course of his research one name kept coming up.

S. Prakash Sethi had spent the previous three decades making a name for himself not only as a star academic and prolific author of books and articles on corporate social responsibility but also as a professor who yearned to get out of the classroom and into the trenches, whether he was invited or not. For six years in the 1980s he traveled to South Africa every two or three months to track various companies' compliance with the Sullivan Principles (the voluntary code of conduct to which a number of United States companies doing business in apartheid-era South Africa pledged themselves). He served as an adviser and expert witness for Alaska in the state's lawsuits against various oil companies after the Exxon Valdez spill and other environmental disasters. Many of his corporate targets have complained to his university employers, figuring, perhaps, that for a business-school professor to criticize business is somehow letting down the side. "They call up the president and ask, 'Why is this guy doing this to us?' " Sethi says. " 'What's in it for him?' They can't get used to the idea that there's nothing in it for me."

Raised amid violent ethnic conflict in the part of India that is now Pakistan, Sethi knew nothing about Mattel at all; the father of two boys, he claims not to have known what Barbie even looked like. "They asked me if I could work with them, and I said, 'What do you mean, work with you?' They said, 'We have a problem: we want to make sure that we are doing the right thing, and that the public believes we are doing the right thing.' And they couldn't find anyone else besides me with a market reputation in the codes-of-conduct area. Not that I was doing any business with anybody at that point. For every Mattel there are 60 other toy companies that wouldn't let me get near them."

Fitzgerald presented what he called "the concept of Prakash" to the Mattel executives at their corporate headquarters in El Segundo, Calif., and they brought him out for a meeting that led to the establishment of

the Mattel Independent Monitoring Council, the precursor to his International Center for Corporate Accountability. (When, several years later, the possibility arose of Sethi and his staff's monitoring other companies as well, everyone involved agreed it would be best to get Mattel's name off the door.) What the council was being asked to monitor was Mattel's adherence to its own "global manufacturing principles" — a two-page pledge consisting mostly of vague ethical declarations to which no one could object, like "facilities must have environmental programs in place to minimize their impact on the environment." For Sethi — who had spent his career publishing books and delivering lectures on corporate morality more or less into a void — this was an almost unbelievable opportunity to carry his ideas inside the walls of a commercial behemoth, one with sales of more than \$5 billion a year. "It was totally unprecedented," he says. "Really intoxicating. I was inventing everything as I went along. There just weren't any systems of its kind. Nobody could say, 'It can't be done.' "

It took 18 months for Mattel and Sethi to settle on an audit protocol, including a fantastically detailed 75-page checklist for quantifying conditions inside every one of Mattel's factories and vendor plants. A sample entry: "Are eyewash stations and safety showers installed in areas of corrosive material use (e.g., battery servicing areas, cooling towers, storage of corrosive material, electroplating) and in high-volume solvent usage areas (e.g., paint mixing, chemical storage and dispensing, solvent distillation)?" By all accounts, they fought energetically throughout the entire process, but in the end, in return for the promise of restored public trust, Mattel was willing to let Sethi be Sethi. It would be wrong to say he is abrasive — on the contrary, he is chatty and hospitable in person — but he is most certainly unafraid to be abrasive when the situation calls for it. He has no interest in ingratiating himself with those in power. Jim Walter, senior vice president for global product integrity at Mattel, who has been in constant contact with Sethi and his staff for the past seven years, calls him "an appropriately positioned thorn in our side."

Says Fitzgerald: "You've got to have a strong sense of self in order to be successful in an endeavor like that. And Prakash has got that going on."

Each Mattel factory overseas is audited on a three-year, rotational basis, but additional, unannounced visits are made to those facilities whose performance on the regular audit has been particularly poor. Sethi takes at least two audit trips to China every year, for anywhere from 8 to 16 days at a time, with a group of experts in various disciplines that is, he says, "90 percent faculty." They include accountants from Global Social Compliance, who audit factory payrolls, as well as local Chinese translators to help with the interviews conducted with random workers to make sure that what management claims it's doing is actually being done.

"They try to put on as good a face as they can," says H. Jack Shapiro, a retired aerospace engineer who has been a part of almost every Mattel factory audit since the first one was conducted in 1998. (When Shapiro was the head of Baruch's management department, he appointed Sethi to the faculty back in 1982.) "But even if they know you're coming, you're talking about a plant that can have anywhere from 5,000 to 15,000 people working there. They can repaint the safety lines on the floors, but you're not gonna change ground contamination, air contamination, things like that." There is also the issue of workers being coached by their bosses on what answers to give the auditors about wages, working hours and other matters, but, Shapiro says, "the interviewers can pick that up pretty quickly. One time we stopped an audit of a plant because the employees had clearly been coached before we got there. We just quit. Prakash said, 'That's it,' and we went home."

The first place Shapiro and his crew go, soon after the team arrives at a factory, is to the roof, to inspect ventilation and other systems; meanwhile, his colleagues inside are interviewing workers, examining payroll records and checking reports on air and water samples and on noise and temperature levels, scrutinizing workers' thumb guards and

steel-tipped shoes — everything. A questionnaire, filled out in advance by the factory's managers, is the guide. "If they have told us upfront they have a problem with A or B, and we find that problem, that's O.K.," Sethi says. "We can live with that. We agree on a plan of remediation. But if they say they're in full compliance and we find that they're not, then we go through everything, even if it takes four times longer. The companies begin to realize that it simply doesn't pay to cheat us. That was the first thing we emphasized: you will not be fired for violating the checklist. You will be fired for not being transparent."

Resistance can take different forms. On one audit, a Chinese colleague called Sethi's attention to a group of men standing beside a black S.U.V. parked outside the factory. At first Sethi didn't see anything unusual about it. "Where," his colleague asked him rhetorically, "would you see a group of such healthy Chinese men standing around smoking cigarettes and doing nothing?" The intimation was that the men might be the local police sent by someone to intimidate them. (Sethi had been followed in other countries before.) Rather than risk some sort of incident, the rest of the audit was called off, but six months later Sethi returned to the same factory and wasn't bothered.

The reports from each of these audits — which can run more than a hundred pages and are posted, together with Mattel's much shorter responses, on the Web sites of Mattel and the International Center for Corporate Accountability — range from complimentary to scathing. Since implementing its global manufacturing principles in 1997, Mattel has dropped several dozen suppliers and licensees for chronic noncompliance; the company budgets about \$10 million a year for internal and external monitoring efforts alone. It's a Sisyphean effort, but no one directly involved in the audits seems conflicted about whether or not they have made a difference. "I personally think we've done a lot of good," Shapiro says. "We've made their lives a lot easier. Especially the young women. At one plant we visited, it used to be that if you lived on the sixth floor of their dorm, if you wanted water you had to

walk down to the ground level, fill up a bucket, and you dragged this heavy bucket up six flights, and that's how you washed yourself. Now we got them water on the sixth floor.”

Fitzgerald, who left Mattel in 2000, says: “The changes we made in the living conditions in China were extraordinary. I think you can tell from the passion in my voice that I am very proud of what we accomplished. It was a big damn deal. And without Prakash, it could never have worked.”

Sethi remembers one epic argument with a factory manager who didn't want to upgrade his filthy dormitory on the grounds that it was built before the company created its global manufacturing principles. In the end, Mattel worked out a deal that resulted in a new dorm, and the manager and Sethi became friends. According to Sethi, the manager said, “Prakash, these workers and the ones after them, they'll never know what a crummy Indian did for them.”

But the global manufacturing principles are all about protecting workers; as it developed, there is another constituency whose welfare has been put at risk by Mattel's operations in China: namely, the consumers who bought and the children who played with what was made there. In early July, a European retailer discovered lead paint on some of Mattel's toys; on Aug. 2, Mattel announced the recall of 83 different toys, a total of 1.5 million items. Twelve days later, more than 400,000 additional toys were recalled for containing lead-based paint — together with millions more recalled for the choking hazard posed by tiny magnets, which had nothing to do with production shortcuts but were instead caused by flaws in Mattel's own designs. The company faces at least one class-action lawsuit in the wake of the recall. Not to mention the questions over how well recalls work anyway; by the reckoning of one child-advocacy group, only 10 to 30 percent of products nominally affected by a recall actually wind up being returned.

“In retrospect,” Murray Weidenbaum, a former I.C.C.A. board member, told me, “the mission we were assigned was narrower than perhaps it should have been. We focused on the working conditions, because that was our task, and because critics at the time were focusing on it — child labor, prison labor, all that. It turns out we missed the big picture, which is the nature of the product.”

In September, Mattel’s chairman and chief executive, Robert A. Eckert, apologized to Congress for the lead-paint failures. Two weeks later, Mattel executives apologized to Chinese officials for the same recall. Sethi’s opinion of the second apology is one he will express only off the record; he is not an off-the-record kind of guy, but there is always the danger that some intemperate public remark will create visa problems for him and keep him from doing the work he has contracted to do.

Apologies notwithstanding, Mattel executives assigned blame for the lead-paint fiasco by doing something Sethi had been unsuccessfully urging them to do for years: they identified the specific plants in China where the violations occurred. The company named seven contractors and subcontractors involved in producing the recalled toys, at least four of which have since had their connections with Mattel severed. The co-owner of one of those factories, Lee Der Industrial — which made Mattel products for more than 15 years — apparently hanged himself inside his plant within days of the announcement.

“The suppliers have conflicting incentives,” says David Vogel, a business professor at the University of California, Berkeley, who writes about corporate social responsibility more skeptically than many. “They want to reduce their costs because they have to keep prices low in order to hold onto the business, but at the same time they have to comply with the standards in order to hold onto the business. The real black box of this issue is, what does it cost the suppliers to comply with these codes, and who bears those costs? We know remarkably little about that.”

Sethi says he was not surprised by the recalls, though he stops short of criticizing Mattel's conduct in particular. "Empty promises on the part of the multinationals," he e-mailed to me, "lack of transparency as to their conduct and a poor regulatory environment created the environment where the current malaise of substandard and dangerous products is the logical outcome and should have been anticipated." All along, he has judged issues of product safety to lie outside his own jurisdiction; considering the massive ambition of what he already does, it seems ungenerous in the extreme to wonder why he didn't try to intervene more.

And so now, as it did 10 years ago, the company finds itself in reactive mode. Just this month, it began talks with Sethi to create a parallel code of conduct governing product safety and integrity, to be monitored by an independent third party that may or may not include Sethi. "It certainly is doable," Shapiro says. "The engineering level is not very high. You've got hundreds of injection-molding machines, a few others — the most sophisticated machine is the one that takes nylon and turns it into hair. But the product coming off the machine is a repetitive product, so to determine whether, say, they use lead-based paint shouldn't be very difficult. I spoke to Prakash about this just the other day. But right now that's not our function."

It's a big step forward — or backward, considering that the global manufacturing principles initially outlined by the company back in 1997 included this one: "Product Safety and Product Quality: All Mattel Inc. business partners must share our commitment to product safety and quality and must adhere to those operational and workplace practices that are necessary to meet our stringent safety and quality standards."

By the time the principles were "expanded upon" four years later, mention of product safety was gone, and has never been part of any I.C.C.A. audit. A Mattel official told me via e-mail that product safety

was never intended to be part of the audit process, but is instead considered a “peer function.”

Sethi can't remember why the change was originally made but defends it on the grounds that trying to prevent the systematic abuse of many tens of thousands of factory workers was more than enough for the company to concentrate on at that particular moment. “When we started,” he says, “this wasn't even an issue. The code was designed to protect the Chinese workers from being exploited. Nobody was thinking about unsafe products. They were thinking about cheap products.”

Why should Mattel have its own code of conduct at all? In light of the fact that a plant that produces, say, doll clothes tends to make them for more than one master, why isn't there one protocol to govern the whole industry? In fact there is: the International Council of Toy Industries has a code of conduct called CARE — a clumsy acronym (“Caring, Awareness, Responsible, Ethical”) that reeks of P.R. consciousness. The code is similar to Mattel's but is not nearly as tough, largely because, says Sethi, it lacks what he considers the most crucial element — a strong, transparent, third-party monitoring program. Alan Hassenfeld, the chairman of [Hasbro](#) and the co-chairman of the ICTI CARE foundation, called for a one-code approach in remarks at a Columbia Business School forum last spring that seemed directed at Mattel, offering a somewhat tin-eared anecdote about a Chinese factory that moved the fire extinguishers six inches up and down the walls depending on who was monitoring its conditions that week — as if the real hardship inside these factories was an excess of bureaucracy.

Eckert pays lip service to the one-code idea, but he would rather see the rest of the industry raise itself to Mattel's standards than lower Mattel to theirs. As for Sethi, he is, not surprisingly, less diplomatic on the subject; he considers industrywide codes a kind of institutionalization of the lowest common denominator — there's no reason, he says, why

companies shouldn't compete in the field of ethics as they do in everything else.

And his caustic tone when he discusses Hasbro in particular suggests something deeper than a simple analysis of two rival businesses: in a word, loyalty. His unwillingness to criticize Mattel — or, at most, to couch criticism of it in terms of multinational corporations generally — is almost touching. In fact, in an essay in this month's issue of *Ethical Corporation*, Sethi goes so far as to blame other toy companies for Mattel's recent recall woes, saying that if every company employing a given vendor demanded the same level of transparency that Mattel does, the vendor never would have tried to cut corners to begin with, for fear of going out of business entirely.

Mattel does pay for Sethi's work; more specifically, the company helps finance the International Center for Corporate Accountability, which then pays Sethi and his colleagues to avoid the appearance of *quid pro quo*. (Until last month, financing also came from I.C.C.A.'s one other regular client, the mining giant Freeport-McMoRan Copper and Gold, with which its relationship became contentious. And just this month the center signed an agreement to help create a code of conduct governing the licensees making products for Sesame Street — “but that will be a very nominal amount of income for us,” Sethi says, “because they are as poor as we are.”) The payments are always minimal: in Mattel's case, expenses plus about \$2,000 a day for each day in China, or \$250 an hour, which is, according to Sethi, about half of what he charges for more traditional consulting work. He has been accused before, he says, of having his loyalty to Mattel bought and paid for; his answer has been that anyone who thinks he could be bought as cheaply as that must not have a very high opinion of him.

To spend even an hour with Sethi is to know that he could never be bought for any price. But in another way, more psychological than material, Mattel has indeed turned him from a potential critic into a

public cheerleader. The monitoring program associated with the company's global manufacturing principles is the ultimate field test for Sethi. It is his own philosophy made flesh. He has a tremendous emotional stake in Mattel's being perceived as a success; and as a result, he seems almost incapable of publicly criticizing its actions.

Not that this kind of psychoanalytic reading escapes him. "I am favorably disposed toward Mattel," Sethi says. "No question about it. I'm not apologetic about it. Because I feel Mattel has taken the initiative and done business under more stringent conditions than anybody required of them. I think their credibility in this area is well deserved. The other area, we have never worked with them on it. If there were lapses, I don't know. But I would like to think that a company that holds itself to high standards in areas that are strictly voluntary — why wouldn't they do things with the same degree of seriousness in an area where there is tremendous financial risk?"

What should we expect, in the moral realm, from the conduct of multinational corporations, in China or elsewhere? Corporate social responsibility, which was a fringe movement when Sethi published his seminal textbook "Up Against the Corporate Wall" in 1971, has moved into the business mainstream. More than 3,600 businesses have signed onto the United Nations Global Compact, the largest voluntary corporate social-responsibility initiative in the world, which Sethi serves as senior policy adviser (and which he has described, with characteristic tact, as "a mile wide and half an inch deep"). According to a poll by Nima Hunter, a marketing research firm, 91 percent of chief executives believe that a good corporate social-responsibility program creates shareholder value.

Which is interesting, because there isn't a great deal of evidence that that's true. So-called socially responsible investing firms are more and more in vogue but still account for only about 2 percent of total assets in mutual funds in the United States. And you need look no further than

Mattel itself — a company with one of the highest corporate social-responsibility profiles in the world — to see that there's a limit to what it can protect you from in terms of lawsuits, regulatory threats, brand loyalty or unfavorable press. "They got no positive press coverage in any of the lead-paint stories for their strong performance on labor standards," Vogel says. "C.S.R. doesn't buy you much credit when things go wrong."

In many ways, the corporate social-responsibility model depends less on cost-benefit analysis than on a sort of monarchical enlightenment at the top; even inside Mattel, in fact, there was a moment when the entire edifice that Sethi had built was in danger of being axed by one man. Three years after the global manufacturing principles were instituted under the regime of the chairwoman and chief executive, [Jill E. Barad](#), she was forced to resign when her \$3.8 billion acquisition of the Learning Company failed to pay off. When Eckert took over, Mattel was losing about a million dollars in cash a day, and to a new executive team in full cost-cutting mode, what could look riper for elimination than an expensive monitoring program that none of Mattel's competitors even bothered with? "We had a pretty frank discussion about it," Eckert admits; but in the end he chose to keep it going. "We want to be contributing to the development of these societies," he told me, "not merely taking advantage of the fact that they're not as developed as we are."

There will always be those who consider big business's vows to make the world a better place fundamentally cynical. But capitalism has often longed for, if not technically required, a moral justification, and for most of the 20th century it was provided by socialism and the various forms of government representing it. Now that opposition is gone, and in search of a nonmaterial rationale, the lords of acquisition have to look elsewhere. The sense of moral aspiration behind corporate social responsibility seems mostly genuine — which is somehow both the most and least appealing thing about it, for it encourages a lot of back-patting

among the world's economic elite, whose members seem able to discern, in their own hunt for the cheapest possible work force, a humanitarian aim.

“I know we have brought a lot of modernity to that part of the world,” Hassenfeld told the audience at that Columbia forum. He said Japan, Korea and Taiwan “exploded” when Hasbro was manufacturing there, adding, “We had to be doing something right.” As for the ICTI CARE code, which now governs the welfare of almost a million Chinese workers inside 1,461 factories, he said: “We’re an industry-driven code. It’s the old ‘fox guarding the henhouse.’ . . . But I made an agreement and shook hands that no matter what we found, we would try and remediate that factory. Be a teacher.”

When I relayed the gist of these remarks to Sethi, he smiled angrily and shook his head. “That’s why I don’t get invited to those things,” he said.

Jonathan Dee is a novelist and a contributing writer for the magazine. His last article was about Wikipedia.