

**Mattel, Inc.**

**Mattel China Vendors**

**Compliance with Mattel's Global  
Manufacturing Principles**

Conducted by



**International Center for Corporate Accountability, Inc. (ICCA)**

A non-for-profit, educational-research organization

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## **A. ICCA'S AUDIT PROTOCOLS**

The implementation of Mattel's GMP is carried out according to detailed standards of performance covering various principles of GMP. Individual performance standards 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. ICCA's audit protocols are designed to verify individual factory's 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.

### **A.1 Pre-Audit Preparation**

Prior to the on-site audit, ICCA requests information from the plant management regarding its operational and human resource management practices. This standard document is called the Management Compliance Report (MCR). ICCA considers MCR as the plant management's formal and factually accurate response on all aspects of the plant's operations. It calls for detailed information on all aspects of the plant's operations, the extent of management's compliance with various GMP provisions, details of any shortfalls, and management's plans for corrective action. ICCA also reviews reports of all in-house audits conducted by Mattel's internal audit department.

### **A.2 The Field Audit**

The field audit is comprised of four parallel activities. The first one 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. Auditors supervised by ICCA conduct this audit. These professionally trained accountants have extensive knowledge of China's labor laws, and local accounting practices with regard to wages and benefits, working hours, government-controlled deductions and related matters. Where complex issues of interpretation of China's labor laws and regulations are required, ICCA relies on advice from its legal counsel in China. The intent of this audit is to ensure that all workers receive wages for regular and overtime work as mandated by law, operate within legal and GMP standards as to regular and overtime hours, and, receive benefits as mandated by law and GMP standards.

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 process allows for a comparison of the information contained in the plant's payroll records and personnel files, and the information elicited from the workers through confidential, one-on-one interviews. The personal interview questionnaire was developed by ICCA and is designed to

garner information, both quantitative and qualitative, on all aspects of the workers' working and living conditions at the plant. Professional interviewers, retained independently by ICCA and generally meeting the age and gender profile of the workers, conduct these interviews in the workers' native language and under the direct supervision of a senior ICCA advisor. Each worker is interviewed individually in a private, secured space to ensure complete confidentiality.

The third element of the audit is a thorough examination of the plant's policies, procedures and practices with regard to environment, health and safety issues. Independent professional environmental experts conduct this phase of the audit under the supervision of ICCA's own professional and highly experienced industrial engineer. The China-based professionals are equipped with extensive knowledge and experience of China's laws and regulations in manufacturing operations. Plant's records are further verified by a thorough "walk-through" of the factory floor and related facilities. Inspection includes an examination of the general maintenance of the manufacturing facilities, storage, treatment and disposal of hazardous waste materials, hygiene in toilets and bathrooms, kitchen and eating facilities with particular emphasis upon safety and health. The walk-through also includes a thorough inspection of the dormitories and recreational facilities in terms of hygiene, adequacy of space, worker comfort, privacy and security, and other related matters as deemed appropriate in specific situations.

The environmental health and safety (EHS) audit consists of three distinct evaluations with some minor overlaps:

1. An evaluation of the MCR completed by plant management indicating either 'Full Compliance', 'No Documentation Available', 'Compliance-in-Progress', and 'Not Applicable' to each of the items presented.
2. A physical 'walk-through' of the plant to observe from an engineering and EHS point of view the status of the plant.
3. Examination and evaluation of available documentation provided by the plant management. These documents pertain to, among others, permits for waste water and hazardous waste disposal, air quality and noise control, findings of various required monitoring tests, site surveillance, compliance and follow-up.

The criteria for these evaluations are based on Mattel's GMP/Checklist for Tier II facilities where plant's MCR provides the road map for the audit. Additional information is obtained from Mattel in-house audits.

The final element of the ICCA audit is a series of individual and group 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 plant and dormitory security functions, to name a few. These sessions serve to confirm and clarify issues in the MCR and elaborate on the plant management's practices regarding issues that emerge during the field audit.

### **A.3 Post-Audit Activities**

All data and information generated by the audit, including confidential worker interview questionnaires, are brought to the New York offices of ICCA for detailed analysis and preparation of audit reports. The preliminary findings are first provided to Mattel to ensure the factual accuracy of various plant records used by ICCA in its audit reports. In case of a material error on the part of ICCA with regard to the use and interpretation of specific records, ICCA revises the draft report before making it public. In other cases, Mattel provides information with regard to corrective action and commitments in response to ICCA's preliminary findings. ICCA takes cognizance of these actions as to their adequacy and indicates the extent of follow-up to be undertaken by ICCA to ensure full and timely compliance. 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.

## Plant 1

### 1. INTRODUCTION

This report is based on the findings of the formal audit of Mattel's Vendor Plant 1, conducted by International Center for Corporate Accountability (SICCA) on June 6, 2008. This is the second formal audit of this plant.<sup>1</sup> Plant 1 is located in the area of Humen Town, Dongguan City, Guangdong Province, PRC. About 70% of the overall production volume of Plant 1 is dedicated to Mattel toys.

The total number of workers employed by Plant 1 fluctuates between 3,400 and 5,800 depending on the production season. At the time of the SICCA audit, the plant employed 4,575 people, of whom 80% were production workers, and the remaining 20% occupied administrative positions. The gender distribution among production workers is almost equal between male and female – 54% and 46% respectively. Average age of the workers is 28 years. Most of the production workers (72%) have completed 9 years of formal schooling. Turnover rate at Plant 1 is nearly 100%, therefore average tenure of the workers at the plant is relatively short.

### 2. AUDIT FINDINGS

SICCA's 2003 audit of Plant 1 identified a number of policies and practices that were in violation of China labor laws and Mattel GMP standards.<sup>2</sup> A follow-up audit was conducted in July 2004. This audit revealed that while the factory had made progress in remedial action on some of the recommendations offered in the first formal audit report, there still remained significant issues, which had not been adequately addressed.<sup>3</sup>

Unfortunately, the current audit was not able to assess plant management's progress in implementing corrective actions included in the previous two audits. The audit had to be terminated approximately 3 hours after it was started. The decision to terminate the audit was made by SICCA with the

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<sup>1</sup> First formal audit of Plant 11 was conducted in January 2003. SICCA's audit reports for Plant 1 and other Mattel's largest vendors, are available at both SICCA's and Mattel's web sites: [www.sicca-ca.org](http://www.sicca-ca.org) and [www.mattel.com](http://www.mattel.com).

<sup>2</sup> For details, please see "ICCA 2004 Audit - Mattel China Vendor Report" available online at <http://www.icca-corporateaccountability.org/PDFs/2004MattelVendorSummaryReport01-27-04.pdf>

<sup>3</sup> For details, please see "ICCA 2004 - Follow-up Audit of Mattel's China Vendor Operations" available online at <http://www.ICCA-corporateaccountability.org/PDFs/2004Follow-upAudit-MattelChinaVendorOperation121604.pdf>

full concurrence of Mattel's representatives who accompanied SICCA's audit team.

It had become apparent to the SICCA's team and Mattel representatives that:

- a. anticipating SICCA's audit, the plant had reduced the number of employees working in the factory by approximately 30% from the size of the workforce indicated in the company's Management Compliance Report (MCR) that was submitted to SICCA as a part of its pre-audit requirement;
- b. there was considerable idle capacity in the factory despite the fact that it was the peak production period. Furthermore, Mattel's internal audit team had visited the factory during the week prior to SICCA visit and noted that all production lines were in full operation; and,
- c. workers interviewed by SICCA gave indications of having been coached by the management as to the proper answers for issues like number of hours worked, overtime pay, etc. SICCA's interviewers found the workers to be all too willing to provide full answers to complex questions in regard to wages, benefits and deductions even before the interviewer had finished asking the question. The number of workers interviewed before the termination of the audit represented 18% of the total planned sample for this factory.

### **3. OVERALL OBSERVATIONS AND RECOMMENDATIONS**

SICCA concludes that Plant 1's management had deliberately compromised the integrity of the audit. Therefore, we must assume that Plant 1 was concerned about the severity of negative findings if SICCA audit had been effectively carried out. SICCA was also given to understand that Mattel's own internal audit department had little success – through repeated visits and advice – to persuade the plant management to improve its performance and bring it to an acceptable level of compliance with China labor laws and Mattel's GMP standards.

SICCA would request information as to the company's current and future business relations with this factory. Given the troubled audit history of this plant, it is important that Mattel should provide SICCA with a firm timeline and specific details of the company's plans for corrective action.

## Plant 3

### 1. INTRODUCTION

This report is based on the findings of the formal audit of Mattel vendor Plant 3, conducted by Sethi International Center for Corporate Accountability (SICCA) on June 11-12, 2008. This is the second formal audit of this plant.<sup>4</sup> Plant 3 is located in BaoAn district of Shenzhen, Guangdong Province, PRC. The plant is dedicated almost entirely (90%) to the manufacturing of Mattel toys.

Plant 3 has grown in size since SICCA's last audit in 2003. Workforce levels fluctuate between 2,000-4,000 based on the production season. At the time of the SICCA audit, the plant employed a little over 4,000 workers. Of these, about 94% were direct labor and the remaining 6% were administrative and managerial personnel. Almost 79% of the workers at the factory are female. The average age of the workers is 25 years. The highest level of education among factory workers is 9 years of formal schooling. Most of the workers have had previous working experience prior to joining the plant.

### 2. AUDIT FINDINGS

#### 2.1 Recruitment and Hiring

Almost all workers at Plant 3 are hired through a direct application at the plant site. However, a very small number (5%) of the interviewed workers indicated they were hired through a recruitment agency. The agency fee was paid by the plant.

Upon hiring, workers are given a general orientation, which covers terms and conditions of employment, workplace safety and discipline, living accommodations, and other relevant matters. Among the interviewed workers, 84% indicated that they received general factory orientation at their time of hiring at the plant.

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<sup>4</sup> The first formal audit of Plant 3 was conducted in January 2003. SICCA's audit reports for Plant 3 and other Mattel's largest vendors are available at both SICCA's and Mattel's web sites: [www.sicca-ca.org](http://www.sicca-ca.org) and [www.mattel.com](http://www.mattel.com).

*a. Medical Examination*

As a condition of employment at Plant 3, applicants are required to undergo a medical examination. The cost of this medical examination, which varies between RMB35-70, is paid by the workers.

Among the workers interviewed by SICCA, 17% of the female workers indicated that they were required to take a pregnancy test as a part of initial medical examination. This practice is inconsistent with Mattel's GMP

*b. Workers' Employment Contracts*

Each worker at Plant 3 receives a copy of his/her signed contract as required by the labor laws of China and GMP standards. All workers at the plant currently have 1 year contracts. Specific conditions of employment, including factory policies in regard to disciplinary actions, payment of wages, benefits and deductions, as well as Mattel's GMP guidelines, are included in the Employee Handbook. Copies of the Employee Handbook are provided to each worker at the time of hiring. They are also posted on notice boards located at various sites in the factory.

*c. Probation Period*

All workers at Plant 3 are subject to 30-day probationary period. There is no difference between regular and probationary workers in terms of wages and benefits, and type of work performed.

*d. Personnel Files*

In addition to the employment contracts, personnel files also include copies of health check and medical records; picture IDs, GMP in local language, and employee handbook. Factory records that are kept by function include PPE distribution, injury reports and maternity leave reports.

## **2.2 GMP Awareness**

According to Plant 3's MCR, Mattel's GMP standards are explained to all workers during monthly meetings. Among the interviewed workers, a large majority (70%) indicated that the factory gave them some information about management principles and standards of behavior that describe fair and safe working conditions.

## 2.3 Payroll System and Record Keeping

### a. Working Hours

The factory uses an automatic swipe card system of recording work hours. At Plant 3, a workweek is defined as six days, 40 regular hours per week. Daily work shift is normally 11 hours, broken into 8 hours of regular time and 3 hours of overtime work. All overtime work is voluntary. Interviewed workers were unanimous in stating that neither they nor anyone they knew were forced to work overtime hours.

Mattel has used a two-pronged approach with a view to deal with this issue:

1. 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 hour policies<sup>5</sup>.

The revised GMP requirements are:

- Workers will not be scheduled to work more than 60 hours per week on non-peak production periods;
  - Workers will not be scheduled to work more than 72 hours per week on peak production periods;
  - 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.
2. The second objective was to ensure that factories were not forced to employ various subterfuges to conceal actual hours worked so as not to run afoul of GMP standards. Thus by restoring transparency to the payroll data and working hours, this approach was intended to “bring out” the issue from the closet and recognize rational limits within which Mattel’s factories, and those of its first tier vendors, would operate.

Unfortunately, the new rules have not completely succeeded in this effort. Most factories audited by SICCA – both Mattel owned and operated as well as the first tier vendors – have yet to develop new approaches to deal with the issue of excessive overtime hours. Rather than creating the outside limit with minor

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<sup>5</sup> 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.

exceptions, factories are often using the revised liberalized standards as the minimum level, which they continue to exceed in a routine manner.

SICCA's audit of payroll records verified that Plant 3 is in compliance with GMP requirements pertaining to consecutive workdays, 72-hour workweeks and rest days. Plant 3, however, has failed to comply with the GMP requirements which limit the workweek of greater than 60 hrs to a maximum of 17 weeks in a year. Among the audited workers' payroll records whose year-long work hours were examined by SICCA, 95% were found to work more than 60 hours per week for up to 39 weeks.

*b. Wages*

The minimum wage in Shenzhen area is RMB750 per month. All workers receive at least the minimum wage. Wages are paid via bank transfer within 3 weeks after the pay period is over. Wage rates at Plant 3 are RMB4.31 for the normal hours; 1.5 times the normal wage for the overtime hours on regular working days. Company's policy is to provide a replacement day for work performed on a rest-day. If replacement rest day cannot be arranged, workers are paid 200% of minimum wage rate. Workers interviewed by SICCA indicated a high level of understanding about the content of their pay-stubs and the accuracy of wages, recorded hours, bonuses, benefits and deductions.

*c. Benefits*

The factory provides 5 days of paid annual leave to all workers upon completion of one year of service. The annual leave time increases with seniority. Starting January 2008, the policy on taking annual leave was changed and workers were not longer permitted to receive replacement payment for annual leave. Annual leave must be used in the year it is granted. Of the interviewed workers, only 41% were fully aware of the paid annual leave policy.

Plant 3 provides disability insurance to all factory employees. It also covers legally mandated social insurance premiums for approximately 10% of the workforce, which is in accordance with the requirements imposed by the local labor bureau.

Plant 3 has a policy of providing maternity benefits of 90 days paid leave to all pregnant workers. However, the factory requires employees to provide birth certificate in order to receive maternity leave benefits, which delays the payment of wages until after the child is born. This practice is inconsistent with Mattel's GMP and violates China labor laws, which require that pregnant workers are paid during the maternity leave, and cannot be forced to wait for their payments until after the child is born or expected to return to work after the maternity leave. Factory records indicate that in the period of 12 month prior to SICCA audit, there were two workers who took maternity leave, but had not been paid in accordance

with the China labor law. SICCA's audit showed that only one-half of the interviewed workers were familiar with the availability of paid maternity benefits.

*d. Deductions*

Plant 3 provides rent-free accommodations to all direct labor workers in the company's dormitories. Workers only pay for their utilities. Food costs are paid in cash to the canteen when meals are purchased. Workers are also deducted RMB4 for medical insurance.

Plant 3 provides all workers with a free set of uniforms upon hiring. Any additional uniforms would have to be paid by the workers. A similar situation exists with the factory IDs. The initial card is free. However, the factory charges RMB25 for any card replacement due to damage or loss.

## **2.4 Workplace Discipline of Employees**

Most of the disciplinary actions at Plant 3 are handled through warnings. In case of repeated violations, the employee's contract is terminated. Violations of fire safety regulation are subject to cash fines, which are within legally permissible limits.

Discipline policies also include provisions on grievance procedures. Most of the interviewed workers (81%) confirmed their familiarity with the process of filing a complaint about unfair disciplinary treatment.

## **2.5 Discrimination, Freedom of Association**

Plant 3 does not discriminate among workers in hiring and promotion policies based on age, sex, religion, ethnicity or any other characteristics. The factory recognizes employees' right to join in lawful organization or associations without interference. Interviewed workers confirmed that they had never experienced any discrimination by plant supervisors.

## **2.6 Protection from Harassment and Access to Management**

Workers interviewed by SICCA were unanimous in their belief that Plant 3 is free of any type of abuse. They also unanimously confirmed that neither they nor other workers at the plant had been subjected to verbal, physical or sexual abuse either by managers, supervisors or line leaders.

In terms of communication channels, a large majority of the workers (78%) relied on the line leader for information about work-related issues, 62% received this information from the notice boards, and 43% from fellow workers. When workers feel a need to submit a suggestion or complaint about working or living conditions, they mainly use suggestion boxes (78%) or talk to the line leaders (73%).

## **2.7 Employee Services**

### **a. Dormitories**

There are three dormitory buildings at Plant 3. Two dormitories were built in 1999 and one was built in 2002. The combined capacity of the dormitories is 2490 people, and the total area is 8,200 ft<sup>2</sup>. All rooms have a maximum capacity of 12 people per room, with a minimum livable area of 2.5 m<sup>2</sup> per person. Each room has fans, individual lockable storage space, toilet and cold water outlet. Workers were unanimous in their opinion that the dormitories were safe, clean and pleasant.

### **b. Food Services**

Lunch break at Plant 3 is one hour. Employees are free to take their meals at the factory canteen or eat outside. There are no pre-paid food plans available at the factory canteen. Meal costs range between RMB2-5. At the time of the audit, about 15% of the workers were buying their meals from the factory canteen.

The kitchen and canteen are operated by a subcontractor. The canteen is cleaned after each meal. Garbage is picked up twice a day.

### **c. Medical Facilities**

The clinic at Plant 3 is staffed with one doctor, who is on duty only during the day shift, six days per week. Although compliant with GMP minimum standards, in SICCA's opinion, the clinic facility is inadequate in meeting even the minimal requirements of a factory with almost 4,000 workers.

## **2.8 Workplace Operating Environment**

At the time of the 2003 audit, SICCA found the plant to be a modern well-planned manufacturing facility. It was noted, however, that there was need for improved housekeeping, upgrading and maintenance. Problems such as the

improper use of PPE, the effectiveness of its wet paint spraying scrubbing operation, and its lack of documentation were some of the discrepancies noted.

As part of its audit protocol, SICCA undertook a thorough walk-through of the factory's physical facilities and examined conditions both inside and outside the factory premises. The team also reviewed various documents required by local authorities to ensure the proper and safe maintenance and operation of the plant's physical facilities.

Some of the problems reported in the previous report have been addressed. Nevertheless, more work needs to be done in regard to the maintenance and upkeep of the facility. SICCA's findings, as they pertain to Environment, Health and Safety aspects of Plant 3's operations, are listed below.

## A. Environment

### 1. Environmental Permitting

- a. No Completion Inspection Acceptance monitoring for the site has been conducted or its approval issued by the local Environmental Protection Bureau (EPB).
- b. No Pollutant Discharge Permit(s).

### 2. Air Emission

All wet paint spray scrubbers (6) located on the roof were in a non-operational mode at the time of the audit. Maintenance for the scrubbers was deemed to be insufficient. The design of the units themselves made them difficult to service and maintain.

### 3. Wastewater

- a. The plant has three wastewater discharge points. Domestic wastewater monitoring has been conducted for one discharge point. No domestic wastewater monitoring has been conducted at the other two points. Therefore it is not possible to determine the compliance status at the two non-monitored discharge points.
- b. Accumulated oil and sludge were observed at three storm water inlets adjacent to the canteen. Plant management reported that the plant has separate storm water and wastewater drainage systems. However, wastewater from the canteen was being discharged into the storm water inlets.

## B. Health and Safety

### 1. *Fire Fighting*

- a. Safety lines need remarking on some production floors.
- b. Fire aisles were blocked at rear of fourth floor with work stations in the assembly areas.

### 2. *Occupational Disease Hazards Assessment*

No Occupational Disease Hazards (ODH) Pre-Assessment or ODH Effectiveness Control Assessment (ODHECA) has been issued to the plant. The plant has not submitted its ODH declaration and registration form to the local health administration bureau.

### 3. *Industrial hygiene*

- a. The majority of the spray paint hoods were too small for the required painting tasks. They were encrusted with paint and many were jury rigged.
- b. No Local Exhaust Ventilations (LEVs) were provided at the soldering stations in the 'clean room'.

### 4. *Personal Protective Equipment (PPE)*

- a. Proper finger protection was not provided to employees using razor type knives to remove flashing in the injection molding area.
- b. Plain cotton face masks were being used by spray painters at the spray stations to protect against exposure to the chemical paint sprays. Upon the completion of the ODHECA it can be determined if the masks supplied are adequate or new and ones of a different type are required to protect the workers.
- c. Not all machine shop operators were wearing safety shoes.
- d. No face masks were provided for the employees working at the gluing stations in the assembly areas. Strong chemical odors were noted.

### 5. *Medical Surveillance*

- a. The plant provides annual occupational disease examinations to workers exposed to occupational disease hazards based on self-assessment since 2006. These examinations are performed by a hospital that is not licensed to conduct occupational disease medical examinations.

- b. No occupational disease medical surveillances (entry, regular, and exit) have been conducted for all workers exposed to occupational disease hazards based on ODHECA by a hospital licensed to conduct these examinations.

#### 6. *Machine Safety*

- a. It was observed that many transparent panels on the sliding doors of the injection molding machines still have their original scratch protection plastic sheet on them. Over time they have melted and bunched up making it very difficult to see the injection molding process taking place and thereby adding an element of potential danger.
- b. Some transparent panels of the injection molding machines are cracked and broken.

#### 7. *Lock Out/ Tag Out System*

There is no LO/TO system in place in the injection molding workshop.

### C External Facilities

#### 1. *Dormitory*

Dormitory facilities were found to be satisfactory.

#### 2. *Kitchen and Canteen*

- a. Hoods in the kitchen are greasy and encrusted.
- b. There is excessive water and oil on the kitchen floor. The oil is from the diesel tanks used for the kitchen burners.

### **3. OVERALL OBSERVATIONS AND RECOMMENDATIONS**

Plant 3 has responded positively to SICCA's 2003 audit with regard to employment practices and improved maintenance of physical facilities. Unfortunately, despite a 5-year period between the two audits, a significant number of issues remain unresolved. In particular:

- a. Mattel should seek better compliance from the company with regard to excessive working hours at the plant.

- b. The current audit identified certain practices at Plant 3 that are inconsistent with China labor laws and Mattel's GMP standards, e.g., non-payment of social insurance for a large majority of workers. Other practices, such as giving workers only one set of uniforms, are unfair, and should be corrected.
- c. Mattel should investigate the issue of pregnancy tests for female workers at the time of hiring.
- d. The plant's maternity leave policy should be revised to address proper monthly payments to the beneficiaries.

This report has noted a number of both new and old problems in regard to the physical facilities and workplace safety at Plant 3. These need to be addressed as soon as possible. In particular:

- a. Implement the Lock out/Tag out system in the injection molding department.
- b. Improve maintenance and ventilation of exhaust hoods in the spray painting section.
- c. Significant effort needs to be made in the provision of appropriate PPE to workers on the manufacturing floor. Line leaders and floor supervisors should be held responsible for ensuring that all workers use their PPE at their workstations.
- d. A serious effort needs to be made to acquire the necessary documentation, permits, and licenses as mandated by national and local Chinese laws and regulations.

# Plant 11

## 1. INTRODUCTION

This report is based on the findings of the formal audit of Mattel Vendor Plant 11, conducted by International Center for Corporate Accountability (SICCA) on June 10-11, 2008. This is the second formal audit of this plant.<sup>6</sup> Plant 11 consists of two physically separated factories: Factory A and Factory B. Both facilities are located in BaoAn district of Shenzhen, Guangdong Province, PRC. The plant is dedicated almost entirely (99%) to the manufacturing of Mattel toys.

The workforce at Plant 11 fluctuates between 3,000 and 4,500 direct workers through the year depending on the production season. At the time of the audit, Plant 11 employed about 4,400 workers. Of these, about 89% were direct labor, and the remaining 11% were administrative and managerial personnel. Almost 77% of the workers at the factory are female. The average age of the workers is 29 years. The majority of direct labor workers at Plant 11 have 9 years of formal schooling. The average length of employment for the workers interviewed by SICCA was 1 year, although most of the workers had previous working experience prior to joining the plant.

## 2. AUDIT FINDINGS

### Prior Coaching of Workers

SICCA's audit team faced an unusual situation at Plant 11 pertaining to one-on-one confidential interviews that are conducted with a randomly selected sample of workers. A number of workers in the selected group (14%) informed SICCA that plant management had told the workers about SICCA's forthcoming audit. While the managers did not provide workers with any suggestions on how to answer possible interview questions, workers were told to review factory's policies. Notwithstanding, SICCA's interviewers noted a general feeling of reluctance on the part of the workers to provide detailed answers. Most of the open-ended questions were left unanswered by the workers. One of the interviewed workers said that it was a common management practice to pay workers around RMB100 for giving "correct" answers to the auditors. However, the worker was confused about what answers to give to SICCA auditors, since

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<sup>6</sup> First formal audit of Plant 11 was conducted in January 2003. SICCA's audit reports for Plant 11 and other Mattel's largest vendors, are available at both SICCA's and Mattel's web sites: [www.sicca-ca.org](http://www.sicca-ca.org) and [www.mattel.com](http://www.mattel.com).

on this occasion the management did not inform the workers as to whether or not they would be paid for their performance in the interview.

## **2.1 Recruitment and Hiring**

Most of the workers at Plant 11 (95%) are enrolled through advertising in the local area. The remaining workers are hired through walk-in applications or through government Department of Labor agencies. The plant does not require newly hired workers to pay any recruitment fees or provide deposits.

Upon hiring, the workers are given a general orientation, which covers terms and conditions of employment, workplace safety and discipline, living accommodations, and other relevant matters. Among the interviewed workers, 82% indicated that they received an orientation at the time they were hired at the plant.

### **a. Medical Examination**

Workers hired by Plant 11 are required to undergo a medical examination as a condition of employment. The cost of this medical examination, which varies between RMB35-45, is paid by the workers.

### **b. Workers' Employment Contracts**

Upon employment, each worker receives a signed contract as required by the labor laws of China and GMP standards. Workers who joined the factory after Nov 15, 2007 received 3-years contracts. Specific conditions of employment, including factory policies in regard to disciplinary actions, payment of wages, benefits and deductions, as well as Mattel's GMP guidelines, are included in the Employee Handbook. Copies of the Employee Handbook are provided to each worker at the time of hiring. They are also posted on the notice board at the production areas and workers' dormitories.

### **c. Probation Period:**

For workers who joined Plant 11 before Nov 15, 2007, probation period was 15 days. For workers who joined afterward under 3year contracts, probation period is 6 months. There is no probation period for workers who renew their contracts with the factory. There is no difference between regular and probationary workers in terms of wages and benefits, and type of work performed.

#### d. Personnel Files

Each worker has a signed contract on file. Personnel files also include copies of health check and medical records; picture IDs, GMP in local language, and employee handbook. In addition, company records kept by function include PPE distribution, injury reports and maternity leave reports.

### **2.2 GMP Awareness**

The factory's Management Compliance Report (MCR) states that Mattel's GMPs are explained to all workers during quarterly meetings. Among interviewed workers, a large majority (70%) indicated that the factory gave them some information about management principles and standards of behavior that describe fair and safe working conditions.

### **2.3 Payroll System and Record Keeping**

#### a. Working Hours

The factory uses an automatic system of recording work hours. All interviewed workers confirmed that they swipe cards every time they enter and leave the factory facilities. Plant 11's work week consists of 6 days. Sunday is a rest day, except for those workers who have a system of floating rest days. Daily work shift is 11 hours, broken into 6.67 hours of regular time and 4.33 hours of overtime work. All overtime hours at Plant 11 are voluntary. This fact was unanimously confirmed by the interviewed workers.

Plant 11 has not secured 'consolidated hours' permissions from the neighborhood local labor bureau, which allows scheduling overtime in excess of the daily limits as long as the total overtime within a year does not exceed the legal maximum of 432 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<sup>7</sup>.

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<sup>7</sup> 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.

The revised GMP requirements are:

- Workers will not be scheduled 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.

SICCA's audit of payroll records verified that Plant 11 complies with GMP requirements pertaining to consecutive workdays, 72-hour workweeks and rest days. However, workers were found to have worked more than 60 hours per week; for up to 39 weeks, which is in excess of Mattel's GMP provisions.

*b. Wages*

Minimum wage in Shenzhen area is RMB750 per month. Wages are paid in cash 20 days after the pay period is over. Wage rates at Plant 11 are RMB4.31 for the normal hours, 1.5 times the normal wage for the overtime hours on regular working days. According to the MCR, in certain cases rest-day work could be scheduled. The company's policy is to award a replacement day off within one week. If replacement rest day cannot be made, workers are paid 200% of minimum wage rate for work performed on a rest day.

*c. Benefits*

Plant 11 pays for disability and medical insurance. The factory provides 5 days of paid annual leave to all workers upon completion of one year of service. The annual leave time increases with seniority. Starting January 2008, workers are not allowed to receive replacement payment for annual leave. Of the interviewed workers, 70% were aware of the paid annual leave policy.

The factory also has a policy of providing maternity benefits of 90 days paid leave to all pregnant workers. However, the interviews conducted by SICCA showed that workers were not fully aware of this benefit – only 9% of the interviewed workers were familiar with the availability of paid maternity benefits

*d. Deductions*

Combined charges for dormitory rent and meals at Plant 11 average RMB213, which is within the provisions of Mattel's GMP. Dormitory accommodation and canteen meals are voluntary and workers can opt out anytime. Workers are also deducted RMB4 for medical insurance.

During confidential interviews, a number of workers (17%) complained that they were given only one set of uniforms at the time of hiring and had to pay for the second uniform when the season changed. Plant11's MCR stated that starting May 2008, the plant has changed its policy and now provides all workers with a free set of two uniforms, one for each season. Any additional uniforms would have to be paid by the workers. A similar situation exists with the factory IDs. The initial card is free. However, the factory would charge RMB20 for any card replacement due to damage or loss.

e. Workers' familiarity with wage calculations

Workers interviewed by SICCA, presented a mixed picture with regard to their familiarity with the wage calculation system. A majority of the interviewed workers (82%) stated that they fully understood their payment and deductions calculations. However, when asked specifically about regular pay rates, overtime payment for regular and rest days, a significantly large percentage (84%) could not provide correct answers.

## **2.4 Workplace Discipline of Employees**

Plant 11 has written policies with regard to employee discipline. Most of the disciplinary actions are handled through warnings. In case of repeated violations, the employee's contract is terminated. Repeated violations of fire safety regulation are subject to cash fines, which are within legally permissible limits. Discipline policies also include provisions on grievance procedures. Most of the interviewed workers (66%) confirmed their familiarity with the process of filing a complaint about unfair disciplinary treatment.

## **2.5 Discrimination, Freedom of Association, and Access to Management**

Plant 11 provides equal employment opportunities to all workers regardless of age, sex, religion, ethnicity or any other characteristics. All interviewed workers were unanimous in their opinion that the factory does not discriminate against any worker concerning promotion or wage increase. The plant also recognizes all employees' right to join in lawful organization or associations without unlawful interference.

Suggestion boxes are available to workers for reporting any policy violations, work-related concerns and suggestions for improvement. In terms of communications, a large majority of the workers (75%) relied on the line leader for information about work-related issues, 61% received this information from the notice boards, and 41% from fellow workers.

## **2.6 Protection from Harassment**

Confidential interviews with factory workers confirmed that the working environment at Plant 11 was free of any type of harassment. Workers unanimously confirmed that neither they nor other workers at the plant had been subjected to verbal, physical or sexual abuse either by managers and supervisors or by other workers.

## **2.7 Employee Services**

### **a. Dormitories**

Plant 11 maintains two dormitories. Dormitory 1 was built in 1993 and dormitory 2 was built in 2000. The combined capacity of the dormitories is 2900 people, and the total area is 11,426 sq. ft. Dormitory 1 accommodates 7 people per room, while dormitory 2's accommodation capacity is 11 people per room. Each room has fans, individual lockable storage space, toilet, cold water outlet, and laundry facility. There is a separate hot water station available on each floor.

Currently about 45% of the production workers live in the provided dormitories. Workers interviewed by SICCA, who indicated that they lived in the factory dormitories, were unanimous in their opinion that the dormitories were safe, clean and pleasant.

### **b. Food Services**

Lunch break at Plant 11 is 30 minutes for the Injection Molding department workers, and 90 minutes for the rest of the workers. Employees are free to choose to take their meals at the canteen or outside the factory.

The factory subcontracts canteen services that serve 2 meals daily. Workers are given a choice of five different dishes, of which they can choose three. Interviewed workers showed general satisfaction with the quantity and quality of food served at the canteen.

Canteen kitchen is clean and well maintained. Employees who work in the canteens are trained in food handling and are given physical examinations each year. Garbage is picked up twice a day.

### **c. Medical Facilities**

The clinic at Plant 11 is located at Factory B. There is only one nurse on duty for one shift. Plant A has no clinic on site. The two factories respectively employ 2500 and 1500 workers. SICCA considers the current level of on-site

medical facilities for this plant to be inadequate. We urge Mattel and Plant 11 to review this situation and create a more realistic alternative.

## **2.8 Workplace Operating Environment-Environment,**

SICCA's previous audit of Plant 11 had identified a number of deficiencies in the area of environment, health and safety (EHS) operations and maintenance. SICCA's current audit has noted that company has made significant strides toward correcting these deficiencies. Nevertheless, some issues remain and need to be addressed.

### A. Environment

#### *1. Environmental Permitting*

- a. No Completion Inspection Acceptance for both Factory A and Factory B has been conducted or their approval issued by the local Environmental Protection Bureau (EPB).
- b. No Pollutant Discharge Permit(s) have been obtained for both factories.

#### *2. Air Emission*

- b. Environmental Impact Assessment Form (EIF) for Factory B was conducted by BaoAn Environmental Science Institute on 24 December 2007, and its approval was issued by the local EPB on 9 January 2008. EIF states that the stacks of the three diesel generator sets should have a minimum height of 15 meters and be located away from the dormitory areas. At the time of the site visit, SICCA observed that all three stacks were less than 15 meters high and the generator set adjacent to Block #7 was immediately adjacent to the dormitory.
- c. The wet paint scrubbers located at Factory B had filters that were too short to be effective and many were incorrectly positioned. A maintenance program for the wet paint scrubbers is not in place.
- d. Factory A uses 50 gallon drums as wet paint scrubbers for their spray paint workstations. The set-up with the drums is ineffective. Management has informed SICCA that all spray painting workstations will be relocated to Factory B and proper wet paint scrubbers would be installed within the next 2 to 3 months.

### 3. *Wastewater*

- a. No domestic wastewater monitoring has been conducted for either of the two factories. Hence it is not possible to determine factories' compliance with the applicable laws.
- b. Domestic wastewater from the washing basins at the canteen is being discharged into the onsite storm water drainage system.

### 4. *Chemical Management*

No secondary containments, Chinese identification labels, MSDSs and hazardous warning signs were provided at the diesel Aboveground Storage Tanks (AESs) at the generator room in Factory B.

### 5. *Boundary Noise*

No daytime or nighttime boundary noise tests have been conducted for either of the two factories. Hence it is not possible to determine factories' compliance with the applicable laws.

### 6. *Hazardous Wastes*

- a. Spent filters from the wet paint scrubbers at Factory B and drums containing dried paint sludge at Factory A are being disposed as domestic waste.
- b. Condensate from the air compressors adjacent to Block #6 is being discharged into the onsite storm water drainage system.

### 7. *Housekeeping*

Housekeeping is generally good with the exception of a wastewater pipeline in the dormitory at Factory A, which was leaking and covered with black growths (fungus).

## B. Health and Safety

### 1. *Occupational Disease Hazards Assessment*

No Occupational Disease Hazards (ODH) Pre-Assessment or ODH Effectiveness Control Assessment (ODHECA) has been prepared for either of the two factories. The company has not submitted its ODH

declaration and registration form to the local health administrative bureau.

## *2. Industrial Hygiene*

- a. No Local Exhaust Ventilations (LEVs) were provided at soldering workstations on the second floor of Block #6 at Factory B.
- b. No ventilation systems and paint scrubber systems were provided at the tampo painting areas at Factory A. Management reported that all tampo painting workstations at Factory A would be relocated to Factory B where proper wet paint scrubbers would be installed within the next 2 to 3 months.
- c. Odors at the silk screening printing area in Factory B indicated that there was insufficient ventilation in that area. Management stated that a ventilation system would be installed and the silk screening operation would be isolated from the rest of the floor.

## *3. Medical Surveillance*

A total of twenty five workers who were exposed to occupational hazards failed the occupational disease medical surveillances in March 2008. Only one of the twenty five has voluntarily repeated the needed medical surveillance tests. No system has been implemented to ensure the follow-up medical surveillance is conducted on the remaining twenty four workers.

## C. External Facilities

### *1. High Voltage Transformers*

None of the external transformers were fenced as required by Chinese law.

### **3. OVERALL OBSERVATIONS AND RECOMMENDATIONS**

#### **3.1 Wages, Working Hours and Employee Treatment**

SICCA finds Plants 11 to be in general compliance with applicable labor laws and Mattel's GMP standards. Furthermore, as part of our interview process, we asked all workers:

- a. about their level of satisfaction with Plant 11 as an employer; and,
- b. whether they would recommend Plant 11 to their friends and family members as a place of employment.

Interviewed workers were almost unanimous (97%) in expressing a positive general opinion about their work life. Most of the workers (70%) also stated that they would recommend their friends and relatives to work at Plant 11.

We have already recognized the fact that Plant 11 has made significant progress in addressing SICCA's concerns from the previous audit. SICCA has also taken note of various remedial actions that are currently in the implementation phase. Nevertheless, SICCA's audit noted a number of areas where Plant 11's policies and practices are inconsistent with GMP standards. These findings are detailed in the main body of the report and summarized below:

- a. Coaching workers about interviews and promising them cash rewards is bound to have a deleterious effect on the plant management's credibility and lower the trust that auditors would have in the management's explanations. Mattel should express to the plant management its strong disapproval of such practices.
- b. Mattel should seek better compliance from the company with regard to excessive working hours at the plant.
- c. Employees need more and better training in pertaining to the factory's policies and procedures as well as Mattel's GMP.

#### **3.2 Physical Facilities and Workplace Safety**

Although the company has taken major steps to upgrade its operations, it still has room for improvement as noted above. Deficiencies such as paint scrubbing, transformer enclosures and etc. should be addressed as soon as possible. A serious effort should be made to acquire the necessary documentation, permits and licenses as mandated by national and local Chinese laws and regulations.

## Plant 18

### 1. INTRODUCTION

This report details the findings of the third field audit of Plant 18, performed by SICCA. The plant is located in Dongguan City, China. The field audit was conducted on June 2 & 3, 2008.<sup>8</sup>

Plant 18 has had a troubled history in its compliance with GMP standards. SICCA conducted its first formal audit of Plant 18 on December 15, 2005. However, this audit was terminated in mid-stream because of certain actions on the part of the management that compromised the integrity of the audit. This included pre-coaching of workers and even threatening them with punishment if they gave responses that were different than the managements preferred answers. The management also asked some workers not to come to work on the day of the audit.<sup>9</sup>

SICCA conducted a follow-up audit of the plant in July 2006. SICCA's second audit in 2006 identified Plant 18 as being among the worst offenders of Mattel's GMP guidelines regarding overtime hour limits and pay practices. In addition to violating the Mattel's overtime hours code, the plant was engaging in deceptive practices in terms of its legal payroll reporting obligations. Specifically, workers were being paid in three installments to conceal excessive overtime hours in any one set of records. In light of worker interview responses, which unanimously stated that overtime hours were limited to at most 12 per week, which were grossly at odds with corresponding payroll records, it was impossible to have any confidence in verifying the accuracy of Plant 18's management statements or SICCA' on-site observations.<sup>10</sup>

Pursuant to this audit, Mattel informed SICCA that it was placing Plant 18 on its watch list. Amongst Mattel's commitments were the following:

- Mattel will not provide any new business until such time as management can adequately address the compliance issues that have been outlined in the SICCA report.

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<sup>8</sup>As a part of Mattel independent monitoring program, SICCA audits of Mattel facilities follow a three-year cycle. SICCA's audit reports for Plant 18 as well as some of Mattel's largest vendors, are available at both SICCA's and Mattel's web sites: [www.sicca-ca.org](http://www.sicca-ca.org) and [www.mattel.com](http://www.mattel.com).

<sup>9</sup> For details, please see "ICCA 2005 Audit - China Vendor Plants" available online at <http://www.ICCA-corporateaccountability.org/PDFs/2005ChinaVendorReport.pdf>

<sup>10</sup> For details, please see "ICCA 2006 Audit - China Vendor Plants, Plant 18" available online at [http://www.ICCA-corporateaccountability.org/PDFs/Plant18\\_FormalAudit.pdf](http://www.ICCA-corporateaccountability.org/PDFs/Plant18_FormalAudit.pdf)

- Plant management must develop and implement a management system and a corrective action plan to address all issues discovered during the SICCA audit. The plan must also address staff accountabilities and timelines for implementation.
- The plant will be subject to monthly follow-up audits by Mattel until all actions have been implemented.
- The plant must sustain a satisfactory level of compliance for at least six months before any new business will be awarded.<sup>11</sup>

Unfortunately, these conditions were not strictly adhered to and Plant 18 was granted some leeway in the time frame within which it would have to meet GMP standards.

### Profile of the Workforce

Plant 18 currently employs approximately 4,100 workers plus 125 administrative and managerial personnel. The size of the direct labor workforce varies between 2,100 and 4,500 workers depending on seasonal production requirements. Average age of workers is 25 years and the minimum hiring age is 18. The education level of workers is around 10 years of formal schooling. The average length of employment is 5.5 years. For 27% of the interviewed employees, this was their first job.

## **2. AUDIT FINDINGS**

### **2.1 Recruitment and Hiring**

All Plant 18 workers are hired through walk-ins. Upon hiring, all workers are given an orientation, which includes information on employment terms and conditions, workplace safety and discipline, living accommodations, and other relevant issues. In addition, employee handbooks are provided to the new hires. These contain all pertinent information about rules and regulations concerning their work and living conditions. Workers are also required to undergo a medical examination at the time of hiring. The cost of this medical check-up is borne by the plant.

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<sup>11</sup> Complete statement of Mattel's response to ICCA's 2006 Plant 18 Audit Report is available online at [http://www.ICCA-corporateaccountability.org/PDFs/Plant\\_18\\_Response.pdf](http://www.ICCA-corporateaccountability.org/PDFs/Plant_18_Response.pdf)

a. Probation Period

All newly hired workers undergo a one-month probation period as allowed by law. Payroll audit of workers' records confirmed that probationary workers were paid basic wages similar to those paid to regular workers.

b. Workers' Employment Contracts

Upon employment, each worker is required to receive a signed contract from the plant. It stipulates length of employment, working hours, wages and benefits, and other conditions of employment. All workers whose personnel files were inspected had a signed contract in their files.

c. Personnel Files

Each worker has a personnel record on file. It contains the contract, ID, medical records, dorm/canteen deduction agreements, information on probation periods, employment terms and details of disciplinary action, if any. In addition, company records include details of illness and injury, annual leave, and maternity leave.

## **2.2 GMP Awareness**

The plant management indicated that information pertaining to Mattel's Global Manufacturing Principles (GMP) was provided to all workers. A large majority of the interviewed workers (70%) confirmed having received some information about principles covering safe and fair working conditions at the workplace.

## **2.3 Payroll System and Record Keeping**

Workers at Plant 18 use magnetic cards to clock in and out each day. They are paid on a monthly basis, within one month after the end of pay-period. Payments are remitted via bank transfer to workers' bank accounts. Workers interviewed by SICCA were unanimous in their expression that they fully understood all pertinent information relating to workers' hours of work, wages, overtime, bonuses, allowances and deductions. However, Plant 18 continues to engage in the same multiple bookkeeping practices as mentioned in SICCA's

2006 audit of this facility<sup>12</sup>. Specifically, in the 2006 audit, SICCA noted that workers at Plant 18 were paid their monthly wages in three different installments:

1. The first installment, paid through bank transfer, covered payment for regular week of 40 hours per week, and some undisclosed number of overtime hours worked during the pay period.
2. The second installment, also through a separate bank transfer, represented payment for regular workday overtime hours (for a maximum of 4 hours per day), and rest-day overtime hours (for a maximum of 1 day per month). Both bank transfers are made within 30 days of the pay period end.
3. The third installment was paid in cash and disbursed one week after the bank transfer date. It covered regular workday and rest-day overtime wages that were not covered by the first two installments above.

During the 2006 audit, when SICCA raised the issue regarding the opaqueness surrounding the payroll data, and its inability to verify compliance to any standard, Plant 18 management had responded that they had to resort to multiple recordkeeping practices to appease multiple buyers who had conflicting standards. Ostensibly, the set of records, which would show compliance with the specific audit, would be presented to specific buyers, but that the records presented to SICCA represented actual factory practices and did not conceal any information. This claim notwithstanding, SICCA had concluded that it could not verify adherence to any standard when the underlying system is designed to present discretionary records.

SICCA's current audit of Plant 18 showed that workers are paid in two installments. According to management policy, the following work hours and corresponding wages are accounted and paid separately for:

- Any overtime in excess of 4 hours per day,
- Any rest-day work (i.e. 7-day workweeks) in the Injection Molding, Security, and Quality control departments,
- Any rest-day work hours in excess of 6.67 hours for all workers (other than above), and
- The thirteenth consecutive workday for any worker.

Obviously, these recordkeeping practices and systems in place continue to make it impossible for SICCA to reach reliable and verifiable conclusions

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<sup>12</sup> <sup>12</sup> For details, please see "ICCA 2006 Audit - China Vendor Plants, Plant 18" available online at [http://www.icca-corporateaccountability.org/PDFs/Plant18\\_FormalAudit.pdf](http://www.icca-corporateaccountability.org/PDFs/Plant18_FormalAudit.pdf)

about Plant 18's management practices, and if they comply with any established standard.

a. Working Hours

The workweek is defined as six days, 6.67 hours per day, or 40-hours per week, which is consistent with the labor laws of China. All overtime work is voluntary. Employees who do not wish to work overtime may opt out simply by informing their supervisors. This fact was confirmed by the group of workers interviewed by SICCA. The plant has secured a comprehensive hours permission from the local labor bureau, which allows it to schedule extra overtime during peak periods as long as the total for a six-month period does not exceed the permissible limits. Audited payroll records of all of the interviewed workers showed that factory's scheduling practices consistently exceeded the applicable limits.

The issue of excessive overtime hours has been a pervasive problem and a continuous challenge in most Chinese factories. Workers continuously demand longer overtime hours to earn higher wages. Therefore, factories that are not providing competitive overtime work would risk losing workers to competitors.

Mattel has used a two-pronged approach with a view to deal with this issue:

1. 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 hour policies<sup>13</sup>.

The revised GMP requirements are:

- Workers will not be scheduled to work more than 60 hours per week on non-peak production periods;
- Workers will not be scheduled to work more than 72 hours per week on peak production periods;
- 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.

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<sup>13</sup> 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.

2. The second objective was to ensure that factories were not forced to employ various subterfuges to conceal actual hours worked so as not to run afoul of GMP standards. Thus by restoring transparency to the payroll data and working hours, this approach was intended to “bring out” the issue from the closet and recognize rational limits within which Mattel’s factories, and those of its first tier vendors, would operate.

Unfortunately, the new rules have not completely succeeded in this effort. Most factories audited by SICCA – both Mattel owned and operated as well as the first tier vendors – have yet to develop new approaches to deal with the issue of excessive overtime hours. Rather than creating the outside limit with minor exceptions, factories are often using the revised liberalized standards as the minimum level, which they continue to exceed in a routine manner.

Plant 18’s audited payroll records showed that weekly work schedules in excess of 60 hours did not exceed 17 weeks per year for any of the audited worker’s records. The same records also showed that these workers had never worked more than 13 consecutive days. These findings, however, are based on continued practices of multiple sets of work-hours and payroll records as indicated above. Thus, they fall short of being a reliable source to base any definitive conclusions about Plant 18’s compliance with GMP provisions. SICCA has no confidence as to the veracity and reliability of these assertions on the part of Plant 18’s management.

*b. Wages, Bonuses and Allowances*

The minimum wage rate at Plant 18 is RMB770 per month. SICCA audit of workers’ payroll records confirmed that all workers were paid at least the minimum wage rate. Workers are also entitled to performance bonuses, which range from RMB20 to RMB130.

*c. Wages for Overtime Work*

All direct labor workers at Plant 18 receive normal pay for their first 40 hours per week and overtime wages at 1.5 times their regular rates. Work during rest days is compensated at double the regular rate. SICCA’s audit showed that all overtime categories as recorded by the payroll system were properly compensated. However, as mentioned in the previous section, SICCA has no confidence in the transparency and verifiability of multiple record systems, and therefore is not able to confirm that workers are paid properly for their overtime hours.

*d. Benefits*

Plant 18 pays legally mandated social insurance premiums for approximately 21% of the workforce, which is in accordance with the

requirements imposed by the local labor bureau. The factory provides one week of paid annual leave to all workers upon completion of one year of service. Plant 18 pays maternity benefits for 90 days as provided by law. Although, the plant's formal policies allow for sick leave benefits, there was no record of any worker having received this benefit.

e. Deductions

At Plant 18, all deductions from wages are fully compliant with legal requirements and GMP standards. The plant charges RMB80 for dormitory residence. Other deductions from employee earnings include the employees' mandatory contributions to social security and retirement funds as required by law. Employees pay for their canteen meals in cash.

The factory provides one set of uniforms to workers when hired. Any additional uniforms needed during the employees' tenure at the factory are sold at a cost of RMB20. Similarly, workers have to purchase replacement magnetic ID cards for RMB30 if they are lost.

## **2.4 Workplace Discipline of Employees**

Plant 18 has written procedures on employee discipline and grievance procedures. These policies are explained to the employees during orientation and also included in the employee handbook. The policy provides that employees receive a verbal warning in case of a violation. The factory imposes a fine of RMB80 cash fine for smoking on factory premises. All interviewed workers stated that they were not disciplined during the three months prior to the audit; and that they felt free to report any unfair disciplinary action without fear of recrimination.

## **2.5 Freedom of Association, Discrimination, and Access to Management**

Plant 18's employment policies and procedures apply equally to all workers regardless of age, sex, religion, ethnicity or any other characteristics. The factory also recognizes employees' right to join a lawful organization or association. All interviewed workers agreed that the factory does not discriminate any workers concerning promotion or wage increase based on sex, race, religion or ethnicity. In addition, all respondents confirmed that employees were promoted based on merit.

Interviewed employees unanimously confirmed their belief that they could freely address any questions and concerns they might have to the plant

management. Suggestion boxes are available to workers for reporting any policy violations, work-related concerns and suggestions for improvement.

## **2.6 Protection from Harassment and Employee Treatment**

Interviews with factory workers indicated that Plant 18 maintains a fair and harassment-free work environment. Workers were unanimous in their positive expressions with regard to fair treatment by line leaders, supervisors and management. Workers also confirmed that they were not subject to or aware of any instances of verbal or physical abuse at the factory.

## **2.7 Employee Services**

### **2.7.1. Medical Facilities and Health Care**

The plant houses a small clinic with six beds. It is staffed by a certified nurse who works 10 hours per day and 6 days a week. Workers are charged only for the cost of medicine for personal ailments.

### **2.7.2. Dormitories and Food Services**

Plant 18 operates four dormitory buildings, which have a total capacity of 3,600 residents. Maximum occupancy is 12 workers per room in all buildings. All rooms and common areas are cleaned by factory custodians. SICCA's inspection of dormitory premises indicated that they were designed, operated, and maintained adequately.

Canteen facilities are operated by the plant management. Workers are free to eat off-premises. The canteen charges, in cash RMB0.5 – 2.0 per serving. Three meals are served daily and the canteen serves approximately 7,000 meals a day. Facilities are cleaned four times daily. All canteen workers undergo yearly medical examinations.

## **2.8 Workplace Operating Environment**

The 2006 audit had identified a number of deficiencies in the plant's physical conditions and operating environment. While the plant has made some improvements, in SICCA's opinion the overall progress is unsatisfactory. Areas needing corrective action are detailed below.

## A. Environment

### *1. Environment Permitting*

- i. No Completion Inspection Acceptance monitoring for the site has been conducted. No approvals have been issued by the local EPB.
- ii. No Pollution Discharge Permit is held at the site.

### *2. Wastewater*

- i. No domestic wastewater monitoring has been conducted at the site. Therefore, it is not possible to know if there is or is not compliance with the regulations.
- ii. A wastewater stream with oil sheen was observed at the storm water inlet located adjacent to Block B.
- iii. Accumulated oil (probably diesel oil) was observed at one of the storm water manholes located in Block B and the residential area, which is approximately 200 meters from the diesel oil unloading area. Oil stains were also observed at the unloading area. Site management stated that there was no underground oil pipeline in the area and they were not aware of the source of the accumulated oil.

### *3. Chemical Management*

- i. Not all chemicals stored at the hazardous chemical storage area located on the fourth floor of Block B were provided with secondary containment and spill control measures.
- ii. No Material Safety Data Sheets (MSDS) were provided in English at any of the hazardous chemical storage areas as required by the GMP for Tier II plants. The requirement states that the MSDS must be in English and the primary native language.
- ii. Although Chinese identification labels, MSDS and hazardous warning signs were provided at the diesel Aboveground Storage Tanks (AST) area, and the diesel-oil bulk-storage area, there were no secondary containments. Oil stains were observed at the diesel oil AST area.

### *4. Boundary Noise*

No daytime or nighttime boundary noise tests have been conducted at the site. Therefore, it is not possible to know if there is or is not compliance with the regulations.

## *5. Hazardous Wastes*

Cracks and unpaved areas were observed at the hazardous waste storage area.

## *6. Housekeeping*

- i. Waste packaging materials were stored on the roof of Block A.
- ii. An oil-stained area of approximately 50 sq. meters was observed at the diesel-oil unloading site. Accumulated oil was observed in a small hole about 50 cm in diameter at the same site.
- iii. The floor in the injection-molding workshop was slippery. Accumulated hydraulic oil and domestic wastes were observed near several machines in the workshop.
- iv. The housekeeping through out the facility is mostly superficial.
- v. The roof of Block B contains a very large scrap pile covered with a tarp.
- vi. Tool maintenance and storage on the fifth floor of Block A is in chaotic order.

## B. Health and Safety

### *1. Occupational Disease Hazards Assessment*

No Occupational Disease Hazards (ODH) Pre-Assessment or ODH Effectiveness Control Assessment (ODHECA) has been prepared for the site. The plant has not submitted its ODH declaration and registration form to the local health administration bureau.

### *2. Fire Fighting*

- i. Fire aisles were blocked on the fourth and fifth floors of Block A.
- ii. Fire hose stations were observed to be corroded and lacking evidence of regular inspections.

### 3. *Industrial Hygiene*

Local Exhaust Ventilations (LEVs) at the hand painting workstations were observed to be insufficient, where strong solvent odors were noted and one table ventilation system was inoperative.

### 4. *Medical Surveillance*

The site provided annual occupational disease medical examinations to workers exposed to occupational disease hazards based on self-assessment. No occupational disease medical surveillances (entry, regular, and exit) have been conducted for workers exposed to occupational disease hazards based on the ODHECA.

### 5. *Personal Protective Equipment (PPE)*

- i. Some employees were wearing their protective masks below their noses in the spray painting area.
- ii. Some employees were removing plastic flashing using razor blade type knives without finger protection.

### 6. *Electrical Wiring*

- i. Tripping hazardous were observed at several areas in the workshops. Electric cables and wiring were lying on the floor in Block A.
- ii. Many electrical connections in injection molding in Block B are jury rigged some with broken armored cable covers (machines 14, 16, 18, 19, 52)
- iii. There are many jury-rigged electrical connections in Block A.
- iv. There are jury-rigged connections in the oven room in Block C.

### 7. *Drinking Water*

- i. The drinking water sterilizer in Block A was leaking badly and the floor covered with water.
- ii. The water sterilizing room between floors 1 and 2 in Block B is dirty and contains waste and scrap.

### 8. *Machine Guards*

The grinder on the second floor in the machine shop had no eye shield.

### 9. *Wet Paint Scrubbers*

The scrubber located on the roof of Block A is in poor to fair condition. The designed squirrel cages are not functioning. The filters were observed to be loaded with sludge.

## C. External Facilities

### 1. *Transformer banks*

Three high voltage transformers do not have a proper enclosure as required by Chinese law.

### 2. *Standby Generator Room*

The engine generator is dead but the control panel is being used and is in need of extensive maintenance.

### 3. *Pump Room*

Both pumps are operable but pump #2 has a seal leak.

### 4. *Air Compressor Room*

The two storage tanks are missing their boiler code plates.

## **3. OVERALL OBSERVATIONS AND RECOMMENDATIONS**

SICCA is not satisfied with the integrity of its audit and the outcomes reported by its findings. In the text of this report we have provided details of the multiple sets of payroll data. This situation has existed through all the three audits. Mattel would need to take strong action to correct this situation, otherwise any future monitoring and compliance verification of Plant 18's with GMP standards, would be an exercise in futility.

The issue of excessive overtime hours presents another problem, which persists among Mattel's own plants as well as those of its vendors. Mattel must take the necessary initiative to ensure that its plants and those of its vendors comply with GMP standards with regard to regular and overtime hours.

The current audit also identified certain practices at Plant 18 that are inconsistent with China labor laws and Mattel's GMP standards, e.g., non-

payment of social insurance for a large majority of workers. Other practices, e.g., giving workers only one set of uniforms, are unfair, and should be corrected.

A similarly unsatisfactory situation exists on the issue of physical plant and operating practices. Although the plant has made some improvements since the last SICCA audit, considerably more needs to be done in order for this facility to rectify the problems identified in the 2006 audit report. The list of deficiencies is fully described in the main body of this report and needs careful attention. It should be noted here that Plant 18 is comparatively old and neglected facility. It would require a major effort and capital investment to bring up to where it would be an acceptable facility.

It is apparent that Mattel's actions, following the second formal audit of the plant, have not been quite effective. Having undertaken three formal audits during the course of three years, when the normal schedule is one formal audit every three years, SICCA feels that any recommendations for corrective action would be unlikely to yield meaningful changes without specific commitments from Mattel and the company's insistence that the plant must implement these recommendations.

SICCA recommends that Mattel, jointly with Plant 18, should create a plan of corrective action with firm timeline as to its implementation and promptly inform SICCA with regard to its intentions.