

Mattel, Inc.

Company Managed Plants in Asia

- *PT Mattel Indonesia (PTMI)*
- *Mattel Malaysia SBN. BHD. (MMSB)*
- *Mattel Development and Tooling SBN. BHD. (MDT)*
- *Mattel Bangkok Ltd. (MBK)*

Audit Report

Prepared by



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A non-for-profit, educational-research organization

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I. PT MATTEL INDONESIA (PTMI)

1. INTRODUCTION

This report details the findings of a field audit of PT Mattel Indonesia (PTMI), performed by Sethi International Center for Corporate Accountability (SICCA). The purpose of the audit was to evaluate all aspects of PTMI's operations and to corroborate the plant's compliance with Mattel's Global Manufacturing Principles (GMP).¹

PTMI is a wholly-owned subsidiary of Mattel, Inc. The plant facilities are located in Bekasi district of West Java, Indonesia. The field audit was conducted on April 21-22, 2008. The plant's major products are Barbie™ dolls and other fashion dolls. The factory currently employs approximately 7,000 people. Of these, 96% are direct labor while the remaining 4% are administrative and supervisory staff. However, during peak production period (May – August), the workforce may increase to 10,000 workers.

PTMI's workforce is about 65% permanent and 35% temporary contract workers. The latter group of workers is hired for 6 - 12 months. At the time of the SICCA audit in April 2008, there were 600 workers with temporary contracts. Female workers constitute almost 91% of the direct labor workforce. Average age is 31 years and no worker is under the age of 18 years. Nearly 88% of the workforce has high school diplomas. Turnover among permanent workers at the plant is quite low, with work-tenure of 8-10 years among the permanent workers.

¹As a part of Mattel's independent monitoring program, SICCA audits of Mattel facilities follow a three-year cycle. This is the fourth such audit of the PTMI plant. Previous SICCA audits were conducted in February 1999, May 2002, and April 2005. SICCA's audit reports for PTMI and other Mattel owned plants, as well as some of Mattel's largest vendors, are available at both SICCA's and Mattel's web sites: www.ICCA-corporateaccountability.org and www.mattel.com.

2. AUDIT FINDINGS

2.1 Recruitment, Orientation and Initial Training

All PTMI workers are hired through direct applications at the factory site. Each worker, upon employment, undergoes initial orientation where workers are provided with information with regard to the terms of employment, wages, benefits, deductions, and other rules and regulations that govern employee relations. In addition, workers undergo training on general safety issues such as fire prevention, evacuation, spill management, etc. Information is also provided to all employees about GMP including booklets and regular training sessions.

Workers must also take a medical examination upon hiring. All workers confirmed this fact and stated that the exam mainly covered blood test, x-rays, sight and hearing test, and overall physical check-up. However, among the interviewed female workers, a small group (10%) reported having been tested for pregnancy. Such testing is prohibited by GMP and also contravenes Indonesia's labor laws.

a. Probation Period

PTMI hires regular workers initially on a probationary basis for three months, after which employees are considered permanent. Contract workers are not subject to a probationary period and are terminated upon the expiration of the contract.

b. Workers' Employment Contracts

SICCA's audit of personnel records confirmed that each worker had an employment contract on file. All workers receive signed copies of their contracts on their first day of work. The contract specifies the terms of employment, pay, work hours, benefits, and all other relevant company policies regarding employer-employee relations, rights, and responsibilities.

c. Personnel Files

SICCA's audit confirmed that workers' personnel files contained all pertinent information about each worker's employment history. All regular workers have a record of their probationary period upon their initial employment, which indicates their applicable wages and benefits, as well as annual leave records and compensation.

2.2 GMP Awareness

PTMI provides all workers information about Mattel's Global Manufacturing Principles (GMP) at the time of initial hiring and orientation. An employee handbook is provided to each employee upon hiring. It includes GMP information, along with other workplace and dormitory rules, regulations, and other employment related information. A large majority of the interviewed workers (62%) stated that they had received training on GMP during the orientation period at the time of initial hiring.

2.3 Payroll System and Record Keeping

All PTMI workers are paid on a monthly basis for regular working hours. Overtime hours are computed on a weekly basis. Pay frequency is once a month with earnings remitted via bank transfer within seven days of the end of the pay-period. Responses from the interviewed workers indicated a perfect understanding as to their pay-stubs including work hours, pay, benefits, and deductions.

Daily and weekly hours are monitored by a computerized system, which alerts management when proposed work schedules exceed GMP guidelines. Workers use magnetic swipe cards when reporting for work. However, the swipe-out time is not recorded by the computerized system. Typically, department supervisors authorize overtime shifts to the entire group of employees and manage any exception on an individual basis.

Not recording the clock out time from the swipe card is inconsistent with GMP standards and is also at odds with good management practice. SICCA has

made note of this situation during its previous audit of the plant in 2005. Plant management has offered no justifiable explanation for this practice and has persisted in using it. SICCA believes that continuation of this practice is unwarranted.

a. Working Hours

The workweek at PTMI is defined as five days during low season, and 5 or 6 days during peak periods. Weekly overtime is limited to 14-20 hours year-around, depending on the production process. PTMI has obtained written government permission, which allows the factory to work up to 67 hours per week. Audited payroll records indicate that all work-hours for the sampled workers conform to Mattel's GMP guidelines. SICCA confirms that PTMI is in full compliance with all provisions of GMP with regard to regular and overtime working hours.

b. Minimum Wages

Minimum monthly wage in the area where the plant is located is Rp 1,015,000 (110 USD). Examination of payroll records revealed that PTMI workers receive an average take home pay of Rp 1,220,000 (130 USD) per month. PTMI pays workers 100% of their appropriate wages in the event that the plant has to stop work during a normal workday for reasons that are under the control of the plant management, e.g., material shortage, scheduling conflicts, etc. SICCA audit has confirmed, without exception, that all workers are paid their due wages, and all work hours comply with the Indonesian law and Mattel's GMP guidelines.

c. Wages for Overtime Work

Overtime wages are 1.5 times the regular rate for the first hour and 2 times for additional hours during the normal workweek. Rest day work time is compensated at double the wage rate for the initial seven hours, triple rate for the 8th and 9th hours, and 4 times the regular wage rate for work exceeding 9 hours. Audited payroll records confirm that all overtime is paid in accordance with the Indonesian labor law and GMP guidelines.

At PTMI, all overtime is voluntary. The factory announces its overtime needs every week. Those workers who do not wish to work overtime inform their line leaders. However, among the interviewed workers, a small group (10%) stated that they were pressured by their supervisors to accept overtime even when they were unwilling to do so due to sickness, tiredness, or other personal reasons. It should be noted here that this issue was raised in the SICCA's 2005 audit report of PTMI, when 60% of the interviewed workers indicated that they were pressured by their supervisors to accept overtime when they felt sick, tired, or had other personal reasons. It would seem that the plant has made progress in reducing forced overtime. Nevertheless, further action is needed to completely eliminate this practice.

d. Benefits

Workers are entitled to at least 12 days (up to 17 days, increasing with seniority) of paid leave per year. Workers with longer seniority have the choice of receiving payment for annual leave days beyond 12. All annual leave records are kept in each worker's personnel file. PTMI has a policy of granting 90 days of paid maternity leave.

Employees receive quota achievement, performance, perfect attendance and leadership program-participation bonuses as well as special skills and night shift allowances. In addition, employees also receive year-end bonuses based on performance points earned for quota achievement and cost efficiency. Employees have free access to the plant clinic for personal health reasons. PTMI also makes employers' contributions to all workers' social insurance, retirement plans, death benefits and workmen's compensation funds.

e. Deductions

PTMI deducts employees' mandatory contributions for social insurance as well as income taxes from employees' earnings. SICCA audit of the payroll data confirmed that all deductions – with the exception of mandatory dormitory rent - were accurate and properly recorded.

Mandatory Requirement of Dormitory Living

PTMI has a policy of requiring all unmarried permanent workers and all temporary contract workers to live in the factory provided dormitories. This policy, which was also noted in 2005, is a serious violation of Mattel's GMP. However, subsequent to the completion of PTMI's most recent audit in April 2008, SICCA has been informed by Mattel that PTMI is making progress in eliminating this practice. At present, only temporary contract workers are required to live in the dormitories. PTMI is making arrangements for a smooth transition whereby all workers – regardless of their employment status – would be free to choose whether or not to live in the PTMI dormitories. Mattel has also indicated that this process would be completed by December 31, 2008. SICCA is gratified that this issue has been satisfactorily resolved and looks forward to its confirmation by Mattel in due course.

2.4 Workplace Discipline of Employees

PTMI has a formalized system of workplace discipline, which is in accord with the PTMI-Union contract and falls within GMP guidelines. Disciplinary measures are progressive. They start with verbal and written warnings, escalate to suspension without pay and may ultimately lead to dismissal. Work rules and regulations are provided to workers in writing as well as during initial employment orientation. They also outline the process by which employees may file grievances.

All of the interviewed workers confirmed that they were knowledgeable about the company's disciplinary policies and procedures. An overwhelming majority of the interviewed workers (93%) stated that they were not subjected to any formal disciplinary action during the three months prior the audit.

2.5 Freedom of Association, Discrimination, and Access to Management

PTMI employees are represented by a union. The union membership is voluntary. This was unanimously confirmed by the workers interviewed by SICCA. Each worker receives a copy of the collective bargaining agreement.

There is a standing union committee, which is responsible for facilitating daily communications between the workers and the plant management.

PTMI has created an extensive and formalized communication system, which facilitates two-way communications between the employees and different management levels. Senior management holds weekly staff meetings and daily roll down management updates. In addition, workers attend daily morning briefings with line leaders, weekly Human Resource department meetings, and daily communication committee meetings. The plant also has suggestion boxes for employees to make anonymous complaints or suggestions.

PTMI adheres to the standards set by Mattel's GMP as well as the collective labor agreement regarding discrimination. Employees are informed of and given access to voice their concerns, file grievances, and initiate committee action in case of discriminatory practices. These are posted on notice-boards in the factory area. All interviewed workers stated that they were treated fairly and without discrimination of any kind with regard to promotion and wage increases.

2.6 Protection from Harassment

PTMI has established rules with regard to verbal or physical abuse, including sexual harassment, which are applicable to all employees and management staff. Workers are encouraged to report instances of mistreatment through formal complaint channels.

Unfortunately, responses from the interviewed workers suggested a significant gap between PTMI policies and their implementation by the lower level supervisors. For example:

(a) a significant minority (22%) of the interviewed workers complained about mistreatment from their supervisors.

(b) Similarly, 25% of the interviewed workers indicated that either they or someone they knew, had been subjected to verbal issue by a line leader or supervisor. It should be noted that the magnitude of this complaint is identical to the situation noted by SICCA in its audit of PTMI in 2005.

2.7 Employee Services

a. Medical Facilities and Health Care

PTMI has two on-site clinics. The East clinic has three beds plus five recuperation beds. The clinic is staffed with five MDs, nine RNs, and one mid-wife. It is open 24/7 and is an excellent clinic with modern equipment. The West clinic is a 3-bed facility, which is supervised by an RN whenever the plant is in operation. In addition, the East dormitory has a 6-bed clinic with a RN on duty at all times. The overall medical coverage is excellent. The primary injuries and illnesses treated at the clinics are finger punctures, cut fingers and respiratory problems.

b. Food services

PTMI operates canteen facilities, which provide one free meal during each shift. All canteen workers undergo physical examinations twice a year. They wear hairnets, facemasks, and gloves where required. The kitchen is cleaned and garbage disposed of on a regular basis. The facility maintains and monitors hygiene.

c. Dormitories

The plant operates two factory dormitories - East and West. The West dormitory was built in 1996 and has a maximum capacity of 4,000 employees. The East dormitory was built in 1997 and has a maximum capacity of 3,000 workers. There is at least one shower for each 15 people plus one toilet for each 12 people. Each room is provided with a TV, telephone, and dining table. The dormitories also host a library, multifunction room, and multimedia training room. A basketball court, volleyball court and garden are available for recreation. The dormitories are clean and well maintained. They have a 24-hour security system and impose curfew requirements. It is intended to enhance security of the largely female residents of the dormitories.

Both dormitories are designed to accommodate 32 workers per room. The dormitories meet or surpass the GMP requirements in terms of minimum space

allowable per person in a dormitory room. However, they fail to meet another GMP standard, which caps the maximum allowable occupancy per room to 16 workers. Interviewed workers, living in the dormitories, have voiced complaints about noise and over-crowding.

PTMI's non-compliance with GMP standard of maximum allowable number was also noted in SICCA's 2005 audit of this facility. It is disappointing to note that this situation has persisted for over 5 years despite the fact that the two dormitories have unutilized space which could be reconfigured to reduce the occupancy rate to 16 workers per room.

2.8 Workplace Operating Environment

PTMI has two manufacturing facilities, i.e., PTMI East and PTMI West. These were formally referred to as MJS and MJD. The East plant is PTMI's major site. Most of the West plant's employees and equipment have been relocated into the East plant. Approximately one-third of the West plant is still operative. The on-going production operations in the West plant consist mostly of injection molding, spray painting and pre-assembly. The primary production processes at PTMI are molding, painting, assembly, and packaging.

As part of its audit program, SICCA's team examined factory's records and pertinent documents with regard to compliance with applicable laws and good management practices in the area of environment, health and safety, SICCA's team also undertook a thorough "walk-through" of the physical plant and related facilities. The 'walk-through' found the plant to be in good operating condition. All work areas were clean, and, with some exceptions, generally free of oil spills and litter. SICCA also noted that, where applicable, employees were using proper personal protective equipment (PPE). Plant specific findings are noted below:

I. PLANT SPECIFIC CONDITIONS

A. *East Plant*

1. The plant has an exceptionally good central control system for controlling air conditioning and lighting.
2. All spray-painting scrubbers are of the 'dry' type, which are far superior to most of the 'wet' types.
3. Cleaning fluid, Methyl Ethyl Ketone (MEK) used for cleaning spray paint tooling had dissolved the labels on some of the cans making them illegible. Additional labeling placed on cans hid the original labeling.
4. The ambient temperature in roto-casting was appreciable higher than in the surrounding area.

B. *West Plant*

1. The paint scrubbing equipment in this plant is of the 'wet' type. One scrubber was leaking as noted by the accumulation of pink paint residue and water on the factory floor. The scrubber itself could not be examined since it was located in an inaccessible location on the roof.
2. The air quality in the paint storage was noticeably poor. There should be regular monitoring of the air quality in this area. In addition, workers in the paint storage should be tested to ensure that PPE provided to them is adequate. The plant management has confirmed that the air quality monitoring done by the Sucofindo Main Laboratory, was used to test ambient air quality. A hazard assessment was conducted in order to determine the appropriate PPE for employees working in the paint room. SICCA is satisfied with PTMI's response.
3. There are two large, stainless steel toxic waste containers whose lids are broken and whose foot pedals are inoperative.

II. DOCUMENTATION AND RECORDS

All documentation and records requested were supplied for both plants. They consisted of:

A. *Temperature Recordings:*

WBGT temperature measurements were last taken in May 2007. All measurements were below 30 degrees C for all locations in both plants with roto-casting, injection molding, scrap and regrind mixing registering the highest temperature levels. They were 2.5 to 2 degrees below the allowable GMP requirement. The temperatures should be measured again when the outside ambient temperature is the highest during the year, i.e., August, to confirm they still fall below WBGT 30 degrees C.

B. *Waste Water:*

A certified laboratory, PT. JABABEKA INFRASTRUKTUR, is used by PTMI to test its wastewater. The latest report dated 9 April 2008 shows compliance with Estate Regulation Jababeka, June 2005.

C. *Drinking Water:*

The above laboratory conducted purity tests on the plants' drinking water on 12 November 2007 for both the East and West plants. There were 6 physical component tests, 20 inorganic component tests, 2 organic component tests and 1 microbiological test conducted at each location. The following showed non-compliance with the regulatory limits:

1. Inorganic Chemicals

- i. barium: 0.88 mg/l vs. 0.7
- ii. cadmium: 0.004 mg/l vs. 0.003
- iii. mercury: 0.005 mg/l vs. 0.001
- iv. lead: 0.038 mg/l vs. 0.01

2. Microbiological

Total coliform: <1.10 col/100ml vs. 0

D. Ambient Air Quality

A certified laboratory, Sucofindo Main Laboratory, is used to test ambient air quality in paint mixing, torso assembly, painting, die cut, down wind-west plant, up wind -west plant and injection molding-west plant. The air quality was tested between June 13 and June 26, 2007. The tests measured CO, NO₂, SO₂, H₂S, HC, Dust, Pb, NH₂, O₂, MBK, MEK, Ethanol and Methyl Chloride. The following showed non-compliance with the standard requirements:

1. Down Wind-West Plant: CO: 11.43 mg/cubic meter vs. 10
2. Up Wind-West Plant: CO: 457 mg/cubic meter vs. 10

E. Noise Survey

In-house noise surveys were last conducted between August 7 and August 10, 2007 at 12 personal and area locations in the East plant and 2 personal locations in the West plant. The readings at the following locations were above the required Indonesian Standard and the Mattel Standard of TWA 85 dBA in the East Plant:

- a. Regrind - personal: 86.2
- b. Roto-cast area: 85.5
- c. Roto-cast machine #14: 88.1
- d. Roto-cast machine #5: 88.9
- e. Tampo machine #9: 86.7

Where the noise levels exceed the standard requirements, ear protection is being used. Personnel exposed to excessive noise should be given hearing tests to determine if the PPE provided is sufficient. The same personnel should be given hearing tests prior to being employed so as to set up a base line to measure against.

F. Hazardous Waste Treatment

Paint sludge from the scrubbers is being removed under a permit issued to Bapedal, # B-4919-A issued 11/09/1997 and treated by a licensed vendor, PPLi, a division of MAC. A certificate #200-LT-FR-104 was issued by them to PTMI on

February 19, 2007. The certificate stated that the removed waste had been managed in compliance with all applicable laws and regulations.

G. Ventilation

An in-house survey was performed on 17 March 2008 at the paint mixing area in the East Plant. The air movement in feet/minute was measured at six different hoods in the location. The survey form does not indicate any above standard readings.

H. Plant and Dormitory Evacuation Drills

Complete records showing dates for morning and/or night drills were made available to the SICCA team.

I. Meter and Gauge Calibrations

Although not required by the GMP, we recommend that all gauges and meters used in critical processes should be calibrated on a regular basis and records kept. SICCA considers it to be a good engineering practice that would also enhance plant and worker safety.

2.9 Personal Skills Enhancement and Community Outreach Programs

PTMI offers its employees various educational programs on HIV, TB, dengue awareness and prevention, stress management, and healthy living. It offers workshops and provides exercise routines for pregnant women. The plant provides facilities for individual and team sports. Employees have the choice to enroll in various life-skills training programs such as gardening, cooking, dancing and sewing classes, Internet and multimedia, beauty salon and hair styling training programs. The factory reports that more than 3000 employees have participated in these programs.

Skill enhancement programs are offered in the form of manufacturing cross skill training, skills upgrading training, skill refreshment training. About 1000 employees have participated in 2007.

The Social activities include School-building renovations, orphanage visit programs, basic commodity distributions to help the poor, and donations for flood victims. These activities are mainly aimed at neighboring communities. Employees, as well as the plant have participated in these programs through donations of time and money. PTMI has matched employee donations to a fund for Aceh Tsunami victims

3. OVERALL OBSERVATIONS AND RECOMMENDATIONS

3.1 Wages, Working Hours and Employee Treatment

PTMI has in place an effective program of personnel management practices. SICCA concludes that PTMI is in general compliance with most of GMP standards. However, there remain certain areas of significant non-compliance that have been noted in the body of the report. Specific recommendations for corrective action are summarized below:

1. PTMI must cease, with immediate effect, the practice of automatic recording of closing time for all workers.
2. PTMI has satisfactorily addressed the issue of mandatory requirement for dormitory living for contract workers. However, PTMI needs to take prompt action in reducing the number of persons in a dormitory room from 32 to the maximum of 16. This issue has been long overdue. PTMI would need to provide SICCA with a specific plan and implementation time-line to remedy this situation.
3. PTMI's management needs to enhance its training and monitoring of line supervisors to ensure that its personnel policies are properly implemented. For example:
 - a. Contrary to PTMI policies, a small number of interviewed workers (10%) indicated that their pre-hiring medical examination included pregnancy testing. We recommend that PTMI widely publicize its policies with regard to medical exams to all workers at the time of

hiring and orientation, and also include it in the employee handbook.

- b. Since 2005 report, PTMI has significantly reduced incidents of supervisors pressuring employees to work overtime when they felt sick, tired or had other personal reasons for not wanting to do so. However, the April 2008 audit reported complaints by a small group of workers (10%) of being pressured to work overtime. PTMI's management needs to take further action to ensure that this practice is completely eliminated.
- c. The 2008 audit revealed employee complaints about verbal abuse and mistreatment by floor level supervisors. This issue was also noted in SICCA's 2005 audit. We recommend that PTMI should enhance its monitoring of line level supervisors and also make it an integral part of supervisors' performance evaluation.

3. 2 Physical Facilities and Workplace Safety

PTMI is a well run and maintained manufacturing facility. Overall, the plant meets GMP standards with regard to physical facilities. SICCA has noted some minor issues concerning plant facilities and operations in the body of the report. SICCA would like to receive a report from PTMI with regard to implementation of the remedial actions.

II. MATTEL MALAYSIA SBN. BHD. (MMSB)

1. INTRODUCTION

This report details the findings of a field audit of Mattel Malaysia Sbn. Bhd. (MMSB), performed by Sethi International Center for Corporate Accountability (SICCA). The plant is located in the Prai Free Trade Zone area on the mainland near Penang Island, Malaysia. MMSB is a wholly owned subsidiary of Mattel, Inc., and is dedicated to the exclusive production of Hot Wheels™ brand die-cast toy cars. The field audit was conducted on April 23, 2008.²

MMSB currently employs 2,311 workers. Of these, 2,685 are direct labor and the remaining 246 are administrative and managerial personnel. The size of the direct labor workforce is relatively stable throughout the year. Almost 80% of the workers at the factory are female. The minimum hiring age is 18. Half of the direct workforce has less than 9 years of formal education, and only 1% has completed high school.

MMSB's workforce is unusual among Mattel's plants in that it tends to be somewhat older, more mature, and with longer tenure of employment. Average age of workers is 28 years and the average length of employment is 13 years. For 40% of the interviewed employees, this was their first job.

2. AUDIT FINDINGS

2.1 Recruitment and Hiring

MMSB hires its resident workers through referrals from government agencies for which there are no fees involved. The plant also hires guest workers, exclusively from Indonesia, via recruitment agencies. These workers

² As part of Mattel's independent monitoring program, SICCA audit of Mattel facilities follow a three-year cycle. This is the fourth such audit of the MMSB plant. Previous SICCA audits were conducted in April 1999, May 2002 and April 2005. SICCA's audit reports for MMSB and other Mattel owned plants, as well as some of Mattel's largest vendors, are available at both SICCA's and Mattel's web sites: www.ICCA-corporateaccountability.org and www.mattel.com.

are brought to Malaysia under a guest worker program initiated and supervised by the Malaysian government. These workers are processed by recruiting agencies selected by the government. They are required to pay certain government mandatory charges to the Malaysian and Indonesian government bodies for processing their applications. In addition, the recruiting agencies impose a fee to pay for their own services. These combined charges average US\$525 or about a typical worker's two-month salary. In some cases, prospective workers take a loan from the recruitment agency that they sign up with in Indonesia. For those that become employed by MMSB, the plant assists by providing for repayment via a salary deduction and remittance to their Indonesian agent on a monthly basis.

By law, guest workers in Malaysia are permitted to work only for the employer who sponsored their work permit. All such workers at MMSB are hired under a contract. At the time of SICCA audit, there were over 800 such workers comprising 29% of the direct labor workforce.

At the time of hiring, all workers undergo an orientation. This includes an information session dealing with employment terms and conditions, workplace safety and discipline, living accommodations, Mattel's Global Manufacturing Principles (GMP), and other relevant issues. Workers are also required to undergo a medical examination. The cost of this medical examination is paid by MMSB.

a. Probation Period

There is a mandatory three-month probation period for all newly hired workers. This is allowed by law. Payroll audit of workers' records showed that all workers were paid wages during the probation period that were 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 covers the duration of the contract period, working hours, wages

and benefits, and other conditions of employment. Copies of the signed contracts are kept in the workers' personnel files.

c. Personnel Files

Each worker has a personnel record on file. It contains 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, where applicable.

2.2 GMP Awareness

According to the plant's Management Compliance Report (MCR), a copy of Mattel's GMP is provided to all workers via distributed booklets. The standards are also reviewed during monthly EHS meetings, quarterly employee updates, and weekly tea-talks. Effectiveness of this program, however, is doubtful. Among the interviewed employees, only 28% confirmed their familiarity with GMP. This compares with a level of familiarity of 80% of the interviewed workers during MMSB's previous audit in 2005.

2.3 Payroll System and Record Keeping

MMSB workers are paid monthly wages within seven days of their pay-period. Payments are made in cash, check, or remitted via bank transfer to workers' bank accounts. Interview responses indicated a good understanding of all pertinent information relating to workers' hours of work, wages, overtime bonuses, allowances and deductions.

Workers use swipe-cards when they report for work, but do not clock out at the end of their workday. Daily shift-end times are entered into the computerized attendance system by the management, and all regular and overtime wages are calculated based on this information. Typically, department supervisors authorize overtime shifts to the entire group of employees, and manage any exceptions on an individual basis.

The practice of not using swipe card for clock out time is inconsistent with GMP standards and is also at odds with good management practice. Plant management has offered no justifiable explanation for this practice and has persisted in using it. SICCA believes that continuation of this practice is unwarranted.

a. Working Hours

In Malaysia, a normal workweek is defined by law as 48 hours. The law also stipulates that an employee may spread these hours over 5 or 6 days. At MMSB, different departments use a normal work week to be either 5 or 6 days depending on their production needs. Overtime at the MMSB plant is voluntary. Workers may opt out by notifying their supervisors. However, 20% of interviewed workers indicated that they were pressured to work overtime by the line-leaders even when they were sick, tired, or had personal reasons for not wanting to work overtime.

The issue of excessive overtime hours has been a pervasive problem and a continuous challenge in most Asian countries. 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 hours policies³.

The revised GMP requirements are:

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

³ 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.

- 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 in between.
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 liberalized standards as the minimum level which they continue to exceed in a routine manner. SICCA’s audit of payroll records verified that MMSB complies with GMP requirements pertaining to consecutive workdays, 72-hour workweeks and rest days.

b. Wages

Malaysian law does not stipulate a minimum wage for production workers. MMSB workers’ monthly base salaries are determined by competitive market forces and range from RM400 to RM1100 for a 48-hour workweek depending on worker skills and job specifications. Overtime wages are 1.5 times the regular rate for normal workdays, double the base wage rate for the first 8 hours worked on rest days, and triple for any hours exceeding 8 on a rest day. SICCA’s audit confirms that all workers’ regular and overtime wages were properly paid. The average take-home pay for MMSB workers is around RM900 (US\$280) per month for combined regular and overtime work hours, and inclusive of any bonuses and allowances.

c. Benefits

MMSB pays all legally mandated social insurance, workmen's compensation and retirement fund benefits on behalf of all workers. The factory provides eight days of paid annual leave to the workers upon completion of one year of service, which increases with tenure. The plant also subsidizes the cost of meals served at the factory cafeteria. MMSB facilitates emergency loans to workers based on demonstrated need.

MMSB has a policy of granting 60 days of paid maternity leave. This is in compliance with Malaysian Employment Act of 1955.

In an earlier section, we had discussed the issue of mandatory use of recruiting agencies. Mattel's GMP indicates that deductions should not be taken for the costs of recruitment or contract signing fees. However, in the case of MMSB, the use of a recruiting agency overseas is not voluntary and the contractual relationship with the Indonesian agent is with the worker and not Mattel. Notwithstanding, SICCA raised the issue of recruiting costs with MMSB because these costs impose a heavy financial burden of almost two months' salary on the newly hired workers. SICCA is gratified to report that Mattel has positively responded to its concern and has agreed to assume payment for the recruitment agency fee of approximately US\$70 that is in excess of the mandated charges payable to the government bodies.

d. Deductions

Deductions from employee earnings include employees' mandatory contributions to social security and retirement funds. MMSB charges RM25 per month for dormitory rent. Guest workers are required by law to live in factory provided housing. Malaysian workers are free to make their own living arrangements. MMSB subsidizes RM50 in electricity and water usage charges and residents are responsible for any additional charges beyond this amount.

2.4 Workplace Discipline of Employees

MMSB has written procedures on employee discipline. The policy provides that employees receive a verbal warning in case of a violation. Repeated violations receive multiple warnings, and in case of continued disobedience, or extreme offences such as criminal activities, the employee may be terminated from employment. Workers have the right to file grievances and escalate their successive appeals to the plant director. The factory does not impose any cash fines as a disciplinary measure. All interviewed workers stated that they were not disciplined during the three months prior to the audit.

2.5 Freedom of Association, Discrimination, and Access to Management

MMSB'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. Workers are promoted according to merit and follow appropriate factory procedures. Suggestion boxes are available to workers for reporting any policy violations, work-related concerns and suggestions for improvement. Formal complaint procedures are also explained in the employee handbook. The plant also has a system in place for those workers who may wish to make anonymous suggestions or file complaints.

All interviewed workers agreed that the factory does not discriminate against 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. Employees feel that they can register their complaints freely, without fear of reprimand. In terms of means of communications, 73% of the workers relied on information provided by line leaders, 75% on the notice boards, 35% on co-workers, and 60% on HR personnel.

2.6 Protection from Harassment and Employee Treatment

Interviews with factory workers indicated that MMSB's line leaders are perceived as generally fair in the way they treat their subordinates. However, some 20% of the respondents claimed verbal abuse by line leaders and supervisors.

2.7 Employee Services

2.7.1 Medical Facilities and Health Care

MMSB houses a very good clinic with four beds, which is staffed with three nurses (one State Enrolled nurse and two State Registered nurses) (RNs) on the basis of one RN per shift. Majority of the injuries treated are burns, cuts and respiratory problems. There is also one State Enrolled Nurse (RN) on duty at the dormitory for one shift.

There is no charge for medical services or medicines provided to workers. Employees with 15 years and above service have the benefit of subsidized annual examinations (at 25% of medical bill or maximum of RM 85). The nurses also conduct medical exams for employees every two years.

2.7.2 Food Services

The plant operates two canteens accommodating approximately 1,800 workers per day. The kitchen is neat, clean and well maintained. However, during SICCA's site visit, the floor was wet and slippery from being washed. MMSB serves two meals each day to all workers (one light and one main meal for the three shifts). It also runs two hawker stands selling a wide variety of meal choices.

The plant pays the workers a food allowance of RM 3.2 per day. Cost of food at the factory's canteens is approximately RM 2 to 2.5. Workers who bring their food from home are entitled to the bi-weekly paid meal allowance.

2.7.3. Dormitories

MMSB's dormitories are excellent. In SICCA's experience, they are by far the best and user friendly among all the factories audited by SICCA. Each housing unit consists of three rooms. Two bedrooms with eight beds in each room and a living or sitting room, a small kitchen, lavatory, and wash area. They are very well kept and there is a sense of pride in maintaining the quarters. The dormitory meets all the GMP requirements.

2.8 Workplace Operating Environment

The MMSB plant is a 25, 270 m² facility bought from GEC in 1980. Additions to the original building include two production floor expansions in 2006 and 2007 as well as a training facility built in 2006. MMSB also owns a 10,704 m² dormitory, built in 1995. Primary production processes at MMSB are die-casting, injection molding, painting, and assembly.

As part of its audit program, SICCA's team examined factory's records and pertinent documents with regard to compliance with applicable laws and good management practices in the area of environment, health and safety, SICCA's team also undertook a thorough "walk-through" of the physical plant and related facilities. The 'walk-through' found the plant to be in good operating condition. All work areas were clean, and, with some exceptions, generally free of oil spills and litter. SICCA also noted that, where applicable, employees were using proper personal protective equipment (PPE). Plant discrepancies are noted below:

2.8.1. Plant Specific Conditions

a. Assembly Area - 1st Floor

- Yellow safety stripping needs replacement
- In a few areas, fire aisles were partially blocked.

b. Die-casting Area

- The ambient temperature, especially near the furnaces, seemed to be very high. SICCA asked to have the temperature measured utilizing a Mattel owned Quest Technologies instrument that measures WGBT. SICCA was told the instrument had been sent back to the U.S. for calibration and would not be available for two months. The requisition requesting calibration was dated 24 April 2008. SICCA auditors requested a dry-bulb thermometer, or a dry bulb/wet-bulb sling-thermometer and were told none was available.

Although, the data collected shows that in all locations the plant meets the required GMP WGBT of 30 degrees C, - whereas some readings were near the maximum allowable, i.e., 29.7 degrees C – we recommend that a spare Quest Technologies instrument be available for use when the primary one is being calibrated. Management stated that the ambient temperature could reach 36 degrees C with high humidity in some of the summer months. If so, it is possible that at times the GMP's WGBT standard of 30 degrees C could be exceeded and a 'hot stress' program would be needed. A fully detailed Mattel 'Heat Stress/Cold Stress Program' is available.

Approximately one third of the interviewed employees complained about excessive heat in their work areas.

- The fire extinguishers were randomly inspected for compliance with GMP. One extinguisher that was checked near the exit had not been inspected since 18 January 2008. GMP for Tier 1 plants calls for monthly inspections.
- An electrical power cabinet, 415 VAC , 3 phase, was properly marked but not properly protected in this location. A pipe frame was placed in front of the cabinet so the doors could not be opened. However, the frame was not locked in place and could easily be removed. In addition, the cabinet doors were not locked.
- There was the presence of oil and water on the floor.

c. Injection Molding Area

- A power cabinet, 415 VAC, 3 Phase, was properly marked but unprotected and unlocked.
- PPE earplugs are worn by operators in the vacuum forming area. The noise level exceeds the GMP standard in many locations (see data in the following 'Documentation and Records Section', II.B). MMSB has a hearing conservation program which included baseline audiometric testing and periodic reassessment for those employees that are assigned to a area of the plant designated by the noise survey as requiring PPE.
- The spray painting area utilizes a wet scrubbing unit located on the side wall of the plant. The scrubber is supported by a stack that is numbered and approved by the local licensing authorities. The hazardous waste generated by the scrubbers is removed by a licensed contractor.

d. Plant-wide

The overall housekeeping is good overall. However, there were several complaints of excessive dust by several employees.

2.8.2. Documentation and Records

a. Temperature Recordings

WGBT temperatures were measured on 17 August 2007 at 37 locations through out the plant. All readings were below the GMP WBGT standard of 30 degrees C. The highest temperatures recorded were 29.7 degrees at wet tumbling M/C #3, 29.5 degrees at die casting degating #1 and 29.4 degrees at die cast M/C #23.

b. Industrial Effluent

A certified laboratory, NM Laboratory Sdn Bhd, was used to test the quality of the plant's composite final discharge of its industrial effluent. The results of the test are shown in a 'Certificate of Analysis' dated 12 March 2008. The composite sample was analyzed to determine the quantity of 17 elements and chemical

compounds, pH, BOD, chemical oxygen demand, total suspended solids, oil and grease, and temperature. All findings were within the allowable limits set forth in the APHA standards.

c. Air Quality

A certified laboratory, NM Laboratory Sdn Bhd, was used to measure the air pollutants concentration levels emitted from a sampling point, Chimney 4. The test was conducted on 10 April 2007 and the results compared against the limit values stated in 'Environmental Quality (Clean Air) Regulation 1978.

Air emission was tested for solid particulate and 13 elements and chemical compounds. All air impurity concentrations were within the allowable limits set forth in the regulation. There is a permit from the local authority 'Jabatan Alam Sekitar" dated 17 May 2000 allowing the operation of the chimneys.

d. Noise Survey

A noise level survey was conducted by Biochem Consultancy Services SDN BHD on 31 December 2007, and the report was received by MMSB on 22 January 2008. The noise level was measured at 40 locations throughout the plant. The noise level at the following locations exceeded the GMP standard of 85 dBA:

1. Die cast
2. Tumbling
3. Hand trim
4. Ransburg 5
5. Ransburg 4
6. WWTP area
7. Electroplating
8. Dehumidifier room
9. Dyeing room
10. Tool room
11. Barbell assembly

12. PIM A, B, C, D, E
13. Chiller room
14. VUF Area
15. Compressors, Dryers, and Cooling Tower room
16. Hawaii line

In the above listed areas, dBA readings ranged from 86 to 100 at the above sites. PPE earplugs are provided and used at the sites number 1, 2, 7, 9, 10, 11 and 14. Personal exposure monitoring has been contracted and is scheduled at the end of April 2008 for employees working in the site numbers 12, 13, and 16.

The plant's hearing conservation program requires Initial audiometric test be conducted for employees working in high noise area within the first 6 months of first exposure. This is consistent with GMP requirements as well as local legal requirements. Subsequently the audiometric tests are conducted annually for the affected employees as per GMP requirements (local requirement required the test to be conducted at frequency of every 1 or 2 years depends on noise level at workplace). The audiometric test results of the subsequent year are compared to the baseline to determine if there has been any standard threshold shift.

e. Certificates

The plant had proper certifications for waste contractor (Waste Management Centre) - Jabatan Alam Sekitar, # 008218, dated 28 April 2004; and hoists - Kerajaan Malaysia, #542434, dated 27 November 2007.

f. Fire Fighting Equipment

Fire extinguishers are checked monthly and fire pump and emergency exits are checked weekly and records kept of the inspection less the one exception noted above in paragraph I.B.2.

g. Fire Drills

In all locations where workers turnover rate is greater than 30 percent, two drills per shift are conducted every 12 months. Complete fire drill records are maintained.

i. Meter and Gauge Calibrations

Although not required by the GMP, we recommend that all gauges and meters used in critical processes are to be calibrated on a regular basis and records kept. SICCA considers it to be a good engineering practice that would also enhance plant and worker safety.

3. OVERALL OBSERVATIONS AND RECOMMENDATIONS

SICCA's overall observations with regard to plant operations and worker treatment at MMSB are positive. We conclude that MMSB is in general compliance with all pertinent standards – with noted exceptions – as a matter of operational policies and management intent. However, we also feel that management needs to place greater emphasis to ensure that line supervisors and line leaders effectively implement management policies and procedures.

All interviewed workers generally expressed their satisfaction about the work environment at MMSB.

As part of our interview process, we asked all workers:

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

Among the interviewed workers, 90% expressed a positive general opinion about their work life. In a similar vein, 85% of the interviewed workers stated that they would recommend their friends and relatives to work at MMSB.

MMSB is also active in building community support programs through employee participation. These programs are jointly organized with the nearby

MDT plant. They include toy donations to various children's events, funding for school supplies and community awareness activities, and volunteered services to local charities, hospitals and schools. Furthermore, each month, the plant organizes 1-2 social events, where workers participate in treasure hunts, bowling, fishing trips, etc.

Corrective Action

Specific corrective action with regard to plant's physical facilities and operating conditions have been noted in detail in the text of this report and are summarized below:

1. MMSB must cease, with immediate effect, the practice of automatic recording of closing time for all workers. There can be no justification for the current practice.
2. There has been a precipitous decline in GMP awareness of the workers in the 2008 audit compared with the SICCA's findings from the 2005 audit. MMSB management should initiate necessary training effort to increase worker awareness of GMP.
3. MBBS should investigate worker complaints with regard to:
 - a. mistreatment of workers by line leaders;
 - b. exerting pressure to work overtime when the employee is unwilling to do so;
 - c. excessive noise in certain parts of the factory; and,
 - d. factory being too hot or too cold at certain times of the year.

SICCA would like a report on Mattel's actions and their effectiveness within 90 days of the publication of this report, but no later than December 31, 2008.

III. MATTEL DEVELOPMENT AND TOOLING SBN. BHD. (MDT)

1. INTRODUCTION

This report presents findings of the field audit of Mattel Development and Tooling Sbn. Bhd. (MTD), performed by Sethi International Center for Corporate Accountability (SICCA). The MDT plant is located in the Prai Free Trade Zone area on the mainland near Penang Island, Malaysia. MDT is a wholly owned subsidiary of Mattel, Inc. It is a tool and die manufacturer, which supports Mattel plants worldwide. The field audit was conducted on April 23, 2008. The purpose of the audit was to evaluate all aspects of MDT's operations and to corroborate the plant's compliance with Mattel's Global Manufacturing Principles (GMP).⁴

MDT employs a relatively small workforce of 163 workers. Of these, 129 are direct labor and remaining 34 are administrative and managerial personnel. The size of the direct labor workforce is quite stable throughout the year. Tool building and maintenance require a highly skilled and experienced workforce. These workers are in great demand and hence command higher wages and a supportive work environment. These two conditions are reflected in the composition of the MDT workforce. Unlike most other Mattel plants, almost 93% of the workers at MDT factory are male with an average age of 43 years and around 11 years of formal schooling. The average length of employment is 15 years. For only 10% of the interviewed employees, this was their first job.

⁴ SICCA audit of Mattel facilities follow a three-year cycle. This is the fourth such audit of the MDT plant. Previous SICCA audits were conducted in April 1999, May 2002 and April 2005. SICCA's audit reports for MDT and other Mattel owned plants, as well as some of Mattel's largest vendors, are available at both SICCA's and Mattel's web sites: www.ICCA-corporateaccountability.org and www.mattel.com.

2. AUDIT FINDINGS

2.1 Recruitment and Hiring

All MDT workers are hired through advertising or government agencies, for which no fees are involved. Workers are given an orientation at the time of hiring. This includes information on employment terms and conditions, workplace safety and discipline, living accommodations, Mattel's GMP and other relevant issues. Workers are also required to undergo a medical examination for which the cost is borne by the factory.

e. Probation Period

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

f. Workers' Employment Contracts

Upon employment, each worker receives a signed contract from the plant. It covers, among others, working hours, wages and benefits, and conditions of employment. MDT also offers temporary contracts to a small number of workers for a specific duration. At the time of SICCA's audit, there were 11 such workers and all of them had properly documented contracts on file. Regular employees are considered permanent with no contract expiration date.

g. Personnel Files

Each worker has a personnel record on file. It contains information on probation periods, employment terms and details of disciplinary action, if any. Company records also include details of illness and personal injury, annual leave, and maternity leave, where applicable.

2.2 GMP Awareness

MDT employees demonstrated a high level of familiarity with Mattel's Global Principles (GMP). The plant distributes copies of GMP at the time of hiring and also during quarterly employee meetings and updates. Among the interviewed workers, a large majority (75%) confirmed familiarity with GMP.

2.3 Payroll System and Record Keeping

MDT workers are paid monthly, within seven days of their pay-period end date. Payments are made in cash or remitted via bank transfer to workers' bank accounts. Interview responses indicated perfect understanding of all pertinent information relating to hours of work, wages, overtime, bonuses, allowances and deductions. Workers also unanimously confirmed that they had received previous month's salary within seven days following the end of the pay period.

Workers use swipe-cards when they report for work but do not clock out at the end of their workday. Daily shift-end times are entered into the computerized attendance system by the management and all regular and overtime wages are calculated based on this information. Typically, department supervisors authorize overtime shifts to the entire group of employees and manage any exceptions on an individual basis.

The practice of not using swipe card for clock-out time is inconsistent with GMP standards and is also at odds with good management practice. SICCA made note of this situation during its previous audit of the plant in 2005. Plant management has offered no justifiable explanation for this practice and has persisted in using it. SICCA believes that continuation of this practice is unwarranted.

a. Working Hours

The workweek is defined as 41 hours over 5 days or 42 hours over six days. SICCA's audit of workers payroll records verify that MDT is in full compliance with the relevant provisions of the Malaysian labor law as well as Mattel's GMP.

Overtime at the MDT plant is voluntary by plant policy, which allows workers to opt out. However, 20% of interviewed workers cited being pressured to work overtime even when they were unwilling to do so due to sickness, tiredness or other personal reasons.

b. Wages

Malaysian law does not stipulate a minimum wage rate for workers. Average wages at MDT far exceed prevailing market rates for direct labor workers. MDT workers' monthly salaries range from RM 1100 to 3300 for a 41 or 42-hour workweek. Overtime wages are 1.5 times the regular rate for normal workdays, double the base wage rate for the first 8 hours of work performed on rest days and triple for any hours exceeding 8 on a rest day. These wages are 4-10 times greater than typical direct labor workers in Mattel's other production facility (MMSB) or similar factories in Malaysia. Take home pay of audited workers ranged from RM 1,140 to 5,000 (\$380 - \$1,660).

c. Benefits

MDT pays all legally mandated social insurance, workmen's compensation and retirement fund benefits on behalf of all workers. The factory provides two weeks of paid annual leave to all workers upon completion of one year of service. MDT also facilitates emergency loans to those workers who demonstrate a need for such loans.

MDT has a policy of granting 60 days of paid maternity leave. This is in compliance with Malaysian Employment Act of 1955.

d. Deductions

Deductions from employee earnings include the employees' mandatory contributions to social security and retirement funds as required by law. Those employees who opt to take advantage of a loan service, provided by MDT, also pay back their installments in the form of payroll deductions.

2.4 Workplace Discipline of Employees

MDT plant has written procedures on employee discipline. These policies are explained to the employees during orientation at the time of hiring. The policy provides that employees receive a verbal warning in case of a violation. Repeated violations receive multiple warnings, and in case of continued disobedience, the employee may be terminated from employment. Workers have the right to file grievances and escalate their successive appeals to the plant director. The factory does not impose any cash fines as a disciplinary measure. Among the interviewed workers, all stated that they were not disciplined during the three months prior to the audit.

2.5 Freedom of Association, Discrimination, and Access to Management

MDT's employment policies and procedures apply equally to all workers regardless of age, sex, religion, ethnicity or any other characteristics. The factory recognizes employees' right to join a lawful organization or association. Workers are promoted on the basis of merit and in accordance with appropriate factory procedures. They are explained to the employees at the initial factory orientation and posted on the notice boards throughout factory facilities.

Interviewed workers were unanimous in their opinion that the factory does not discriminate against any worker concerning promotion or wage increase based on sex, race, religion or ethnicity. In addition, all respondents confirmed that employees were promoted based on merit.

The plant has a system in place for those workers who may wish to make anonymous suggestions or file complaints. Suggestion boxes are available to workers for reporting any policy violations, work-related concerns and suggestions for improvement. Formal complaint procedures are described in the employee handbook as well. In terms of communications, 70% of the workers relied on information provided by line leaders, 90% - on the notice boards, 60% - on co-workers, and 80% - on HR personnel.

2.6 Employee Services

2.6.1. Medical Facilities and Health Care

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

2.6.2. Dormitories and Food Services

The factory does not provide any dormitories and has no food preparation facilities. Employees make their own living arrangements and provide for their own meals. The plant operates a canteen that serves food and where employees can also bring their own food.

2.7 Workplace Operating Environment

MDT has moved into a company owned facility since the last SICCA survey, which was conducted on August 1, 2005. The current facility was built in 1991 and contains approximately 38,000 sq. ft. floor space for administration and production facilities. The primary production processes at MDT are lathing, die-casting, grinding, polishing and assembly.

As part of its audit regime, SICCA's team examined the factory's records and pertinent documents with regard to compliance with applicable laws and good management practices in the areas of environment, health and safety. SICCA's team also undertook a thorough "walk-through" of the physical plant and related facilities. Since the present location is a new one for MDT, any comparison with the old plant is not relevant. Therefore, we have examined current working conditions only as they pertain to the requirements stipulated in the GMP.

The "walk-through" survey found the plant to be in good operating condition. All work areas were clean, free of oil spills and litter. SICCA also noted that, where applicable, employees were using proper personal protective equipment (PPE). The working environment throughout the plant was exceptionally good.

Given below is a list of operating practices that demonstrate management's commitment to creating a safe operating environment in regard to EHS issues. Some exceptions, where appropriate, are also noted.

2.7.1. Plant Specific Conditions

SICCA did not find any discrepancies between plant operations and applicable GMP standards.

2.7.2. Documentation and Records

a. Temperature Recordings

WBGT centigrade measurements were last taken in the afternoon of 3 March 2008 in the heat treatment room, plastics testing area and the die cast testing machine. All readings were below the GMP standard of 30 degrees centigrade WBGT. The outside ambient temperature at the time was 30.07 degrees C.

b. Drinking Water - Production and Canteen

A certified laboratory, NM Laboratory SDN, BHD. is used by MDT to test its drinking water. An extensive analysis of drinking water was completed by the laboratory on 12 March 2008. The analyses showed that the drinking water in both production and in the canteen areas were in full compliance with the DWOS limits except for color as measured on the APHA scale. The color measured 36 against the APHA 2120.B. 1999 standard of 15.

c. Air Quality

A certified laboratory, Biochem Consultancy Services SDN, BHD. is used to measure the amount of total dust in the air in the milling room, polishing area, and the heat treatment location. The tests were conducted on 2 August 2007. The results were 0.03 mg/cubic meter in the milling room, 0.15 mg/cubic meter in the polishing area, and 2.09 mg/cubic meter. All of these measurements are

below the PEL requirements (OSHA, USECHID Regulations) of 10 mg/cubic meter.

d. Noise Survey

A noise level survey was conducted by Biochem Consultancies Services SDN BHD (no date referenced) at 6 different locations in the plant. Results indicated that all areas tested met the 85 TWA dBa GMP requirements except the CNC Room where the TWA measurement was 91.7 dBa. Ear plugs are provided to workers in that room. The noise levels measured in other areas, such as the milling section, assembly debug area, and heat treatment were below the 85 dBA standard. It should be noted, however, these levels were quite high - between 83.2 and 84.3 - approaching the maximum allowable level. MDT's hearing conservation program requires initial audiometric test be conducted for employees working in high noise area within the first 6 months of first exposure. This is consistent with GMP requirements as well as local legal requirements. Subsequently the audiometric tests are conducted annually for the affected employees as per GMP requirements (local requirement required the test to be conducted at frequency of every 1 or 2 years depends on noise level at workplace). The audiometric test results of the subsequent year are compared to the baseline to determine if there has been any standard threshold shift.

e. Certificates

MDT has obtained all required documentation pertaining to the new facility. These include Certificates for Fitness and Inspection issued by Kerajann Malaysia on 15 May 2007 for the plant's air compressor #934806, and hoist certificate #54077 issued on 24 September 2007.

f. Waste Removal

MDT has two licensed waste removal contractors:

- i) Hiap Huat Chemicals Sdn Bhd.
- ii) Tex Cycle Sdn Bhd

The contracts for both agencies are current and active, issued on May 1, 2007 and April 30, 2008 respectively.

g. Fire Fighting Equipment

Fire extinguishers are checked monthly and fire pump and emergency exits are checked weekly and records kept of the inspections.

h. Fire Drills

In all locations where annual turnover is greater than 30%, two drills per shift are conducted every 12 months. Complete fire drill records are maintained.

i. Meter and Gauge Calibrations

Although not required by the GMP, we recommend that all gauges and meters used in critical processes should be calibrated on a regular basis and records kept. SICCA considers it to be a good engineering practice that would also enhance plant and worker safety.

3. OVERALL OBSERVATIONS AND RECOMMENDATIONS

SICCA's overall observations with regard to MDT's practices are generally satisfactory. In terms of plant's physical facilities, upkeep and maintenance, MDT practices generally meet, and even exceed, GMP standards. They suggest a highly efficient mode of operations where worker safety goes hand-in-hand with production efficiency. MDT also has a comparatively good record with regard to payment of wages, calculation of regular and overtime hours, and maintaining a work environment that is free of any type of discrimination.

Corrective Action

1. MDT must cease, with immediate effect, the practice of automatic recording of closing time for all workers. There can be no justification for the current practice.
2. MDT needs to investigate all complaints with regard to pressured overtime. It should reinforce this policy through supervisory level training and frequent announcements to the workers in the plant level management-worker meetings.

IV. Mattel Bangkok Ltd. (MBK)

1. INTRODUCTION

The report details the findings of a field audit of Mattel Bangkok Ltd. (MBK), performed by Sethi International Center for Corporate Accountability (SICCA). The plant is located in the Bangpoo Industrial Estate Export Zone in Samutprakam outside Bangkok. It is a wholly owned Mattel facility and is dedicated to the exclusive production of Hot Wheels™ brand toy cars. The field audit was conducted on April 24 - 25, 2008.⁵

MBK currently employs approximately 1330 workers plus 420 administrative and managerial personnel. The size of the direct labor workforce is relatively stable at 1240 - 1350 workers depending on seasonal production requirements. Almost 93% of the workers are female. Average age of workers is 25 years and the minimum hiring age is 18. The education level of workers is around 9 years of formal schooling. The average length of employment is 5.5 years. For almost 25% of the interviewed employees, this was their first job.

2. AUDIT FINDINGS

2.1 Recruitment and Hiring

All MBK workers are hired through recruitment agencies, for which the fees are paid by the MBK factory. Upon hiring, all workers are given an orientation, which includes an information session on employment terms and conditions,

⁵As a part of Mattel independent monitoring program, SICCA audits of Mattel facilities follow a three-year cycle. This is the fourth such audit of the MBK plant. Previous SICCA audits were conducted in April 1999 May 2002 and April 2005. SICCA's audit reports for MBK and other Mattel owned plants, as well as some of Mattel's largest vendors, are available at both SICCA's and Mattel's web sites: www.ICCA-corporateaccountability.org and www.mattel.com.

workplace safety and discipline, living accommodations, Mattel's GMP and other relevant issues.

Workers are also required to undergo medical examination upon hiring, a fact that was unanimously confirmed by the interviewed workers. Mattel's GMP standards prohibit pregnancy testing because it could be used to discriminate against pregnant females applying for a job. However, 25% of the interviewed female workers indicated that their medical examination at the time of hiring also included pregnancy tests.

a. Probation Period

All newly hired workers undergo a four-month probation period as allowed by law. During the probationary period, employees do not receive bonuses or diligence allowances afforded to regular workers. Payroll audit of workers' records showed that all 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. The contract covers the duration of the contract, working hours, wages and benefits, and other conditions of employment. MBK offers temporary contracts to workers hired for special projects, where the duration of the contract is typically less than one year. Other contracts are open-ended with no termination date as allowed by Thai labor laws. Currently, all workers have open-ended contracts.

c. Personnel Files

Each worker has a personnel record on file. It contains 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 on Mattel's Global Manufacturing Principles (GMP) was provided to all workers via distributed booklets and notice-board postings. Training on GMP standards is also provided to all workers on an annual basis. All interviewed employees confirmed GMP training upon their hire.

2.3 Payroll System and Record Keeping

MBK workers are paid either daily or monthly wages. All workers are hired on a daily pay basis and with additional skills and tenure, are moved to a monthly salary system. Monthly workers occupy high and/or multi-skilled positions. Currently, 30% of the workforce is classified as monthly and 70% are daily workers. There is no difference in normal and overtime compensation rules between the two classifications.

Employees are paid on a bi-weekly basis, seven days after the pay-period. Payments are remitted via bank transfer to workers' bank accounts. Interview data indicated perfect understanding of all pertinent information relating to workers' hours of work, wages, overtime, bonuses, allowances and deductions.

Workers use swipe-cards when they report for work but do not clock out at the end of their workday. Daily shift-end times are entered into the computerized attendance system by the management, and all regular and overtime wages are calculated based on this information. Typically, department supervisors authorize overtime shifts to the entire group of employees, and manage any exceptions on an individual basis.

The practice of not using swipe card for clock out time is inconsistent with GMP standards and is also at odds with good management practice. SICCA has made note of this situation during its previous audit of the plant in 2005. Plant management has offered no justifiable explanation for this practice and has persisted in using it. SICCA believes that continuation of this practice is unwarranted.

a. Working Hours

The workweek is defined as six days, eight hours per day, or 48-hours per week, consistent with the labor laws of Thailand. In practice, however, most factories operate at levels that far exceed government mandated standards.

Overtime at the MBK plant is voluntary. Workers are given sign-up sheets each week in advance, and those who do not wish to work overtime may opt out simply by not signing. Worker interviews confirm that overtime is voluntary, and that workers could reject overtime whenever they choose.

The issue of excessive overtime hours has been a pervasive problem and a continuous challenge in most Asian countries including China. 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 policies⁶.

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

⁶ 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.

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.

MBK’s audited payroll records reveal that weekly work schedules in excess of 60 hours do not exceed 17 per year for any of the audited worker records. Workers also never work more than 13 consecutive days.

b. Wages, Bonuses and Allowances

The minimum wage rate at MBK is 194 Baht per day (~6.50USD) or 5,820 (~195USD) Baht 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 yearly bonuses, which range from 6 to 53 days of pay, based on performance and seniority. Other bonuses include quota achievement, special skills; night shift workers are given special allowances. Bonuses and allowances average around 2250 Baht. The average take-home pay for MBK workers is around 11,200 Baht (375USD) per month, for combined regular and overtime work hours, and inclusive of any bonuses and allowances as well as all taxes government fees and factory canteen expenses.

c. Wages for Overtime Work

All direct labor workers at MBK receive, at minimum, normal pay for their first 40 hours per week and overtime wages at 1.5 times their regular rates. Rest days are compensated at double the regular rate, while public holiday work pays

2.75 times the regular rate. SICCA audit confirmed that all overtime categories were properly compensated without exception.

d. Benefits

MBK pays all legally mandated social insurance, workmen's compensation and provident fund benefits on behalf of all workers. The factory provides one week of paid annual leave to all workers upon completion of one year of service. The plant has a policy of paying maternity benefits for 45 days. Pregnant employees are entitled to 90 days leave, and the government pays for the remaining 45 days' wages. MBK, through the workers' union also facilitates emergency loans to those workers who show need. These loans are co-managed by the plant to assure that monthly payments stay within the workers' means to pay back their debt in a timely fashion, without overdue burden.

e. Deductions

At MBK all deductions from wages are fully compliant with legal requirements and GMP standards. The plant charges 192 Baht for a 360 Baht electronic coupon-book each month for purchasing food in the company canteen. Other deductions from employee earnings include the employees' mandatory contributions to social security and retirement funds as required by law. Employees, who opt to take advantage of a loan service, also pay back their installments in the form of payroll deductions.

2.4 Workplace Discipline of Employees

MBK plant has written procedures on employee discipline. These policies are explained to the employees during orientation at the time of hiring. They are also included in the employee handbook. Weekly tea-talks, union meetings and the bulletin boards serve as additional venues to disseminate workplace rules and regulations. The policy provides that employees receive a verbal warning in case of a violation. Repeated violations receive multiple warnings, and in case of continued disobedience, the employee may be terminated from employment.

The factory does not impose any cash fines as a disciplinary measure. Among the interviewed workers, all stated that they were not disciplined during the three months prior to the audit.

2.5 Freedom of Association, Discrimination, and Access to Management

MBK workers are represented by a union. Participation is voluntary and available to all workers. Those who choose to join the union and pay dues, enjoy additional union benefits such as emergency loans, and other discounted services. MBK'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. Also, all respondents confirmed that employees were promoted based on merit.

Suggestion boxes are available to workers for reporting any policy violations, work-related concerns and suggestions for improvement. MBK management also conducts semi-annual meetings with the employees to discuss any work-related issues.

2.6 Protection from Harassment and Employee Treatment

Interviews with factory workers indicated that MBK 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 good clinic with five beds, staffed by a doctor and a State Enrolled Nurse (RN). The majority of injuries and sicknesses are burns, cuts, and respiratory problems. There is no charge for the medical services or medicines provided to workers. Employees are given annual health examinations free of charge.

There is a health promotion program and pandemic flu team in existence at MBK. Programs' primary focus is on fitness, infections, transmitted diseases, Asian flu, and bird flu.

2.7.2. Dormitories and Food Services

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

MBK subsidizes 47% of the cost of the meals. The remaining cost is deducted from the employee's pay. In addition, workers may purchase other food items from any of the five shops selling a variety of food products. The factory kitchen and canteen can serve three meals a day to all workers. Employees have a choice of eating in the canteen and most take two meals each day. When overtime is involved, the company provides a third meal. The kitchen and canteen are well lit and clean. The floors, when surveyed, were not slippery. All food storage and waste handling is properly handled. All food handlers are required to have an annual physical check-up.

2.8 Workplace Operating Environment

The MBK plant consists of 11 production buildings, warehouse, chemicals store, main office, and a transformer house. Plant facilities are housed on a 33,350 square-meter site, with 24,787 square-meters of building areas. The primary production processes at MBK are die-casting, plastic injection molding, painting, and assembly & packing.

As part of its audit program, SICCA's team examined factory's records and pertinent documents with regard to compliance with applicable laws and good management practices in the area of environment, health and safety. SICCA's team also undertook a thorough "walk-through" of the physical plant and related facilities. The 'walk-through' survey found the plant to be in excellent operating condition. All work areas were clean and free of oil spills and litter. SICCA also noted where applicable, employees were using proper personal protection (PPE). The plant is also properly posted with the applicable PPE signs. Overall, the working environment throughout the plant is exceptionally good.

It was observed that the company is making a major effort to reduce plant temperatures and increase air circulation. The plant is being modified by changing the configuration of ceilings, walls and location of plant functions and other heat reduction technologies such as air curtains at certain workstations. It is expected that when all the construction work is completed this year the WBGT centigrade temperatures will be decreased by 3 to 5 degrees C.

The company has installed large electric, ambient temperature reading devices in several work places. When the ambient temperatures reaches 38 degrees C (100.4 F), as shown on the units, work is stopped and employees are allowed to rest and refresh themselves with cold liquids and face washing.

2.8.1 Plant Specific Conditions

In the 'walk-through', it was noted that a second water treatment plant has been dedicated to the tumbling operation since the SICCA visit in 2005. The original water treatment plant was used for both the plating and tumbling operations. It is interesting to note that the design of the new facility allows MBK, in case of a pump failure, to divert wastewater from system # 2 (new one) to system # 1 (old one). In case of a major disruption a large storage cistern is available to hold the untreated wastewater until the systems are repaired. It is a very good design that allows MBK to pre-treat waste water before sending it to municipal water treatment plant. The factory pays for this service on a per cubic

liter basis. It was also noted that the plant's power station is in excellent condition, fenced and with proper warning signs.

2.8.2. Documentation and Records

A. Temperature Recordings

WGBT centigrade measurements were taken in January, February, March and April 2008 at seven (7) locations through out the factory. All reading taken in January and February meet the GMP requirement of 30 WGBT C degrees except the January reading in the assembly area, which had a temperature reading of 30.4. The March readings show the WGBT temperatures to be excessive in die cast (31.6), vum (30.6), and assembly (31.3). The April readings show all seven (7) locations exceeded the standard with the highest temperatures being in tampo (32.0) and assembly (32.4).

B. Noise Survey

A noise level survey was conducted by TET (third party) on 27 February 2008 at nine (9) locations through out the plant. The noise level measured in dBA for a TWA 8 hours exceeded the GMP standard of 85.0 dBA in die cast (86.5), wet tumbling (88.0) and Ransburg (86.0). Earplugs were provided to employees in these three areas plus in electroplating and barbell areas where the noise levels were 84.5 and 84.2 respectively. MBK has a hearing conservation program which included baseline audiometric testing and periodic reassessment for those employees that are assigned to a area of the plant designated by the noise survey as requiring PPE.

C. Waste Water Discharge

The wastewater is tested monthly before its discharge. It is tested for twenty-six (26) properties including pH, temperature, color, BOD, COD, SS, TDS, TKN, oil & grease, and various elements and chemicals. The tests (laboratory unknown) results indicate that the wastewater's composition meet all GMP standard requirements.

D. Drinking Water

The drinking water (portable) was fully tested on 14 January 2008 (laboratory unknown). It is tested for twenty-eight (28) properties including pH, color, turbidity, TDS, hardness; total coli form bacteria, E-Coli, and various elements and chemicals. The test results indicate that the drinking water meets all GMP standard requirements.

E. Air Emissions

Air emissions are measured at eight (8) locations through out the plant on a cyclical basis - one location per month. Four (4) location sites have been tested for air emissions between 14 January and 10 April 2008 (laboratory unknown). The air is tested for various chemical compounds and elements depending on the location. Tests to date indicate that the air emissions from PIM regrind, plating, D/C melt, and Segher all meet the standard requirements set forth in the GMP.

F. Meter and Gauge Calibrations

Although not required by the GMP, we suggest that both gauges and meters that are used in critical processes should be calibrated on a regular basis and records kept. SICCA considers it to be good engineering practice and would enhance plant and workers safety.

G. Indoor Air

Indoor air quality is measured at nine (9) locations through out the plant. Six (6) location sites have been tested for indoor air quality between 14 January and 10 April 2008 (laboratory unknown). The air is tested for various chemical compounds and elements depending on the location. Tests to date indicate that the indoor air quality at zinc melting, trimming, molding, regrind, VUM base coat, and welding all meet the requirements set forth in the GMP standard requirements.

H. Fire Alarm and Carbon Dioxide Systems

The two systems were inspected by Pitchaya Pacific Co., Ltd., on 28 March 2008 and found to be in good working order.

I. Fire Pump House

An inspection service was conducted by SIHI Pump (Thailand) Ltd. on 18 March 2008. The SPP pump and Cummings driver were serviced as needed and approved for use.

J. Fire Fighting and Fire Drills

The plant is in full compliance with all fire fighting regulations including proper fire fighting equipment. Fire drills are conducted annually. In areas where employee turnover exceeds 30 percent two fire drills per shift are conducted every 12 months. Complete fire drill records are maintained and available for inspection.

K. Waste Removal

MBK contracts with three licensed waste removal companies to recycle and or dispose of solid and hazardous wastes. These are Better World Green Public Company Ltd, En-Technology Consultants Co., Ltd., and Recycle Engineering Co., Ltd.

L. Permits

Electric hoist operators are licensed by governmental authorities.

3. OVERALL OBSERVATIONS AND RECOMMENDATIONS

SICCA's overall observations are quite positive with regard to worker treatment, working conditions, and maintenance of the plant facilities. In SICCA's view, and with exceptions noted below and elsewhere in the report, MBK's overall performance generally meets the GMP standards and in some cases exceeds those standards. All interviewed workers expressed similar sentiments about their employment at MBK. As part of our interview process, we asked all workers:

- (c) about their level of satisfaction with MBK as an employer; and,
- (d) whether they would recommend MBK to their friends and family members as a place of employment.

Among the interviewed workers, ninety percent expressed a positive general opinion about their work life. They also stated that they would recommend their friends and relatives to work at MBK.

In addition to the job-related training, workers at MBK can participate in computer classes, negotiation training, and safety programs. Social programs available to workers include child development seminars, environmental conservation, and corporate governance and social responsibility lectures. Workers can also join training programs addressing AIDS awareness, bird flu / pandemics, ergonomics, and pregnancy preparation.

MBK's community outreach programs are also quite extensive and include contributions to local schools, providing scholarships, internships, as well as tsunami-fund relief participation and anti-drug campaign engagements.

Corrective Action

Specific corrective actions with regard to plant's physical facilities and operating conditions have been noted in detail in the text of this report and summarized below:

1. MBK must cease, with immediate effect, the practice of automatic recording of closing time for all workers. There can be no justification for the current practice.
2. MBK should investigate worker complaints with regard to pregnancy tests of prospective female employees at the time of hiring. Human Resources department should make this policy known to all new hires during orientation and encourage anonymous reports of violation to the management.