

**MATTEL INDEPENDENT MONITORING COUNCIL FOR
GLOBAL MANUFACTURING PRINCIPLES**

AUDIT REPORT 1999

FOR MABAMEX S.A. DE V.C., TIJUANA, MEXICO

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EXECUTIVE SUMMARY

The Mabamex plant is located in Tijuana Baja district, Mexico. The plant is 100% owned by Mattel and is dedicated to the production of Barbie dolls and the Fisher Price line. It has an installed capacity of 10,000,000 toys per year. This report is based on the field inspection of the Mabamex plant that was conducted by the MIMCO team on August 2-6, 1999. The plant was moved to its current location in April 1999. At the time of the MIMCO audit, it was still going through the problems of “settling in” that are inevitable when a large number of heavy machines and other equipment are involved.

Mabamex currently employs approximately 2,150 direct-labor workers during peak production periods. Worker turnover is highly influenced by seasonal patterns of production. Approximately half of the Mabamex workforce is female (51%). Analysis of the company payroll data and responses from a randomly selected representative group of workers indicated that almost 66% of the workers are under 30 years of age, and 14% of the workers are between 16-17 years old. There are no workers under 16 years of age.

Working Hours, Wages, And Overtime Pay: The Mabamex plant meets all the regulations of the Mexican government as well as GMP standards with regard to the determination of normal and overtime hours and payment of wages for regular and overtime hours. All overtime is voluntary and no worker is forced to work overtime involuntarily. At Mabamex, the minimum wage a worker gets is higher than the minimum wage specified in the

Mexican labor law. Mabamex offers a number of incentive bonuses to increase the attendance rates of its employees. Of the workers interviewed by the MIMCO team, 62% reported earning some type of “good attendance record” bonus.

Attitude toward Management: An overwhelming majority of workers (86%) expressed satisfaction toward all levels of plant management. 75% of the interviewed workers also felt that the line leaders were helpful to workers. There were, however, small pockets of dissatisfaction among workers. An unusually high percentage (43%) of the interviewed workers indicated that they were afraid to report incidents of harassment or injury. Mabamex management realizes that given the size of the workforce and high turnover rates, there will be occasional lapses in the quality of first-line supervision. Therefore, the plant management has instituted a permanent training program for supervisors and line leaders in order to improve their skill level in managing people.

Work Environment of Manufacturing Operations and Related Facilities: Mabamex is a well-maintained, clean and completely air-conditioned facility. The entire plant is protected against fire by smoke detectors, alarms and a sprinkler system. There is sufficient emphasis on fire drills and fire prevention exercises. The plant facility has moved to its current location only four months prior to the MIMCO team’s visit. Consequently, there were a few construction projects left to be completed. Among these were: installation of a new lighting system, reconstruction of the floor, and the completion of the HVAC (Heating, Ventilation and Air-conditioning) system. Of the interviewed workers, 45% reported that the plant was not adequately ventilated and 43% indicated that the noise and air temperature levels in the plant caused discomfort while working. 24% of the workers interviewed by the MIMCO team stated that they were exposed to safety hazards. Some of the interviewed workers also reported that

during peak production periods, ventilation was not adequate for the increasing number of workers.

Subsequent face-to-face meetings with the plant management, and a review of company records in January 2000, indicated that most of these projects have since been completed. Therefore, the problems associated with noise, inadequate ventilation, heat, and oil spills have been largely eliminated.

Freedom of Association and Access to Management: The Mabamex management has a structured system of worker consultation and access to management. There are regular and frequent meetings between operators and line supervisors, and between various levels of management. Suggestion boxes are placed as one means of providing channels of communication. Of the interviewed workers, 52% stated that they attended at least one meeting in the last 12 months with the plant's senior management. Workers also reported daily meetings with line leaders mainly on production issues. Among the interviewed workers, 92% stated that they could freely talk to their supervisors.

Workers at the Mabamex plant are not represented by a union. Of the interviewed workers, 90% reported that they did not know of any worker against whom action was taken for involvement in a union-related activity. However, 8% stated that some workers were fired for union activity. In response, management indicated that Mabamex respects the rights of workers to form any type of association as long as they are in compliance with plant policies and government regulations.

Overall Observations and General Recommendations: We commend the management of the Mabamex plant for maintaining an excellent overall work environment both as to physical facilities and treatment of workers. While MIMCO noted some localized problems of noise

level, inadequate ventilation, and oily floors, these have been successfully resolved and this fact has been confirmed through communications and meetings between MIMCO and plant management.

MIMCO team was pleased with the relationship between the plant management and all levels of workers and the personal interest of the top management in creating open access for workers and making itself available to workers. Mabamex management has also itself to be open to suggestions to review existing policies and improve on current programs to make the plant a more productive facility and a safe and friendly place for all of its employees.

MABAMEX – MEXICO

I. INTRODUCTION

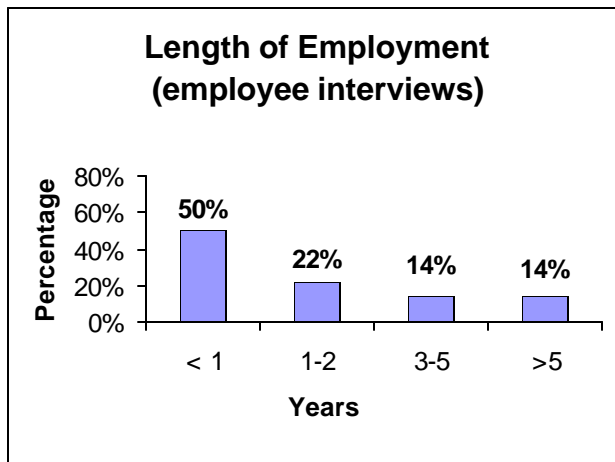
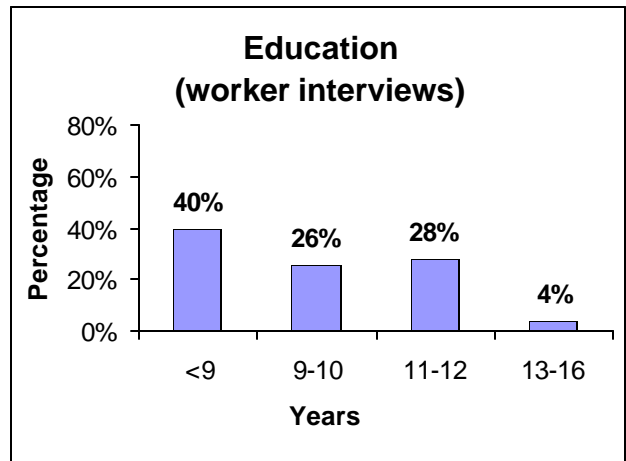
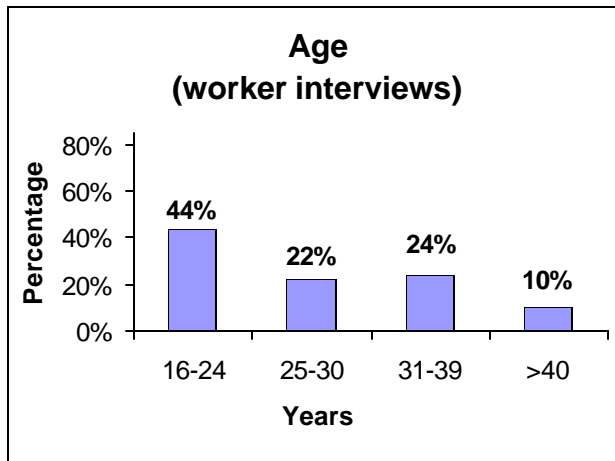
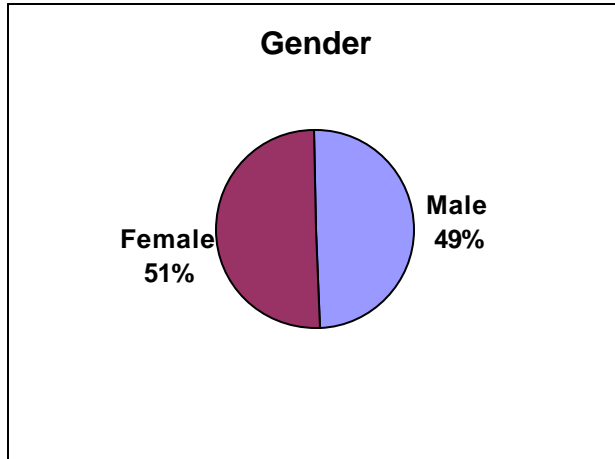
This report is based on the field inspection of the Mabamex plant that was conducted by the MIMCO team on August 2-6, 1999. The Mabamex plant, which has been moved into a new complex in April 1999, is located in Tijuana Baja district, Mexico. The plant is 100% owned by Mattel and is dedicated to the production of Barbie dolls and the Fisher Price line. It has an installed capacity of 10,000,000 toys per year.

II. MABAMEX - WORKER PROFILE, 1999

Mabamex currently employs approximately 2,150 direct-labor workers during peak production periods. Worker turnover is highly influenced by seasonal patterns of production. Approximately half of the Mabamex workforce is female (51%).

Analysis of the company payroll data and responses from a randomly selected representative group of workers indicated that almost 66% of the workers are under 30 years of age, and 14% of the workers are between 16-17 years old. There are no workers under 16 years of age. Among the interviewed workers, 60% had 9 or more years of schooling. Half of the workers have been employed at the Mabamex plant for less than a year while for 61% of the interviewed workers, Mabamex plant was their first work experience (Exhibit 1).

Exhibit 1: Workforce Demographics



III. PATTERNS OF RECRUITMENT AND INITIAL HIRING EXPERIENCE

A majority of the workers at the plant got their jobs by "walking in" to the plant's recruitment office (55%) or through referrals by their friends (24%). Almost all of the workers interviewed by MIMCO indicated receiving a signed employment contract at the time of hiring. Similarly, workers indicated that they did not pay any fee to the company to secure employment at the company.

III.1 Permanent vs. Temporary Workers

The plant has a small core group of workers with no contract termination date. All other workers receive 3-month renewable contracts and remain on the job depending on the plant's production needs. Any vacancies among the core group are filled from the ranks of short-term contract workers. Workers are laid off and rehired according to their seniority defined as total time employed at the plant. All these employees preserve their seniority and benefits when they return to work.

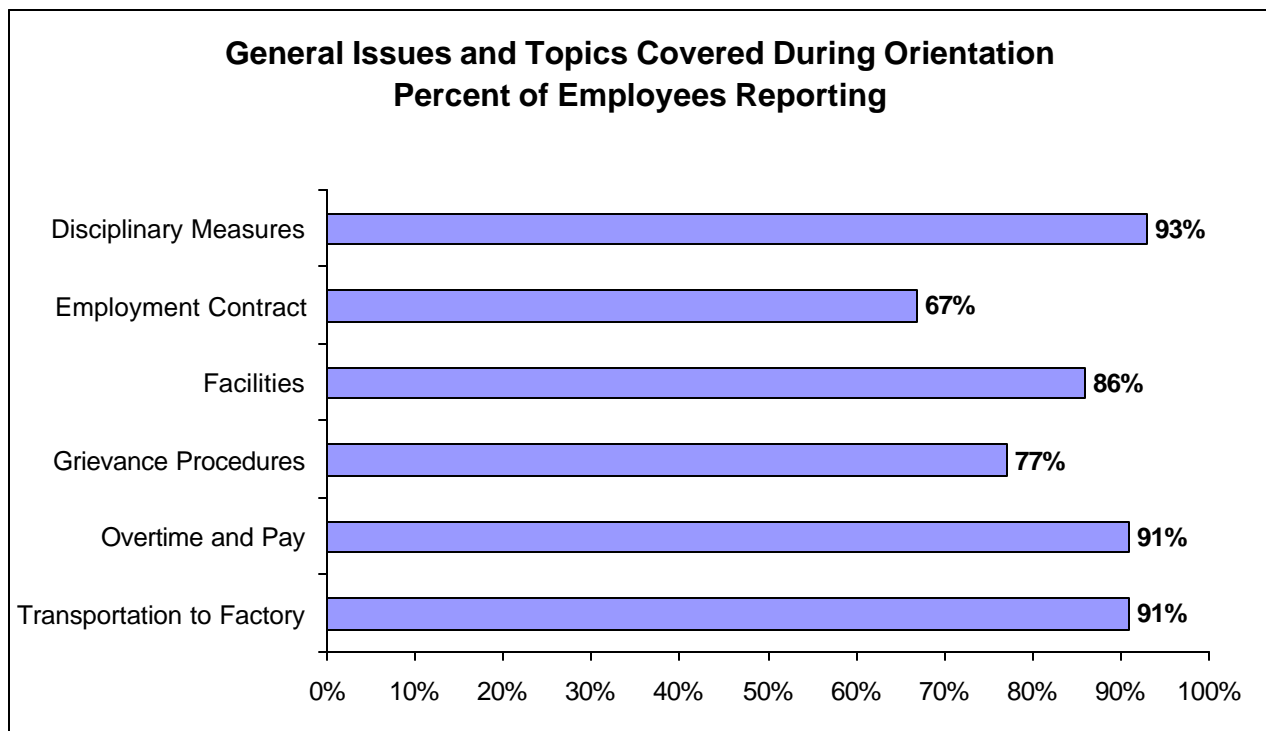
Mabamex is planning to increase the size of the core group somewhat by transferring workers who are currently on temporary status. There are no substantial differences in benefits provided to permanent and temporary workers. According to the Mexican labor law, only permanent workers are entitled to severance pay.

III.2. Orientation, Initial Job-Related Training and Probationary Period

Mabamex plant provides all new-hires with a booklet in Spanish describing various aspects of the plant, its operating procedures, and company history. It also discusses conditions of work, wages, benefits and compensation, internal regulations, safety and services at the plant.

83% of the interviewed workers stated that they went through a general company orientation covering a broad spectrum of issues pertaining to their working conditions at the Mabamex facility (Exhibit 2). All new hires are furnished with written copies of an employment agreement during orientation. This document provides specific details particular to each employee, e.g., job title, commencement date, working hours, overtime and basic wage policies, and paid holidays.

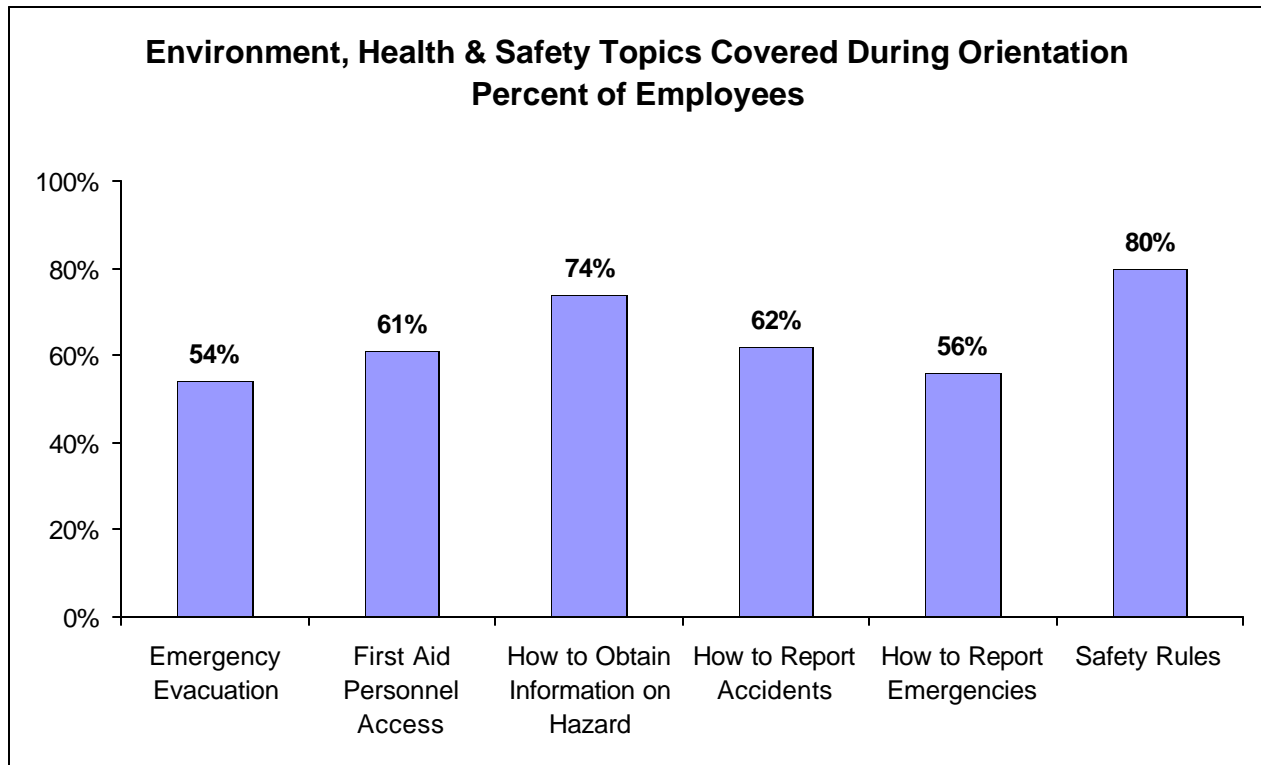
Exhibit 2: Orientation Profile - General Issues



A large majority (63%) of the workers interviewed by MIMCO reported that they were given an environment, health and safety (EHS) orientation at the time of hiring while the remaining 37% indicated that they did not go through any EHS training during orientation. Structured interviews with workers showed that the EHS orientation covered only the safety rules in general and many workers lacked training on issues including, emergency evacuation, first aid personnel access, and how to report emergencies and accidents (Exhibit 3). When asked

about their suggestions to improve the safety training at the plant, some of the interviewed workers reported that more frequent and continuous safety training was needed.

Exhibit 3: Orientation Profile - Safety Issues



III.3. Medical Examinations

The plant operates an on-site infirmary staffed by one nurse to cover all shifts and one doctor to cover the morning and the afternoon shifts. There is also transportation available at all times to transfer injured employees to the local hospital if needed. At Mabamex, all new hires must undergo a general medical check-up which is provided free-of-charge at the plant site. Among the interviewed workers, 92% stated that they received a medical check-up at the time of their hiring.

III.4. Pre-Job and On-the-Job Training

At Mabamex, a majority (57%) of the interviewed workers “drawn from all three shifts” reported receiving job-related training prior to starting on their assigned jobs. Depending on particular tasks, the training period ranged from less than one-day to more than one-month. Additionally, during the first day of work, all workers are given job-related orientation covering work and safety regulations, work instructions and quality procedures.

IV. AWARENESS OF THE GMP

The Mabamex plant management is taking the necessary steps to make all workers familiar with GMP and to incorporate GMP in employee orientation and training programs. The company has produced a Spanish version of GMP and has distributed it to workers. Most of the interviewed workers indicated that they received copies of the GMP (Spanish version) about a week before the MIMCO team’s visit to the plant. Information about GMP was disseminated to workers through orientation meetings and by posting bulletin boards at various plant sites. When asked, 67% of the interviewed workers acknowledged being familiar with the GMP.

V. WORKING HOURS, WAGES, AND OVERTIME PAY

Mexican labor law states that a normal workweek shall not exceed 48 hours per week in day shifts, 42 hours per week in night shifts and 45 hours per week in combination of day and night shifts. The Mexican labor law does not establish a maximum number of overtime hours in a day or week. In Mexico, the National Minimum Wage Commission determines minimum daily wage rates. All employers must follow the government’s mandated wage rate. Government regulations with regard to overtime rates are as follows: (a) up to nine overtime

hours in a week, each hour of overtime at 2.0x 1.0 hour wage; and, (b) in excess of nine hours in a week, at 3.0x 1.0 hour wage.

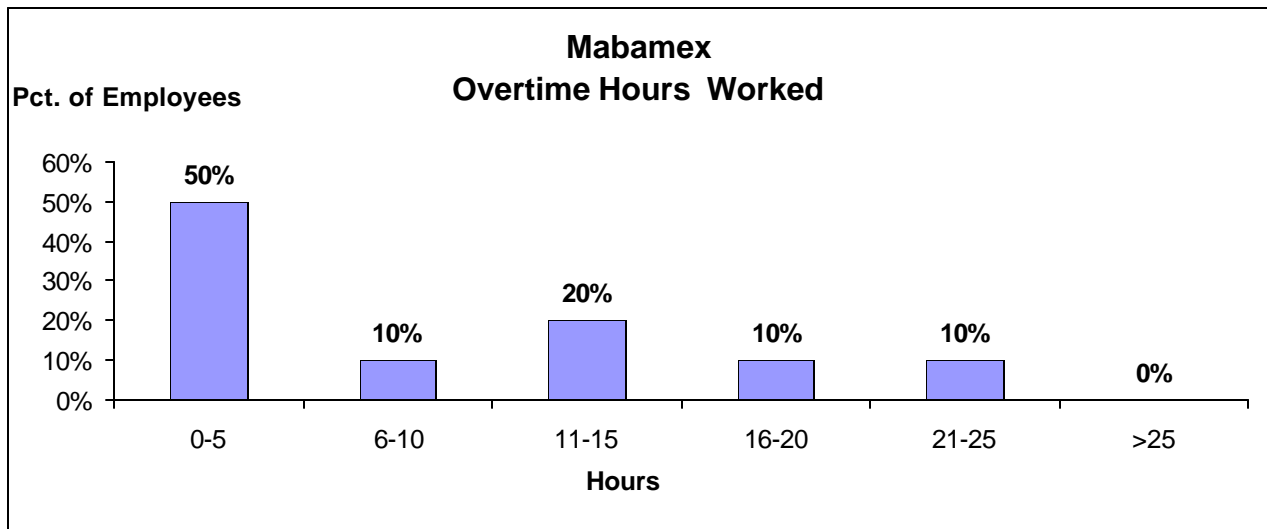
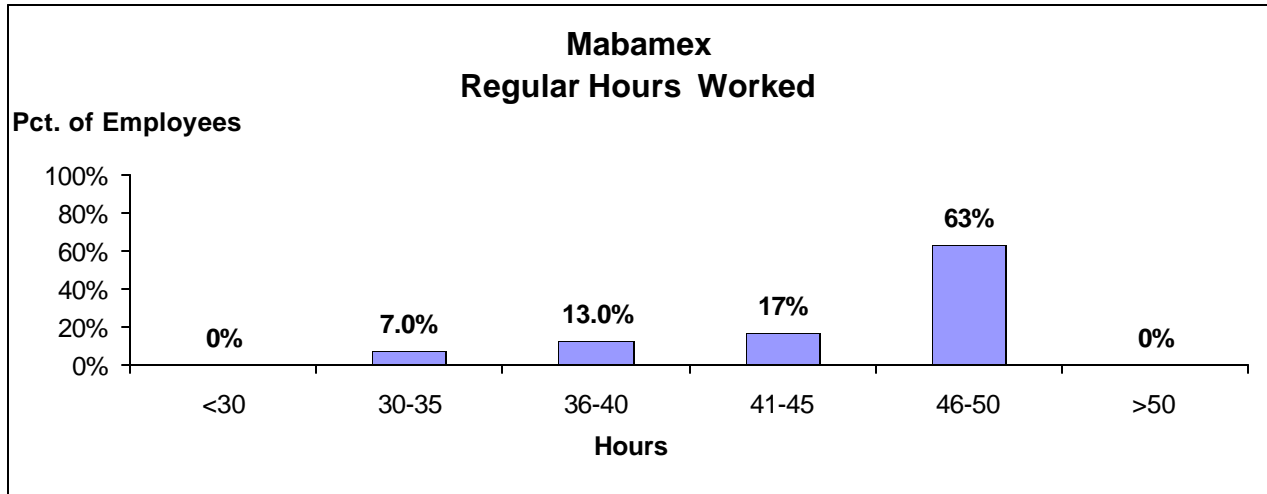
According to the management compliance report, the Mabamex plant meets all the regulations of the Mexican government as well as GMP standards with regard to the determination of normal and overtime hours and payment of wages for regular and overtime hours. The plant management also indicated that all overtime is voluntary and that no worker is forced to work overtime involuntarily. At Mabamex, the minimum wage a worker gets is higher than the minimum wage specified in the Mexican labor law.

Our analysis of the worker payroll data for the randomly selected representative group of workers was conducted over two time periods, i.e., February 1999 and June 1999 consisting of one week each. This was designed to capture any variations that might exist in the regular and overtime working hours during off-peak and peak production periods. Exhibit 4 provides the combined data of the two time periods for regular and overtime work performed by the randomly selected group of workers. Our analysis of the payroll data indicated that the Mabamex plant was in complete compliance with the Mexican law and the GMP standards. This was true both for regular and overtime hours worked. The payroll records were complete, current, and understandable.

Mabamex plant uses a punch-card system to record the time employees' report to work. Interviewed workers unanimously confirmed that they regularly punched their own cards. There were, however, some areas of concern. For example, 6% of the interviewed workers reported that somebody else punches their time cards in their absence. Another, 19% stated that they sometimes worked when their time cards were not punched. Some workers reported that they were pressured to work overtime when they were sick (13%) and on their off-days and holidays

(10%). 28% of the interviewed workers indicated that they have to work overtime when the production quotas are not met.

Exhibit 4: Regular and Overtime Hours Worked Per Month



V.1. Performance Bonuses

Mabamex offers a number of incentive bonuses to increase the attendance rates of its employees. The plant provides weekly punctuality, attendance and food bonuses. Of the

workers interviewed by the MIMCO team, 62% reported earning some type of “good attendance record” bonus.

V.2. Employee Benefits

The plant also provides vacation days, annual and maternity leaves in compliance with the Mexican labor law and GMP.

V.3. Transportation

The Mabamex plant provides its workers with free transportation from their residences to the factory. This covers all shifts, including overtime work on off-days and holidays. When asked, workers unanimously stated that they used company transportation from their residences to the factory. Among the interviewed workers, 89% of the workers reported that the transportation was free while another 11% reported that they had to pay for their transportation. This happens when an employee chooses not to use the company-provided transportation.

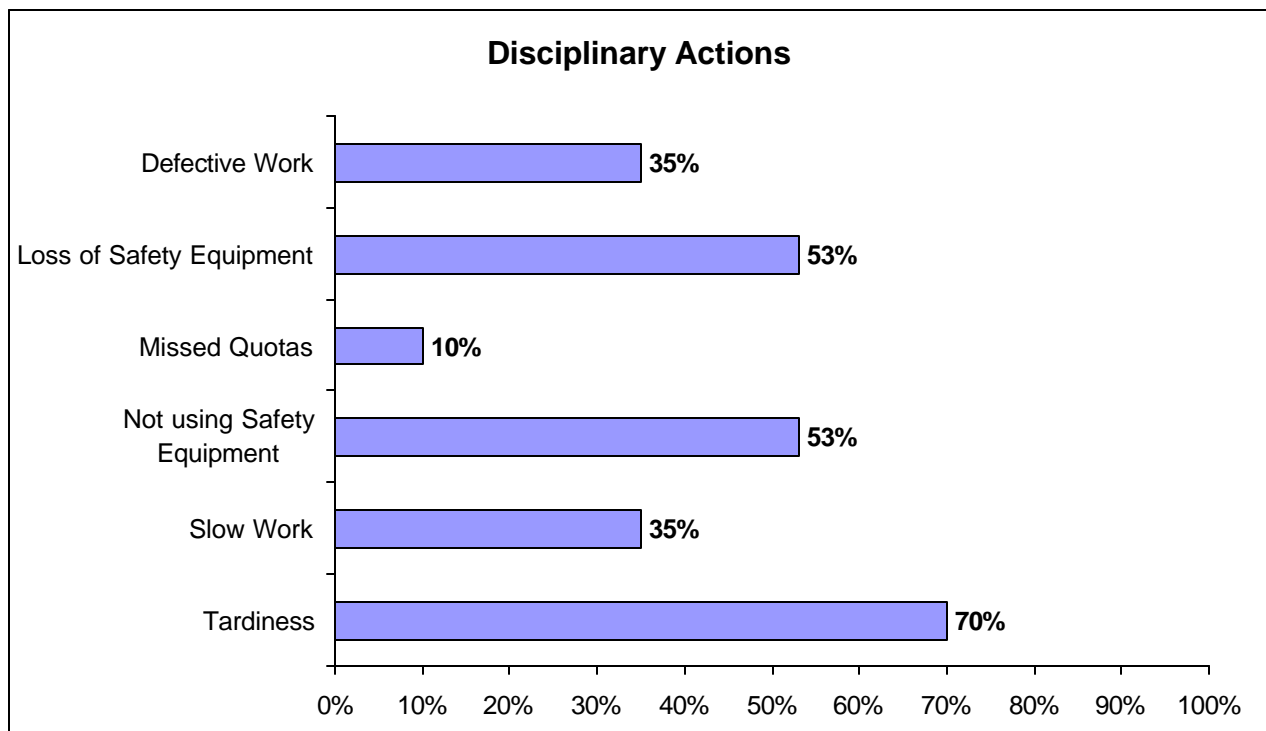
V.4. Understanding the Pay-Stubs

At Mabamex, all workers receive individual pay-stubs for each pay-period. This document states the number of hours worked in terms of regular hours, normal and off-day/holiday overtime hours, and wages received for each type of work in terms of multiple of the regular hourly rate. In one-on-one confidential interviews conducted by the MIMCO team, 93% of the workers stated that they found their pay-stubs to be accurate, simple, and understandable with regard to the calculation of base wage and the number of regular and overtime hours worked.

VI. WORKPLACE DISCIPLINE OF EMPLOYEES

Mabamex plant maintains records of all disciplinary actions and formal warnings in the employees' personnel files. Mabamex also plans to issue a report analyzing data for disciplinary actions on plant-wide basis. Analysis of worker-interview data indicated that failure to use safety equipment, tardiness, and loss of safety equipment were the major reasons for disciplinary actions (Exhibit 5). The most common disciplinary measures were verbal and written warnings in these cases. By a large majority (88%), interviewed workers felt that the reasons for disciplinary action and the penalty imposed were generally fair and proper.

**Exhibit 5: Reasons for Employee Disciplinary Actions
Percent of Workers Reporting**



VII. ATTITUDE TOWARD MANAGEMENT

An overwhelming majority of workers (86%) expressed satisfaction toward all levels of plant management. 75% of the interviewed workers also felt that the line leaders were helpful to workers.

There were, however, small pockets of dissatisfaction among workers. The primary source of unhappiness pertained to incidents, albeit infrequent, of verbal abuse by line supervisors especially when it is meted out in public and in the presence of co-workers. 18% of the workers interviewed by MIMCO stated that either they or another worker had been demeaned or verbally abused by a co-worker or a supervisor. An unusually high percentage (43%) of the interviewed workers indicated that they were afraid to report incidents of harassment or injury.

Mabamex management realizes that given the size of the workforce and high turnover rates, there will be occasional lapses in the quality of first-line supervision. Therefore, the plant management has instituted a permanent training program for supervisors and line leaders in order to improve their skill level in managing people.

VIII. WORK ENVIRONMENT OF MANUFACTURING OPERATIONS

AND RELATED FACILITIES

Mabamex is a well-maintained, clean and completely air-conditioned facility. The entire plant is protected against fire by smoke detectors, alarms and a sprinkler system. There is sufficient emphasis on fire drills and fire prevention exercises. The plant facility has moved to its current location only four months prior to the MIMCO team's visit. Consequently, there are

still a few construction projects left to be completed. These include: installation of a new lighting system and reconstruction of the floor, which had deteriorated badly.

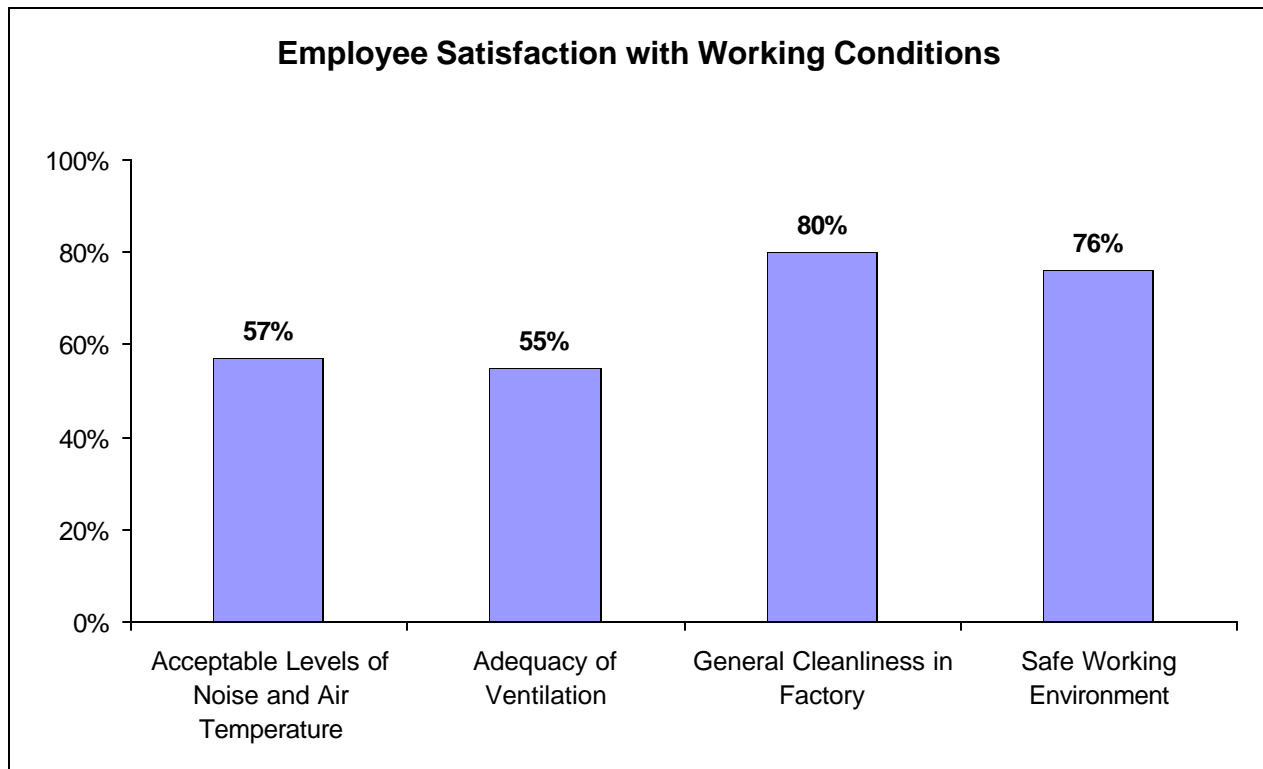
The plant's shortcomings with regard to physical environment, and worker health and safety, are in the areas of oil leakage from the machinery, excessive noise, and inadequate ventilation. Most of these problems are in isolated locations and not endemic to the entire facility. A walk-thorough inspection of the facility by the MIMCO team indicated the existence of oil spills on the floor causing safety and cleanliness problems. A number of older molding machines were leaking excessive amounts of oil posing a serious risk of injury. The MIMCO team observed that at one machine, workers had placed a cardboard sheet on the floor to avoid slipping while crossing the floor.

Another area of concern was the noise level which was found in some areas to be in excess of Mattel's GMP standards in the vicinity of the sonic welding operations. Almost all workers were observed to be wearing ear protection on the plant floor. In a few instances, painting fumes did not appear to be adequately ventilated, although the problem was somewhat ameliorated by the use of water-based paint.

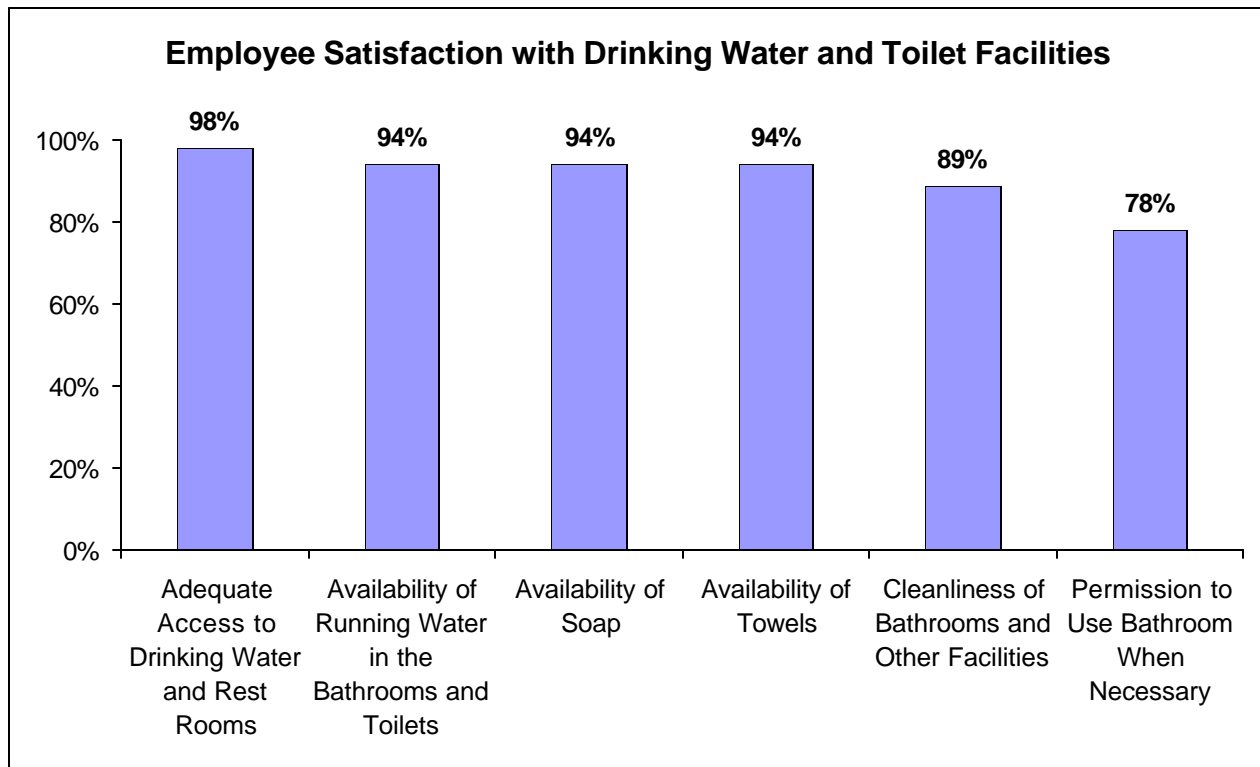
Of the interviewed workers, 45% reported that the plant was not adequately ventilated and 43% indicated that the noise and air temperature levels in the plant caused discomfort while working. 24% of the workers interviewed by the MIMCO team stated that they were exposed to safety hazards (Exhibit 6). Some of the interviewed workers also reported that during peak production periods, ventilation was not adequate for the increasing number of workers. Other work hazards described by the workers were: the fast moving lifters in the production area and heavy machinery with a risk of falling on workers.

In response, the plant management indicated that it was cognizant of these problems. They were the by-product of activities related to plant-relocation described in the first part of this report. The management reported that the problem with regard to oil spills, etc. has been largely eliminated with the completion of machine repairs and replacement of old machines. It also maintains that noise levels in sonic welding and grinding areas are within permissible limits. The plant requires that all employees working in the affected areas must wear ear protection devices – a fact confirmed by the workers during MIMCO interviews. Management also maintained that at the time of MIMCO audit, HVAC (Heating, Ventilation and Air-conditioning) equipment was not yet fully installed causing occasional problem of poor ventilation. This problem has since been solved with the completion of the HVAC installation.

The use of all-purpose utility knives to trim the mold marks was identified as a work hazard by management, workers, and the MIMCO team. To protect workers, plant management requires that all workers using the utility knives wear protective gloves. Management is also studying the replacement of the utility knives with specialized trimming tools designed to eliminate such injuries. These efforts are to be commended. However, MIMCO's experts in the audit team feels these efforts to be at best short-term approaches and consider that replacement of these knives is the only viable long-term solution.

Exhibit 6: Employee Satisfaction - Working Conditions**VIII.1. Drinking Water and Personal Hygiene Facilities**

Workers, in general, expressed satisfaction with plant facilities pertaining to general hygiene conditions, bathroom and toilets, and availability of drinking water (Exhibit 7). However, a minority of workers (22%) indicated that they were not allowed to use the bathrooms and other facilities whenever necessary. Bottled drinking water was evident throughout the plant. In responses, the management indicated that at the time of MIMCO audit, some bathrooms had not yet been fully built and their use was, therefore, restricted. However, the construction of bathrooms has now been completed and their capacity meets and exceeds local legal as well as GMP standards. In addition, management also created a better distribution of workers among the three shifts and thereby further improved the capacity of bathrooms and eating areas.

Exhibit 7: Personal Hygiene Factors**VIII.2. Use of Safety Equipment**

At the time of the MIMCO team's visit to the plant, the position of director of Environment Health and Safety was vacant. However, other staff members appeared to have been handling the supervision of these activities in a satisfactory manner. A majority of the interviewed workers (92%) reported that they were provided with safety equipment. Workers were almost unanimous in stating that they used their safety equipment "regularly" and that their co-workers also used their safety equipment regularly. An inconsistency in the overall emphasis on safety was noted in that 63% of the interviewed workers indicated that they were trained on the safe operation of their machines they are using while the remaining 37% reported not receiving any such training.

Each workstation on the assembly line clearly posts what safety devices are required to work on the line. A common source of injury in the plant is female workers' wearing shoes with elevated heels. Workers have recently been provided with small personal lockers in which they can keep their own safe shoes which should alleviate the problem.

VIII.3. Sports and Recreation Facilities

According to the Management Compliance Report, Mabamex provides facilities for sports and recreational activities. The plant organizes volleyball, basketball, soccer and softball tournaments. The management also organizes special occasions such as weekly birthday celebrations and annual children and mothers days to increase the motivation of employees. At the time of the MIMCO team's visit, the playing fields had not been completed.

VIII.4. Food and Lunch Facilities

Mabamex provides a 20-minute breakfast break and a 30-minute lunch break for all workers. The cafeteria which is operated by a third-party vendor is clean and well equipped. The kitchen area is also clean and well organized. The eating area is a cheerful hall with large windows and television sets placed throughout the area. Mabamex plant subsidizes the cost of lunch in the cafeteria. Workers pay a nominal fee for their meal. The quality and amount of food, as well as the cafeteria's hygienic conditions of the food are regularly monitored by the plant. In addition to the cafeteria, workers can also buy their food from an outside food vendor whose facility is located inside the cafeteria.

Almost all of the workers stated that they had their lunch in the company cafeteria. The lunch break is of 30-minute duration. When asked, 60% of the workers indicated that the length

of the lunch break was sufficient. Some workers reported that the cafeteria was far from their work areas and it took them almost 15 minutes to get to the cafeteria before starting their lunch. A significant minority of the interviewed workers (44%) indicated that they were not satisfied with the quantity, quality and variety of food served in the cafeteria. Some of the workers asked for an increase in the number of attendants serving in the cafeteria to expedite service.

VIII.5. Freedom of Association and Access to Management

Interviewed workers were asked a series of questions designed to elicit information about their experiences pertaining to (a) freedom of speech and the right to organize, and (b) the extent to which the workers felt that they had access to various levels of management with regard to grievances and whether or not their views were taken into consideration on issues that affected their working and living environment.

The Mabamex management has a structured system of worker consultation and access to management. There are regular and frequent meetings between operators and line supervisors, and between various levels of management. Suggestion boxes are placed as one means of providing channels of communication.

Of the interviewed workers, 52% stated that they attended at least one meeting in the last 12 months with the plant's senior management. Workers indicated that production increases, overtime, salary increases and workplace safety constituted the main issues discussed in these meetings, although in one or two meetings GMP was mentioned. Workers also reported daily meetings with line leaders mainly on production issues. Among the interviewed workers, 92% stated that they could freely talk to their supervisors. 41% of the interviewed workers stated that their line supervisor was the most helpful person to discuss issues of concern to them. When it

came to seeking helpful information, other sources listed were the fellow worker (14%), HRM personnel (8%), and the plant manager (6%).

Workers at the Mabamex plant are not represented by a union. Of the interviewed workers, 90% reported that they did not know of any worker against whom action was taken for involvement in a union-related activity. However, 8% stated that some workers were fired for union activity. In response, management indicated that Mabamex respects the rights of workers to form any type of association as long as they are in compliance with plant policies and government regulations. The fact that 90% of the interviewed workers find no harassment of workers in the plant is indicative of the effectiveness of these policies and plant management's commitment to employee's right to freedom of speech and association.

VIII.6. Non-Job-Related Skill Enhancement Programs

Mabamex offers a number of non-job-related skill enhancement programs. These focus on computer-training courses and remedial programs for elementary and college education. When asked, 83% of the workers interviewed expressed knowledge of the availability of these programs, but only 10% reported taking part in one or more of these programs. Notwithstanding, a considerable majority of workers (64%) also indicated that they knew of many workers who took part in these programs. Interviewed workers expressed interest in more frequent computer and English language training programs as well as motivational and parental guidance seminars. Management has accepted this observation and is reviewing its current offering of training program with a view to enlarging their capacity.

IX. OVERALL OBSERVATIONS AND GENERAL RECOMMENDATIONS

We commend the management of the Mabamex plant for maintaining an excellent overall work environment both as to physical facilities and treatment of workers. While MIMCO noted some localized problems of noise level, inadequate ventilation, and oily floors, these have been successfully resolved and this fact has been confirmed through communications and meetings between MIMCO and plant management.

MIMCO team was pleased with the relationship between the plant management and all levels of workers and the personal interest of the top management in creating open access for workers and making itself available to workers. Mabamex management has also itself to be open to suggestions to review existing policies and improve on current programs to make the plant a more productive facility and a safe and friendly place for all of its employees.