

Manufacturing Issues Lead to Product Recalls

Despite Mattel's best efforts, not all overseas manufacturers have faithfully adhered to its high standards. In 2007, Mattel came under scrutiny over its sale of unsafe products as it announced recalls of toys containing lead paint. The problem surfaced when a European retailer discovered lead paint on a toy. An estimated 10 million individual toys produced in China were affected. Mattel quickly stopped production at Lee Der, the company officially producing the recalled toys, after it was discovered that Lee Der had purchased lead-tainted paint to be used on the toys. Mattel blamed the fiasco on the manufacturers' desire to save money in the face of increasing prices. "In the last three or five years, you've seen labor prices more than double, raw material prices double or triple," CEO Eckert said in an interview, "and I think that there's a lot of pressure on guys that are working at the margin to try to save money."

The situation began when Early Light Industrial Co., a subcontractor for Mattel owned by Hong Kong toy tycoon Choi Chee Ming, subcontracted the painting of parts of *Cars* toys to another China-based vendor. The vendor, named Hong Li Da, decided to source paint from a nonauthorized third-party supplier: a violation of Mattel's requirement to use paint supplied directly by Early Light. The products were found to contain "impermissible levels of lead." When it was announced that another of Early Light's subcontractors, Lee Der Industrial Company, used the same lead paint found on *Cars* products, China immediately suspended the company's export license. Afterward, Mattel pinpointed three paint suppliers working for Lee Der: Dongxin, Zhongxin, and Mingdai. This paint was used by Lee Der to produce Mattel's line of Fisher-Price products. It is said that Lee Der purchased the paint from Mingdai due to an intimate friendship between the two company's owners. In the latter part of 2007, Zhang Shuhong, operator of Lee Der, hung himself after paying his 5,000 staff members.

That same year, Mattel was forced to recall several more toys because of powerful magnets in the toys that could come loose and pose a choking hazard for young children. If more than one magnet is swallowed, the magnets can attract each other inside the child's stomach, causing potentially fatal complications. Over 21 million Mattel toys were recalled in all, and parents filed several lawsuits claiming that these Mattel products harmed their children.

At first, Mattel blamed Chinese subcontractors for the huge toys recalls; but the company later accepted a portion of the blame for the trouble, while maintaining that Chinese manufacturers were largely at fault. The Chinese viewed the situation quite differently. As reported by the state-run Xinhua news agency, the spokesperson for China's state Administration of Quality Supervision and Inspection and Quarantine (AQSIQ) said, "Mattel should improve its product design and supervision over product quality. Chinese original equipment manufacturers were doing the job just as

How did this crisis occur under the watch of a company praised for its ethics and high safety standards? Although Mattel had investigated its contractors, it did not audit the entire supply chain, including subcontractors. This oversight left room for these violations to occur. Mattel has moved to enforce a rule that subcontractors cannot hire suppliers two or three tiers down the supply chain. In a statement, Mattel claimed to have spent more than 50,000 hours investigating its vendors and testing its toys. Mattel also announced a three-point plan designed to tighten Mattel's control of production, discover and prevent the unauthorized use of subcontractors, and test the products itself rather than depending on contractors.

The Chinese Government's Reaction

Chinese officials eventually did admit the government's failure to properly protect the public. The Chinese government is now promising to tighten supervision of exported products, but effective supervision is challenging in such a large country that is so burdened with corruption. In 2008, the Chinese government launched a four-month nationwide product quality campaign, offering intensive training courses to domestic toy manufacturers to help them brush up on their knowledge of international product standards and safety awareness. As a result of the crackdown, the state AQSIQ announced that it had revoked the licenses of more than 600 Chinese toy makers. Also in 2008, the State Administration for Commerce and Industry (SACI) released a report claiming that 87.5 percent of China's newly manufactured toys met quality requirements. Although this represents an improvement, the temptation to cut corners remains strong in a country that uses price, not quality, as its main competitive advantage.

Mattel's Social Responsibility Imperative

Because Mattel's core products are designed primarily for children, the company must be sensitive to social concerns about children's rights. It must also be aware that the international environment often complicates business transactions. Different legal systems and cultural expectations about business can create many complex issues. Finally, the use of technology may present many dilemmas, especially regarding consumer privacy. Mattel has recognized these potential issues and taken steps to strengthen its commitment to business ethics. The company also purports to take a stand on social responsibility, encouraging its employees and consumers to do the same.

Privacy and Marketing Technology

One issue Mattel has tried to address repeatedly is that of privacy and online tech-