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Mattel's CEO recalls a rough summer

Bob Eckert tells Fortune how the toy company made it through three recalls in just four weeks - and kept employees' morale high.

By Jia Lynn Yang, writer-reporter

Fortune -- Bob Eckert, the chairman and CEO of Mattel, will never forget the way he spent his 53rd birthday August 14. He sat in front of a television camera set up in a conference room in Mattel's headquarters in El Segundo, Calif. Talking into the dark lens, he delivered the same bad news over and over, in as many live newscasts as he could: Mattel was recalling 18.2 million toys, the most in company history, because of lead paint and design flaws, and there could be more recalls to come.



PHOTO: JEFF HINTON FOR FORTUNE
Mattel CEO Bob Eckert

"Anyone from the media who wanted to talk to us, we talked to that day," recalls Eckert. "That's when I understood this was different from anything we'd done before. This wasn't just another product recall."

The surprising story inside Mattel (**MAT**, Fortune 500) is that, after a long summer of recalls - three in just four weeks - employees are feeling great about how their company weathered the crisis. Many say it's because the message from the very top of the company, directly from Eckert in countless e-mails, phone calls, and meetings, was that fixing the toy problems and protecting children's safety lay at the heart of the company's values. By being responsible now, explained Eckert, a father of four, Mattel would be a better company in the long run.

"What sticks in my mind," says John DeRubes, director of baby gear engineering at Fisher-Price, "is that he said, 'How you achieve success is just as important as success itself.' I tell my kids that."

Fortune recently spoke with Eckert about how he led Mattel through the recall crisis for a first look at how it all felt from the inside.

Q: When did you first learn of trouble?

I believe it was July 13, which happened to be a Friday. So it was Friday the 13th. Jim Walter, senior vice president of worldwide quality assurance, and his supervisor Tom Debrowski, our executive vice

Mattel employees speak out

Fortune spoke with several Mattel employees based in different parts of the world about what it was like last summer during the recalls and how morale has held up.

Deborah Dicochea, Associate Manager, Mattel Children's Foundation

"If anything, I think morale is even better than before the recalls. We just had a company-wide employee update meeting. Our holiday commercial was played on a

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president of worldwide operations, walked into my office and said, 'We have an issue.' That's not atypical. That's part of this job. You end up getting involved when there are issues. One of our European customers found some problems in a routine audit and brought it to our attention.

Q: Did you have any idea this problem was going to get bigger?

No inkling. We've done thousands and thousands of tests for lead paint over the years. This was one product made on one given day, and in these sorts of things, the tests can give you false positives, or there's some explanation for what happened. But that's why the Mattel group immediately goes into the mode of identifying the scope of the issue. We don't just accept that a product failed. We then go back and look at everything made at that facility to determine the scope of the issue. Because if you don't get to the root cause, you can't fix it. At the time, I had no idea this was the beginning of what turned out to be a long summer for us in the toy business.

Q: What happened next?

In the case of the first recall on August 2, we identified the plant involved. It wasn't a Mattel plant; it was an outside plant. We identified a number of products that could have been problematic. We then worked with regulators around the world once we knew the scope, what products were involved, what countries. Then we worked with retailers to tell them to take these toys off the shelves.

Q: How'd you tell your employees about what was going on?

Clearly one of my frustrations was an inability to talk to one of the most important constituencies, our employees, in advance of the recall announcements. In general, I've always tried to communicate with employees first. You always want to hear what's happening at the company from management as opposed to reading about it in the newspaper. I can appreciate how anxious people are when they open up their morning newspaper and read about the place they work at, and they're getting it through the media as opposed to through the company. I've always been an active proponent of reaching out to employees and customers very quickly. We have this vehicle called 'what's on my mind' e-mails that I write to employees.

As soon as the Consumer Product Safety Commission issued its press release, and in this country they are the ones that announce recalls, we pushed the send button on my e-mails.

I also see a lot of people every day in the company cafeteria. And we had daily meetings with our management and communications team seven days a week. These meetings generally had 15 to 25 people in them, so we were pretty well-coordinated and knew what was going on. We also do an employee update once a quarter that's like a town-hall meeting at headquarters.

Q: Were you ever worried about losing your job at any point? How'd you handle the stress?

My focus was always on, what's the right thing to do. I was not focused on my job. I thought about it in the company's terms: What's in the best interests of the company? I got a lot of encouragement from

big screen, and everyone was cheering. I've been working here 16 years. People are proud to say they work here, even through these recalls. We've come together as a family."

Jean Gomez, Director, Girls Marketing

"With my group, a meeting was called with my immediate designers and people in engineering and marketing. Bob and some of Mattel's leaders came and gave a presentation, detailing a timeline of the events and what they'd been doing to address the recalls. Then they spent a lot of time taking questions. So I think that made all the employees feel really comfortable. We rallied around the fact that this company stands up for its brand."

Jeff Miller, Regional Marketing Director, Mattel Asia

With the cast of folks that were involved, you knew that everything was coming right from the top. And there wasn't anyone who wasn't going to be involved. It became the instant priority. It was the first thing you asked about every day, it was the last thing you asked about at night. You were always, always on top of every detail. There was such conviction with everybody and such conviction from the chairman about what we were about to take on. You became part of a movement.

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employees. It was heartwarming to see that employees really wanted to see the company get through this as well as we could and do the right thing.

I've been gratified by friends, colleagues, people that I've known decades ago reaching out during this time. They said, 'Gee, I saw you on TV last night, I haven't seen you in 20 years, but I just wanted to tell you, I hope you're doing okay. This is the time when stress levels are pretty high, the stakes are pretty high, and it's nice to have the feeling that people are rooting for the company. I also have a very supportive family. My wife was very helpful to me. She certainly sees a side of me no one else does.

Q: On August 14, there were two recalls: one was related to lead from Chinese manufacturers, and the other, bigger one was about magnets that were getting dislodged from toys, a design issue. Why were these two very different issues put together in one announcement at the same time?

These magnets, which you see daily now, like on a BlackBerry case, allow toys to become quite magical for children. We've been using them in the toy business for a while. Around Thanksgiving 2005, a child ingested a magnet from one of our competitors' toys and then ingested a second magnet. Unfortunately those magnets tried to find each other in the child's intestines, and that changed how the entire toy industry viewed these magnets. If they become dislodged, they can cause a real problem.

So we have developed a system that permanently locks the magnet in place. We thought it was so much better than any other system, that we said: We should tell parents if they have toys we made over the last five years that don't have the benefit of today's technology, we want them back.

We wished we could control the calendar, but the event dictated the action. That's when it became clear it was the right thing to do. We had started developing the new technology in January 2007 and it was the industry standard in May. The events dictated that August was the time to make the announcement.

Q: There were reports that Mattel was apologizing to the Chinese, in part because some of the recalls were U.S. design issues not related to Chinese manufacturers, and yet the Chinese were still being blamed. What happened with that?

All around the world, we apologized to parents. Because parents don't just live in the United States. These were global recalls and whenever we had the opportunity, we wanted to apologize to parents and that included parents in China.

There was a second issue, where Chinese vendor plants, not Mattel plants, were being criticized for quality. Certainly where it pertains to lead paint, that came out of Chinese plants. But really the magnets had nothing to do with the manufacturing process. So to the extent that Chinese manufacturers were being criticized for the magnet issue, we apologized for that. That wasn't their issue. That was science evolving and our requirement to use the best technology we could given the seriousness of the issue. That had nothing to do with who made the product.

Q: What do you think you learned from this experience?

It's reinforced my belief that if you can consistently try to do the right thing, life is so much easier. If you live by your basic values, a) you'll get through it, and b) you'll feel satisfied that you did the best you could. ■

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