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TOY RECALLS – IS CHINA THE PROBLEM?¹

By

Hari Bapuji

Asper School of Business
University of Manitoba
181 Freedman Crescent
Winnipeg, MB R3T 5V4
CANADA

Email: bapuji@cc.umanitoba.ca
Phone : 1-204-474-8432
Fax: 1-204-474-7545

Paul W. Beamish

Richard Ivey School of Business
University of Western Ontario
London, ON N6A 3K7
CANADA

Email: pbeamish@ivey.uwo.ca
Phone : 1-519-661-3237
Fax: 1-519-661-3700

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TOY RECALLS – IS CHINA THE PROBLEM?

This paper analyzes the data on toy recalls over the last 20 years and finds that the number of recalls and the number of recalls of Chinese-made toys have witnessed an upward trend. We examine the increase closely and find that the number of defects attributable to design issues is much higher than those attributable to manufacturing problems. We contextualize these findings in light of the latest recall of toys by Mattel and make two major suggestions: first, ensuring the accountability of toy companies to improve their product designs and second, encouraging the development of global standards to enhance product safety.

The recall of an estimated 20 million Chinese-made toys by Mattel on August 14, 2007 shocked the world. Coming in the wake of reports about defective products made in China such as pet food, toothpaste, and tires, the latest recall generated severe reactions. In a poll conducted by Zogby, the majority of people (close to 80%) reported that they were apprehensive about buying goods made in China. Nearly two-thirds (63%) of the respondents reported that they were likely to participate in a boycott of Chinese goods until the Chinese government improved the regulations. Discussing the recall, the CEO of Mattel, Robert Eckert, said “we wouldn’t have faced this problem if our suppliers followed the rules.” In a recent summit in Canada, the leaders of Canada, the U.S., and Mexico decided to crack down on unsafe goods, particularly those designed for children.

The popular sentiment against Chinese-made products potentially has serious implications for global trade. Therefore, we analyzed the recalls of toys over the last two decades (1988 – 2007) to examine if the number of recalls had systematically increased and what kind of problems were resulting in recalls. We contextualize our finding in the latest toy recalls and make recommendations to improve product safety.

Product Recalls Over Time

The earliest record of toy recalls from the U.S. Consumer Product Safety Commission (CPSC) refers to the instance in 1974 when toy chests were recalled because of the death of a child. Recalling toys and other products in large numbers is an infrequent but not an unprecedented event. In one specific instance in 2004, CPSC recalled over 150 million pieces of jewelry made in India and sold in the U.S., with each piece selling for as little as 25 cents. It was found that about half of the jewelry sold contained excess lead, but all of it was recalled because it was difficult to distinguish which pieces were affected and which were not.

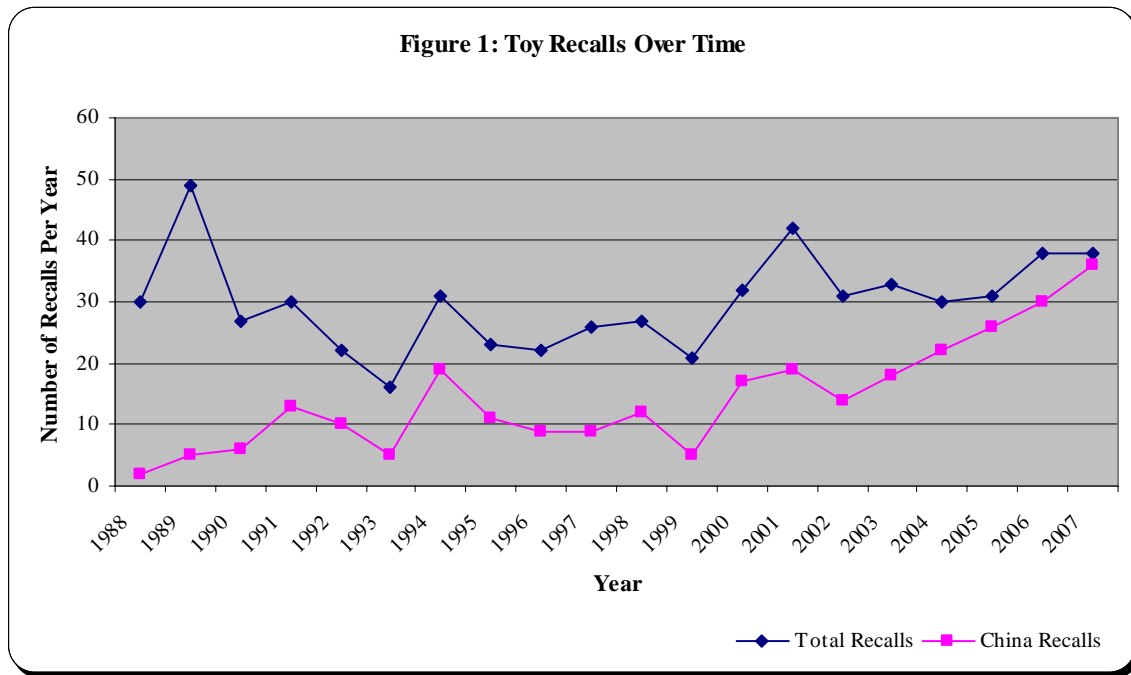
Since 1974, over 680 toy products were recalled. Of these, 599 recalls were made in the last 20 years. Each year, toys were recalled on an average of 30 occasions. The number of recalls over the last 20 years ranged from 16 (in 1993) to 49 (in 1989). The number of recalls remained roughly stable until 2006, but appears to be on a rise since then. In this year, CPSC had recalled 38 toys up to August 15, 2007. If this data is extrapolated to the yearend, 2007 may witness over 60 recalls, which would be the highest number of recalls in the history of toy industry. In other words, there has been a

definite increase in the number of recalls in 2007. This trend may or may not continue in the future, but there has been an upward swing since 2006.

Table 1: Toy Recalls (1988 – 2007)

Year	Total Number	Recalls of Chinese-made Toys	
		Number	Percentage
1988	30	2	7%
1989	49	5	10%
1990	27	6	22%
1991	30	13	43%
1992	22	10	45%
1993	16	5	31%
1994	31	19	61%
1995	23	11	48%
1996	22	9	41%
1997	26	9	35%
1998	27	12	44%
1999	21	5	24%
2000	32	17	53%
2001	42	19	45%
2002	31	14	45%
2003	33	18	55%
2004	30	22	73%
2005	31	26	84%
2006	38	30	79%
2007	38	36	95%

Figure 1: Toy Recalls Over Time



The number of recalls involving Chinese-made toys also appears to be on the rise over the last few years. Toy companies started moving the manufacturing of toys to China in the early 1990s. This trend has continued and accelerated in recent years. The percentage of recalls that involved Chinese-made toys was hovering around 50 percent until 2003, suggesting that recalls did not increase for well over a decade since manufacturing moved to China. However, since 2004, this figure had hovered around 80 percent and reached 95 percent this year. This rise is dramatic. Therefore, it is important to examine what is causing this rise and what kinds of problems are cited in the recalls.

Of the 38 toy recalls made so far this year, 12 were due to choking and swallowing hazards, which are responsible for the majority of toy recalls over the years. Therefore, this number (12) is neither abnormal nor uncommon. In 2007, nine toy recalls were attributed to excess lead in surface paint. Another nine products were recalled because the small magnets in those toys posed a swallowing and aspiration hazard. These are not among the common causes that resulted in noticeable number of recalls over the years. In other words, the problems of magnets and lead paint have probably resulted in the spike in toy recalls this year. The problems with magnets and lead are qualitatively different from each other and need a closer examination.

Toys Recall – Design Problems or Manufacturing Defects?

Recalls become necessary because products may turn out to be faulty despite the best of systems. The fault may occur due to design or manufacturing. The distinction between design and manufacturing is important particularly in the context of the toy industry because the design of toys is performed by toy companies such as Mattel whereas manufacturing is done by overseas manufacturers. Therefore, efforts to improve product safety and prevent recalls should be targeted at where the problem lies.

A design problem is reflected in sharp edges of a toy which pose laceration hazard. Another common design problem is small detachable parts such as balls and beads, which pose a swallowing and choking hazard. Other examples of design flaws include open tubes and spaces, which can entrap children's body parts, long strings that pose strangulation hazard, and sewn buttons and glued eyes on stuffed toys (as opposed to button-less clothing for toys and embroidered eyes).

A manufacturing problem can occur as a result of using poor material, such as toy stuffing that contains bits of wire or broken sewing needles. Other examples of manufacturing problem are poorly fitted parts that break, batteries that overheat, and faulty electrical circuits. Using unacceptable material or chemicals such as lead paint that are not part of the design is yet another manufacturing problem.

A design problem would result in an unsafe toy irrespective of where it was manufactured. On the other hand, a manufacturing defect arises because of manufacturer errors or negligence. Toy companies develop a design in their home country, and then send it to the manufacturers in China along with specifications. If a toy's design is good, it does not necessarily mean that the toys produced will be good. By contrast, if the

design is poor, the toys manufactured will definitely be faulty. In other words, only toy companies can prevent problems associated with designs. On the other hand, manufacturing defects can be prevented by both manufacturers and toy companies. In an offshored model, the manufacturers can prevent defects with careful production. The toy companies can prevent most defects with efficient quality control and inspection mechanisms.

If shifting manufacturing to China resulted in poorer quality goods, then the number of toys recalled due to manufacturing should be greater than the number recalled due to design. To examine this, we analyzed the recall information available in each communication of CPSC over the last two decades and coded each recall as involving a design problem or a manufacturing problem. In about 17 % of the cases, it was not possible to conclude from the information provided if the problem was a design or a manufacturing flaw. In such cases, we coded the flaw as “not sure” and omitted it from our analysis. We present in Table 2 the data on toy recalls categorized into recalls due to design flaws and manufacturing flaws.

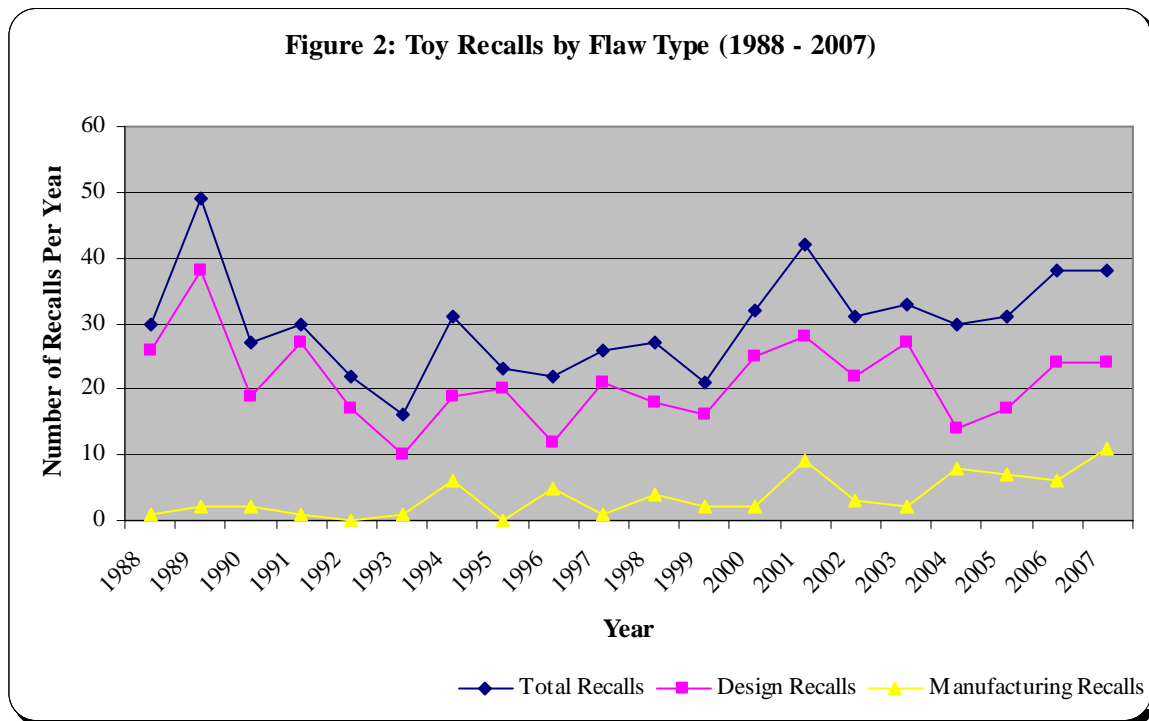
Table 2: Toy Recalls by Flaw Type (1988 – 2007)

Year	Total Number of Recalls	Number of Recalls due to Design Flaws	Number of Recalls due to Manufacturing Flaws
1988	30	26	1
1989	49	38	2
1990	27	19	2
1991	30	27	1
1992	22	17	0
1993	16	10	1
1994	31	19	6
1995	23	20	0
1996	22	12	5
1997	26	21	1
1998	27	18	4
1999	21	16	2
2000	32	25	2
2001	42	28	9
2002	31	22	3
2003	33	27	2
2004	30	14	8
2005	31	17	7
2006	38	24	6
2007	38	24	11

Of the 599 recalls since 1988, an overwhelmingly high number of recalls (424 or 70.8 percent of all recalls) were due to problems which could be attributed to design flaws. In contrast, only about 12.2 per cent (or 73) of recalls are historically attributable to manufacturing defects such as poor craftsmanship, over-heating of batteries, lead paint,

and inappropriate raw materials. In other words, the majority of recalls were made because of design related problems, not manufacturing defects.

We analyzed the trend in recalls by flaw type to determine if manufacturing flaws or design flaws increased over the years. If Chinese-production was a problem, then we would expect to see a rise in the number of toys recalled due to manufacturing problems. We found that, as presented in Figure 2, the number of recalls attributable to manufacturing has remained roughly the same over the years, but increased in the last four years. In fact, manufacturing flaws accounted for around 20 percent of the recalls in the last four years. Similarly, the number of recalls attributable to design flaws exhibits an upward trend.



Our analysis reveals that design flaws resulted in an overwhelmingly large number of toy recalls in the last two decades. Not only have design problems been higher but they also hurt the consumer most. Since 1988, toys resulted in the deaths of nine children. During the same period, toys caused 776 injuries on 85 occasions. Of the 85 recalls involving injuries, 62 recalls (73 percent) were attributable to design flaws whereas only 7 recalls (eight percent) were attributable to manufacturing. These figures do not, however, include the injuries that may have occurred as a result of exposure to lead paint because the effect of lead cannot be detected as easily or as immediately as with other injuries.

Based on our analysis, it can be concluded that deaths and most of the injuries could have been prevented with better designs and better manufacturing practices. Although painful, can companies and individuals learn from the recalls? Finding what the

problem is and what caused the defect is the first step towards learning from these toy recalls. In this context, it is important to examine the latest recall of toys made by Mattel and Fisher-Price.

Mattel Recall – Design Flaw or Manufacturing Flaw, or Both?

In the latest instance, Mattel recalled four different toys numbering 11.5 million (in the U.S. alone) because the small, powerful magnets used in these toys were easily removable by children. If two or more of these magnets are swallowed by a small child, they could potentially cause intestinal perforations or blockage. The problem of small magnets that occurred in close to 90 percent of the toys recalled is a design flaw, solely attributable to Mattel, rather than a manufacturing defect.

According to Nancy Nord, Chairperson of the U.S. Consumer Product Safety Commission, the Commission has been seriously examining the problem of magnets in children's toys for over a year. In March 2006, the CPSC and Rose Art recalled over 4 million *Magnetix* building sets following the death of a child due to ingestion of small magnets. This recall was followed up by more recalls of various products involving small magnets.

In the latest recall, Mattel also included 253,000 die cast *Serge* cars that had excess lead in their surface paint. This recall was a follow-up to the recall of 967,000 toys such as *Dora* and *Elmo*, which contained excess lead. The problem of excess lead in surface paint that occurred in close to 10 percent of the toys recalled was a manufacturing defect, attributable to Mattel's Chinese manufacturer. It does not, however, mean that Mattel does not have a responsibility for the presence of lead paint in the toys it sold.

Excess lead in surface paint appears to be a significant problem. Of the 73 recalls made in the last two decades due to manufacturing defects, 47 (about 64 percent) involved lead paint. Of these 47 instances, on 26 occasions the toys were made in China. On other occasions, they were made in India (4), Mexico (3), Hong Kong (3), Taiwan (2), Korea (1), and Israel (1). Clearly, there is a problem of differences in lead standards between the countries where the toys are made and the countries where toys are used. Sometimes, these standards are neither legislated nor publicized in some countries or if they are legislated, the standards are not enforced. This raises the risk of making and trading unacceptable goods.

Considering that two different types of problems seem to affect toy safety, the solutions for addressing them need to be different. The design problems can be avoided by improving organizational learning. On the other hand, manufacturing problems can be avoided by setting global standards and improving management practices.

Improving Product Safety

China exports about 20 billion toys per year and they are the second most commonly imported item by U.S. and Canada. It is estimated that about 10,000 factories

in China manufacture toys for export. Considering this mutual dependence, it is important that the problems resulting in recalls are addressed carefully.

In the recent past, consumers witnessed some of the biggest recalls in the history. In August, 2006 Dell computers recalled over 4 million batteries installed in its notebook computers. These batteries were made by Sony in both Japan and China. On the same day that Mattel announced its recall, Nokia recalled 46 million batteries installed in its cell phones. Nokia is negotiating with the battery supplier Matsushita regarding bearing the cost of recall. According to industry experts and analysts, the recalls are only expected to increase. In short, the recalls have become a common feature and so has the temptation to blame the suppliers.

Although the largest portion of recalls by Mattel involved design flaws, the CEO of Mattel blamed the Chinese manufacturers by saying that the problem resulted 'in this case (because) one of our manufacturers did not follow the rules'. Several analysts too blamed the Chinese manufacturers. By placing blame where it did not belong, there is a danger of losing the opportunity to learn from the errors that have occurred. The first step to learn from errors is to know why and where the error occurred. Further, the most critical step in preventing the recurrence of errors is to find out what and who can prevent it.

Not only can toy companies learn from their own recalls, but also from the recalls by other toy companies. For example, the problem of small magnets was not new to the industry and reappeared in early 2006, resulting in several recalls. In other words, the issue of magnets did not arise overnight for toy companies, but has been brewing for over a year. By paying attention to the early warnings, companies could have better responded to the hazards posed by small magnets by improving the design of toys.

It is important that management practices be improved to handle the complexity of global supply chains. The companies offshoring their manufacturing to China (and similar countries) cannot rely on intermediaries and agents in Hong Kong or Singapore to coordinate production and ensure quality. Such an approach was good enough in the initial stages of offshoring, but clearly falls short a decade after offshoring became a common business reality. The offshoring companies need to develop capabilities and systems to engage more directly and closely with China and similar countries. The toy companies need to develop robust systems for quality control and testing of the toys manufactured at their suppliers' factories. Unless companies learn to manage these complexities, it is difficult to ensure product quality and safety.

Although Chinese manufacturers are not responsible for the recall of toys due to small magnets, it does not mean that all products manufactured in China are safe. On the contrary, products such as pet food and tooth paste made in China contained dangerous substances. The Chinese government and industry groups need to address this by ensuring that Chinese exporters adhere to the standards of the importing country. On the other hand, the governments of importing countries need to encourage Chinese authorities to develop global standards on consumables, legislate them, and monitor

them. The difference in standards across the world is clearly an issue. These differences need to be addressed with high priority so that consumers across the world can benefit from globalization of manufacturing and consumption.

The issue of global standards is contentious because different countries have different trajectories of development. The standards of developing countries will not be acceptable to a developed country. On the other hand, developing countries will sometimes argue that they cannot adopt the standards of the developed world because of the huge costs associated with these standards. Nevertheless, exports from developing countries should adhere to the standards of the export markets. Accordingly, all those involved in the global supply chain such as suppliers, manufacturers, and marketers need to develop systems to ensure the standards.

In a globalized world where design, manufacturing and consumption of products are separated by large distances, a slippage at any point can affect consumers all over the world. It is often difficult to pinpoint where the problem occurred. More importantly, the costs of such slippages can be huge. Therefore, all those involved in the supply chain must make extra effort to ensure product quality and safety. Adhering to importing country standards and developing global standards are easier said than done; nevertheless, it is a task which the governments, corporations, industry associations, and consumers need to address.

Conclusion

Our analysis of toy recalls revealed that an overwhelming majority of the recalls could have been avoided with better designs. Therefore, it is important to focus efforts on learning from the recalls that occurred in the past and minimize their recurrence. Our analysis also revealed that the presence of excess lead paint is a result of differences in the standards of exporting and importing country. These could be avoided through legislation and education.