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Perspectives on Sustainability

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Former Ford Scientist (1989–2009)
 Current Member of the Science Advisory Board (SAB)
 U.S. Environmental Protection Agency

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Director
Ford Automotive Safety Office

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David Chock

Former Ford Scientist (1989–2009)
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Before my retirement last year, I spent 20 years as a scientist at Ford, doing research and working to understand issues like the impact of emissions on air quality. In the late 1990s, our team began looking into the science of climate change and its implications for auto emissions. We were also looking at sustainability issues, developing Ford CO₂ emission reduction targets from the perspective of energy resource availability and potential economic and environmental impacts.

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When I joined Ford, the Company's sustainability strategy tended to be short term, as was typical of many large companies at that time. Five to 10 years down the road was generally considered a far-reaching outlook. But when we started addressing the issue of climate change, the Company's mindset began to change, and Ford took a much longer-term view of sustainability, with a much more global perspective.

I think Ford had some key enablers that allowed us to push ahead in our climate change work. The first enabler was Bill Ford, a very forward-looking environmentalist. He deserves a lot of credit for nurturing the sustainability mindset at the Company and for opening up direct channels of communication with corporate decision-makers. The second enabler was a company culture that encouraged discussions among employees – of any rank. Ford has a very open and collaborative atmosphere, which made it an exciting place to work.

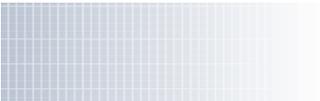
By keeping abreast of the scientific literature and evaluating the scientific merit of different arguments, we came to the conclusion that the science of climate change is credible. This allows Ford to use science as a guide for future planning. One scary thing about climate change is that short-term climate noise may lull us into complacency even as the longer-term trend has become increasingly evident. There are also many practical issues on global CO₂ emission reduction that have not been adequately addressed and coordinated. But eventually, we, and especially our children and future generations, will have to face the consequences of our action or inaction.

In the process of developing the Company's CO₂ model and strategy, we found it very helpful to work with other interested partners, leveraging each other's expertise as necessary. For example, BP's knowledge and realistic projections of biofuel availability in different regions of the world provided critical input in our construction of meaningful fossil-CO₂ emission reduction requirements from vehicles.

Our approach assumed a climate stabilization target and took into consideration the economic growth of developing countries, proceeding logically from global CO₂ emission-reduction requirements down to regional responsibilities. We constructed many scenarios. Obviously, while we don't know which scenarios might be closer to reality in the future, at least we know what to anticipate in order to fulfill our corporate citizenship responsibility.

I believe it's very important for major corporations to consider science when making decisions about their products and their operations. Natural science guides us about how our actions will impact the environment. Equally important are the social sciences, especially economics and behavioral science, which can help direct us to define workable solutions that are beneficial to society at large, to the environment and to corporations themselves.

Companies must sell their products; if they can't get customers to purchase them, they'll go out of



business. We need to build environmentally friendly products that people will buy. I'm proud that my work at Ford could help impact the Company's product development and sustainability strategy.

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Abby Joseph Cohen

Senior Investment Strategist and
President of the Global Markets Institute at Goldman Sachs



It's important for companies to monitor, measure and manage their sustainability performance for their own purposes, but also because shareholders are increasingly asking them to do so. Social responsibility may not yet be the dominant investment model, but an increasing number of fund managers and institutional investors are paying attention to these issues.

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For many years, the socially responsible investing (SRI) movement was stymied by studies that showed lower rates of portfolio returns for those that used sustainability or another SRI metric as their primary investing criterion. Until relatively recently, it was difficult to show a positive correlation between good corporate stewardship and strong financial market performance. Perhaps this was linked in part to the focus of early adopters of SRI to simply avoid certain companies and industries. Another contributing factor was the relatively small amount of portfolio assets that was targeted toward companies with strong records in SRI performance.

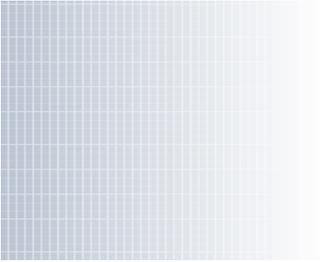
More recently, SRI has been broadened to include environmental, sustainability and governance (ESG) issues. Importantly, ESG investors are seeking to identify the companies that are strong performers in these categories rather than merely avoiding those in challenged industries. Data from the Investor Network on Climate Risk (INCR) – a network of investors that say they care about the environment – show a fascinating trend. As recently as 2003, the INCR represented investors with about \$600 billion in assets under management. Today, the INCR has grown to an estimated \$8 trillion network. Even when compared to the size of global capital markets, this is substantial and has reached critical mass.

One problem for investors interested in sustainability issues is that much of the publicly available information is not as useful as it could be. Moreover, there is often little consistency or comparability in the data offered by different companies. A sustainability issue that may be extremely relevant for one industry may not matter at all for another. Although the US Securities and Exchange Commission recently mandated corporate disclosures related to climate change, full details on the specific nature and form of disclosures must still be decided.

Investors are accustomed to evaluating companies using quantified financial data. We know how earnings, balance sheet and other items are defined because of clear guidelines such as Generally Accepted Accounting Standards (GAAP). But that level of specificity does not yet exist for the measurements related to sustainability. Many portfolio managers simply aren't sure what benchmarks and metrics to use.

From my viewpoint, however, one especially important benchmark is governance. Not surprisingly, there's a very high correlation between companies that score well on governance issues, and those that score well on sustainability, climate stewardship and community engagement.

Early on in the sustainability movement, investors – particularly large public pension funds – were driving the reporting process for companies. Their emphasis was largely on liability management, with the primary goal of avoiding bad long-term outcomes associated with corporate activities, such as the costs of environmental damage and remediation. There are two changes of consequence. First, investors are increasingly rewarding not only the avoidance of bad outcomes but also the pursuit of new business opportunities that enhance sustainability. These include developing new sources of revenues based on products and processes that have a friendlier environmental footprint. Second, more mainstream investors recognize that they can improve their financial returns by focusing on companies that prioritize sustainability. The results may prove to be mutually



reinforcing, with companies responding to shareholders and shareholders responding to the successes of companies.

Bill Ford introduced sustainability reports for the vehicle manufacturer more than a decade ago, so Ford has a culture of paying attention to these issues. The credibility of Ford's effort is enhanced because the company's environmental policies are part of the overall business strategy. Sustainability can't be an add-on; it must be well integrated into a corporation's regular business activities.

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Timothy Fort

Executive Director and Professor of Business Ethics
Institute for Corporate Responsibility, George Washington University



Ford's human rights policy builds on a notion of establishing trusted partners among suppliers, employees and regulators. That's a good strategy, because trust is essential for businesses that want to succeed in today's environment. (It's also much more efficient than trying to police those within your supply chain.)

I believe there are three types of trust for businesses that are aiming to be socially responsible: hard trust, real trust and good trust. "Hard trust" is essentially obeying the law; people will trust that a company is in compliance with human rights codes because there are third parties that will punish them – through fines or prosecutions – if they do not. Unfortunately, that's about as far as many companies ever go.

"Real trust" companies actively engage with the stakeholders that are affected by their business operations. They're not forced to do this; they do it because they believe in doing good and they want to ensure they and their employees are living to the highest standards of ethical behavior. "Good trust" goes one step further. Companies that practice good trust have an almost spiritual or aspirational aspect to their work. They want to move far beyond basic codes of conduct to look at how they can help solve problems and create a better world.

I think you need to have all three elements of trust in order to have a rich company culture on issues of human rights. Only a very small percentage of companies are actually incorporating elements of good trust into their business, but the numbers are growing.

Over the last 20 years or so, more and more companies have moved beyond mere compliance with the law, recognizing that employees are more motivated and suppliers more loyal if you treat them well. And plenty of academic studies show a correlation between corporate social behavior and corporate financial behavior.

Ford is one of those companies that is trying to achieve much more than just "staying out of trouble." I think people see Ford – and rightly so – as a company that is focusing on substantial larger social issues, like human rights and environmental sustainability, that are critical for our planet. One good example of this is Ford's efforts on HIV prevention and education among its employees in South Africa. Ford's receptiveness to programs that have an impact on their employees' well being is an indication of its corporate culture.

More consumers are aware today of where their products are coming from, and if they were ethically sourced. But whether they are willing to pay more for ethical products is decidedly mixed.

Companies will always find new ethical demands and challenges. Looking ahead, for example, companies may find themselves working to create more peaceful societies. There might even be a role for businesses to help mediate religious conflict among people who live in the areas in which they operate. Companies may be better suited to do this than governments because of their experience taking a pragmatic approach to religious differences in the workplace.

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Steve Marshall

Senior Fellow
Cascadia Center for Regional Development



Our think tank is primarily concerned with transportation and energy issues. We have worked with Ford over the years to figure out ways to link electrified vehicles with transportation and communications networks.

In order to move beyond oil and make communities more sustainable, we need to align the interests of vehicle manufacturers, software firms, regulators and utility companies. That in itself is challenging, since these groups have never before had to work together.

For example, if electrified vehicles are going to succeed, we need utility companies to be on board without reservation, since they will provide the infrastructure for the re-charging stations that will become the gas stations of the future. Now they're concerned about uncertainties. Will they need to add generation capacity to make energy for electric vehicles and, if so, can they pass on the costs to consumers? Utilities are creatures of regulation and the rules and incentives have to be right.

Many stakeholders recognize the potential benefits of plug-in technologies, but there's a lot of work to do before they can become mainstream. There are issues with infrastructure, power grid limitations – even concerns about declining revenues from the gas tax, if consumers switch to electric vehicles.

At our Beyond Oil conferences, we strive to point out that moving away from foreign oil and toward electricity will actually create an economic stimulus effect for the United States. Last year, for example, my home state of Washington spent more money to import fuel from overseas than it spent on K-12 education. For those worried about loss of gas tax benefits, there are other alternatives, such as a gas tax stabilization plan that ensures a set level of revenue or ultimately moving to a vehicle mile travel fee and congestion pricing, where vehicles are charged more per mile based on the time of day they travel.

Henry Ford famously said that if he had asked his customers what they wanted, they would have answered: "a faster horse." People didn't know what was out there, so they didn't know what to request. The same holds true for electrification and the mobility hubs of the future.

What Henry Ford did was introduce a systems approach to making affordable cars. The more affordable the cars became, the more roads and support services were created. I would urge people to think of a systems approach when it comes to new forms of vehicle technology. The question is not *should* we move toward plug-in vehicles. The real question is how can we get there quickly. Information technology will play a critical role in linking the elements of the system together and making it seamless for consumers.

We need to re-think our transportation systems. Imagine being able to drive an electric vehicle from your home to a transportation hub where you can plug in your car for charging while you then take light rail or a rapid bus into a core metropolitan area.

Years from now, people will look back and wonder what it was like to drive a gasoline-powered car, much in the same way that people now look back and wonder what it was like to rely on horses for transportation.

Ford has been taking a leadership position not just on electric vehicle development, but on a whole host of sustainability issues, such as mobility hubs and overall transportation systems approaches. There are very few companies that are thinking broadly like that and trying to link the different

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components that will make them work – and work to their optimum capability.

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Peter Sherry, Jr.

Corporate Secretary and Associate General Counsel
Ford Motor Company



When I first started here at Ford Motor Company in the early 1980s, I don't think "sustainability" was part of our corporate lexicon. That started to change over time and really accelerated when Bill Ford became CEO in 2001. We began to recognize that it was in our Company's bottom line business interests to focus on issues of sustainability.

Sustainability has been a steadily accelerating progression at Ford. Take for example, our Board of Directors, which in 2009 renamed its Environment and Public Policy Committee as the Sustainability Committee. This change helped narrow the focus of the Committee. It sent a clear and consistent message both inside and outside the Company that Ford's leadership is focused on the important sustainability issues that are pivotal to our business, such as climate change, energy independence, vehicle safety, mobility and human rights. Changing the name ensured a continuity of purpose and a continuity of approach.

In particular, the committee has been spending increasing amounts of time looking at technology issues to make sure that Ford will be able to meet and exceed government-mandated fuel economy standards, both in the U.S. and in Europe, and that we will continue to be a leader in this area around the world.

These days, sustainability governance and more traditional corporate governance overlap, maybe even to the point of merging. We have a very complicated business that impacts a host of different areas, and you can't divorce any one from the others. In other words, you can't manage each issue separately. Fuel economy, alternative fuel vehicles, electrification – these are absolutely critical to the success of this Company. They are also critical from a broader social, environmental and economic standpoint. So, it's essential that your strategy and your plans in these areas be part of your overall business plan.

Sustainability permeates Ford's management. Each week, senior executives participate in the Business Plan Review chaired by our CEO, Alan Mulally. There, and in the Special Attention Review that follows, sustainability issues are discussed, just as any other critical issue within our business would be discussed. Sustainability governance is just a part of the whole. Indeed, if Ford itself is not sustainable as a company, nothing else we do will matter.

Of course, it is impossible to predict the future. Instead, the Board, the Committee and Company management must try to anticipate long-term trends to make sure we are able to position ourselves favorably. For example, it's no secret that we're anticipating a larger segment of the world population will want to drive smaller, more fuel-efficient cars that also have the features that discerning consumers want and value. That wasn't historically the case, particularly here in the U.S., yet we're now making the investments to develop more fuel-efficient vehicles to meet developing consumer demand.

It's important that Ford work collaboratively with all of our stakeholders around the world, whether they are shareholders, employees, dealers, government agencies or nongovernmental organizations. Historically, the mentality at companies like ours was that others outside our industry shouldn't presume to tell us what to do. Today, we know that's not an effective approach. The best way to solve difficult global issues, such as vehicle safety and fuel economy, is to work together with others – even with those whose interests may not always be completely aligned with ours.

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Jim Vondale

Director
Ford Automotive Safety Office



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In recent decades, the global vehicle safety community has together made significant strides in reducing motor vehicle crashes, fatalities and injuries. We can accelerate this progress in the future by staying focused on the most-effective real-world safety priorities and by harmonizing global safety regulations and requirements.

Safety progress over the past decades can be attributed to a variety of factors, including a better understanding of crash and injury mechanisms, an array of new safety features and technologies, a greater commitment to enforcing laws that address risky driving behaviors, and increased customer awareness of vehicle safety in purchase decisions.

The rate of future improvement, however, will largely depend on how effectively policy makers, nongovernmental safety groups and vehicle manufacturers utilize safety engineering resources. The more focused, aligned and effective we all are, the greater our achievements will be.

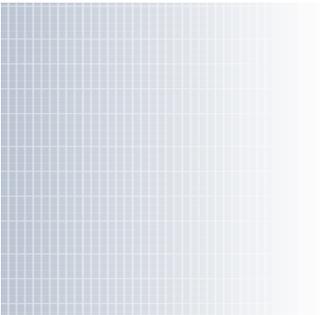
To identify the safety priorities that can save the most lives, we must rely on real-world crash and injury data and apply sound science to motor vehicle safety problems. We are most productive when we devote resources to technologies, regulations and requirements that have the greatest potential real-world benefit. For example, there is consensus that crash-avoidance technologies and vehicle-to-vehicle/infrastructure communications have great potential to reduce crash risks for a broad range of driving situations. All stakeholders in the global safety community should be prioritizing efforts in those areas.

Another important way to enhance the effective and efficient use of vehicle manufacturers' safety engineering resources is to harmonize global vehicle regulations. While some progress has been made, vehicle manufacturers continue to face increasingly complex and conflicting requirements and metrics, including two different regulatory schemes that are used globally – one based on U.S. regulations, the other based on European regulations. Local requirements can also be added to these base regulatory schemes, further increasing vehicle design complexity.

At the same time, consumers must grapple with interpreting the proliferating and sometimes conflicting studies and rankings on auto safety (such as government-run New Car Assessment Programs, or NCAPs, and others conducted by private groups), which are based on various laboratory tests with different crash-test dummies, test requirements and metrics. These studies and rankings are a useful tool for consumers, and they are having their intended effect of driving vehicle manufacturer behavior. However, they don't always correlate well with real-world crash data, in large part because driver behavior plays such an important role in real-world safety and can overwhelm any differences found in laboratory tests. In addition, these public domain assessments at times appear to compete with one another for greater complexity and stringency. And currently, there is no organized effort to harmonize them.

While some regional differences in regulations and public domain testing are to be expected, the global safety community should intensify efforts to determine whether all of the differences are justified. Resources spent to modify vehicle designs in order to meet variable regulations and public domain requirements – especially those without proven and significant real-world safety benefits – are resources that are lost to pursuing real-world safety improvements that can save many lives.

We also must not forget that vehicle technology alone cannot solve all vehicle safety challenges.



Many of the advanced technologies currently being studied or considered for implementation require decisions about such things as policy, governance and security. In addition, driver behavior and driver responsibility will continue to be critical to future safety progress and will require additional driver education and enforcement. Also, governments need to step up efforts to provide a safer vehicle infrastructure.

These efforts will take some time, and changes will need to be phased in to maximize the effective use of safety engineering resources. But, if all the stakeholders in the global safety community work together to address these important challenges, we will see even greater safety benefits in the future.