

MICHIGAN TRUCK PLANT ASSESSMENT

SEPTEMBER 15, 2004

Background

In May 2003 at the Centennial Shareholders meeting, Ford Motor Company announced the development of Ford's Code of Basic Working Conditions as part of its commitment to corporate citizenship and making the world a better place. The plan is to make Ford a leader in human rights practices and to differentiate the company on social issues for potential business benefits (see attachment for a copy of the Code).

The Code was written and developed by a cross-functional team including Corporate Governance, Office of General Counsel, Human Resources, Labor Relations, Manufacturing, Purchasing and Sales and Marketing as well as with assistance from Business for Social Responsibility (BSR), a non-profit organization that has been a partner to Ford in the development and implementation of their Business Principles overall. The Code is based on the fundamental elements of internationally recognized labor standards, including the UN Declaration of Human Rights, the International Labor Organization Covenants, the UN Global Compact Principles, the Global Sullivan Principles, the Fair Labor Association and the International Metalworkers Federation. Moreover, it was reviewed by leading Human Rights experts including the Interfaith Center for Corporate Responsibility, the Lawyers Committee for Human Rights, the Prince of Wales International Business Leaders Forum, Amnesty International, Human Rights Watch, and faculty from Columbia and George Washington Universities.

Assessment of Ford Motor Company owned and operated facilities began in 2004. The sites were selected by the Corporate Governance Manager, International Labor Relations, and the Business Strategy Offices of North America, Europe, Canada-Mexico-South America and Asia-Pacific. Selection criteria included regional "hot spots", specific emerging issues (and plant impacts), plant employee representation and the views of thought-leaders, non-government organizations and human rights activists.

The first plant selected for learning and testing assumptions was the Michigan Truck plant. Located in Wayne, Michigan, Michigan Truck Assembly produces the Ford Expedition and the Lincoln Navigator. As of 2003, the plant employs 3,460 people (3,262 as hourly employees and 198 as salaried employees). Since the end of 2002, 850 employees have been on indefinite layoff.

The 2,866,000 square foot facility is able to produce about 258,000 units per year on two shifts. Production in 2003 was 245,000 units. The plant is highly profitable with reports that it grossed more than \$10 billion a year during the late 1990s.

The plant is fully unionized with members belonging to United Auto Workers Local 900. A review of recent press and media regarding human rights issues at the plant did not reveal any issues of concern. The only item worthy of noting is that the Union recently voted down a contract, which required implementation of Japanese-style teamwork rules. Due to this rejection, contracts are still being negotiated at the facility.

The Assessment Process

Step 1: Prior to the Assessment:

David Berdish, Corporate Governance Manager sent a copy of the Human Rights Code of Working Conditions and a communication letter to the Plant Manager, Gary Johnson, explaining:

- Background, descriptions, commitments and the expectations of the assessment (explicitly stating desire not to replicate but to ensure consistency across all operations)
- A streamlined pre-assessment checklist, focused on gathering information regarding management systems and past compliance issues at the facility. This information already exists in the management system and includes:
 - Form I-9: to check age (for child labor) and employment status (for forced labor)
 - Salaried Wage Structure to check non-union employee compensation and benefits.
 - Collective Bargaining agreements to check union compensation and benefits

- Collective Bargaining agreement or other documentation to check employees' right to associate freely and bargain collectively; recognized representatives to promote the interests of our employees; and opportunities for employee concerns to be heard.
- Grievance Procedure log to check misconducts, policy violations, harassment and discrimination on the basis of sex, race, color, creed, religion, age, ethnic or national origin, marital/parental status, disability, sexual orientation, or veteran status.
- Employee hot-line to also check misconducts, policy violations, harassment and discrimination on the basis of sex, race, color, creed, religion, age, ethnic or national origin, marital/parental status, disability, sexual orientation, or veteran status.
- SHARP scorecards to check health and safety
- Collective Bargaining agreements or other documentation to check union employees' hours of work.
- Casual overtime agreements or other documentation to check non-union employees' hours of work.

On April 22, 2004, Tara Rangarajan of BSR and Mindy Murch of the University of Michigan Corporate and Environment Management Program conducted interviews with Dedra Wright Flourney and Tyffani Morgan Smith, Salaried Personnel and Labor Relations Managers, at Michigan Truck Assembly. Interview questions centered around 1) whether the documents were the best for verifying the Code and if they were easily accessible; 2) whether plant management saw value in conducting the human rights assessment given that Ford already audits many practices covered by the Code through existing means; and 3) how the Corporate Governance Office could best conduct the assessment without burdening facilities with additional work.

The interviews confirmed that the documentation is the appropriate documentation for verifying compliance with the Code. However, the interviews also revealed that there are several processes currently implemented by different departments within Ford to audit compliance with various aspects of the Code.

A summary of the interview questions and answers are as follows:

1. In your opinion, what is the greatest value-add of conducting human rights assessments at Ford's owned and operated facilities?

I feel comfortable that most of our facilities comply with the Code.

I think that communicating it will keep it at the forefront of people's minds. It would bring us some good publicity if people to know how we are run, but I'm not sure that it would help us improve as a facility on an annual basis. Most facilities also don't have a lot of extra personnel to dedicate to something like this.

2. When you look at the code, and imagine using it to assess current practice at Ford facilities, what are the greatest areas of non-compliance that you might predict?

Compensation and salary are regulated. Child labor is a non-issue. Forced labor is not an issue within North America. We are already unionized. I think that any issue is with salary rank and file. There have been some issues brought forward regarding this, but no decisions have been made against Ford. For harassment and discrimination, we work with Personnel on a regular basis. On a monthly basis, we have to report any new cases and what steps we take to resolve issues. They also have a hotline controlled by Personnel Relations. We have a Personnel Relations audit—they do a random sampling of our salaried employee. Hourly employees have a grievance process under the national contract grievance process. Also bargained for is a joint committee for harassment and discrimination. Within 48 hours of a complaint being filed, the team is assembled to review the issue. For health and safety, we have hourly and salaried employees devoted to health and safety. We have 2 safety engineers and 2 union health and safety representatives. They interface with regulatory. Agencies (OSHA and MIOSHA). We typically do not have citations or issues of non-compliance. We have a manufacturing balanced scorecard and safety is our #1 objective. For work hours, we make sure that everyone gets paid for the amount of time that they work—We're on max overtime with a mandatory 10 hour schedule although some people work up to 13 hours. We used to have salaried overtime pay, but now salaried overtime pay has been reduced. Most salaried people are not eligible for overtime pay. We offer people comp time off to address work/life balance issues. We aren't at 8 hours a day/40 hours a week, but we are

trying to manage a work/life balance. For responsibility and implementation, we have postings that advise employees, as there rights and that we have a zero tolerance environment. We've seen significant improvement in this area. We treat people with a fair amount of respect and dignity not only in interactions with people, but are also trained appropriately.

3. How do you think management, workers, and employee representatives at Ford facilities will view these assessments?

See above.

4. To help us understand any unique conditions at your facility, please describe how you meet each of the seven facets of the Code of Basic Working Conditions. Please speak to the policy/law that you follow and the process you use to ensure that the policy is being correctly implemented.

- Child Labor: Corporate policy prohibits child labor. Every new employee completes an application, which asks for proof of verification through I-9 form. Corporate recruiting does this for salaried personnel. For hourly people, it is maintained in the personnel jackets of the employee.
- Compensation: Hourly compensation is driven by the collective bargaining agreements (cost of living, wage range, etc.). The info is fed into payroll system. For salaried employees, it's driven by the salaried wage structure, which is available at HR On-line. Salaried employees go through an annual compensation and merit planning process.
- Forced Labor: We have a national contract and have local terms of agreement, which prohibit forced labor.
- Freedom of Association and Collective Bargaining: A board governs collective bargaining according to the National Labor Relations Act. Ford has a labor affairs department (Rick Pointer and Dennis Cirbes), which is responsible for this.
- Harassment and Discrimination: See above.
- Health and Safety: The Ford Production System includes SHARP. The FPS team goes to manufacturing facilities and assesses them (logs and track injuries, meet regularly to address health and safety issues, etc). It's an annual assessment. We have a Safety and Health Auditing Review Process. Last year our goal was to achieve a level 6. We maintained a 5.8. Level 0 is compliance with all laws.
- Work Hours: Casual overtime—the written/unwritten rule of thumb is two hours of overtime. Hourly employees work hours are managed by TWOS. For LL6 and below, there is a timekeeping system. LL5 and above don't have to record their time.

5. Where documents are housed?

- Form I-9. (ERAM is web-based)
- Salaried Wage Structure to verify non-union employee compensation and benefits. (On-line)
- Collective Bargaining agreements (Printed and publicly available)
- Collective Bargaining agreement (Same as above)
- Grievance Procedure log (Each facility has summary information)
- Employee hot-line records (Personnel relations would maintain at world headquarters)
- SHARP scorecards (Each division maintains data)
- Collective Bargaining (Same as above)
- Casual overtime agreements. (Payroll maintains timekeeping)

6. What would you suggest is most important for corporate governance to keep in mind in order to make this effort successful (both in terms of gathering information and creating a sense of partnership and shared purpose with the facilities)?

This probably falls under the Personnel office more than HR. Personnel has EEO, harassment, internal auditing. I would say reach out to Personnel first. They have to do monitoring and data collection. They would have access to employee manuals. Our HR team is down to the bare bones. You wouldn't want to make a lengthy data request to us.

7. Any other words of wisdom/advice?

No response.

On May 5, 2005, David Berdish addressed the Plant Operating Committee. Powerpoint presentation is attached.

Step 2: Site Visit

Step 2A: Management Interviews:

On September 15, 2004, Sister Mary Ellen Gondeck and Kathryn Savoie represented the Interfaith Center on Corporate Responsibility. Prior to the plant tour, we took time to explain the visit, stress the partnership aspect of the effort, and talked about how the process could be a resource to make Ford owned and operated facilities best-in-class by surfacing emerging issues, expressing concerns about human rights in manufacturing, and supporting the education around human rights issues and Ford culture.

Gary Johnson spoke of the lean behaviors and the partnership with the Local Union, and talked about leading edge methods in plant environmental quality, energy utilization and usage of hex-chrome. The Michigan Truck plant (and its next door neighbor, Wayne Assembly) contribute 80% of the tax base to the city of Wayne (more than \$12 million) and 22% of the employees live there.

Meanwhile, Mary Ellen Gondeck asked why there was only one female in Gary's plant operating committee—the conversation then shifted to the number of females in manufacturing as opposed to the females in product development or staff functions. In fact, the differences are similar to the system as a whole (female university students in industrial engineering vs. electrical engineering, for example) especially in the industry. However, Gary made sure to share that development plans and rotations that have been completed to address the female leadership potential positions.

This is the type of constructive dialogue that we can explore more so we can move from Code "compliance" to leader in Human Rights. Michigan Truck, for example, works to further its progress on its Diversity and Worklife Initiative by measuring the work that is accomplished by accomplished by the Southeast Michigan Local Diversity Councils, Corporate Diversity & Worklife Advisory Council members. The Michigan Truck team has developed a Recognition Event to show support for worklife and provide information of flexible programs/policies, including design of posters and videos for "MTP Worldclass Lifestyles", a "Balancing Career and Family Seminar", a worklife symposium and a Booth Fair to recognize employees.

Step 2B: Document Review:

Tyfanni Morgan prepared a detailed review of the critical documents that were reviewed with Mary Ellen and Kathryn as part of the pre-assessment. We were able to develop a thorough understanding of the procedures currently in place to assessment compliance with the various aspects of the code, including:

- The National UAW agreement
- The local UAW agreement
- A review of the employment numbers, including a detailed conversation about how work gets scheduled and what workers are employed (this included a good exchange regarding the Plant getting build orders from business planning). There was also discussion around overtime and how the rules are implemented.
- More conversation took place on diversity. Tyfanni explained the lack of females in manufacturing, but also talked about Vehicle Operations drive for inclusiveness and the work being done by Ford's Women in Manufacturing group, and talked through the career planning process.
- Mary Ellen asked for, and received, a description of the "hot-line" process and what happens after an employee files a harassment or discrimination complaint. Tyfanni described a process that contained the employee name, information, and disciplinary action (if any).
- We talked about the reasons for discipline and that unjust punishments are subject to peer review.
- Wages are audited through Sarbanes-Oxley

Step 2C: Plant Walkthrough:

Phil Bryant, plant FPS manager took Mary Ellen and Kathryn on a plant tour (3000 people, 4000 parts, 328 vehicles) to help them understand workflow and identify potential areas that could raise concern. FPS schedules and health and safety (SHARP) metrics were fully in view and no issues (safety, locks, etc) were identified that caused concern or could impact Code compliance.

Mary Ellen made special mention of the plant safety kiosks and that all of the critical safety, quality, delivery, cost, morale and environmental indicators were easy for everyone to see. She also made mention of the clean, bright areas and the management team was proud of the improvements made in the engine area.

Step 2D: Employee Interviews:

No employee interviews were conducted.

Conclusions

It became quite evident that Ford owned and operated facilities could comply with its own Code and that robust processes were in place to monitor compliance and provide remediation methods.

A major area of concern was around diversity, especially female inclusiveness, and that groups like "Women in Manufacturing" could enable inclusiveness.

The next steps include the release of this report to global manufacturing and then further dialogue with ICCR on what are the most value-added steps, including the possible elimination of site visits for the sole purpose of evaluating Ford facilities. Other possible actions could be around how Ford plants can provide leadership in human rights issues like diversity (Wayne), health (HIV-AIDS in South Africa) or discrimination (indigenous population in Australia) to provide a more systemic evaluation around countries (i.e., Mexico supply chain) and issues (state-owned partners in Asia-Pacific joint ventures).