

## HERMOSILLO PLANT ASSESSMENT

January 18th, 2005

### 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 Hermosillo plant was among the initial plants and the first among the Canada-Mexico-South America operations. Located in the city of Hermosillo, in the Sonora Desert of Northwest Mexico, south of the Arizona border, Hermosillo Assembly produces the Focus ZX3 & ZX5 and is expanding to produce the Ford Fusion, Mercury Milan & Lincoln Zephyr for 2006. As of 2004, the plant employs 1,802 people (1,579 as hourly employees and 223 as salaried employees).

The 1,650,307 square foot facility is able to produce about 60,664 units per year on one shift and Body area on two shifts. Production in 2003 was 72,305 units.

The plant is fully unionized with members belonging to SINTRAFORD. A review of recent press and media regarding human rights issues at the plant did not reveal any issues of concern.

### 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 Director of Human Resources, Rick Popp, 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:
  - A PeopleSoft report showing the ages of our personnel and written contracts of every employee on file to comply with employment status 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.
- Case documents in employee folders 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 August 23, 2004, David Berdish of the Corporate Governance office interviewed Jose Maria Villarreal, former Human Resources Manager at Hermosillo 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?**

Our facility complies with the Code.

This is an extension of what we're trying to do in the Hermosillo culture already. Some plants' may think this exercise is a waste of time, but you'll be surprised at the reaction here. Much of what we've done here has to do with culture. Building an industrial culture in a largely agricultural region. Creating a culture of quality and commitment in our workforce. Establishing a safe and healthy environment. Involving of all of our people in growing the business. We have a lot of "firsts" and "bests." We are at the top of Ford's North American manufacturing facilities on the yearly index of safety, quality, environment, productivity and other factors. We had another zero-accident year. We've won awards. It hasn't always been easy, but we're proud of what we've accomplished. Now we're gearing up for another "best" – the best new product launch ever. Being one of the first plants to do a Human Rights assessment is consistent with what we're trying to do here.

**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?**

Grievances are not filed. We try to establish trust at the earliest stage. Case documents in employee folders 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. There is an employee hot-line, however.

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

See #1 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. A PeopleSoft report showing the ages of our personnel and written contracts of every employee is on file.
- 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: Corporate policy prohibits forced labor. Additionally, we have a labor contractual agreement which is elaborated accordingly Mexican laws & it ensures that schedules and functions are audit regularly once per year by Government Offices.
- Freedom of Association and Collective Bargaining: A board governs collective bargaining. Case documents in employee folders to check harassment and discrimination.
- 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. Hermosillo has a long history of excellent health and safety performance. But to further improve, Hermosillo and its sister plants in Mexico conducted a "safety cultural transformation" project over the course of 18 months. Ford of Mexico employed 6-Sigma methods to measure and analyze risk exposure. Employees at all levels were involved through work groups that carried out activities such as recording near-accidents and observing high-risk behaviors. This research identified approaches to prevent, rather than react to, accidents. The initiative resulted in a 78 percent improvement in lost-time cases, and a 36 percent improvement in the severity of illnesses and injuries. Plant management received several awards, including the Mexico National Award in Labor Medicine, the Mexico National Health and Safety Award, the Ford Health and Safety Global President's Award and the Ford Motor Company Health and Safety Professional of the Year. In 2003 & 2004, HSAP achieved zero lost time accidents.
- Work Hours: Casual overtime—the written/unwritten rule of thumb is two hours of overtime. Hourly employees work hours are managed by People Soft.

**5. Where documents are housed?**

- PeopleSoft and Employee Contracts in Hermosillo offices
- 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)?**

Most important part of this assessment may be fairness. As far as the basics go, this place is running well. But what are the deeper human rights issues? Is Ford thinking fairness? How fair are we? We can prove that our wages are competitive to the market, but do they provide a fair standard of living?

Can a family of four live on this single income—basics of food, transportation and housing. Employees that make the same vehicles are on vacation in Hawaii. In Mexico, there are no vacations. These can lead to difficult conversations with third party validators and NGOs.

If Ford doesn't lead in Human Rights, who will?

**7. Any other words of wisdom/advice?**

No response.

### **Step 2: Site Visit**

On September 15, 2004, Sister Mary Ellen Gondeck and Kathryn Savoie represented the Interfaith Center on Corporate Responsibility to a trip to the Michigan Truck plant. It was there that it became 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 at all facilities. So, the question then became—how can Ford plants provide leadership in human rights issues like diversity, health, discrimination and a more systemic evaluation around countries and issues.

### **Step 3: Leadership**

- One of our first challenges when we began operations at Hermosillo sixteen years ago was building a workforce. We had agreed with the State of Sonora to hire locally. We established strict qualifications of 12 years' education and math skills to support our lean manufacturing processes. But the people we hired with that level of education had expectations of going on to college or entering management positions. After we invested three months' training, many of these workers were leaving after six months or a year.
- With a 50 percent turnover rate, we knew we had to make some changes. We modified our requirements to nine years' education, which still gave us the math skills we needed, but also gave us access to a more experienced, stable workforce. We also looked at social factors. Our workers were coming from throughout Sonora and facing a housing shortage. Ford built 500 houses -- a whole new community -- called Nuevo Hermosillo. The 600-square-foot homes, designed to blend into the community's architecture, are provided to employees on a rent-to-own basis. After eight years in service, the employee owns his or her home. Now, 93 percent of the homes are owned by employees.
- Sharing a scarce natural resource
  - Ten years ago, a lake provided drinking water to the city of Hermosillo. Beginning in 1995, drought hit the region, worsening until the lake dried up, requiring water rationing for residents of the area.
  - Because the Hermosillo plant is one of the area's largest water users, the entire plant has become more sensitive, aware and committed to saving water. Plant personnel aggressively pursued the reduction of water use and during the late 1990s, achieved a 40 percent reduction in the amount of water supplied annually by the City of Hermosillo. During some water-scarce summers, Hermosillo has turned the tables, supplying water to the city from its own wells.
  - In 2003, the plant announced that production at the plant would be expanded by 60 percent. Plant management decide to pursue a goal of "water neutrality" – increasing production without increasing water use – in light of the constrained supply and high cost of water.
  - The plant uses water for painting, leak testing and final washing, in addition to heating and cooling and sanitary uses. To offset production-related increases, nearly 53 million gallons per year of water will need to be reused, of which about 15 million gallons could be reused by the site's irrigation system and 38 million gallons in process applications. The technologies selected to achieve this include treatment of the combined sanitary and pre-treated process water by membrane biological reactor followed by reverse osmosis. The improvements will achieve water neutrality and also eliminate wastewater discharges from the Hermosillo plant.
  - Building community capacity
  - Recognizing the importance of education to a nascent middle class, Ford committed to building community schools in Mexico in 1966. The school program works through matching funds between Ford and 125 Ford and Lincoln dealers. A portion of the proceeds of every vehicle sale is marked for the school program, with the Ford Motor Company Fund matching the donation. To date, 200 elementary schools have been built and donated to the National Education System -- 14 of them in Sonora. The schools serve more than 150,000 students. More than 1.5 million children have received their elementary education in a Ford School. In 2003, Ford opened seven new Ford Schools in Mexico, restored and maintained 21 other Ford Schools and added 109 media and computer rooms, serving 45,000 children; these actions represent an investment of over \$1.6 million. We've also found that the formation Ford Schools tend to encourage the development and creation of other schools and community infrastructure.
  - Along with the bricks and mortar, the Ford program has also provided training courses for principals and teachers. Supported by the Universidad Anahuac, the program has graduated

160 principals and is currently training 1,600 teachers. These efforts directly affect more than 72,000 children.