

# THE FORD APPROACH TOWARDS HUMAN RIGHTS AND BUSINESS INTEGRATION<sup>1</sup>

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## Human rights issues addressed

- Supply chain management
- Working conditions
- Sphere of influence

## Human rights management practices discussed

- Getting started
- Strategy
- Policy
- Process and procedures
- Communication
- Training
- Measuring Impact and Auditing
- Reporting

## Human rights standards, tools and initiatives mentioned (beyond the Global Compact)

- Universal Declaration of Human Rights
- ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy
- OECD Guidelines for Multinational Enterprises
- Global Sullivan Principles of Social Responsibility
- Automotive Industry Action Group (AIAG)
- Standards of the Fair Labor Association and International Metalworkers' Federation

## Abstract

This case study illustrates how Ford has systematically integrated considerations of human rights to management systems and operating procedures in the period of time from 2000 to 2009. Ford has defined quite clearly the relationship of human rights and business policy both in theory and in practice. The case study addresses particularly the first two UN Global Compact principles in placing special emphasis on sustainability policies and challenges in the context of supply chain management. It also elaborates on Ford's leadership role in bringing both the issues and potential solutions to the global automotive industry in an effort to expand and maximize the leverage within the company's sphere of influence through collaboration with other actors. The case study concludes with a passage on lessons learned and an outlook on the future of sustainability work at Ford.

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<sup>1</sup> NB: Appendices and figures are available for this case study in the online version, found here: [http://www.unglobalcompact.org/data/ungc\\_case\\_story\\_resources/doc/52B9FD96-DCA7-46A5-8DB8-B75D342AD218.pdf](http://www.unglobalcompact.org/data/ungc_case_story_resources/doc/52B9FD96-DCA7-46A5-8DB8-B75D342AD218.pdf)

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## **1. Company Profile**

Ford Motor Company is a family company founded in 1903 by Henry Ford. His idea was to combine mass production with mass consumption to produce sustained economic growth on socially just grounds. By linking mass production of affordable automobiles using the assembly line to high wages for his workers, Ford had the vision to foster material advancement and peace. From the beginning Ford identified those potential opportunities which embodied morally correct business.

Through a century of significant change, especially in recent years, Ford has maintained a commitment to social justice and human rights within its corporate culture and, as an employer, affords its workers fair and just working conditions from a moral as well as a business point of view.

As has been highly recognized in literature and business reviews, business value is derived from responsible working conditions. A safe and healthy workplace in which people are treated with respect internally promotes employee satisfaction which, in turn, increases productivity and decreases quality issues. Advocating human rights externally within the communities Ford serves illustrates the company's trustworthiness to the consumers. Trustworthiness is a central value that contributes to reducing reputational risk and shapes business opportunities. The close cooperation Ford has had over the years with its corresponding labour unions is a demonstration of the good relationship with its employees.

Today, Ford Motor Company, based in Dearborn, Michigan, manufactures and distributes automobiles across six continents. The company has about 205,000 employees and runs 90 plants worldwide; the company's automotive brands include Ford, Lincoln, Mercury and Volvo. Besides those companies it owns and operates, Ford has relationships with over 2,000 production suppliers that operate at over 5,500 manufacturing sites and that produce 130,000 parts for inclusion in the vehicles the company sells. In addition, Ford purchases other non-production supplies, including services, marketing, construction, computers, industrial materials, health care and machinery from over 9,000 suppliers. Overall, the company spends over \$90 billion globally per year on production and non-production purchases.

Ford has a Code of Basic Working Conditions to which it expects all owned and operated sites as well as all suppliers to adhere. The company has established programs to communicate expectations for human rights standards on various levels, to provide factory-level training for supplier compliance, and to evaluate the performance of suppliers.

## **2. Ford and Human Rights**

Ford initiated formal acceptance of human rights as a core element of its sustainability strategy in 2000. At that time, multinational companies were increasingly coming under public scrutiny. The substantial power of the MNE at the end of the 20<sup>th</sup> century was accompanied by accelerating globalization and hastening environmental change. Public awareness about corporations' social responsibility rose perceptibly. As a consequence, the topic of CSR expanded increasingly into business consciousness. Ford as a global company – with customers, business partners and suppliers located in all regions of the world – clearly was affected by this new development. In response, Ford engaged in a three-day dialogue with internal (Human Resources, Manufacturing, Purchasing, Office of the General Counsel) and external (Interfaith Center on Corporate Responsibility (ICCR), Business for Social Responsibility (BSR), OXFAM, and Amnesty International) stakeholders to clarify how and to what extent it could answer these challenges. Parallel to the stakeholder dialogue, the newly established Sustainable Business Strategies office compared initiatives developed by other leadership companies in the field of Corporate Citizenship (Levi-Strauss, Disney, McDonalds, Nike, and Novartis) in order to learn from exemplary good-practice cases. As a result of these efforts, Ford identified two main dimensions of responsibility: climate change and human rights. Since then, Ford has undertaken

numerous initiatives with regard to environmental issues;<sup>3</sup> this case study focuses on Ford's human rights activities.

Based on the results of the stakeholder dialogue, in 2003 Ford began implementing a Code of Basic Working Conditions (CBWC) which was then formally adopted in a revised version as a Policy Letter in 2007. The Code [see Appendix 1] is the foundation of Ford's work in its own operations, supply chain and its collaboration with others in the industry. The original publication of the Code covered workplace issues such as child labour, compensation, forced labour, freedom of association and collective bargaining, harassment and discrimination, health and safety, and work hours as well as responsibility and implementation. The 2007 revision further articulates Ford's commitment on additional key issues such as community engagement and indigenous population, bribery and corruption, environment and sustainability. Therewith, it stands as a general endorsement of human rights frameworks and charters, such as the UN Universal Declaration of Human Rights; the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy; OECD Guidelines for Multinational Enterprises, the Global Sullivan Principles of Social Responsibility, and the standards of the Fair Labor Association and International Metalworkers' Federation.

Ford's CBWC applies to its own facilities as well as to those of its joint venture companies and suppliers. Since 2004, Ford has conducted 41 formal assessments of Ford facilities, four of which were joint-venture facilities. Ford has assessed between four and six owned and operated plants per year. The sites are selected by Ford's Sustainable Business Strategies and Supply Chain Sustainability functions based on the sites' impact on Ford's supply chain, emerging issues and the views of nongovernmental organisation representatives and human rights activists.

The process of assessing Ford's facilities includes a questionnaire to be completed by facility management and a detailed review of documents related to the full range of working conditions issues (e.g., collective bargaining agreements, grievance procedure logs, employee hotline records and health and safety audit reports). The findings of the questionnaire and document-review serve as the basis for interviews with facility management. In particular cases in which there seem to be systematic failures in procedures, the assessments also include facility visits. The findings of the assessments are initially shared with neutral third party human rights organisations (such as ICCR) and then published on the Ford Web site.

In April 2008, Ford joined the United Nations Global Compact and was invited to join the Global Compact's Human Rights Working Group as a representative of global industry. It is the only automotive company participating on that group. The Working Group aims to: improve dialogue with governments; build capacity on business and human rights generally and on particular human rights issues; foster collaboration with partners, including nongovernmental organisations; and work with business and human rights experts to share methods and approaches.

Ford has also developed a range of processes to ensure that the operations of its business partners and suppliers are adhering to the CBWC in practice. The next paragraphs describe the key actions Ford has taken to integrate human rights systematically into supply chain management.

### **3. Human Rights and Supply Chain Sustainability**

Ford's suppliers are located all around the world. Its complex global supply chain encompasses several thousand supplier facilities that employ around a million people [see Appendix 2]. The legal structures governing working conditions and the level of enforcement vary widely across the countries

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<sup>3</sup> Cf. Ford's current Climate Change Report: <http://www.ford.com/doc/fordReptBusImpClimChg.pdf>.

in which the suppliers operate. Ford's aim is to ensure that its suppliers' business is consistent with the local law and aligned with Ford's own CBWC. Compared to the implementation of human rights considerations into plants owned and operated by Ford, this work demands more effort as Ford has relatively less visibility to suppliers' facilities, particularly at the sub-tier level.

In order to effectively promote human rights and proper working condition in the supply chain, Ford established the Supply Chain Sustainability (SCS) group in 2002. The SCS group sits within Ford's Global Purchasing organisation and is responsible for providing local factory trainings and assessments for global supplier sites, directly engaging at the corporate level with strategic suppliers and driving industry collaboration on supply chain conditions. The group does also manage emergent environmental issues relevant within the supply chain. The SCS group consists of four full-time employees located at headquarters in Dearborn and four regional leads based within the regional business units in Brazil, Germany, India, and China. With the exception of the China-based position, all the regional leads are on rotation and come from traditional business positions such as buyers, quality engineers and program managers. Within a reasonable period of time in which they build competency and experience, these individuals rotate back into a traditional Purchasing role, taking their new expertise with them to further apply within the context of the business.

Ford's Supply Chain Sustainability concept consists of a three-pronged approach containing: (a) the engagement with individual supplier facilities, (b) the engagement with key suppliers' corporate management and (c) collaboration within the Automotive Industry.

### **Engagement with Individual Supplier Facilities**

As part of the global terms and conditions that govern Ford purchase orders, suppliers are prohibited from using forced labour, child labour and physical disciplinary abuse, and they must abide by the local laws in the countries where they operate. These requirements were established in January 2004 for production suppliers and in September 2005 for all others. The Global Terms and Conditions serve to set the expectation that suppliers will work toward alignment with Ford's CBWC in their own operations and their respective supply chains. The conditions point out Ford's right to perform third-party site assessments and stipulate that Ford can terminate the relationship for a supplier's non-compliance.

The primary focus of Ford's work on human rights in its supply chain is building capability among its suppliers to responsibly manage working conditions. Ford has developed and delivered tailored training programs for Ford suppliers in cooperation with the *Automotive Industry Action Group* (AIAG), a North American member-based, non-profit industry group specializing in supply chain issues. By interacting with managers from human resources, health and safety, labour affairs and legal departments of participating companies the training workshops emphasize the interpretation and application of legal standards, international best practice and stress the vital importance of sound management systems to govern factory working conditions.

Supplier training sessions are customized and consist of a day long interactive workshop facilitated in the local language by qualified trainers and lawyers with local expertise. The workshops involve multiple automotive suppliers to encourage peer-learning. Additionally, the training includes a required communication cascade in order to provide for similar learning within the plant management and on the plant floor by all workers. Direct sub-tier suppliers will also receive an information cascade following the training course. The training is mandatory for all Ford suppliers and the training requirement is not considered fulfilled until evidence of the training cascade has been submitted back to Ford within four months of the actual course delivery.

Since the launch of the program in 2004, Ford has trained 1,621 managers at 1,317 supplier companies. These suppliers have moved on to the process of self-assessing their facilities for compliance with local law and Ford's expectations. Now they are completing the final stage of the program,

which is communication to both workers and their own suppliers on the topic of working conditions expectations. Ford focuses its training program on the seventeen countries it previously identified as having higher risks of substandard working conditions.<sup>4</sup>

While communicating Ford expectations and building supplier capability, Ford has also conducted more than 550 assessments of existing and prospective suppliers in twenty countries.<sup>5</sup> The assessments provide feedback to Ford and suppliers about how well they are meeting legal requirements and Ford's expectations – creating a baseline for development discussion with suppliers in that country. They also inform training content and provide insight into the effectiveness of Ford's training programs. Assessments consist of a detailed questionnaire, a document review, factory visits, as well as management and employee interviews, and are conducted by external auditors.

#### Labour Issues Discovered

In the 550+ assessments conducted since 2003, findings have supported Ford's chosen approach of supplier development and capability building. The assessments revealed that suppliers did not always have a clear understanding of the local laws, which resulted in unintentional breaches. Generally, there was no evidence of forced labour or physical disciplinary abuse among these supplier plants. However, the assessments revealed a wide range of observed issues connected to inadequate health and safety conditions at the working place accompanied by inadequate emergency systems. In some cases, wage-related infractions were identified. At times, these were related to inadequate or inappropriate timekeeping systems resulting in a failure to pay correct overtime wages. In other instances, suppliers failed to pay the correct local minimum wage or to provide the correct social insurance. Some situations are complicated further by the use of sub-contracted labour; it is difficult in these cases to identify responsible parties for labour non-compliances. Limited or restricted access to appropriate documentation regarding subcontracted labour was also evident in this context. The right to freedom of association is difficult to verify. While all assessed suppliers had either union representatives or a grievance process, there may be issues that are not effectively identified through the assessment process. For this reason, Ford continues with its commitment open dialogue and engagement with suppliers through a developmental process.

Ford continues to assess its suppliers to develop and implement appropriate corrective action plans and pertinent capability building measures. Through the process of assessment and capability building, Ford has the opportunity to encourage change throughout the tiers of suppliers and affect positive change more broadly.

A limitation found during Ford's experience with supplier site assessments is that although individual factories are capable of change, they are often managed or under the direction of corporate offices located distantly in other countries. These are often one of many sites linked back to a multi-national corporation that controls policy and dictates management system structure. Unless these corporate entities are engaged in dialogue and systems evaluation, Ford found that they were unable to affect meaningful and systemic change.

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<sup>4</sup> These identified higher risk countries are the following: **Americas:** Argentina, Brazil, Colombia, Mexico, Venezuela; **Asia and Africa:** China, India, Korea, Malaysia, the Philippines, South Africa, Taiwan, Thailand, Vietnam; **Europe:** Romania, Russia, Turkey. Locations were identified based on production and sourcing trends; sales trends; and relative perceived risks based on the input of human rights groups, companies' experience and other geopolitical analysis.

<sup>5</sup> Among these are the above mentioned higher risk countries plus the three **Central American** countries Honduras, Dominican Republic, and Nicaragua.

## Engagement with Key Suppliers' Corporate Management

Ford has established long-term, strategic relationships with a select number of suppliers. Relationships with these suppliers are structured through Ford's Aligned Business Framework (ABF). The bilateral ABF agreements comprehensively and formally spell out 22 key business commitments for both Ford and the ABF suppliers. The agreements thoroughly articulate business practices designed to increase future collaboration, including phased-in upfront payment of engineering and development costs, extended sourcing and data transparency. As part of the agreement, Ford increases the volume of business with select suppliers. Another element of the ABF agreement is the commitment by suppliers to manage and assure proper working conditions and responsible environmental management in their facilities and in their supply chain. ABF suppliers must also adhere to Ford's Global Terms and Conditions.

Ford is facilitating this ABF commitment to responsible supply chain management through a three-phase process, in which ABF suppliers are asked to:

- 1) Articulate clearly expectations and standards for working conditions by establishing a code of conduct covering working conditions and environmental responsibility throughout the value chain.
- 2) Promote these working conditions standards in its wholly owned facilities, with joint venture partners, and with suppliers throughout its value chain through training and compliance processes.
- 3) Drive environmental performance in its wholly owned facilities, joint venture partners and with suppliers throughout its value chain through responsible environmental management systems.

Each supplier identifies an executive to lead the development of its code and supporting processes. It is the responsibility of the executive lead to report corporate progress against established metrics to Ford. Since the ABF program began in 2005, Ford has approved a total of 65 ABF suppliers, ten of which are owned by minorities or women.

In order to facilitate Tier 1 supplier ownership for responsible supply chain management, Ford has committed to providing suppliers with a range of support and assistance based on its experience in this area. Ford has developed an in-depth resource guide to give suppliers information and background on human rights, generally, and on the development of their own codes, specifically. It is sharing the developed training materials, as well as information and developmental guidance on its compliance and training processes. Finally, Ford has committed to working with suppliers to help resolve issues and concerns.

The ABF agreement enables Ford's strategic suppliers to take greater responsibility in ensuring proper working conditions. It is an evolutionary step from "encouraging" to "expecting" suppliers to adopt a working conditions code similar to Ford's and to develop training and compliance systems for their internal facilities and supply chains. For Ford, the advantage of entering into arrangements based on shared commitments is a reduction in the number of suppliers and an improvement in the overall management of the supply chain since the supplier's working conditions programs can be managed in a resource-effective fashion rather than Ford micro-managing supplier performance by conducting assessments at all the individual supplier sites to verify compliance. The consequence is a clearly arranged business model that increases mutual profitability, drives innovation and reduces the risk of operational or reputational problems through a robust sustainability management system. The ABF leverages Ford's efforts to manage human rights and environmental responsibility issues in its supply chain in a more collaborative, in-depth, integrated and aligned manner.

## Collaboration within the Automotive Industry

Ford's work with supply chain working conditions has always been set in the context of a long-term vision inclusive of the automotive industry as a whole. This vision includes convergence on a set of common human rights expectations and collaborative action to ensure that these expectations are met throughout the supply chain. Both the work with Ford specific suppliers and within an industry context has been proactive, without specific pressure from outside of the industry. This proactive position has enabled innovation and creative space for Ford and other automotive companies – as well as the luxury of developmental time to benchmark progress in other industries so as to avoid common pitfalls.

Therefore, Ford has initiated a cooperative industry initiative on human rights and working conditions issues through the Automotive Industry Action Group (AIAG), beginning in North America and now extending to global manufacturers. Ford wants to bring together all the major automakers to adopt a strong, consistent approach to protecting human rights in the automotive supply chain.

The underlying idea is that all participants in the supply chain – from the original equipment manufacturers (OEMs) such as Ford, to the suppliers themselves, to the government agencies that set and enforce the regulations governing operations – must be involved to make these efforts sustainable. Such collective action will not only minimize costs and increase efficiency for OEMs and suppliers alike, but will lead to better results than if individual companies take steps in isolation. Especially important for this process is the dialogue to compare, learn, and receive feedback about each company's own initiative.

Within the AIAG, Ford has approached collaboration with what would otherwise be known as competitors with an “open book” on human rights and working conditions issues – sharing strategy, rationale and implementation tools. Ford has placed a subject matter expert on loan at the AIAG offices to lead the work as well as share Ford learnings. Materials developed within Ford to promote responsible working conditions have been offered to the group as a platform for use and development. In 2005, Ford, General Motors, Chrysler and the North American offices of Honda and Toyota began work to explore a cooperative industry approach to promoting decent working conditions in the supply chain.

Participants in the initiative have created a set of guidance statements to establish a collective industry position on key human rights and working conditions issues. The statements are based upon the core elements of individual companies' codes and policies, joint codes created by other industries as well as key international standards, and they cover child labour, forced labour, freedom of association, harassment and discrimination, health and safety, wages and benefits and working hours. These statements serve as a baseline agreed upon by all the participating OEMs and are used as a platform for common trainings.<sup>6</sup>

In 2006 and 2007, the sponsoring OEMs from the AIAG launched joint factory-level training workshops in China and Mexico respectively. All training materials were based upon Ford-developed trainings. With the support of the AIAG and endorsement from the China Association of Automobile Manufacturers (CAAM), the mandatory training in China reached 461 Tier 1 suppliers to date across three OEMs. In turn, the information and expectations from these training sessions were cascaded to 21,799 people (managers and workers) at the Tier 1 supplier level and to more than 2,100 Tier 2 suppliers.

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<sup>6</sup> For further information, see the AIAG website: <http://cr.aiag.org/>

The OEMs participating at AIAG engaged stakeholders and further developed training materials before the launch of a training program in Mexico in 2007/2008. The work in Mexico was partially supported by an US\$185,000 grant from the U.S. State Department to Business for Social Responsibility, a non-profit group that works with companies to advance responsible business practices. This public-private partnership enabled the building of relationships with local industry associations, the Mexico national government and domestic suppliers in Mexico. As of the end of 2008, a total of 494 Tier 1 suppliers across five OEMs participated in the Mexico training. In turn, the information and expectations from these training sessions was cascaded to 44,833 people (managers and workers) at the Tier 1 supplier level and to more than 5,600 Tier 2 suppliers.

In the process of conducting localized, factory-level training, the automotive companies came to the same realization collectively that Ford had found previously – engagement at the corporate level is required for systemic enhancement of supply chain working conditions. In December 2008, the AIAG and the five participating OEMs organized two pilot working conditions training sessions targeted at senior management from the procurement organisations of their top supplier companies. The AIAG is actively evaluating further opportunities to expand these corporate engagement offerings in 2009/2010 in a cost and resource-effective manner.

#### **4. Main Challenges and Solutions**

After having described the main human rights initiatives, this section presents Ford's major challenges during the process of integrating human rights into its business. It shows how Ford dealt with (a) challenges at the beginning of establishing the Code of Basic Working Conditions (CBWC) and discloses how Ford currently handles struggles within (b) the Supply Chain Sustainability (SCS) group as well as within (c) the Automotive Industry Action Group (AIAG).

##### *(a) CBWC*

###### Challenges

Implementing an initial Code of Basic Working Conditions (CBWC) which included all the main business practices relevant to human rights was a significant challenge. In the beginning of the process, there were several internal organisational issues around the governance and organisation of the management systems requirement. Leaders in manufacturing, labour relations and purchasing all had valid reasons to “own” the policy. Of course, several argued whether the Code was needed at all since Ford was almost fully unionized, and cynics felt the Code would provide more power to the unions. Another concern was the real need of a Code for an automotive company that was under consistent scrutiny for its environmental footprint. The struggles were to find the right answers to critical questions from internal management and staff, such as: How does such a Code sell cars? Do we have the essential resources to implement it successfully? Does such a Code incur more costs than it generates benefits? Doesn't the increased transparency make Ford more vulnerable to critics? What are the legal consequences? Such questions were still very fundamental and widespread amongst senior management at the beginning of Ford's proactive human rights engagement in 2000. In fact, derivations of the questions can still emerge almost a decade later, as economic struggles dictate the need to evaluate all functions that are not “directly” connected to the business. Fortunately, the Code is integrated into the business practices, so the issues that may challenge do not linger, and management agrees that leadership in Human Rights is an important part of the overall sustainability strategy.

###### Solutions

Concerning the internal CBWC implementation, it was essential to stress the business case of human rights from the very beginning. The responsible persons in the Sustainable Business Strategies had to clearly point out that both traditional business values – such as risk management, cost efficiency, output effectiveness – and new business opportunities are directly linked to sustainable corporate citizenship engagement. It also was very useful to include the corporate legal team from the very beginning

of the human rights implementation process to avoid getting stuck in small but important juridical detail questions. Through intense and persistent work, Ford's senior management was convinced about the necessity and profitability of stronger alignment between Ford's business interests and human rights. Since abstract human rights terminology sometimes was an obstacle for intelligible communication, communication was improved by breaking down the term to its concrete meaning and placing it in the context of working conditions. It was important to explain the direct correlation between employee safety and product quality as well as the effect of trustworthiness to secure reputation and license to operate in low cost markets – including better understanding of legal and regulation.

## *(b) Supply Chain Implementation*

### Challenges

Another main challenge in Ford's implementation process was the division of roles, responsibilities and accountability between the newly established Supply Chain Sustainability (SCS) group and the more traditional roles of the Global Purchasing organisation in which the SCS group was embedded. The SCS group objectives have been to engage with suppliers only on matters related to human rights, working conditions and environmental sustainability. The commercial aspects of supplier relations – such as purchasing decisions and supplier quality evaluations – remained separate with buyers and quality engineers. This separation of responsibilities limited SCS staff in their ability to integrate supply chain compliance consistently with other business considerations since they are removed from the day to day interactions between buyers and suppliers. Likewise, though buyers and quality engineers have the most contact with suppliers they were often not engaged in evaluation of a supplier's performance against working conditions expectations. The consequence of this division was a disconnect on company priorities and misaligned communication to suppliers. The lack of aligned objectives fostered an inability to see the relevance of working conditions performance metrics to the business relationship – for both suppliers and buyers.

Working alone as individuals within an entire geographical region of suppliers, the SCS group of eight employees was understaffed for the task of systematically integrating human rights considerations within Ford's Global Purchasing organisation. The SCS group has to provide oversight of a large population of 5,500 production suppliers, approximately 2,000 of which are located in high-risk markets in terms of human rights and working conditions. This makes a rough ratio of about 500 sites per staff (four staff dedicated to site management). Thus, the group has faced internal challenges with capacity without optimal integration in business processes.

An even broader challenge exists concerning the implementation of aligned human rights objectives and corresponding activity across functional departments and regional offices within Ford's large international organisation. Faced with regional business units operating somewhat autonomously in a global, decentralized environment, the challenge of integrating SCS objectives homogeneously into purchasing decisions is considerable.

### Solutions

The SCS group is working to overcome both geographic and functional barriers through internal alignment efforts such as internal training, evaluation tools, structural changes and reporting lines. Ford is currently trying to integrate SCS priorities into routine purchasing practices starting with aligning the CBWC objectives across the entire Purchasing structure and making sure that those objectives are translated to the regional business units. In this context, objective-setting is conceived as the first step towards determining the roles and impacts that individuals have in fulfilling human rights standards and ensuring that these are effectively communicated and incorporated into their daily responsibilities. Buyer and quality engineer attendance at supplier assessments and training is becoming an increasing occurrence and greatly increases supplier responsiveness. All communications with suppliers on human rights progress – training or assessments – now also includes copy to business relationship contacts to reinforce the connection to the business and sourcing decisions. Their involvement also creates a more reasonable site-management workload for the SCS staff.

A concrete step towards integration is the modification of the already existing *supplier quality evaluation*. At the moment, all business units regularly evaluate suppliers based on quality, cost and delivery performance. These quality scorecards are reviewed regularly and are the basis upon which future buying decisions are made. Environmental criteria are already incorporated into this evaluation. However, suppliers are currently evaluated separately on human rights and working conditions performance. In order to avoid two separate evaluations, Ford plans to use the supplier quality evaluation process as tactical connection to SCS objectives. Establishment of two-way data feeds between quality and working conditions management systems is considered a potential solution to ensure ongoing, consistent integration of SCS and business objectives in supplier performance review and relationship management.

Ford's approach to greater internal alignment is a *matched pairs system* launched within its product development and purchasing departments. In this system, not only are the strategies of the two departments aligned, but members of each department are paired with members of the other so that decisions are made in tandem from the beginning. This system leads to an alignment of the two departments and shared cost objectives and supplier dialogue in order to improve interaction with suppliers by allowing them to directly engage at the right level. For example, supplier feedback on difficulties related to manufacturing certain parts or human rights specifications can go directly to the team that made those decisions and which has the ability to adjust them. This approach provides an ideal opportunity to ensure clear, consistent messaging to suppliers from all points of contact within Ford including the Supply Chain Sustainability office. It may also provide an opportunity for Ford to internally align human rights objectives among Ford employees across two separate organisations (Product Development and Purchasing).

In order to achieve ongoing impact on the local supplier level, the employees' attendance to working conditions training as well as the complete results of third-party assessments are reviewed regularly by the SCS regional managers and local business management. These established *periodic reviews* of regional supplier performance are essential to generate dialogue and awareness around major supplier human rights issues. The headquarter SCS team shares reports on high-risk human rights issues, specific supplier progress and trends observed with local management, as well as with overall executive management on a quarterly or as needed basis. Aggregate regional results are also reviewed by all executive management quarterly at the Global Purchasing Operating Committee review.

It should be noted that Ford is attempting to find solutions within existing and emergent business activity. Current times are full of change for the automotive company as the North American auto sector transforms itself to meet the needs of the future. Opportunities for integration of sustainability considerations to overall business restructuring plans are numerous. New and possibly tangential initiatives are likely to be viewed as a "flavour of the month" and less likely to find success.

### (c) *Industry Collaboration*

#### Challenges

A third main field of challenge lies within the efforts towards industry collaboration at the AIAG. As with any collaborative work with supply chains in the United States, Europe or other areas, anti-trust considerations limit the type of information shared. Due to the AIAG's extensive experience in dealing with these considerations, the collaborative automotive sector work has not suffered significantly. The challenge exists in the extra layer of confidentiality inserted to data management which does cause delays in response to suppliers and overall communication.

Another challenge faced in current days is within the financial structure of the AIAG workgroup. All participating OEMs fund the common training offered in specific geographies so as to avoid financial burden on the suppliers. In addition, development and maintenance costs are carried by the OEMs. With the current economic stress and industry downturn, these monies are constrained.

Furthermore, the work of the AIAG is strongly marked by cultural differences in each of the OEMs (referring to both company and national cultures). These cultural differences affect the way that the individual companies communicate with suppliers and operate internally. Finally, broader participation by other automakers and eventually dominant Tier 1 suppliers will be needed to achieve an industry-wide approach to promote decent working conditions in the automotive supply chain.

#### Solutions

Ford expends considerable effort in the development of additional resources and networks that will ensure the successful communication of working conditions expectations throughout the automotive supply chain. Effective data management and overall organisation by a third party such as is provided by the AIAG is crucial to the progress of work related to promotion of human rights in the automotive supply chain. Increasing supplier ownership of working conditions issues can be achieved through an expansion of engagement opportunities – in the form of development of e-learning programs and easier access to direct engagement in the AIAG.

Active outreach to others in the automotive supply chain – including global automakers and heavy truck manufacturers, industry associations, major automotive suppliers and cross-sectoral initiatives – can serve to expand the training program both in scope and impact. Partnerships will be key to the AIAG effort going forward with above mentioned parties. These partnerships will also provide creative funding solutions and less resource intensive training delivery mechanisms that will alleviate the financial constraints that may otherwise be placed upon the group. The evolution of public policy in both the US and Europe is also anticipated to instigate increased participation from diverse players in the automotive supply chain including other global OEMs. It requires patience and compromise to find common ground upon which to base activity while still affording the individuals in the group the liberty to manage human rights issues in a way that is aligned with their companies' process, procedures and culture.

## **5. Lessons Learned**

Ford has learned much over the years from their human rights implementation process and they continue to learn as their work evolves to meet the changing needs of the business and global communities. Important factors have enabled progress and integration of human rights in Ford's supply chain and can be formulated as recommendations for others pursuing integration of human rights to company policy and procedure.

#### Secure Executive Support

Supplier's senior management must be convinced of the importance and benefits of business integration of human rights considerations. Direct communication from top "customer" executives to top supplier executives on this issue during meetings and other engagement opportunities has been especially meaningful; often, incorporation of this topic to standard business meetings can be especially effective at conveying importance on par with other business considerations.

#### Establish Central Supplier Information Management

A central database and consistent metrics for supplier compliance are keys to ensuring the validity and accessibility of data. This reduces variable communications and potential internal inefficiency and ensures that the same level of scrutiny is being applied across the board. In order to provide constantly updated, consistent information, Ford has established central information management and will continue to develop this system internally and integrate with existing supplier information management systems.

#### Build Individual Expertise

The Ford Purchasing structure encourages internal staff rotation so that individuals have the opportunity to develop new skills and share their expertise with other departments. The regional SCS and purchasing groups have staff members coming from and moving to different departments. This internal mobility allows for increased information sharing, communication and collaboration at both the individual and departmental levels.

#### Empower Regional Managers

Having regionally and centrally based SCS staff with reporting lines into the Global Purchasing headquarters enables the regional managers to communicate supplier issues from “bottom to top” in a direct and efficient fashion. Regional SCS managers are fully integrated in their business units and well-connected to the central SCS group. They offer a unique possibility for ensuring that SCS global objectives have local influence as well as able hands on the ground who can translate those objectives into purchasing practice. In turn, via the connection to headquarters, Ford ensures that the local concerns of the regional managers will not go unheard.

#### Communicate Intelligibly

The SCS department strives for consistent and clear communication about the program, supply chain issues, and overall importance to Ford’s strategy. This increases the strength of its message, allowing it to be better heard by both internal and external audiences. Both management support and possession of a standardized, comprehensive source of information contribute to SCS’s long term success. All global staff uses the same centralized communication, assessment and training materials with local customization, including translation, as required for effectiveness.

A clear insight identified early during the implementation process was that it is better to speak in terms of working conditions instead of human rights when beginning internal and/or external dialogue within the industry and to make clear and practical remarks concerning the implementation of proper working conditions. Further discussions can explore the relationship between working conditions and human rights. Working conditions are an identifiable starting point for productive dialogue.

It was important to find a communication balance between Ford’s expectations and the suppliers’ local understandings of business. In this regard and others, Ford attempts to avoid paternalistic behaviour and rather puts focus on a supplier’s individual responsibility and accountability.

#### Build Long-Term Supplier Relationships

Ford establishes comparatively long-term relationships with suppliers and is taking this to a new level with ABF suppliers as described. This leads to increased openness, dialogue and a partnership attitude. In the absence of a punitive approach, suppliers are more willing to collaboratively discuss challenges and solutions. The nature of supplier relationships found throughout Ford’s supply chain enabled a program of social compliance based upon training and capability-building.

#### Stress Connection Between Working Conditions and Economic Output

There is increasing anecdotal evidence that a company’s efforts to address working conditions, environmental challenges and other sustainability issues are good indicators of its management’s leadership capabilities and overall long term success. Ford is beginning to see the same within those leadership companies involved in the Aligned Business Framework. To further their ability to quantify and communicate this connection, Ford is further exploring the correlation between quality and working conditions to demonstrate a stronger business case for supply chain sustainability management.

## **6. Outlook and Conclusion**

True integration of human rights is a long-term process that requires patience and endurance. After starting discussions in 2000, the first implementation of the CBWC was achieved at the parent company in 2003. This code was then revised based on feedback in 2007. Meanwhile, the code was inte-

grated systematically into supplier terms and conditions, communications and purchasing practices. Finally, the industry collaboration within AIAG was and still is the overall pivotal success factor that will enable Ford's human rights work to sustainably impact the global automotive supply chain.

Throughout the implementation of human rights at Ford, it has been important to have a clear overall understanding of sustainability at a strategic level that is the same for both owned and operated sites as well as for the supply chain. Another major insight for Ford is the need to integrate human rights objectives into purchasing processes, decision making and evaluation so that the integration of sustainability policies to overall business strategy can be a meaningful exercise. The application of continual improvement processes is essential including evaluation of program impact and success. The resultant gap analysis must be addressed in a timely fashion and it is anticipated by Ford that continual training and education – both internal and external – will be a primary vehicle for closing gaps identified.

Much of Ford's future efforts in the context of business and human rights will lie in further enhancement of the work within the AIAG. Ford will continue to conduct its own training and assessment programs in countries not covered by AIAG programs and will continue promoting accountability and leadership behaviours within the Tier 1 supply base through the ABF. Furthermore, Ford will seek ongoing opportunities to strategically leverage its assessment data and training processes to improve its overall approach to working conditions and environmental responsibility in the automotive supply chain. Clear, consistent communication that support responsible working conditions will be a key component of Ford's continued work.

In addition, Ford constantly monitors approaches developed by other organisations and industries in order to incorporate what they have learned. This is also viewed as an opportunity to avoid duplication in the development of tools and resources and to alleviate the burden that any one company or industry may carry for common supply chains. Ongoing information sharing and discussions are important in enabling further alignment in identifying cross-functional and cross-industry priorities and human rights objectives.

This case study has shown that the formal integration of the human rights dimension in business has contributed to an enhancement of business process within Ford and improved the ability of suppliers to address working conditions at both the policy and operational levels. Today it is very unlikely to find a manager at Ford who would deny the meaningfulness of human rights in the context of business.

In spite of the economic slowdown, Ford's supply chain sustainability activities have not been affected by minimizing cost strategies primarily because an integrated objective of the SCS work is the identification of cost-sharing and resource effective opportunities within the larger context of the automotive industry as well as other industries which cross-sect automotive – electronics, textiles, extractives, etc. Ford conceives its commitment to human rights not as an impediment to doing business, but as a strengthening factor to be incorporated to new business frameworks.

Ford Motor Company benefits from its ethical business culture. If one considers the current situation of other automakers in the global economic slowdown, one recognizes that doing business in an ethical and transparent manner may contribute to economic viability. The attitudes of senior management exemplify Ford's commitment to sustainability: Ford recognizes that its products “no matter where they are made – are manufactured under conditions that demonstrate respect for the people who make them,” according to Tony Brown, Group Vice President of Global Purchasing, “This is just as important as quality, cost-competitiveness or timeliness of delivery.”