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Company report review

Ford

Sustainability Report 2004/05 'Our route to sustainability'

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Contents

1	Company background	3
2	Reporting practices	3
	2.1 Materiality	3
	2.2 Transparency	3
	2.3 Comparability	4
	2.4 Assurance and verification	4
3	Management structure	4
4	Review of core issues	5
	4.1 Mobility	5
	4.1.1 Position	5
	4.1.2 Programmes	5
	4.1.3 Performance	5
	4.2 Climate change	6
	4.2.1 Position	6
	4.2.2 Programme	6
	4.2.3 Performance	6
	4.3 Human rights	7
	4.3.1 Position	7
	4.3.2 Programme	7
	4.3.3 Performance	7
5	Ethical Insight's comment	8
6	Appendices	9
	6.1 Maplecroft's Ethical Insight report review criteria	9
	6.2 Previous Ethical Insight report reviews	10
	6.3 Ethical Insight's sustainability reporting services	11

Note

This review is based on information contained in the PDF download 'for print' version of Ford's [Sustainability Report 2004/05](#). The section of the review on climate change also takes into account Ford's more recent report on [The business impact of climate change](#). This review is intended as a summary only and does not provide full and complete discussion of all the issues contained in the report.

1 Company background

Ford Motor Company, based in Michigan, US, manufactures and distributes automobiles in 200 markets across six continents. With about 325,000 employees worldwide, the company's core and affiliated automotive brands include Aston Martin, Ford, Jaguar, Land Rover, Lincoln, Mazda, Mercury and Volvo. Its automotive-related services include Ford Motor Credit Company, Genuine Parts & Service and Hertz.

The present report is Ford's sixth formal non-financial report and is more focused than previous reports, covering only a selection of sustainability issues considered to be most material to the company. It sets out a clear business case and vision for sustainability, and seeks to show how this vision is being implemented in the areas of mobility, climate change and human rights. The report was published before the recent important announcement of plant closures in the US which is expected to lead to 25,000-30,000 job losses, and unfortunately therefore does not deal with the company's approach to this difficult issue.

2 Reporting practices

2.1 Materiality

The report addresses material issues more directly and comprehensively than most sustainability reports, dedicating a section of the report to 'materiality analysis'. The report is exceptional in transparently communicating the processes used to identify material business issues. Indeed, Ford has developed a tool for screening issues in the value chain to determine which are most material, defined as those which score highly on three criteria, as follows: having significant current or potential impact on the company; of significant concern to stakeholders; over which Ford has a reasonable degree of control. The report goes on to explain how these criteria were applied to identify the key material issues in order of priority. For example, issues with potential significance to Ford were identified by reviewing internal risk analyses, issues discussed in the annual report, Ford's ISO 14001 environmental control plan and employee surveys.

The upshot of Ford's materiality analysis is an extremely helpful diagram identifying key material issues on a scale of concern to external stakeholders (y axis) and current/potential impact on the company (x axis). This is used as the basis for deciding which issues to discuss in the printed versus the on-line versions of the report – a rationale which few companies are able to offer in their sustainability reporting. Thus issues scoring most highly on both counts are included in the printed copy of the report, and further discussion of the remaining issues scoring medium/high is restricted to the web version. The most material environmental issues are greenhouse gas (GHG) emissions from vehicles and fuel economy, and the most material social issues are public policy stances, vehicle safety and working conditions in Ford facilities and supply chain.

2.2 Transparency

Ford demonstrates a commitment to transparency particularly in the clear and structured way it presents the processes used to produce the report, notably the presentation of value chain issues and materiality analysis. Key challenges facing the automotive industry are discussed, and the report provides relevant details on the application of the company's Code of Basic Working Conditions in its own facilities and supply chain. A third clear indication of the company's commitment to transparency is the inclusion in the report of the independent Report Review Committee's (RRC) unedited opinion of how the report meets its expectations. In its statement, the RRC commends Ford, 'for working with us in a way that shows transparency, honesty and integrity.'

2.3 Comparability

Ford reports in accordance with the guidelines of the Global Reporting Initiative – an international standard which provides a useful framework for inter-company comparisons on non-financial performance. A range of key performance indicators have been established, covering products and customers, environment, community, safety, quality of relationships and financial health. Ford should work towards establishing further metrics to help assess progress towards meeting human rights' objectives, in particular reflecting the concerns of employees. Data is presented over multiple years to allow comparison over time and this could be supplemented by commentary and analysis of trends.

However, the lack of clear targets and timetables for achieving sustainability objectives, particularly the reduction of GHG emissions from vehicles, is a significant omission.

2.4 Assurance and verification

Ford is to be commended for its work in establishing a multi-stakeholder Report Review Committee (RRC) according to an expertly designed engagement process. An unedited version of the RRC's findings is included in the report, demonstrating a commitment to transparency, and the views and criticisms expressed constitute vital feedback for continuous improvement. The RRC particularly stresses the need for targets and timetables for meeting sustainability goals, particularly related to emissions reductions in developed and emerging markets, and additional metrics to help assess the company's progress in implementing its human rights programme and vehicle safety requirements. In future reports, Ford should also consider including its response to points made in the review, and any planned actions.

The RRC was not, however, asked to engage in formal verification or assurance processes regarding the accuracy or completeness of the information or data presented in the report. Although these processes can be costly, checking the relevance and accuracy of facts and figures, as well as the systems and processes that generated them, significantly adds to the credibility and, in many cases, quality of the report.

3 Management structure

Significant business issues, including those related to sustainability, are addressed by Ford's Board of Directors, as a full group and through five committees. This includes a committee which is directly responsible for reviewing environmental, public policy and sustainability issues facing the company around the world, namely the Environmental and Public Policy Committee. The fact that seven directors serve on the Environmental and Public Policy Committee, which is chaired by Bill Ford, is a clear indication of high-level commitment to these issues. There is also a Strategy and Business Governance group, composed of top executives which guides corporate direction, establishes strategic priorities and regularly reviews issues of importance to the company's sustainability commitments.

In early 2005, Ford established a new cross-functional, high-level governance structure to explore the implications of sustainable mobility and plan Ford's future offerings of products and services. The sustainable mobility governance structure is integrated with a vice president-level climate change task force and a supporting climate change steering team, and both report to the Office of the Chairman and Chief Executive.

Sustainability governance is currently addressed in the on-line version of the report in a descriptive rather than analytical fashion. In future reports, Ford could offer greater insight into the coordination of sustainability at the different areas and levels of the group. Key challenges of sustainability management could also be discussed, for example strategies for achieving sustainability goals in emerging markets and approaches to integrating environmental and social standards into its purchasing processes.

4 Review of core issues

4.1 Mobility

4.1.1 Position

Ford's report recognises the challenges of growing demand for mobility, including unprecedented levels of motorised mobility in urban areas coupled with inadequate road systems, the large numbers of people in rural areas who remain beyond the reach of the benefits of mobility, increasing numbers of road-traffic deaths and injuries, and increased GHG emissions that lead to climate change. In his opening letter, Bill Ford acknowledges that, 'Some people believe it's impossible to provide personal transportation without imposing costs on the environment and society,' but expresses determination that these issues can be reconciled.

4.1.2 Programmes

To address the challenges identified above, Ford is engaged in three main initiatives. The company's response is most advanced in the area of developing and deploying advanced technologies. Ford is developing four advanced technologies: hybrids, advanced diesel, hydrogen fuelled internal-combustion engines and hydrogen fuel cell vehicles. The report includes a useful diagram of the benefits and challenges of the different advanced technologies.

Ford's second mobility-related initiative is promoting road safety in developing countries. According to World Health Organisation figures, most of the expected increase in road deaths will occur in emerging economies: by 2020, road deaths are expected to fall by 30% in industrialised countries, but increase by 80% in the rest of the world. Ford says it uses comprehensive global safety design guidelines, and has implemented core safety requirements (such as safety belts), even if not required by local law. A more thorough and systematic explanation of key safety systems and features in different markets would be pertinent. Ford is also working with other automotive companies as part of the Global Road Safety Initiative which aims to transfer best practices through projects such as education outreach to increase seat belt and helmet usage, and training aimed at improving roadway design. Participating companies have pledged \$1 million over five years to fund projects in China, ASEAN countries and Brazil.

The third initiative to address the challenges caused by increased mobility is the exploration of new models of mobility through innovative partnerships. Ford is forward-thinking in this regard, and says it is 'beginning to think about how our business might evolve if we conceived of our company as a provider of mobility solutions rather than a manufacturer of cars and trucks.' However, the report suggest Ford is in the early stages of this process, and only three projects are highlighted in the report including, for example, a car-sharing pool in Sweden that offers exclusively environmentally-friendly cars.

4.1.3 Performance

There is evidence of significant progress in addressing the challenges of increased mobility. In 2004, for example, Ford introduced the world's first hybrid SUV, the 'Escape Hybrid' which it says it had previously considered a 'moonshot' (that is, highly unlikely). Ford also considers itself a leader in the design and development of hydrogen-fuelled internal combustion engines which are a potential bridge from fossil-fuel to hydrogen-fuelled vehicles. There are positive trends in the areas of product quality and sales' satisfaction, but further metrics on vehicle product safety should be introduced. The only vehicle safety indicator shows an unexplained increase in the number of safety recalls, from 16 to 21 in the reporting year. More thorough and systematic coverage of key safety systems and features in different markets would also strengthen the report. Although in its early stages, Ford's work thus far in developing new mobility models is of particular interest and a more detailed analysis of progress and future plans could be provided in future reports.

4.2 Climate change

The following section of the review is based on both the Sustainability Report and on Ford's more recent report on 'The business impact of climate change.'

4.2.1 Position

Ford's decision to place an enhanced focus on climate change both in its Sustainability Report and in a more recent report on this topic, both recognising the problem and the urgent need for action, is commendable. The company explicitly acknowledges that the growing weight of evidence holds that man-made GHG emissions are starting to influence significantly the world's climate in ways that affect all parts of the globe.

Ford puts forth the view that constraints on carbon need to focus on all sectors of the economy. They should encourage conservation and the introduction of lower-carbon fuels and energy sources, while increasing the demand for more energy efficient products across all sectors at the lowest possible social cost and at a pace consistent with consumer acceptance and the financial viability of the industry.

4.2.2 Programme

Ford's long-term strategy is to contribute to climate stabilisation in three main ways, namely by:

- Continuously reducing the GHG emissions and energy usage of its own operations. Commendably, Ford is the only auto manufacturer participating in voluntary programmes such as the Chicago Climate Exchange and UK Emissions Trading Scheme, through which it has committed itself to specific reductions by 2010.
- Developing the flexibility and capability to market more lower-GHG-emissions products in line with evolving market conditions. Ford highlights a range of actions that help reduce the in-use GHG emissions of our vehicle fleet – from expanding its hybrid line-up, to encouraging more use of ethanol fuel, to shifting the product mix to more fuel efficient cars, to improving the efficiency of conventional gasoline and diesel engines, to raising the awareness of consumers.
- Working with industry partners, energy companies, consumer groups and policy makers to establish an effective and predictable market, policy and technological framework for reducing road transport GHG emissions. The report highlights partnerships with Ballard Power Systems on fuel cell vehicles, and BP on developing special lubricants and fuels that will reduce GHG emissions.

4.2.3 Performance

Many believe that Ford cannot be a meaningful contributor to combating climate change without setting out specific targets and milestones for improvements in the fleet fuel efficiency of its products, particularly in high-growth emerging markets. This information is notably absent from Ford's Sustainability Report. In its more recent report on climate change, the company explains that, 'In our highly competitive industry, there continue to be too wide a range of possible futures for technologies, markets, and regulatory frameworks for our company to set unilateral targets on the in-use performance of our products.' This is unlikely to wash with many stakeholders hoping to see Ford take on a more leadership role on this issue.

Nevertheless, there is evidence that Ford is delivering on its commitment to reduce global warming pollution from its own facilities. Although GHG emissions in manufacturing account for only about 10% of the total emissions over the life-cycle of a vehicle, Ford has cut the emissions of CO₂ from its plants and facilities by 15% since 2000. The company is also on track to meet a five year goal of improving the energy efficiency of its plants by 14%. Further, through our participation in the Chicago Climate Exchange, Ford has committed itself to reduce the GHG emissions from its US operations by 6% by 2010. Likewise, plants subject to the UK Emissions Trading Scheme must reduce their GHG emissions by 5% by 2010.

4.3 Human rights

4.3.1 Position

Following an extensive internal and external stakeholder dialogue in 2000, Ford concluded that its human rights' focus should be on its own facilities' working conditions and those of its suppliers. In May 2003, Ford announced the adoption of a Code of Basic Working Conditions, developed by a cross-functional Ford team with assistance from Business for Social Responsibility. Ford is to be commended for ensuring the Code reflected many internationally recognised labour standards, including the UN Declaration of Human Rights, ILO Conventions and UN Global Compact Principles, and for the broad range of human rights experts that took part in reviewing the Code. Ford could further strengthen its position on human rights by playing a leadership role in support of the UN Human Rights Norms for Business.

Further, in January 2004 Ford added language to its core contract covering all production facilities to reflect the company's specific working conditions' requirements on the prohibition of the use of forced labour, child labour and physical disciplinary abuse. Importantly, Ford's standards in these areas supersede local laws if they are more stringent.

4.3.2 Programme

The report is particularly strong in its discussion of Ford's methodology, challenges and learnings from human rights' assessments carried out at five of Ford's own plants throughout the world, and over 100 third-party assessments of existing and prospective suppliers in China and Mexico. In addition to these supplier assessments, Ford initiated training with more than 200 managers from supplier companies in China, followed by an expanded training and verification programme in Mexico. As the programme is expanded to additional markets, Ford has committed itself to train 100% of current and new suppliers and conduct sample assessments to verify the performance of higher-risk suppliers and learn more about issues specific to the local market. In April 2005, Bill Ford and senior management led a session with the company's top 100 suppliers that focused on Ford's sustainability agenda and how suppliers can contribute. The creation of a new position of Director of Supply Chain Sustainability further reinforces the impression of a company committed to making sustainability an integral part of purchasing processes.

It is encouraging to see that Ford is taking steps to integrate human rights within its systems. Both the working conditions and community impact assessments, for example, are being integrated into the Ford Production System (FPS), one of the company's foundations business systems. The FPS provides a rating for each facility's performance in a range of areas, including environment, health and safety, and community.

Ford has also developed and piloted a community impact assessment tool, engaging plant management, employee unions, community representatives in identifying the impacts of plant operations and developing strategies for improvement. In future reports, Ford could provide more detailed information on the concerns of employees – a key performance indicator suggests only employee satisfaction of only 64%.

4.3.3 Performance

The assessment process has allowed Ford to conclude that policies and verification procedures are sound. Key external stakeholders and human rights advocates have stated they do not have major concerns regarding the working conditions at the company's wholly and majority-owned facilities. There is also some qualitative evidence of the positive impact of the assessment process on conditions at supplier facilities, although this could be presented more systematically to provide a clearer picture of where there is room for further improvement. Ford acknowledges that there are opportunities to improve performance in several other areas, including better representation of women in manufacturing leadership positions – only 23% of employees in the US are women. In general, Ford should work towards establishing metrics to help assess progress towards meeting human rights' objectives. Diversity data, for example, should also be presented for regions outside the US.

5 Ethical Insight's comment

4 Star Rating: ★★★★★

Reporting Practices

Materiality

The report addresses material issues more directly and comprehensively than most sustainability reports, with a dedicated section on 'materiality analysis'. Ford is ahead of the curve in having developed a tool for the purpose of identifying material issues. This has allowed the company, unlike most others, to provide a clear rationale for the issues covered in the printed version of the report versus on the website.

Transparency

Ford established an independent Report Review Committee (RRC) and demonstrates a commitment to transparency both in the way it worked with the RRC, namely with 'transparency, honesty and integrity' in the words of the RRC itself, and in presenting the RRC's unedited opinion in the report. The processes used to produce the report, as well as implement the company's code on working conditions, are both clearly presented.

Comparability

Ford reports in accordance with the guidelines of the Global Reporting Initiative and has established key performance indicators across a range of areas. Further indicators could be created, in some cases to show performance outside the US. The lack of clear targets and timetables for achieving sustainability objectives, particularly the reduction of GHG emissions from vehicles, is a significant omission.

Assurance and Verification

Ford is to be commended for its work in establishing a multi-stakeholder Report Review Committee (RRC) according to an expertly designed engagement process. The RRC's views and criticisms constitute vital feedback for continuous improvement. In future, Ford should also consider including its response to points made in the review, and any planned actions. The review is not, however, equivalent to a formal verification or assurance process which can greatly add to the credibility and, in many cases, quality of the report.

Review of Core Issues

Mobility: While acknowledging several challenges resulting from the growing demand for mobility, Ford is determined that these difficult issues can be reconciled. To this end, Ford is engaged in three main initiatives, namely: developing and deploying advanced technologies; promoting road safety in developing countries; and exploring new models of mobility through innovative partnerships. There is evidence of significant progress in these areas, most notably in developing advanced technologies. The report would be strengthened by further metrics to illustrate quality and safety features and trends in different markets. Although in its early stages, Ford's work in developing new mobility models looks promising and a more detailed analysis of progress and further plans could be provided in future reports.

Climate change: Ford can be commended for placing an enhanced focus on climate change both in its Sustainability Report and in a more recent report dedicated to this topic, representing a significant step in recognising the problem and the need for action. Ford is transparent in its position, acknowledging explicitly that the growing weight of evidence holds that man-made GHG emissions are starting to influence significantly the world's climate in ways that affect all parts of the globe, while taking the view that constraints on carbon need to focus on all sectors of the economy at a pace consistent with consumer acceptance and the financial viability of the industry. Ford identifies three main ways in which it is contributing to climate stabilisation. However, in refusing to set specific targets and milestones for improvements in the fleet fuel efficiency of its products, some would say Ford cannot be considered a meaningful contributor to combating climate change. Nevertheless, the company is delivering on its commitment to reduce the far less significant level of GHG emissions from its own facilities.

Human rights: Ford has adopted a Code of Basic Working Conditions, reflecting internationally recognised labour standards, and added language to its core contract covering all production facilities to reflect these standards. There is evidence that these standards are being implemented. The report is particularly strong in its discussion of Ford's methodology, challenges and learnings from human rights' assessments carried out at Ford's own facilities as well as in the supply chain. Ford has also developed and piloted a community impact assessment tool. It is encouraging to see that Ford is taking steps to integrate working conditions and community impact assessments into its business systems. Ford acknowledges that there are opportunities to improve performance in several areas, including better representation of women in manufacturing leadership positions. The report would be strengthened by further metrics to help assess progress towards meeting human rights' objectives.

6 Appendices

6.1 Maplecroft's Ethical Insight report review criteria

Maplecroft's Ethical Insight report reviews are based on a four-pillar framework, taking into account reporting practices, corporate responsibility management structure, management systems (policy, programme and performance), and certification. The review of management systems considers the company's core issues as identified by the company in its report and by Maplecroft on the basis of the company's industry sector. Maplecroft is currently developing a map of core issues by sector which will be available shortly. The report review criteria are not comprehensive, but are designed to highlight the most significant practices and performance within each company, as well as important omissions and areas for improvement in future reporting.

- **Reporting practices** are reviewed on the basis of four key reporting principles:
 - **Materiality:** Does the report cover all the key issues relevant to the sector? Does the report provide the context and relevance of each issue to the company? Has the company engaged with key stakeholders in identifying and exploring material issues?
 - **Transparency:** Does the report disclose regulatory non-compliance? Does the report make other sensitive or groundbreaking disclosures? Is there public reporting at the local level?
 - **Comparability:** Does the company report in accordance with the GRI guidelines or other external metrics? Have internal metrics and data collection/management systems been developed? Does the report clearly present key indicators and targets?
 - **Assurance and verification:** What type of assurance and verification are provided? What is the scope of assurance and verification? What are the feedback / results of the assurance and verification process?
- **Management structure** is assessed on the basis of three main criteria: Is there a board level CSR Committee (or equivalent) in place? Is there a dedicated CSR network in place? Has the company signed up to any best practice principles or external bodies?
- **Management systems** incorporate principles (governance level), policies (strategic level), procedure and guidance (executive level) and practise (operational level). For a selection of the company's core issues, Maplecroft reviews policy, programme and performance.
- **Certification** refers to the company's listing on sustainability indices, such as the FTSE4Good and Dow Jones; external certification such as SA8000 and ISO14001; and any external awards received during the reporting year.

6.2 Previous Ethical Insight report reviews

Ethical Insight includes a review of a company sustainability report in each fortnight's edition. These reviews, together with the original report, can be accessed from the Maplecroft website at <http://www.maplecroft.net>.

Previous Maplecroft reviews are as follows:

- ABN Amro sustainability report 2003
- Alcan corporate sustainability report 2004
- Alcatel - Sustainable Development Report 2004
- Anglo American Report to Society 2004
- BAA annual report 2003/2004
- BAE Systems corporate responsibility report 2003
- BBC Corporate Sustainability Report 2004
- BHP Billiton Sustainability Report 2005
- BP Sustainability Review 2004
- Cadbury Schweppes Corporate and Social Responsibility Report 2004
- Citigroup Citizenship Report Review 2004
- Coca-Cola's 2004 Citizenship Report
- Co-operative Group corporate responsibility report 2003
- Ford Sustainability Report 2004/05 - 'Our route to sustainability'
- HSBC Corporate Social Responsibility Report 2004
- Hydro corporate social responsibility annual report 2003
- Marks & Spencer Corporate Social Responsibility Report 2005
- Merck Corporate Responsibility Report 2005
- NEC CSR Report 2005
- Nike Corporate Responsibility Report 2004
- Rio Tinto 2004 Sustainable Development Review
- Royal Bank of Scotland's Corporate Responsibility Report 2004
- Royal Mail corporate responsibility report 2004
- RWE corporate responsibility report 2003
- Shell Foundation 'Enterprise solutions to poverty' Report 2005
- Standard Chartered 2004 Corporate Responsibility Report
- TPG annual report 2003
- TPG Corporate Sustainability Report 2004
- Unilever Social and Environmental Reports 2004
- Vodafone corporate social responsibility report 2003/04
- Volkswagen's Sustainability Report 2005/06
- WestLB Sustainability Report 2005
- Westpac Stakeholder Impact Report 2004

6.3 Ethical Insight's sustainability reporting services

The Ethical Insight team at Maplecroft works with global organisations across all sectors, providing a range of specialist corporate responsibility advisory services. Further details about the wider range of Maplecroft services and the Maplecroft team are available at <http://www.maplecroft.net>.

In the area of sustainability reporting, we have considerable expertise in the full range of management systems that underlie effective social and environmental reporting, including auditing, indicators, monitoring, impact assessment and performance management. Maplecroft is also experienced in report writing, verification and assurance, having contributed substantively to several award winning reports.

The Ethical Insight team is also able to provide independent assurance and verification services of the highest standard, including in accordance with GRI and AA10000 criteria.

Maplecroft has developed a number of proprietary tools to assist companies in the reporting process. Specifically, we have developed the *Principles-plus multi-audit etool*, a practical and comprehensive auditing method that brings together a host of social and environmental standards, international best practice principles and instruments of corporate citizenship in a set of worksheets. The tool is designed to help companies assess their conformance with best practice requirements and identify the specific areas in which performance can be improved. A corrective action request form assists in the performance management process.

Maplecroft has also developed a *Human rights monitoring mechanism*, a straightforward electronic human rights survey, which can be used and adapted by companies to provide a detailed picture of human rights risk in its operations around the world. The survey assesses the human rights situation and management systems in place at the country level which, together with external country and issue specific human rights research, allow for a detailed analysis of the company's risk of complicity in human rights violations, and specific recommended action points.

The Ethical Insight team comprise fully trained and experienced SA8000 and ISO14001 auditors.

Please call us or email to discuss how our award winning Ethical Insight team might help:

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