Global Contract Manufacturer
Site Security and Corporate Risk Management in Response to Mexican Drug Cartel Violence

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Executive Summary

Establishing and operating a facility in high-risk, high-crime areas brings with it a difficult question: while it is clear that effective security risk management programs must be put in place, how can a company strike a balance between the problems of having too little (ignore at your peril) and too much (high and burdensome cost)?

The case of a Global Contract Manufacturer’s (GCM) Mexican operations provides unique insight into how to manage this security paradox. The company faced three challenges:

- Site-specific problems (escalating drug-cartel violence)
- Relationships with local stakeholders
- The firm’s overall approach to security risk management

GCM discovered that operating in areas such as northern Mexico demanded a risk management policy that both risk leadership and operational leadership can embrace and support. The policy it created includes customized, region-specific risk management programs developed in conjunction and coordination with operations, taking into account asset and personnel security; business continuity; and crisis management. Details and processes are communicated in comprehensive, pre-deployment briefings for country managers.

Any company interested in or currently operating in a high-risk environment can learn lessons that are both valuable and immediately deployable by reading the detailed account of GCM’s efforts.

Background

GCM, headquartered in Canada, is a consumer electronics manufacturer with more than 30 sites in 17 countries. In Mexico, GCM has two production sites: a factory in Monterrey, Nuevo Leon, a city of nearly four million located in the country’s northeast; and a facility in Reynosa, a gritty manufacturing city of half a million people in the easternmost Tamaulipas state sharing a border with the U.S. city of McAllen, Texas. The Monterrey facility employs 5,000 local workers, while the Reynosa site has 3,500 employees.¹

GCM has strongly rooted operations in Mexico. The two country sites had been in the company for some time, but their activity has expanded in recent years due to a transition in product. The Reynosa factory now almost exclusively deals in the repair and manufacture of smart phones for multiple U.S.-based corporations, while the Monterrey facility produces both smart phones and enterprise technology for major multinational corporations. Given their proximity to the U.S. border, the vast majority of finished products from these sites is slated for delivery to the

¹ Obtained from corporate website (redacted).
U.S. market and transported by truck across the border. High volume, rapid turnaround and prompt delivery are all essential components of Celestica’s success at these two sites.

The author of this piece joined GCM in early 2009 as head of global security, with responsibility for risk assessment, business continuity and investigations across the company’s global sites. As he was visiting GCM’s operational sites worldwide to assess the company’s footprint, several issues required his immediate attention, including the Thai political crisis of April 2009, which caused significant disruptions to GCM’s in-country production operations. However, even with such pressing concerns, GCM’s sites in Mexico became a focal point due to some drastic changes in drug cartel activity.

Forcing Event

Around the same time that the author was orienting himself to his new position and company, ongoing organized crime-related violence in the two states where GCM had a presence in Mexico was coming to a head. Historically, the so-called “Gulf Cartel,” based in Tamaulipas state, had wielded significant power along the eastern half of the country—it was considered one of the most powerful cartels in the country in 2006. Soon after, the Gulf Cartel began to lose its unilateral dominance to the venerable Sinaloa Cartel, leading to a bloody standoff that ended in an uneasy power-sharing arrangement in 2007. In 2009-2010, the Gulf Cartel’s former armed wing and ally organized crime group, Los Zetas, began to assert more power, creating a loss of control and a power vacuum that caused a marked spike in violent crime and murder.2

The states of Nuevo Leon and Tamaulipas have experienced the heaviest repercussions of the complex and violent power struggle. Until late 2009 and early 2010, Monterrey—Mexico’s richest city and its third-largest—had remained relatively isolated from the ongoing cartel violence. However, in the first five months of 2010, more than 280 people were killed in the city—a total that exceeded all murders for the entire year of 2009.3 Reynosa experienced a similar phenomenon, with the number of murders in February and March 2010 exceeding the previous year totals.4

The nearly-overnight spike in crime at the start of 2010 was a wake-up call to GCM. While the company and its facilities were not directly targeted by the cartels, employees and operations were both affected by the upsurge in opportunistic violence and the devolving presence of law enforcement in the region. Transportation in particular became a key issue. Not only were employees putting themselves at extreme risk of robbery, kidnapping, or carjacking while in

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4 Logan and Sullivan.
transit, but due to their “ready for market” nature, GCM’s Mexico-manufactured smart phones were also at risk of being intercepted by cartel thugs for resale.

To further complicate matters, frequent border closures and heightened security measures had a tremendous impact on GCM’s business continuity and its ability to both obtain raw materials for production and fulfill client orders across the border. Company analysis concluded that a three-day closure (not atypical during peak violence) results in millions of dollars in loss, and even a single-day closures create backlogs that cause significant delays, even with proper border crossing certification and security compliance. In a business that relies on high-turn capability, these repercussions can be devastating to operations and customer relations.

While anyone with a working knowledge of Mexican organized crime might have suspected that the relative peace in the region could not last indefinitely, the dramatic surge in violent incidents and its impact on the corporation were absolutely unexpected within GCM’s original business model. The violence has not yet abated, and the corporation is keeping a close eye on developments as any escalation will trigger a number of issues and required responses to maintain safety and operational continuity. Quite suddenly, GCM found itself developing security plans that addressed concerns both immediate (employee physical and emotional safety; lockdown and identification measures; patrols and security guards) and long-term (tabletop exercises, scenario planning, alternate fulfillment and delivery mechanisms). The author has visited the two sites more than 11 times in less than two years, working with local teams to implement new safety measures.

**Response: what did the company do to address the situation?**

GCM’s response to the regional cartel violence and its related disruptions to business was swift, and focused on three core areas:

- **Operational:** Secure the facilities and examine the cost implications of security for sites and the company as a whole
- **Employee Relations:** Ensure staff feels secure by offering an open environment for dialogue, and train staff on safety measures for both personal and business protection
- **External Relations:** Work with the Mexican government, industry associations, and other key players to lobby for accessible, attainable policy change

**Operational**
The company organized trainings for key functions. In particular, drivers were given updated security trainings and taught to minimize time in transit (the longer the journey, the higher the likelihood that a truck would be hijacked or personnel harmed). Consumer goods, such as the smart phones that represent a significant portion of GCM’s Mexico output, are a target for organized criminals and bandits as they represent a high-value resale opportunity on the black market.
Beyond the specific site preparedness measures, GCM faced a larger issue among its globally dispersed business units and how they would respond to this type of crisis. Each GCM facility is responsible for its own profit and loss, and any costs associated with the sites themselves are borne by the individual facility—directly reducing profit. In Mexico, security measures outlined above cost millions of dollars, and the sites feared that they appeared uncompetitive with other GCM facilities. This “every man for himself” approach made spending on security a difficult proposition for the Mexico sites.

GCM’s response was to centralize the company’s risk management program. The site managers are engaged in a dialogue with central management to discuss their concerns about security spending because of the penalty on their financial reporting, and this unwillingness to spend may leave individual sites vulnerable to local and regional security issues. The cost model around risk management is being examined and revised so that it is not in direct conflict with the performance requirements for the facilities. This means that GCM headquarters will be bearing some costs, and also revising how its sites calculate profit and loss—the goal is for security spending to be excluded from that calculation. In addition, the company is also exploring ways to mitigate production shortfalls caused by individual site disruptions. Which sites in which countries can pick up the slack and bear the related financial burden (excess capacity, raw materials, labor pool) to maintain that state of readiness?

**Employee Relations**

GCM has had to respond to employee concerns of the impact of the violence on their day-to-day lives, as well as to deal with the human resource issues that come with operating in a conflict environment. GCM focused first on its employees at the Reynosa and Monterrey sites, addressing their immediate safety concerns. All families of expatriate personnel were moved out of the country, as their presence was non-essential and a potential liability. Non-management workers were encouraged to share their encounters with violence at the workplace, and soon the “open-door” policy established by the company was being used and appreciated by employees. Additional security guards were hired, though locating a qualified director of site security for each facility became a challenge. Crisis management plans and employee security awareness trainings were revamped and implemented.

**External Relations**

Having learned that state and municipal governments were more challenging to work with due to corruption and other factors, GCM focused its efforts on working with Mexico’s federal government—a mandate that came directly from the CEO. In particular, GCM focused its efforts on developing a relationship with ProMexico, the government’s trade and investment board with a mission to attract foreign direct investment and economic and social development in Mexico. ProMexico is set up as a central resource for foreign investors in the country, which eliminated the need for GCM to deal directly with state and local governments. Beginning in the second half of 2010, the company began to schedule meetings to introduce the site leadership from both the Monterrey and Reynosa sites to the ProMexico offices in Nuevo Leon and Tamaulipas.
In addition, GCM has been performing targeted outreach to maquiladora associations and industrial park associations to push change from the bottom up.

While dealing directly with cartel violence and law enforcement is a political hot potato, GCM can and does lobby for policy changes that are beneficial for both the company and local development. Major policy changes that GCM is pursuing include infrastructure improvements and increased anti-corruption measures among the police forces. Infrastructure in particular is a key area where GCM can focus its efforts without becoming “political.” Road conditions in the areas around the Monterrey and Reynosa sites are deplorable, and cause increased transit times, leaving GCM trucks, products and personnel increasingly vulnerable to roadside attacks by bandits, carjackers and cartels. Police anti-corruption programs are a bit more delicate, and GCM is choosing its issues carefully to ensure that it can win some key changes that directly impact operations.

As a large multinational corporation operating in an increasingly volatile region, GCM clearly communicates to the government its demonstrated commitment to maintaining a presence in Mexico. It realizes the negative consequences on the employment market and on society should it pull out of the region. GCM has communicated its desire to stay and work in Mexico for the benefit of both the company and the country, but expresses its concern for the extreme situation it finds itself in. Ultimately it is in the best interests of both GCM and the Mexican government to ensure the efficiency and safety of the company and its employees.

**Evaluation**

GCM is very proud of its work to engage the company base, address staff concerns, and increase security awareness at the Mexico sites. This has been an immediately achievable objective with observable positive impact. The tangible result of these efforts has been that employees demonstrate a greater trust in GCM, sharing their concerns about violence outside of the factory and issues within the site. The company has gained employee confidence and provided a better standard of personal and professional security to its employees.

The company’s efforts to educate its Mexico-based workforce on immediate security measures, such as reduced transit time, increased travel security measures have resulted in the maintenance of high standards and minimized the company’s vulnerability to transit and site-related violence. Continued efforts to develop business continuity technologies and scenario planning are ongoing and not able to be evaluated at this time.

Similarly, the impacts of GCM’s outreach efforts to external parties, including the federal government via ProMexico and the locally-based manufacturing associations, are difficult to measure. Pending elections and resulting policy changes, as well as the evolving U.S. stance on border security, are all factors that can change the burgeoning relationships at a moment’s
notice in the near future. GCM intends to continue its relationship-building strategy and to closely monitor the ongoing, dynamic situation and its effects on business operations.

Key areas for capacity-building include: (1) increasing risk management staffing and knowledge within the Mexico sites’ leadership; (2) striking a balance between maintenance of operations and restriction of operations while ensuring business continuity; and (3) developing and better leveraging local relationships to ensure site safety and continued commitment to retaining operations at the two Mexico sites.

**Conclusion: what is the prioritized advice to a country manager?**

Country managers must weave security risk management into their operations. While often viewed as a burden to operations, risk management must be understood as a necessary component of efficient business operations – especially in high threat environments. Ignoring risk management often results in operational losses due to inefficient crisis response, higher turnover of employees, increased insurance premiums, increased likelihood of targeting by criminal groups, etc. There is a compelling business case to support risk management that risk leadership and operational leadership must embrace and support. Country managers should demand to receive a pre-deployment briefing on risk management programs in their region or demand that such a plan be developed in conjunction with operations if no such plan exists. Plans should include; asset and personnel security, business continuity and crisis management.