



Company report review

BAE Systems Corporate Responsibility Report 2003

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Company report review – BAE Systems

BAE Systems has published its third Corporate Social Responsibility Report (2003). The theme of the report is dialogue in recognition of the value of stakeholder engagement. BAE requests that feedback on the report be sent to csrfeedback@baesystems.com.

BAE Systems is an international company engaged in the development, delivery and support of advanced defense and aerospace systems in the air, on land, at sea and in space. BAE has major operations across five continents and customers in some 130 countries. The company employs over 90,000 people worldwide and generates annual sales of approximately £12 billion.

In this report, BAE acknowledges that as a defense company, it has responsibilities over and above those relating to its role as an employer, a presence in the community, a key supplier to its customers and a significant customer to its suppliers. 'While issues such as regulatory compliance, ethical business conduct and product stewardship are important to all business sectors, the nature of our product means that responsible management is particularly essential' (p8).

The 17-page report has six main parts. These cover the company's values, CSR objectives and progress in the last year, a general discussion of key CSR issues relevant to the business, including an opinion piece by CSR journalist Roger Cowe, and finally the company's workplace, community and environmental activities and performance.

A. Values

BAE's five values are presented with examples of initiatives intended to illustrate what they mean in practice. The five values relate to performance (no.1 priority); customers; people; partnering and innovation and technology.

B. Objectives and progress

BAE sets out five key CSR objectives for 2004, notably to conduct a worldwide employee survey to review CSR progress since 2002 and to introduce an external verification program for safety and environmental data.

Progress against the four key objectives set for 2003 is also reported with the following highlights:

- To improve communication of CSR activities – established a CSR website; nominated employees to communicate CSR activities;
- To establish targets for safety and environment performance – established HSE targets for most business units;
- To improve diversity – conducted review into implementation of company diversity policy, on the basis of which management was restructured; and
- To encourage high performance – provided coaching to address poor performance amongst executives.

C. General discussion of BAE's corporate responsibilities and issues raised by stakeholders

A number of key issues relating to BAE's corporate responsibilities are raised in this section, including the findings of a study into the company's contribution to the UK economy, and CSR journalist Roger Cowe provides independent comment on the question 'Can a defense company be socially responsible?'

BAE addresses its responsibilities in four key areas:

- Compliance with export control legislation – BAE sets out key pieces of legislation in the US and UK and its own compliance policy. The reader is directed to further information regarding export control legislation (www.dti.gov.uk/exportcontrol). The company's internal controls are mentioned, but no details are provided.
- Anti-corruption compliance program – BAE reports that it has an anti-corruption program in place which includes procedures governing transactions with marketing consultants, the proper use of corporate

hospitality and procurement processes. The program is supported by awareness training and the threat of disciplinary action. Little further information is provided on the program.

- Ethical business conduct policy – BAE sets out a seven-point ethical business conduct policy. BAE has established an independent ethics hotline in the US and UK, from which information is reviewed quarterly by an Ethics Review Committee of senior executives.
- Product stewardship – BAE has set up a Product Safety and Environmental Focus Group with representatives from each major business. Highlights of BAE's product stewardship include the current development of lead-free ammunition and cessation of the use of depleted uranium since 2003.

A study by Oxford Economic Forecasting commissioned by BAE found that the total value added to the UK economy by BAE systems was worth £2,294 million in 2002.

D. Workplace

This section covers the key elements of BAE's employment policy: equal opportunities, disability, intimidation, employee development, health and safety, grievances, disciplinary procedures and whistle-blowing. There is more detailed discussion in three areas:

- Diversity – traditionally a white male-dominated sector, BAE has committed to increase the diversity of its workforce and here details progress on this issue in 2003, following changes in the way diversity is managed. Diversity data is presented for gender, ethnicity, ethnic minorities in the US and age.
- Training and development – BAE presents a number of its training programs, which include a virtual university running 3,000 e-learning courses, 1,100 apprenticeships in the UK and an initiative that gives employees every second Friday off at one of BAE's divisions in the US.
- Health – BAE has established a corporate framework for SHE which requires each business unit to implement an SHE management system. BAE will be conducting a detailed study of high-risk areas over the next three years. This section also presents progress of various specific SHE measures around the world. For the US and UK, data on major accidents, reportable accidents, injuries, days lost to work-related injuries, reportable diseases and days lost to work-related illnesses are recorded. There is no change in the number of major accidents since 2001 (although no fatalities) but some overall improvement in reportable accidents, injuries and days lost to work-related injuries. BAE was prosecuted for two safety breaches, incurring fines of £100,000 and £5,000.

E. Community

BAE reports that total investment in the community amounted to £1,327,232, including cash and in-kind donations. Charity Challenge is BAE's company-wide fundraising and volunteering program through which BAE matches funds raised by employee volunteers, who gave 3,500 days for charities worldwide in 2003.

F. Environment

BAE discusses and provides data on its main environmental impacts, as follows: energy use; emissions of volatile organic compounds from painting and cleaning; special and general waste; water consumption and discharge. BAE reports that there were 54 complaints from the public relating to environmental matters, but no environmental prosecutions in 2003.

Our comment



For some, corporate responsibility is an impossible aspiration for defense companies, whose purpose is the manufacture of weapons used to kill people. In this report, BAE Systems argues that the very nature of its business makes corporate responsibility an even greater priority.

Given the sensitivity of the issues, BAE's commitment to be open with its stakeholders and engage in the debate about its role in society is remarkable. In 2003, BAE became the first defense company to join the Dow Jones Sustainability Index.

In the words of the company's chief executive, Mike Turner: 'To be of real value [CSR reports] should reflect the real issues facing the business.' The report indeed raises many of the key issues regarding what CSR means for the defense industry, and the opinion piece is quite effective in this regard. BAE itself acknowledges that it has specific, additional responsibilities as a defense company, notably in terms of regulatory compliance, ethical business conduct and product stewardship, and the discussion in the report of BAE's approach in these areas is engaging and informative in so far as it goes.

The report presents sufficient information to illustrate that BAE's proclaimed commitment to being a responsible company is not without substance. The company has developed an anti-corruption program including an ethics policy and an independent hotline; a corporate framework for health, safety and the environment, including a Product Safety and Environmental Focus Group; and a company-wide fundraising and volunteering program. The report also presents key performance data, which shows much room for improvement in some areas. In particular, there is little diversity in the workforce, which remains traditionally white and male-dominated; the rate of injuries has improved over the last two years, but there is no change in the rate of major accidents. BAE's environment data shows some positive trends with significant reductions in CO₂ emissions and waste, and increased recycling.

Overall, the 17-page report is a manageable and engaging read that indeed raises the real issues facing the business and provides key performance data. However, the important issues are covered in insufficient detail to show how the company is grappling with them. In particular, there is a lack of information on CSR management processes, which is also reflected in the report itself. Global Reporting Initiative Guidelines are not mentioned and there is no third party assessment. As a result, the report's emphasis on dialogue and feedback hints of a lack of effort.

The report is available at <http://www.baesystems.com>



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