

# Suppliers

BT Social and  
Environmental report



THE QUEEN'S AWARDS  
FOR ENTERPRISE:  
SUSTAINABLE DEVELOPMENT  
2003

# Suppliers

We buy products and services – such as IT equipment, cables, software, design and disposal services – from thousands of suppliers worldwide. In the 2004 financial year we spent over £8.2 billion on procurement.

At every stage of our dealings with suppliers – from selection and consultation, to recognition and payment – we are committed to behave according to the principles of fair and ethical trading.

In April 2004, we provided our suppliers with the opportunity to give their views on how well BT lives up to these commitments and principles via a confidential and on-line supplier stakeholder survey.

A total of 213 suppliers responded, with 94% stating that they had a good working relationship with BT.

In the 2004 financial year, BT was the overall winner of the UK Chartered Institute of Purchasing and Supply's Supply Management Awards.

The award recognised our efforts in applying ethical procurement principles. The judges said: "Where other organisations use fine words, this one has taken real action...[BT] demonstrated excellence in purchasing and supply management."

Here we discuss key aspects of our relationship with suppliers:

- **Selection** – how we choose our suppliers
- **Development** – how we work in partnership with our suppliers
- **Payment** – our commitment to pay our suppliers promptly and as agreed
- **Supplier Awards** – our Investing in Excellence supplier awards
- **Corporate Social Responsibility** – our commitment to be socially responsible and minimise our impact on the environment throughout our supply chain

- **Human Rights in the supply chain** – how we apply our Sourcing with Human Dignity standards in our supply chain
- **Diversity** – how we promote diversity in our supply chain
- **Procurement and the environment** – how we promote environmental good practice in all our purchasing activities.

## Selection

BT operates a fair procurement process – administering our tendering and contracting procedures in good faith.

Our supplier selection process seeks to ensure that high safety, environmental and social standards are met. We value the diversity of our suppliers. They do not have to be existing customers of BT.

Our Purchasing Principles provide a framework to ensure that we act in an ethically and commercially responsible way in our dealings. Adhering to these principles is an integral part of our procurement process. For further information, see: [www.selling2bt.com/working/purchasing/default.asplink](http://www.selling2bt.com/working/purchasing/default.asplink).

Authority to form a contract is restricted to our authorised procurement professionals, trained to world-class standards and who apply BT's Purchasing Principles.

In the UK, where they exist, BT plays its part in a number of Government and commercially-sponsored initiatives designed to enhance small suppliers' awareness of total quality. This will help them compete more effectively in the global market.

## Development

We use a range of tools to assess and develop our suppliers. These range from basic desktop evaluations to sophisticated supplier capability assessments and partnership evaluation processes (PEM).

A PEM evaluation is only undertaken where both parties agree that it will be mutually beneficial. Currently, in one instance this involves each party evaluating the other.

PEM enhances our suppliers' understanding of

how to work in partnership. This benefits BT and also helps suppliers when they compete for non-BT work. For example, one of our partners is exploring several new business opportunities after an evaluation identified potential growth areas for them.

We share learning and expertise in quality, the environment, diversity and ethical trading.

## Payment

BT's policy is to use its purchasing power fairly and to pay promptly and as agreed. BT has a variety of payment terms with its suppliers.

The terms for payments for purchases under major contracts are settled when agreeing the other terms negotiated with the individual suppliers.

It is BT policy to make payments for other purchases within 30 working days of the invoice date, provided that the relevant invoice is presented to the company in a timely fashion and is complete.

BT's payment terms are printed on the company's standard purchase order forms or, where appropriate, specified in individual contracts agreed with the supplier.

The ratio, expressed in days, between the amounts invoiced to the company by its suppliers in the 2004 financial year and the amounts owed to its trade creditors at the end of the year was 35 days.

## Supplier awards

The exceptional standard of submission to our Investing in Excellence supplier awards in the 2004 financial year underlines the importance we attach to the awards.

Award categories, which reflect our key strategic objectives, were:

1. Quality
2. Innovation
3. Value
4. Customer delight
5. Commitment to social responsibility
- 6- Breaking the mould

We received more than 80 entries. The overall winner was Computer Sciences Corporation.

Quality:	A Novo UK Limited
Innovation:	Motorola Inc
Value:	Computer Sciences Corporation
Customer delight: Communications	Spirent
Commitment to social responsibility:	Belden Communications Division
Breaking the mould:	Yahoo! Inc

Further information on the suppliers awards is available at <http://www.selling2bt.com/initiatives/liE/default.asp>

## Corporate social responsibility

We are committed to be socially responsible and to minimise our impact on the environment.

We promote our principles and values when working with others. Our corporate social responsibility (CSR) programmes seek to apply human rights and environmental good practice within our supply chain.

## Scope

Since 30 April 2004, our CSR supply chain programmes are applied by BT Group's entire purchasing operations. Prior to this date they were only applied by BT UK purchasing teams.

## Governance & resource

BT's Chief Procurement Officer, who reports to a BT Board member, has ultimate responsibility for these CSR supply chain programmes.

Our buyers – supported by a procurement CSR manager, product stewardship experts and product managers – implement the programmes.

Since April 2004, CSR has been incorporated as a key measure in BT's procurement's "scorecard" and buyers' objectives. This acts as an incentive for the procurement community to fulfil their CSR obligations - achievement of CSR objectives impacts on annual bonuses.



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## Suppliers continued

### Awards for CSR

In the 2004 financial year, BT was the overall winner of the Chartered Institute of Purchasers and Suppliers (CIPS) Supply Management Awards. This was received for converting ethical procurement principles into practice. BT also received the Best Contribution to Corporate Responsibility award.



The judges said: *“Where other organisations use fine words, this one has taken real action”.*

We also encourage and recognise our suppliers with our Commitment to Social Responsibility Award. This is one of six award categories in our annual Supplier Investing in Excellence Awards (IiE).

### Case study:

#### Belden Communications wins BT IiE 2003 Commitment to Social Responsibility Award.

Belden Communications, the manufacturer of metallic cables, was recognised for its commitment to social responsibility and environmental management.

Belden was praised for its efficient use of copper, saving hundreds of tonnes a year of the scarce resource. Belden has also had a formal environmental management system since 1996 and has long held the ISO14001 standard certification.

When the company started working in China, it pro-actively assessed the labour standards of prospective suppliers. Belden carried out on-site audits and developed improvements plans before awarding new contracts.

Belden’s policy on labour conditions is based on international conventions and is in line with BT’s own GS18 Sourcing with Human Dignity Standard. Belden was also the first company in the world to achieve the Occupational Health and Safety Management System standard (OHSAS 18001).

### GeSI Supply Chain CSR Working Group

BT is a member of the Global eSustainability Initiative (GeSI), supported by the United Nations Environment Programme (UNEP) and the International Telecommunication Union (ITU). GeSI promotes the use of technology to foster sustainable development.

In the 2004 financial year, GeSI established a CSR Supply Chain Working Group.

The group aims to develop or improve tools, management practices, processes and systems to help member companies deal with CSR issues in the supply chain. It seeks to promote efficient CSR supply chain management by helping to eliminate duplication within the Information and Communications Technology (ICT) industry.

The Group has commissioned a study to identify what would be considered best practice in CSR supply chain management for an ICT company. This will be used as a benchmark. The findings, expected in the 2005 financial year, will help decide priorities in the group’s future work plans.

Another initiative is to develop a self-assessment questionnaire to help suppliers assess their own environment and labour standard risks, while raising their awareness of the issues. The group plans to consult key non-governmental organisations (NGOs), trade unions and suppliers on the development of the questionnaire.

### Future Plans

In the future, we plan to:

- **Amalgamate the existing supply chain CSR processes.** Where feasible, we will seek to create a single, cohesive and efficient process for BT’s buyers and suppliers.
- **Set up an NGO/Trade Union Advisory Panel.** This will give panel members an opportunity to contribute to BT’s future supply chain CSR strategy. It will hold a one-day session every six months.

### Human rights in the supply chain

#### Working conditions

Society expects us to buy and use products that are manufactured under working conditions consistent with international guidelines. Chief among these are the UN’s Universal Declaration of Human Rights (UNDHR) and the International Labour Organisation (ILO) conventions. Further information on these can be found at: [www.unhcr.ch/udhr/index.htm](http://www.unhcr.ch/udhr/index.htm) and [www.ilo.org/public/english/standards/norm/whatare/fundam/](http://www.ilo.org/public/english/standards/norm/whatare/fundam/).

Through our supply chain initiative Sourcing with Human Dignity (SWHD), we seek to ensure that the working conditions in our supply chain meet internationally accepted standards.

We need the collaboration and support of all our suppliers. Since the launch of the initiative in 2001, we have worked with an increasing number of buyers and suppliers to pursue this.

#### Our Supply Chain Policy

Our SWHD initiative specifies the minimum standards we ask our suppliers to achieve in the following areas:

- Child labour
- Cruel, harsh and inhumane treatment
- Forced labour
- Discrimination
- Freedom of association & collective bargaining
- Health & Safety
- Wages
- Working hours
- Regular employment entitlements

Find out more on Sourcing With Human Dignity at: [www.selling2bt.com/html/working/humandignity/g18.asp](http://www.selling2bt.com/html/working/humandignity/g18.asp).

### Methodology

For all new BT contracts, suppliers are asked to sign a clause committing them to complete a risk-assessment questionnaire (GS18) on request. See [www.secure.selling2bt.bt.com/ext/html/g18/](http://www.secure.selling2bt.bt.com/ext/html/g18/) for further details. The clause also permits us to carry out on-site audits and commits the supplier to work with us to achieve our SWHD standards.

The questionnaire establishes the level of risk associated with the supplier. If the contract is identified as high or medium risk, we follow up to find out more information and determine what further action is needed

In some cases, an on-site assessment will be agreed with the supplier. This may involve an audit of the supplier’s own facilities or that of a subcontractor.

The audits include interviews of the workers. Where possible, BT will ask appropriate NGOs, independent assessors or academics to carry out the interviews.



Interviewers always speak the language of the workers and, where possible, will be of the same gender. The safety of the workers is of utmost importance and we protect their anonymity when feeding back findings to the management.

Where shortfalls against the GS18 standard are identified, an action plan is agreed with the supplier. A re-assessment will then be scheduled for completion within the following 12 months.



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Suppliers continued

**Training**

**Buyers' awareness training**

It is critical that our buyers have the awareness, knowledge and skills required for the successful implementation of SWHD standard. In 2003 we organised half-day SWHD training courses for buyers. These were attended by 176 buyers. This training continued to be a key focus during the 2004 financial year.

In the 2004 financial year, we launched a Computer Based Training (CBT) package to enable all BT buyers to undergo SWHD training. The CBT is mandatory for all those who have not taken the half-day course and includes the completion of an on-line assessment. The CBT introduces our buyers to the rationale behind the SWHD initiative, its key features and their role in ensuring its successful implementation. At the end of the 2004 financial year, 270 buyers had completed either the CBT or the half-day training session.

In addition, we held three supply chain CSR training workshops attended by 47 buyers during the 2004 financial year. These were primarily organised for BT's buyers abroad. Buyers must undertake the CBT course before attending the workshops, where they then have the opportunity to raise questions.

**Training assessors**

During the 2004 financial year, we organised a two-day specialist assessors' course for procurement and internal audit professionals. This was conducted by an external agency that specialises in SA8000 auditor training. This provides the knowledge and skills required to conduct on-site assessments using the SWHD standard. Attendees must pass a test at the end of the course.

Twelve BT people and one person from a supplier attended the course. This brings the total number of BT employees trained to conduct SWHD assessments to 21.

We encourage our assessors to conduct on-site assessments in our supply chain, initially with the assistance of an experienced BT lead assessor. Nine have already participated in one or more assessments and four have become approved lead assessors for BT.

**Suppliers**

The GeSI CSR Supply Chain Working Group plans to develop a self-assessment/awareness raising tool to help guide our suppliers in the implementation of labour standards codes.

We seek to raise suppliers' awareness during on-site assessments. We start these with a pre-meeting designed to help suppliers understand why SWHD standards are important to us. We explain what we will be looking for during the assessment. We often bring the suppliers' health and safety officer with us on the premises tour, so that they understand any health and safety issues the assessment discovers.

When we assess a supplier's subcontractor, we often take someone from the supplier with us. This helps suppliers understand the risks and how these can be managed in their supply chain.

**Monitoring and improvements**

The table below provides key data concerning BT's monitoring of Sourcing with Human Dignity and improvements achieved.

Implementation of GS18 Sourcing with Human Dignity Labour standard	2003 FY	2004 FY
Number of new BT Contracts	879	1,199
GS18 requirement included in new BT contracts	879	1,199
GS18 risk-assessment questionnaires requested by BT to be completed by supplier*	37	391
GS18 risk-assessment questionnaire completed	31	242
Number of questionnaire responses where further action was required	15	67
Number of questionnaire responses where further action ws being conducted	/	74
Number where required further action was completed	/	20
Number of inital GS18 on-site assessments conducted on high risk contracts	7	9
Number of suppliers identified as falling short of GS18 standard following assessment	7	9
Number of GS18 on-site reassessments conducted	7	4
Number of suppliers who, following reassessment, have reached the GS18 standard	0	0
Contracts cancelled due to serious shortfalls persisting against GS18 standard	1	0

\*one supplier questionnaire response may cover multiple contracts if for the same procurement requirement

/= Data not entered onto the central database that year



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Suppliers continued

2004 assessments

In the 2004 financial year, we completed 13 on-site assessments to find out how well our suppliers met our SWHD standard.

Of the 13 assessments conducted (in China, India, Sri Lanka, Turkey and the UK) nine were of facilities not previously assessed. The assessments were done in those areas where there was a high risk of suppliers falling short of our standard – they should not be taken as a representative sample of our supply chain.

Our assessments use the following scoring system:

- **Improvement required** – progress is needed on at least 51% of the aspects in that category.
- **Some improvement required** – progress is needed on at least one aspect in that category.

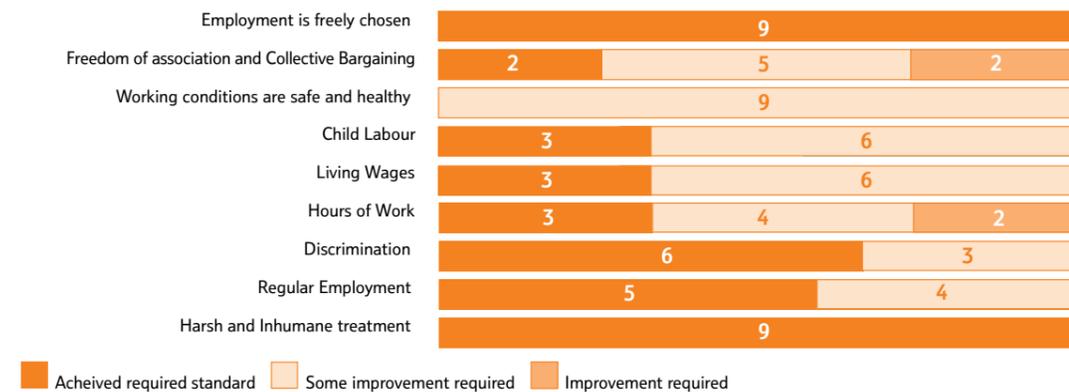
The graph below shows the findings.

We sent the assessment reports to the suppliers and discussed our observations with them. We have either agreed improvement plans (and are monitoring progress), or are still to agree plans following the most recent assessments.

Not all the shortfalls represent major labour rights abuses. For example, some improvement required in the living wages category does not necessarily mean that the supplier is paying below the minimum or living wage. It may simply be that insufficient information about wages is provided in the employment contract.

GS18 Sourcing with Human Dignity Assessment Findings

April 2003/2004 (Conducted on suppliers operating in identified risk areas)



In the 2004 financial year, a further seven re-assessments were made to facilities where improvement plans had already been put in place. The visits assessed the level of improvement in the way suppliers meet our standards.

Case study

In one case, a subcontractor was found, upon re-assessment, to persistently allow serious shortfalls of the SWHD standard, including excessive and forced overtime and intimidation of workers. The contractor falsified records to try and hide this from the auditors. As a result, we stopped placing orders with that company.

This is the first and only case where we have stopped trading with a supplier because of non-compliance with our SWHD standard. All other suppliers have been collaborative and open and continuously try to improve their performance.

See Future Plans in the Corporate social responsibility section above.

Diversity

The business case

Because our customers are so diverse, the issue of diversity is commercially important to us and built into our business objectives. For example, in our largest market, the UK, about 51% of the people are female, 7.7% from ethnic minorities, and 18% have a disability. We must understand and align ourselves with our customers if we are to provide a truly world-class service.

To gain the full benefits and competitive advantage of diversity it must be reflected throughout our operations, including our supply chain.

Supplier diversity programme

Through our supplier diversity programme we have worked with Minority Business Enterprises to help encourage a diverse supply chain.

The success of BT's supplier diversity programme has influenced other companies to do the same. This has resulted in the formation of the European Supplier Diversity Group which has launched a two-year project to introduce supplier diversity into Europe. The group consists of 10 major companies and two public bodies.

Our supplier diversity programme is therefore on hold and will be revised with the aim of being consistent with the rest of the Group's recommendations.

Procurement and the environment

In the 2004 financial year, BT spent over £8.2 billion on products and services. Our purchases range from telephone exchange equipment and vehicles to accommodation, fuel and energy, stationery, office machinery and postal services.

In the UK, this makes us one of the largest purchasers, with an environmental influence that extends well beyond that of our own staff and workplaces. In recognition of this, and to comply with the ISO14001 standard, we identified Procurement as one of eight company activities that affect the environment.

Environmental objective

Our environmental objective in procurement is to seek to influence the environmental performance of our suppliers and contractors through our purchasing policy.

We have set specific objectives to ensure appropriate supplier environmental data is collected. After evaluating our suppliers' environmental impacts, we encourage poor performers to improve.

We have adopted a risk-based approach focusing attention on improvements in the areas where the greatest impact can be made.

Methodology

The implementation of our procurement environment objective has three main strands:

**1. Assess suppliers' general environmental policies and procedures.** We do this with our environmental impact online questionnaire (GS13). The supplier must complete this after agreeing a mandatory pre-contract award commitment to work towards continuous improvement, if required. In this way we can identify and drive continuous improvement with those suppliers who do not have the procedures needed to manage the environmental risks of the product or service we buy.

**2. Managing the environmental impacts of electrical or electronic equipment (EEE).** We have a pre-contract product stewardship online questionnaire (GS19), which is mandatory for all potential EEE suppliers. This provides information on materials used and compliance with forthcoming environmental legislation. The information is assessed and sent to our buyers and product managers so that they can make informed decisions.

**3. Auditing Waste Management Suppliers.** All our waste contractors must provide a statement on their waste disposal procedures. We assess this for legal and environmental compliance. Contractors are audited by us (using an external specialist) every year. Audit reports are sent to the relevant BT buyer and progress on any required improvements monitored by the auditor.



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## Training

### • Buyers

In the financial year 2004, three training workshops were held, primarily to brief BT's overseas buyers on their environmental responsibilities. A total of 47 buyers attended these training sessions. A further 3 conference calls were held with overseas buyers who were unable to attend a face to face event, to go over the same training material attended by 30 buyers. This training was in addition to training conducted in the financial year 2003, when 11 training seminars were held and attended by 182 of BT's buyers.

Two seminars on continuous improvement were also held to give buyers extra guidance.

In 2003 we assessed the effectiveness of the buyer training by conducting a soft audit of their implementation of the environment processes. Key aspects were then reinforced through environment presentations at their team meetings. This assessment is being re-conducted in 2004.

### • Suppliers

In the financial year 2004, we hosted a training programme to help BT suppliers implement environmental management systems compatible with the ISO14001 management systems standard. Seven BT suppliers took part in the four-day course, partly funded by the European Union. Participants committed to spend 120 hours on project implementation in their companies.

## Monitoring and Driving Improvements – Performance at a glance

The Table below provides key data concerning BT's monitoring and driving environmental improvements with suppliers

In the financial year 2004, we have also assessed 233 Product Stewardship Questionnaires (GS19) and audited 33 waste contractors.

### Other environmental initiatives

In the 2004 financial year, we made a commitment to the Mayor of London's Green Procurement Code. This promotes demand for recycled products in London. We are exploring ways to buy more products made from recycled materials, such as:

- Aggregates. This is crushed rock used to repair roads after laying underground cables.
- Paper and stationery. We are investigating the possibility of increasing the use of recycled content in paper and stationery used in the UK.
- Carpet. We have identified that we currently don't use carpet with recycled content and are exploring this possibility.

See also: Future Plans in Corporate social responsibility section of this document.

Implementation of GS13 Environmental Impact Process	In Yr 2002/03	In Yr 2003/04
Number of new BT Contracts	879	1,199
GS13 requirement included in new BT contracts	879	1,199
GS13 risk assessment questionnaires requested by BT to be completed by supplier*	70	568
GS13 supplier risk assessment questionnaire completed	43	410
Number of questionnaire where continuous improvement was required	18	129
Number of questionnaire where continuous improvement was being driven	7	131
Number of contracts where continuous improvement completed	0	33

\*one supplier questionnaire response may cover multiple contracts if for the same environment risk category



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### Offices worldwide

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