



# *Economics*

**Better World – Our Commitment to Society**

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## *Economics*

You may wonder why we have a section on economics in our social and environment report. After all, you might well assume that our Annual Report to shareholders would contain all the relevant information.

And it's certainly true that the Annual Report discloses all the important financial information on BT and we certainly don't attempt to reproduce that data here.

But, as we argued strongly in our occasional paper on the economic dimension of sustainable development, *Adding Values*, a company such as BT affects the wider economy in many ways that wouldn't be reflected through traditional financial reporting.

In this section of the report we therefore attempt to put into practice some of the ideas we presented in *Adding Values*.

## *Our approach*

In the report's introductory section we highlighted the importance of not only reporting against the social, environmental and economic sections of the "triple bottom line", but also of showing how they interrelate. For this reason we also demonstrate the significant linkages between our economic profile and our social and environmental performance measures, in the hot topics and the BT in India case study.

We consider how our economic impacts range from the local to the global, from the micro to the macro and from the direct to the indirect.

Indeed, as one moves from the pure company finances, through some of the more intangible issues such as knowledge management, to macro economic effects such as how an efficient information and communication technology (ICT) infrastructure contributes to national economic growth, then the level of influence we as an individual company have on effecting change diminishes. But that's not to say that we can claim complete immunity from responsibility for the less direct social and environmental consequences of our commercial activities.

We can't, hence this section.

## *BT in the economy*

As one of the largest telecommunications companies in the world, BT is a significant economic force in its own right.

Its 2000/2001 turnover of £20.4 billion is greater than the GDP of many countries.

In the same financial year, we paid £0.7 billion in corporation and similar taxes and over £9 billion for European 3G mobile licences.

We are a major employer (around 137,000 people work for the company), we spent £364 million on research and development in the 2001 financial year and we purchased around £11 billion of goods and services.

But these statistics – and you'll find many more in our formal Report and Accounts – don't, in themselves, give any indication of whether the company, through its economic impacts, is a force for economic, social or environmental advancement.

For example, just because we pay lots of tax doesn't make us a more socially responsible company. It is the Government that exercises the social responsibility of determining how tax revenues are spent.

But there are questions relating to our economic profile that might really help to create a more sustainable world. Questions that are probably best addressed by the ICT industry in general than any one particular company. But nonetheless questions that need to be asked.

How, for example, do ICT products and services affect the wider economy?

Do ICT activities make countries more competitive, thereby helping the alleviation of poverty and addressing social exclusion?

And do ICT activities in developing countries help provide the necessary skills and infrastructure to provide for a sustainable form of economic development?

We address these questions, not only from an industry perspective, but also by tying them into some specific BT activities many of which are covered elsewhere on our Better World site.

## *ICT and productivity*

In the industrialised world, information and communications technology (ICT) is a major force in the economy. And, because it delivers general productivity gains, investment in ICT is also seen as an important driver of economic growth.

In 1997 the UK ICT industry accounted for 8.4 per cent of total GDP.

In the same year, UK GDP grew by 3.5 per cent, of which a quarter has been attributed to growth in the ICT industry.

And the significance of the ICT sector has been further highlighted by fears that growing levels of debt in the industry, combined with the bursting of the “dot.com bubble” are helping fuel a recessionary trend.

But it's not just the economic importance of the ICT industry in itself that attracts attention.

It's also the fact that investment in ICT equipment and services delivers widespread productivity gains.

In the USA, for example, very high levels of expenditure on ICT equipment (which grew by nearly 40 per cent per annum in the period 1996-99) have helped to achieve an average annual labour productivity increase of 2.5 per cent since 1996, and an annual GDP growth of four per cent in the five years prior to 2001.

According to the UK Dept of Trade and Industry (DTI), these improvements in productivity derive from the ability to innovate – better products, delivered faster and more efficiently.

The DTI recognises that the convergence of communications and computing accelerates the process of innovation. They say that increasing the rate at which new knowledge and technologies can be shared and exploited will be key to improving the competitiveness of business.

Economists anticipate that e-business will enable firms to lower costs – in procurement, production, selling and distribution – as well as stimulating the development of new markets and services.

For example, according to Goldman Sachs, cost savings from business-to-business (B2B) e-commerce alone will bring a sustained extra economic growth of 0.25 per cent per year over the next decade.

Against this backdrop of potentially enhanced economic growth, industrialised nations are competing against each other to be more competitive by being more productive.

This is why Prime Minister Tony Blair has set targets:

- for the UK to be the best place for e-commerce by 2002
- for everyone in the UK to have internet access by 2005
- for all Government services to be on line by 2005
- for the UK to have the most extensive and competitive broadband market in the G7 group of countries by 2005.

It's why the UK Regional Development Agencies see e-business as a key to regional economic development.

And why, at their 2000 summit in Lisbon, Europe's leaders set a new strategic goal: *“to become the most competitive and dynamic knowledge based economy in the world...regaining the conditions for full employment and to strengthen social cohesion.”*

## ***ICT, globalisation and economic divides***

The globalisation of economies is a controversial subject that raises significant passion amongst its proponents and contenders alike.

To quote from *Variety and Values*, another of our occasional papers:

*“There is no doubt that globalisation has brought enormous benefits and has the potential to deliver more. Trans-border communications have enabled previously undreamed of personal and cultural connections between billions of people. The economic potential to deliver an improved standard of life across the world may also be within our reach. For the first time we may have the global tools, global knowledge, and global reach to tackle some of our most basic human needs, while dealing with more modern challenges and driving innovation. But to reap these benefits, the process of globalisation must be managed with responsibility.”*

Indeed, there is significant concern that just these new digital technologies, although providing so many opportunities, might also serve to exacerbate existing economic divides between rich and poor people and between rich and poor nations.

The 1999 United Nations Human Development Report took globalisation as its main theme and focused on the potential of the internet for human development as well as exclusion.

In particular, the report recognised not just the potential of the internet to drive efficiency improvements, but also its power to foster major advances in health and education, to empower small businesses and organisations, and to provide remote communities and poorer countries with easy and cheap access to information.

And, of course, the report also recognises that these advantages are not automatically going to be delivered to those who most need them.

This is why the Digital Divide has recently become such a high profile issue, and why we have included it as one of our hot topics. And why the economic implications of our activities are covered in the BT in India case study.



## *From globalisation to localisation*

At both ends of its supply chain BT affects local economies.

We buy from, operate in and sell to, rich and poor communities alike.

Supplies are sourced from across the world and whenever we buy something we leave behind an economic consequence that benefits that community.

But we also want to make sure that we buy without exploitation of people. Which is why we have recently introduced our Sourcing with Human Dignity Programme.

In our main operations we have often sought to place activities in areas of high unemployment – for commercial as well as social reasons. For example, we have:-

- worked with government agencies to place call centres in Northern Ireland, Scotland and the South Wales valleys.
- supported training centres as part of the Government's New Deal programme, building skills for the disabled and long term unemployed.
- established the BT eLocations initiative that provides inward investors with a combined site search and communications package. For example, the 106-acre Grosvenor Waterside development in Cardiff has been constructed with the latest high-speed, high capacity communications and eLocations is marketing it with the Welsh Development Agency.
- brought telecentres and e-business opportunities to rural communities.

## *The knowledge economy*

In *Living on Thin Air*, Charles Leadbeater argues that we are seeing the development of an economy in which value is more a function of ideas, creativity and imagination than it is of traditional capital investment.

This is why we in BT place so much emphasis on research and development and knowledge management.

We also believe that BT has an important role to play in enabling the knowledge economy. Through our major capital investments in plant and equipment (around £5 billion in the 2001 financial year) we are:

- meeting all European and Oftel requirements on local loop unbundling (which makes it possible for our competitors to install their equipment in our exchanges)
- rolling-out ADSL technology (which enables the ordinary copper telephone line to function as a high speed internet connection) and enhancing our network intelligence and carrying capacity
- investing in advanced mobile technologies

We are also helping the young generation prepare for this new world through our education programme.

The benefits that these new technologies can deliver to the wider economy, and the commercial returns to BT, are naturally the main driving force.

But it's important not to disregard the social and environmental impacts – real and potential which is why we include the hot topics.

For example, as we take a look at e-commerce and the environment, we ask if the productivity gains promised by e-commerce will be matched by similar eco-efficiency gains.

Joseph Romm <http://www.cool-companies.org/energy/> has published an influential report in the USA that directly links economic efficiency gains to reduced environmental impacts, in everything from reduced warehousing space in supply chains to reduced transport impacts from teleworking.

The hot topic looks at BT's experience of adopting e-commerce techniques in its own operations as does the environment benefits section.

## *A digitally literate workforce*

There is a growing sense of crisis in Europe concerning the gap between supply and demand for information technology professionals.

Recent studies estimate that Europe currently has around 500,000 ICT job vacancies at the end of 1998, and that number is expected to grow to around 1.6 million by 2002 – unless action is taken.

BT shares these concerns and we are responding in a number of ways. For example, we:

- work with the EC to improve the supply of ICT professionals
- directly encourage women and ethnic minorities into ICT careers
- promote the ways in which ICT can enable more flexible working patterns, thereby bringing excluded people into the employment.

But the challenge is wider than simply meeting the demand for information technology professionals.

Digital literacy is becoming an increasingly essential element of basic employability.

In order to encourage the development of digital literacy, BT has:

- set up the BT Academy – an on-line learning portal open to all employees
- run a special schools roadshow focusing on communication and ICT skills
- built a special website for teachers and young people, highlighting important ICT skills
- since 1992 provided around £3.5 million funding to support school and higher education ICT projects
- begun e-enabling almost 1700 groups and individuals each year.

More details of these activities can be found in the education, recruitment and training sections.

## *Public policy*

As we pointed out in our occasional paper on the economic dimension of sustainable development, *Adding Values*, one of the critical confluence points between the economic, social and environmental aspects of a company's business occurs at the business/public policy interface. After all businesses usually lobby for economic reasons.

BT has a strict policy of not making donations to political parties. However, we actively make contact with political parties, politicians and civil servants. We put forward our points of view on matters that affect our business interests and to ensure that those in government are fully briefed on issues surrounding and affecting the company's activities.

We also interact regularly with the European Commission, and national and international regulators.

We undertake these activities both directly and through many intermediary organisations such as our European trade association (ETNO) (<http://www.etno.belbone.be/>), the Confederation of British Industry (CBI) (<http://www.cbi.org.uk/home.html>), Federation of the Electronics Industry (FEI) ([www.fei.org.uk/](http://www.fei.org.uk/)) and the European Round Table of Industrialists (ERT) ([www.ert.be](http://www.ert.be)).

Our responses to important regulatory consultation documents are posted on our web site at <http://www.bt.com/regulate/otherresp/index.htm>, which includes our response to the UK Government's consultation on sustainable development.

We are also members of a number of organisations that attempt to influence public policy on matters connected with corporate social responsibility and sustainable development.

Some, but by no means all of these, are business led. Examples include:

- Employers Forum on Disability ([www.employers-forum.co.uk](http://www.employers-forum.co.uk))
- CSR Europe ([www.csreurope.org](http://www.csreurope.org))
- Forum for the Future ([www.forumforthefuture.org.uk](http://www.forumforthefuture.org.uk))
- Green Alliance ([www.green-alliance.org.uk](http://www.green-alliance.org.uk))

We also sponsor organisations that have campaigned for political change – for example the One World ([www.oneworld.org](http://www.oneworld.org)) website.

Overall, members of the BT social policy team are in frequent contact with the company's public and regulatory affairs teams to make sure we are putting forward consistent and coherent communications.