

# Economics

Better World  
BT's Social & Environment Report



# Economics

BT is one of the largest telecommunications companies in the world and a significant economic force in its own right. In this document we try to interpret and understand some of BT's direct and indirect economic impacts, and highlight the linkages to their social and environmental consequences.

In 2002 the UK Department of Trade and Industry published the first ever league table of wealth-creating companies. BT was placed 15th in Europe, contributing £11.3 billion to the economy.

This size brings with it a range of direct and indirect economic impacts.

Our direct economic impacts can be understood using traditional financial measures – our turnover, spend with suppliers, dividends, employee costs, taxation paid and so on.

But a company such as BT affects the economy in many ways that aren't reflected through traditional financial reporting.

Our indirect economic impacts can arise from the income and employment created in businesses that supply goods and services for use by BT.

But the communications sector by its very nature can also have significant indirect economic effects. For example, prices, bandwidth and processing power can all have considerable impacts on the productivity of individual enterprises, industrial sectors and the wider economy. This in turn can affect innovation and competitiveness.

Other significant economic issues in the communications sector are globalisation and the development of the 'knowledge economy'.

## Accounting for indirect impacts

As one moves beyond pure company finances through to some of these more intangible issues, the level of influence we as an individual company have on effecting change diminishes. But that's not to say that we can absolve ourselves from responsibility for the less direct social and environmental impacts arising out of our commercial activities.

This analysis aims to put into practice some of the ideas we presented in Adding Values, our 2001 occasional paper on the economic dimension of sustainable development.

## Direct impacts

BT's direct economic impacts can be illustrated using traditional financial data, such as turnover, dividends and taxation paid.

Financial measures can also be used to demonstrate how the economic status of each stakeholder group changes as a result of BT's activities.

The figures below measure the financial flows between BT and our key stakeholders – customers, suppliers, employees and shareholders – as well as with governments. We also provide a geographical breakdown of BT's markets.

All data relates to our activities during the 2003 financial year.

### Customers

BT turnover was £18,727 million, distributed as follows:

BT Retail:	£11,333 million
BT Wholesale:	£3,472 million
BT Global Services:	£3,882 million
Other:	£40 million

When BT's share of associates' and joint ventures' turnover of £1,445 million is added, our total turnover reaches £21,182 million.

More details are found in the BT profit and loss account on page 26 of the 2003 Annual Report and Form 20-F.

### Suppliers

Our total spend with suppliers was approximately £5,000 million. Further details of our operating costs are found on pages 35-37 of the 2003 Annual Report and Form 20-F.

Our total capital expenditure was £2,445 million. A more thorough description of this expenditure, including its nature and geographical spread, is found on page 44 of the 2003 Annual Report and Form 20-F.

## Employees

Our total employees in post were 104,700, of which 96,300 are in the UK and 8,400 non-UK.

Total expenditure on employees was:

Wages and Salaries	£3,621 million
Social Security Costs	£275 million
Pension Costs	£322 million
Employee Share Ownership	£36 million
Total	£4,254 million

## Shareholders and creditors

The total dividend paid to shareholders was £560 million.

Our net debt was reduced from £13.7 billion to £9.6 billion.

Our total interest payable on continuing activities was £1,439m.

The total amount falling due to creditors within one year is £9,680 million. More details are available on page 84 of the 2003 Annual Report and Form 20-F.

## Governments

Total taxes paid to governments was £459 million, comprising £598 million on the profit before taxation, goodwill amortisation and exceptional items, offset by tax relief of £139 million on certain exceptional charges.

Non-UK taxation amounted to a total of £102 million.

More details of our total taxes paid are available on page 96 of the 2003 Annual Report and Form 20-F.

## Geography

The geographical breakdown of BT's turnover is as follows:

UK	£17,536 million (94%)
Europe (excluding UK)	£978 million (5%)
Americas	£153 million (1%)
Asia and Pacific	£60 million (<1%)

BT's share of the UK residential fixed-voice call market is 73%, as it has been since June 2000.

BT's share of the business sector fixed-voice call market is 45%, compared to 49% for the 2002 financial year.

## BT

The profit retained in the company for investment was £2,126 million, up from £822 million in the 2002 financial year.

The return before goodwill amortisation and exceptional items on the average capital employed was 15.7%, the same as for the 2002 financial year.

## Indirect impacts

We have separated BT's indirect economic impacts into the following categories:

- Income and Employment
- Productivity
- Globalisation
- Knowledge Economy



## Income and employment

### Indirect impact

Indirect economic impacts arise from the income and employment created in businesses that supply goods and services to BT.

In a report compiled for BT by DTZ Pida Consulting in March 2002, these indirect impacts were estimated (in Great Britain) as follows:

Indirect Income and Employment created in businesses that supply goods and services to BT		
	Income £ million	Employment
From capital expenditure	720.7	35,230
From revenue expenditure	1,341.3	65,560
Total	2,062.0	100,790

Source: DTZ Pida Consulting. Based on the following 2001 figures for BT:  
 Total Supplier Expenditure: £4.5 billion  
 Total Capital Investment: £3.2 billion  
 Employees: 126,560

In short, the expenditure of BT in Great Britain creates over £2 billion of income in the British economy, which in turn supports the employment of almost 100,800 people.

### Induced impact

Further indirect (or 'induced') impact is created when incomes created directly and indirectly by BT are spent in the economy.

The DTZ Pida Consulting report estimates these induced impacts to be £2.96 billion of income and 144,530 employees.

### Total impact

The total economic impact of BT in terms of income generation and employment can be calculated by adding together the direct, indirect and induced impacts:

Total Income and Employment Impact of BT in Great Britain		
	Income (£billion)	Employment
Direct	2.866	101,226
Indirect	2.062	100,790
Induced	2.957	144,530
Total	7.885	346,546

Source: DTZ Consulting March 2002

The table shows that BT's activities generate income of £7.9 billion and support the employment of 346,500 people throughout the British economy – almost 1.4% of all employment in Britain.

### Notes

- These figures take account of 'leakages' of expenditure from the local economy in the form of non-British purchases, savings and national taxes. They are calculated using 'input-output' tables showing the flows of expenditure between sectors of the economy and allow the impact of a given level of expenditure on income and employment to be calculated.
- BT's profile has altered since this study was completed – for example, the total number of BT employees has reduced from 126,560 to 104,700. However, the study still stands as an illustration of the scale and nature of BT's indirect economic impacts.

### Productivity

One of BT's main indirect economic impacts is on the productivity of individual enterprises, industrial sectors and the wider economy.

Information and communications technology (ICT)

In the industrialised world, information and communications technology (ICT) is a major force in the economy.

For example, according to the Organisation for Economic Co-operation and Development (OECD), the UK ICT industry accounted for 8.4% of total GDP in 1997. In the same year, a quarter of the UK's GDP growth of 3.5% was attributable to growth in the ICT industry.

But the impacts of ICT go beyond the size of the industry alone.

### ICT and productivity

There are characteristics specific to ICT – such as increased bandwidth and the plummeting cost of communications – which enable organisations to become more efficient and productive.

Indeed many economists make the case that ICT has increased productivity and global competition while holding down inflation, allowing higher economic growth without the need to choke off inflationary pressures with higher interest rates.

The UK Treasury, for example, has suggested that very high levels of expenditure on ICT equipment in the USA helped to achieve an average annual labour productivity increase of 2.5% between 1996-99, and an annual GDP growth of 4% in the five years prior to 2001.

### Current situation

However, the statistical evidence for ICT increasing productivity is thin. As Diane Coyle and Danny Quah argue in *Getting the Measure of the New Economy*, top line productivity figures often show little of this impact. Coyle and Quah call this the "productivity paradox" – that one can see the evidence of the computer revolution everywhere apart from in the productivity figures.

Nevertheless Coyle and Quah make the case that the "absence of evidence should not be taken as evidence of absence". It will take time – indeed decades – for ICT to filter through into the whole economy, and we are only just beginning to see the wholesale restructuring of business, industrial and organisational models made possible by the diffusion of ICTs.

Economists continue to 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 e-commerce alone will bring a sustained extra economic growth of 0.25% per year over the next decade.

Our 'Hot Topic' on e-business and the environment looks at BT's experience of adopting e-commerce techniques in its own operations and asks whether the productivity gains promised by e-commerce will be matched by similar eco-efficiency gains.

### ICT and competitiveness

Against this backdrop of potentially enhanced economic growth, the industrialised nations are increasingly looking to use the productivity benefits of ICT to improve their competitiveness.

The productivity potential of ICT is also recognised by the EU, who set the strategic goal in Lisbon in 2000 to become "the most competitive and dynamic knowledge-based economy in the world ... regaining the conditions for full employment and to strengthen social cohesion."

Indeed, the UK Prime Minister Tony Blair has set the following targets:

- everyone in the UK to have internet access by 2005.
- all government services to be online by 2005.
- the UK to have the most extensive and competitive broadband market in the G7 group of countries by 2005.

The UK Regional Development Agencies also see e-business as key to economic development. This in turn can bring a range of social and environmental improvements in the regions. You can read about BT's efforts to spread the benefits of broadband to the more remote regions of the UK in the digital inclusion section of the Better World site.



## Globalisation

The globalisation of economies is a controversial subject that raises significant passion among supporters and opponents alike.

To quote from our occasional paper Variety and Values:

*“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.”*

### The digital divide

There is great concern that 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.

The report recognised not just the potential of the internet to drive efficiency improvements, but also its potential 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.

Crucially, however, the report also recognised that these advantages are not automatically going to be delivered to those who need them most.

### BT's approach

It is partly for this reason that the Digital inclusion has been selected as one of the main sections of this site.

Also of relevance is the analysis of the economic implications of our activities in the BT in India case study. BT has sold its stake in three of the four Indian joint ventures since this case study was prepared; however, the report still stands as an analysis of BT's impact during its involvement in these joint ventures.

Moreover, the Call centre section of the Better World site discusses the issues associated with the opening of two new call centres in New Delhi and Bangalore.

BT's goods and service are also sourced from across the world and whenever we buy something we leave behind an economic consequence to the benefit of that community.

But we also want to make sure that we buy without exploitation of people. Our Sourcing with Human Dignity programme seeks to ensure that working conditions in our supply chain are consistent with international guidelines such as the Universal Declaration of Human Rights and the International Labour Organisation Conventions.

This global dimension of ICT also provides the rationale for our involvement in the Global e-Sustainability Initiative (GeSI). Amongst GeSI's recent activities has been an overview on the contribution of ICT to sustainable development as an input to the 2002 World Summit on Sustainable Development.

## Knowledge economy

We believe that we are living in a knowledge economy, in which value is more a function of ideas, creativity and imagination than it is of traditional capital investment.

For this reason BT places considerable emphasis on research and development and knowledge management.

We believe that BT has an important role to play in enabling the knowledge economy. As the largest capacity telecommunications network in the UK – with 885 local and trunk exchanges, 119 million kilometres of copper wire and 6 million kilometres of optical fibre – we also have the infrastructure to play an important part in it.

The new knowledge economy is leading to rising demand for advanced data, mobile, broadband and internet services. Consequently we are building a new national network, capable not just of meeting our customers' needs now, but their future needs as well. To achieve this we are refocusing our investment away from today's technology in order to spend more on future technologies.

Critical to the development of the knowledge economy is the roll out of ADSL broadband technology. Broadband means, very simply, a high-speed connection to the internet that is 'always on'. It is called broadband because it has a much larger capacity to send and receive data than a standard telephone connection. These investments also bring a range of social and environmental impacts, set out in the benefits and broadband sections of the Better World site.

### A digitally literate workforce

There is growing concern in Europe about the gap between supply and demand for information technology professionals.

BT shares these concerns and we are responding in a number of ways:

- we work with the European Union to improve the supply of ICT professionals.
- we encourage women and ethnic minorities into ICT careers.
- we 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.

For this reason we have launched a digital inclusion campaign – Everybody Online – to support the government's aim to give all citizens online access by 2005 and demonstrate how communications can help improve society.

The campaign aims to increase access to communications technology in underprivileged areas and to

deepen the understanding of the causes and effects of the digital divide and how they may be addressed nationally.

BT has a range of other activities in place to encourage the development of digital literacy:

- The BT Academy – an online learning portal open to all employees.
- A special schools roadshow focusing on communication and ICT skills.
- A website for teachers and young people, highlighting important ICT skills.
- A programme to e-enable 1,700 groups.

More details of these activities can be found in the education, digital inclusion and employees sections of the Better World site.

