

BT's Sustainability Report 2007

Suppliers



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better
world

Suppliers

We buy products and services - such as IT equipment, cables, design and disposal services - from thousands of suppliers worldwide. In the 2007 financial year, we spent over £6.8 billion on procurement.

Our supply chain is becoming increasingly global as we source skills, products and services from more countries worldwide. This trend is known as global sourcing and is being driven by greater competition and a need for cost effectiveness, rapid technological change, and our increasingly global customer base. We explore the impacts of global sourcing on our workforce in [Workforce Agility](#).

In all our dealings with suppliers we are committed to behave according to the principles of fair and ethical trading. Our spend enables us to influence suppliers' environmental and labour standards.

Here we discuss:

- Fair treatment of suppliers in selection, development and payment
- CSR and suppliers – how we apply our human rights and environmental standards in our supply chain
- Supplier diversity – sourcing from diverse suppliers.

Our Supply Chain

In the 2007 financial year, we spent over £6.8 billion with suppliers.

Our main categories of spend include network equipment, ICT equipment used at our customer premises, and those items needed to run our business, such as equipment and stationery for our offices.

Changes in our business have implications for our supply chain management. For example, we now source from an increasingly global supply base, including suppliers based in countries where there is a higher risk of corruption or where environmental or human rights standards are not well regulated.

The way in which BT sources the skills, products and services it needs to operate effectively is also changing. We now outsource many activities to suppliers, including customer contact centres and our payroll, finance and accounting activities.

Fair treatment of suppliers

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

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

Supplier development

We use a range of tools to assess our suppliers and to encourage continual improvement. 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. The evaluation increases the supplier's understanding of how to work in partnership with BT. This benefits us and helps the supplier when they compete for non-BT work. We share learning and expertise in quality, the environment, diversity and ethical trading with our suppliers.

In financial year 2006, we asked 2,000 suppliers to complete a questionnaire on how they feel BT behaves as a customer. This has provided an update on the views we sourced two years ago. The findings have been used to assess the overall success of BT's relationship with suppliers – one of our key performance indicators. Supplier satisfaction levels were 89%. Our next supplier survey will take place in the last quarter of the 2008 financial year.

Supplier payment

Our policy is to use our purchasing power fairly and to pay promptly and as agreed. BT has a variety of payment terms with its suppliers. Payment terms for major contracts are agreed with the supplier when negotiating the contract. For Purchase Orders the payment terms are specified on our [Selling 2 BT website](#) under [general conditions](#). The normal payment term is 42 calendar days from date of receipt of a due and valid invoice. BT makes payment on the next weekly payment run following expiry of this term. We have produced a [Better Payment Practices document](#) that explains to suppliers how BT's Accounts Payable processes work.

The ratio, expressed in days, between the amounts invoiced to the company by its suppliers in the 2007 financial year and the amounts owed to its trade creditors at the end of the year was 39 days.

CSR Procurement Strategy

We expect our suppliers to meet high standards on issues such as human rights, the environment and employment standards. Embedding our values and CSR standards in our procurement practices helps us to protect our reputation and make a real difference to the communities where BT and our suppliers operate.

CSR is a key measure in our procurement scorecard, accounting for 25% of the overall score. There are three strands to our CSR Procurement Strategy:

- **Labour Standards in our global supply chain, including ethical trading.** Our standard for Sourcing with Human Dignity ([GS18](#)) sets out the working conditions we expect suppliers to provide for their employees.
- **Environment.** We seek to influence the environmental performance of our suppliers and contractors through our purchasing policy. Our supplier environmental standards ([GS13](#) and [GS19](#)) are included in our procurement contracts and cover issues such as environmental management systems and product stewardship. In 2006 we agreed additional procurement principles that support BT's climate change strategy.
- **Supplier Diversity.** We aim to develop a diverse supply base that provides BT with innovative ideas and solutions.

In the 2007 financial year, we developed an "Escalator" plan of sustainability activities and goals for how procurement can help BT establish a leadership position on sustainability issues. Our initial focus areas will be travel, energy and consumer products.

In the 2007 financial year, BT won the Chartered Institute of Purchasing and Supply 'Best contribution to corporate responsibility' award. We previously won this award in 2003. The judges comments were – 'An exceptional entry in a difficult area, demonstrating that continual improvement and consistent support, visibility and ownership from the top can lead to changes. BT really mean it, in a big way, not just ticking boxes. CST takes ongoing efforts and is often frustrating but they are really making a difference, it appears. They have forced suppliers to speak to purchasers. This is thorough, comprehensive and impressive.'

Our standards

This section summarises our standards for the three elements of our CSR procurement strategy: environment, human rights and supplier diversity.

This year, we reviewed the quantitative data we report and, as a result, have changed the amount and type of data we report to better reflect our current data collection systems in relation to our environment and human rights standards.

Environment

We are one of the largest purchasers in the UK, with an environmental influence that extends well beyond that of our own people and workplaces. We seek to influence the environmental performance of our suppliers and contractors through our purchasing policy. Our programme has three strands:

1. Assess suppliers' environmental policies and procedures. All major suppliers must complete our [environmental impact online questionnaire](#) (GS13) and agree to work towards continuous improvement, if required.
2. Manage the environmental impacts of electrical or electronic equipment (EEE). Our pre-contract [product stewardship online questionnaire](#) (GS19) is mandatory for all potential electronic and electrical equipment suppliers.
3. Audit waste management suppliers. All our waste contractors must provide a statement on their waste disposal procedures. Contractors are audited by us (using an external specialist) every year.

We have established procurement principles that support BT's new [climate change strategy](#). These state that:

- We will harness the capability, diversity and innovation of our supply base to add value to our business and encourage suppliers to offer solutions which have a reduced environmental impact.
- The energy consumption and environmental impact of a product or service (from manufacture, through usage, to disposal) is a mandatory criterion in all tender adjudication.
- The energy consumption and environmental impact of any replacement product or service (from manufacture, through usage, to disposal) is less than its predecessor.

Human rights

We expect the working conditions under which the products and services we purchase are produced to meet the standards of the [Universal Declaration of Human Rights](#) (UNDHR) and the [International Labour Organisation](#) (ILO) Conventions.

Our Sourcing with Human Dignity (SWHD) initiative specifies the minimum standards we expect of our suppliers in the following areas:

- Child labour

- Cruel, harsh and inhuman 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](#).

Supplier diversity

The following questions on supplier diversity are included in our labour standards questionnaire GS18:

- How many employees are there in your company?
- How is your company owned?
- Do you consider yourself to be a Minority Business Enterprise (MBE)?
- Where is your company headquartered?
- Do you monitor the diversity of your workforce relating to ethnicity?
- Do you monitor the diversity of your workforce relating to disability?
- Do you monitor the diversity of your workforce relating to gender?
- Do you monitor the diversity of your workforce relating to age?
- Do you monitor the diversity of your workforce relating to sexual orientation?
- Do you monitor the diversity of your workforce relating to belief?
- Do you monitor the diversity of your supply chain?

Supplier management

This section explains the governance process for our CSR procurement strategy and our risk-based approach to supplier engagement.

Governance

BT's chief procurement officer has overall responsibility for our CSR supply-chain programmes and reports to a BT Board member. Our CSR strategy and policy for procurement manager oversees implementation of our strategy and provides advice and direction on CSR issues.

Our buyers implement the programmes supported by our procurement CSR manager, product stewardship and waste experts, product managers and a CSR virtual team of representatives from across BT procurement.

Risk-assessments

We source from thousands of suppliers worldwide and it is not possible to engage in detail with all of these companies. We adopt a risk-based approach to help us focus our efforts. A supplier may present a higher risk to BT because of the product or service they provide, for example suppliers based in other countries may operate to different labour and environmental standards than those expected in the UK. Or because they are based in a country where there are few regulations governing the environment or human rights or regulations exist but are poorly enforced.

All new suppliers are required to complete our [GS13](#) and [GS18](#) questionnaires via our online Procurement Portal. This helps us to establish whether there is a high, medium or low risk of a particular supplier not meeting our CSR standards.

Follow up action is taken within three months with suppliers that are considered to be medium or high risk. This ranges from a simple discussion with the supplier to clarify their responses to our questionnaires, to a full [on-site assessment](#).

In future we aim to carry out more risk assessments at the pre-contract stage to help us further integrate CSR into our procurement decisions.

To date 1,385 suppliers have completed our questionnaires and we are working with 128 suppliers on environmental impact, and 140 suppliers on labour standards.

We used our new climate change procurement principles in a recent tendering exercise for broadband products. Energy consumption was one of the tender criteria and suppliers were assessed against their compliance with 'The

EU Code of Conduct on Efficiency of External Power Supplies'. This is a voluntary code designed to reduce the power consumption of electrical and electronic appliances when in stand-by mode.

Training and Awareness

It is critical that our procurement teams have a good understanding of our CSR strategy and the skills to work with our suppliers to improve standards.

We held several training events for buyers this year. These included:

- CSR training for new procurement people
- Briefings on the WEEE and RoHS Directives and BT's sustainable procurement principles
- A brainstorming session to generate ideas on how procurement can help BT become a more sustainable business

We have recorded five 10-minute training videos covering various aspects of CSR in procurement which employees can download and watch from their PC. These sessions make training more flexible and enable employees to learn about key elements of our strategy more easily.

An additional video explaining BT's new climate change strategy and the need to work with suppliers to reduce our carbon footprint is also available. This was sent to 23 suppliers in a recent tendering exercise relating to broadband products.

Our Procurement CSR virtual team have received training and coaching to help them work with buyers to take follow up action with suppliers. The team meets monthly and issues regular communications and briefings to BT's procurement community.

We ran a CSR Best Practice Event for 25 suppliers in February 2006. A number of attendees requested follow up support from BT. This has included sharing our experiences of assessing supplier labour standards to helping them review and update their overall approach to CSR in the supply chain.

Supplier assessments

We carry out detailed assessments of our high and medium risk suppliers, and have an ongoing programme of on-site assessments of a selection of high risk suppliers. Assessments help us to identify areas for improvement and work with suppliers to implement high standards. We aim to take a collaborative approach and empower suppliers to implement continual improvement programmes within their operations and their own supply chain. We believe that taking a supportive and holistic approach is the best way to improve standards.

Site assessments cover our Sourcing with Human Dignity standard and our environmental standards. A typical assessment includes a review of documentation such as payslips and personal records, interviews with managers, a walk around the premises, including canteen and accommodation facilities, and worker interviews.

Where possible, worker interviews are conducted by NGOs, independent assessors or academics. Interviewers always speak the worker's language and, where possible, will be of the same gender. Findings are reported back to management anonymously to protect the workers.

We seek to raise suppliers' awareness of our standards during on-site assessments. We explain why CSR is important to us and what the assessment is looking for. When we assess a subcontractor, we take someone from the supplier with us. This helps suppliers understand the risks and how these can be managed.

Assessments in financial year 2007

We completed 20 on site CSR assessments in China, India and the UK. This included visits to existing and potential direct suppliers and to indirect suppliers (companies that supply our direct suppliers).

We included a third party assessor to expand our team and enable us to carry out more assessments during a visit to China.

An example of a problem area found during our assessments includes poor health and safety practices. We discuss the assessment findings with suppliers and have either agreed improvement plans (and are monitoring progress), or are still to agree plans following the most recent assessments.

We have carried out an external review of how we implement our Sourcing with Human Dignity standard. In the 2008 financial year, we will review the findings and take any necessary action.

Working with others

GeSI

BT is a founder member of GeSI (the Global e Sustainability Initiative). We participate in its Supply Chain Working Group which is developing a common industry approach to improving labour and environmental issues across the

global ICT supply chain. In the 2007 financial year, we were part of the presentation team at the GeSI supply chain stakeholder engagement meeting in Berlin.

Please visit the [GeSI website](#) for more information.

Independent review

We have commissioned an independent review of our Sourcing with Human Dignity standard to assess our progress over the last five years and the impact this initiative has had on standards in our supply chain.

UK Government's Sustainable Development Task Force

BT is a member of the UK Government's Sustainable Development Task Force. We led the Sustainable Procurement Task Force to investigate sustainable purchasing policies for the public and private sectors.

Going the Extra Mile Award.

In the 2007 financial year, BT was short-listed for the Going The Extra Mile Award, part of the Mayor of London's Green Procurement Code. The Extra Mile Award recognises companies which have achieved outstanding progress in creating a sustainable workplace. Extra Mile finalists each submitted a case study and details of their sustainable purchases.

Supplier diversity

We believe that doing business with diverse suppliers can help us reach more customers and contribute to innovation within our business.

There is growing interest in supplier diversity in the UK and we frequently receive enquiries on our approach to this issue from potential public sector and corporate customers.

We have assessed the diversity of our global supply chain and we are looking for ways to help more small and minority owned businesses work with BT.

Our current supply base

Our supplier diversity questionnaire has been completed by 1,400 new and existing contracted suppliers globally. This shows that 14% of our contracted suppliers consider themselves to be a Minority Business Enterprise (MBE). An MBE is a company which is at least 51% owned, controlled or operated by people who are members of an ethnic minority group, are women, are disabled or are either lesbian, gay, bisexual or trans-gender.

Next steps

We are working with others to improve our understanding of this issue and find ways to increase the diversity of our supply base. For example:

- We have joined Minority Supplier Development UK and participate in their Supplier Development and Best Practice working groups.
- We participated in two externally facilitated Meet the Buyer events for minority businesses in 2006 and plan to take part in similar events during 2007.
- We are developing diversity sourcing tools for our buyers to use as part of their sourcing activities.
- We contributed to a Business in the Community – Business Action on Supplier Diversity Booklet, and hosted the launch in January 2007.

Suppliers - Key Performance Indicators

Indicator	Description	Measure	Target
Supplier Relationships	A measure of the overall success of BT's relationship with its suppliers.	Measured bi-annually	To repeat the Supplier Survey in 2007/8 and achieve 90% or more
Ethical Trading	A measure of the application of BT's supply chain human rights standard. Δ	During the 2006 financial year there were 413 risk assessments with 100% follow up.	To achieve 100% follow up within three months for all suppliers identified as high or medium risk during the 2008 financial year.

Δ risk assessments are based on completed questionnaires

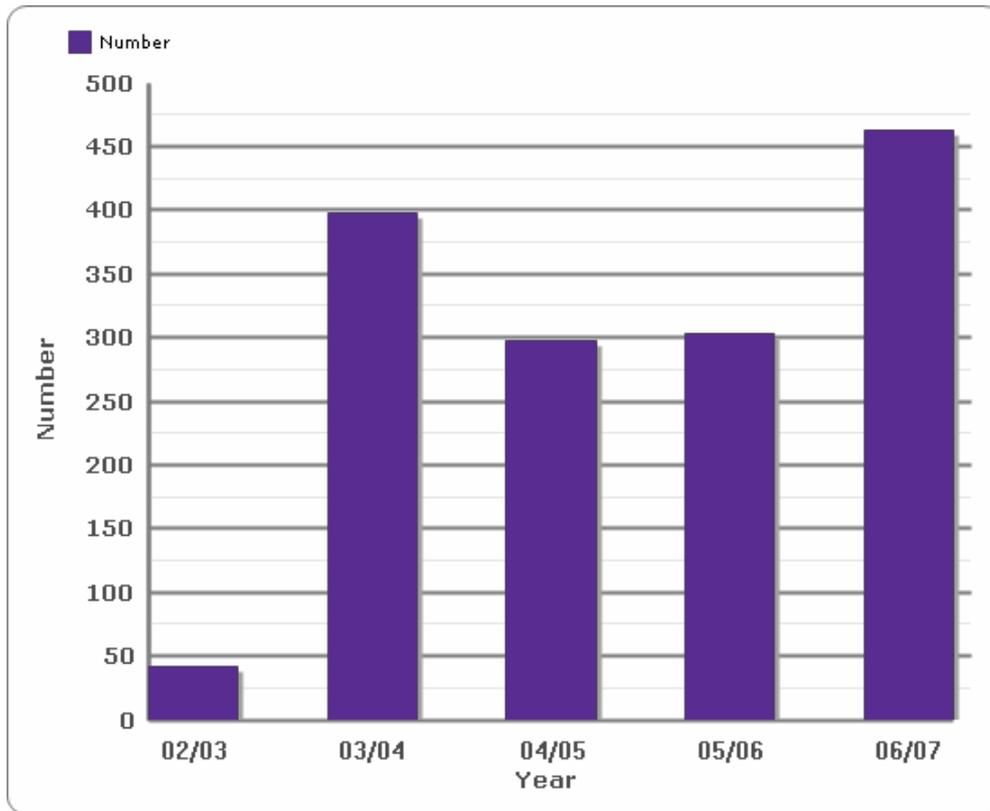
Suppliers Targets

Start Date	End Date	Description	Update	Target Status
April 2007	March 2008	BT will hold an event with its Suppliers to engage them on Procurement's CSR goals including Climate Change, the Procurement Principles and drive progress towards the Vision "harness communications to tackle climate change"		New

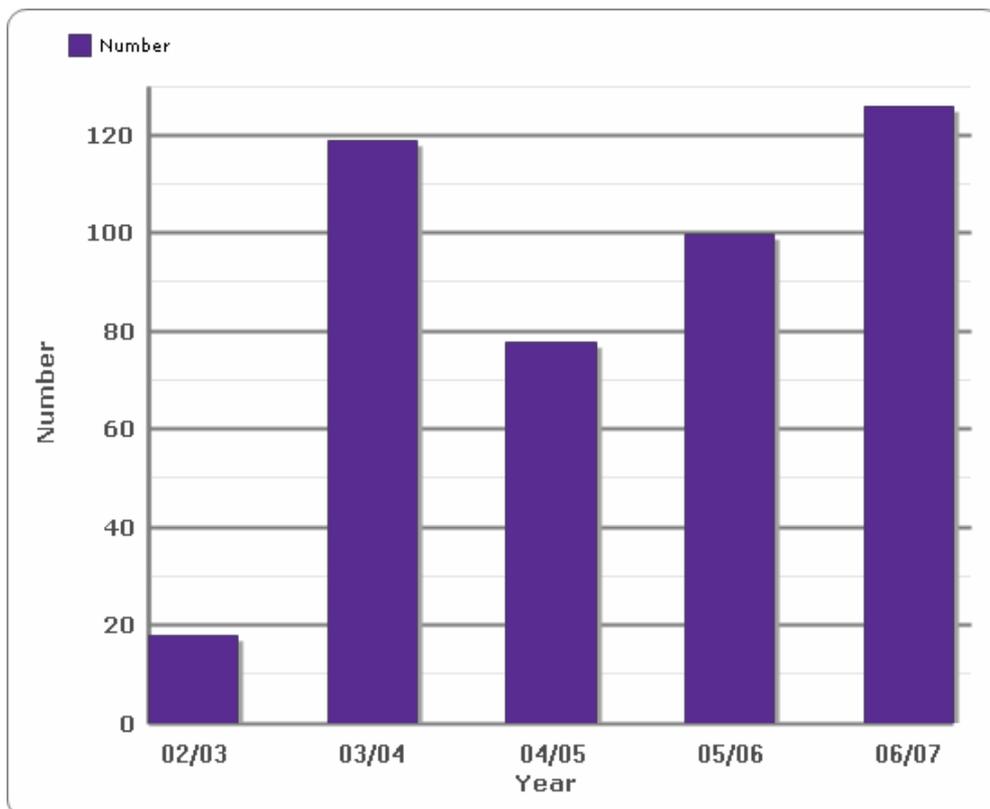
April 2007	March 2008	There will be evidence of follow up action taken within 3 months relating to all suppliers who have been identified as requiring continuous improvement as a result of completing our CSR questionnaires		New
April 2007	March 2008	BT will implement the following Climate Change Procurement Principles to incorporate energy consumption and environmental factors into our procurement processes over the coming year: • We will harness the capability, diversity and innovation of our supply base to add value to our business and encourage suppliers to offer solutions which have a reduced environmental impact. • That the energy consumption and environmental impact of a product or service (from manufacture, through usage, to disposal) is a mandatory criterion in all tender adjudication. • That the energy consumption and environmental impact of any replacement product or service (from manufacture, through usage, to disposal) is less than its predecessor.		New
April 2007	March 2008	BT will repeat its supplier survey, a measure of BT's supplier relationship, and achieve 90% or more.		New
April 2007	March 2008	To drive improvements in the SWHD approach, BT will review the findings of the external Sourcing With Human Dignity Report and agree the way forward (including timescales), as appropriate by end of August 2007.		New
April 2007	March 2008	BT will develop a coach approach on labour standards and engage with 2 global suppliers and their supply chains.		New
April 2007	March 2008	BT will achieve 100% follow up within 3 months for all suppliers identified as high or medium risk.		New
April 2007	March 2008	There will be evidence of follow up action taken within 3 months relating to all suppliers who have been identified as requiring continuous improvement as a result of completing our CSR questionnaires.		New
April 2006	March 2007	Following analysis of the CSR best practice event, BT will initiate follow through with 5 participating suppliers.	The analysis has been completed. No further action has been identified at present.	Completed
April 2006	March 2007	BT will review the results of the 2006 suppliers survey and identify any appropriate follow up actions.	The analysis has been completed. No further action has been identified at present.	Completed
April 2006	March 2007	BT will commission an independent report to review the achievements over 5 years of Sourcing with Human Dignity by an independent external organization.	The review has been undertaken and a draft report produced.	Completed
April 2006	March 2007	BT will develop a coach approach on labour standards and engage with 2 suppliers.	2 joint assessments completed.	Completed
April 2006	March 2007	BT will take follow-up action within 3 months for all suppliers who have been identified as requiring continuous improvement as a result of completing our CSR questionnaires.	All questionnaires received had follow up action taken within the specified timescales.	Completed
April 2006	March 2007	BT will take 100% follow-up within 3 months for all suppliers identified as high or medium risk following a GS18 Sourcing with Human Dignity risk assessment.	All questionnaires received had follow up action taken within the specified timescales.	Completed
April 2006	March 2007	BT will develop an "Escalator" plan of Sustainability Goals for Procurement in BT, setting out a series of steps over 5 years that will support BT in a leadership position on Sustainability.	The escalator plan has been written.	Completed
April 2006	March 2007	BT will extend the current Supplier Diversity work with our people providers to include all suppliers of people for permanent contracts. This work will include monitoring and measuring their activities so that we build towards balanced recruitment lists for BT vacancies.	The contracts for our people suppliers have recently been re-tendered and awarded and include a clause on equal opportunities and diversity. We have now included diversity criteria in the auditable terms of these new contracts.	Completed

April 2006	June 2006	BT will analyse the impact of 2005/6 tier one suppliers CSR best practice event.	This was completed in June 2006.	Completed
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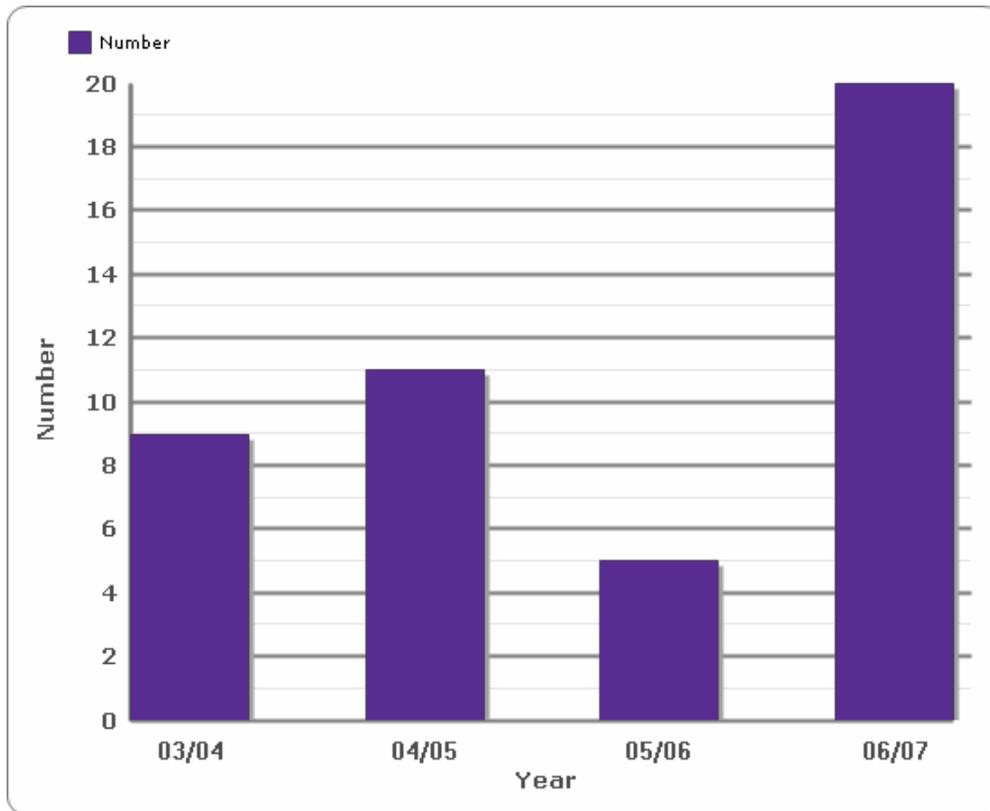
Number of Environment assessment questionnaires (GS13) completed



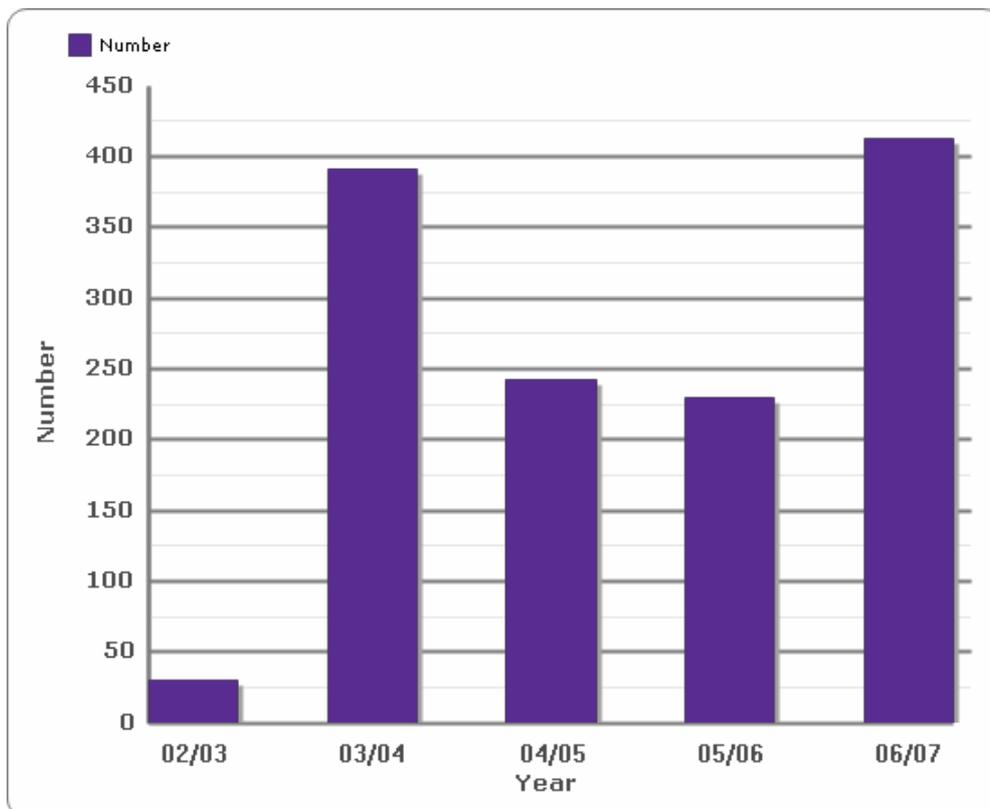
Number of Environment questionnaires (GS13) where continuous improvement was required



Number of SWHD on-site assessments



Number of SWHD risk assessment questionnaires (GS18) completed



Number of SWHD questionnaires (GS18) where further action was required

