

CASE STUDY:

BAE Systems

BAE Systems has accelerated its societal and environmental ambitions with key commitments regarding its workforce and climate.

Background and company overview

BAE Systems is an international defence, aerospace and security company which delivers a range of products and services for air, land and naval forces, as well as advanced electronics, security, information technology solutions and customer support services.

Like many of its peers in the aerospace and defence industry, BAE has a highly experienced workforce that is nearing retirement. This presents an opportunity to reshape the workforce by diversifying and upskilling alongside the risk of ensuring knowledge transfer. The company's future will depend on its ability to attract and retain science, technology, engineering and mathematics (STEM) professionals who are increasingly in demand, particularly in artificial intelligence (AI) as the industry undergoes a digital transformation.

The defence industry also faces the challenge of being a major source of carbon emissions, with defence forces contributing a substantial amount to governments' emissions. Given the longevity of defence equipment, achieving decarbonisation targets by 2050 will require action today¹.

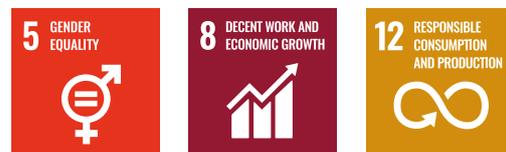
EOS at Federated Hermes has been engaging with BAE Systems since 2009 on a range of issues, including payment of living wages to its workforce, improving gender diversity in its leadership teams, and expanding its climate strategy and targets beyond its own operations.

Our engagement

We began engaging with the company on its management of climate impact and human capital in a meeting with the director of corporate responsibility in 2018. We noted that the company's CDP score of C for 2017 which was low relative to some of its

¹ Decarbonizing defense carbon emissions | McKinsey

Sustainable Development Goals:



Engagement objective:



Environmental:

Climate Change



Social:

Living wage; Gender diversity

peers and encouraged it to look more holistically at its carbon impact by including use of its products in its Scope 3 emissions. We were pleased to hear that, although climate had not traditionally been a priority focus, it was becoming so for its corporate responsibility committee. We also discussed the human capital management challenges in the context of an ageing workforce, where nearly 50% were over 50 years old. Recruiting and developing talent from all backgrounds, whilst creating an inclusive culture was a priority.

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We were pleased to hear that internal targets for improving gender diversity had been set for managers and that the role of the HR function had been strengthened with support from the CEO and board.

In subsequent meetings with the corporate responsibility director and the chair of the corporate responsibility committee we were pleased to hear that changes in leadership had brought greater focus on human capital and particularly gender diversity. We encouraged the company to set aspirational targets and improve reporting on human capital management, welcoming news it was improving its internal human capital data. We also requested that the company seek accreditation as a living wage employer, which we see as an important indicator of investment in human capital above minimum legal requirements. We raised concerns about the bottom-up approach to managing environmental impact, rather than a strategic approach overseen by the board. Although the responsibility committee chair cautioned that the business model, based on contracting, made it difficult to exert full control, he did indicate that work was underway to reshape the environmental strategy.

In late 2018, we returned to the topic of human capital and providing better reporting on areas like improving gender diversity in a meeting with the remuneration committee chair and then in a follow up with the newly appointed HR director in January 2019. We were pleased to hear that internal targets for improving gender diversity had been set for managers and that the role of the HR function had been strengthened with support from the CEO and board.

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In a meeting with the chair of the board in November 2019, we reiterated our request for public targets on improved diversity in leadership, supported by credible plans to achieve them. We followed-up by sending him a letter.

We continued to raise our expectations around the reporting and underlying management of climate impact and human capital in a further meeting with the director of corporate responsibility in 2020, at a governance roundtable with the board chair and committee chairs in the same year and a further individual meeting with the board chair in summer 2021. We also facilitated a meeting between the Living Wage Foundation and the company following our final meeting with the chair to explore the feasibility of gaining accreditation in more detail.

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Changes at the company

In 2021, we welcomed several public commitments from the company. On gender diversity, it announced targets to achieve 50% women in the executive committee and 30% women in the UK workforce by 2030 and achieved accreditation as a Living Wage employer. It also provided improved reporting on human capital management during its 2021 ESG investor event².

Climate change was identified as a principal risk in the 2020 annual report and the company announced its ambition to achieve net zero emissions across its operations by 2030 and to work towards a net zero value chain by 2050.

Next steps

We continue to engage with the company on human capital management and monitor its progress on diversity, encouraging more granular reporting and seeking additional commitments, including relating to ethnicity and to its workforce outside of the UK. On climate, we will review the net zero roadmap once published and engage on the progress made in achieving the company's ambitions.

 This case study has been fact-checked by BAE Systems to ensure a fair representation of EOS work carried out and changes made at the company.



Pauline Lecoursonnois
Engagement
EOS



² <https://investors.baesystems.com/-/media/Files/B/Bae-Systems-Investor-Relations-V3/PDFs/results-and-reports/results/2021/esg-presentation-october-2021.pdf>

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