

# HOW do WE manage our responsibilities TO stakeholders? a

Our strategy and values don't exist in isolation. They're shaped by the way we understand and balance the interests and expectations of our stakeholders. If you want to do this effectively and responsibly, you can't do it piecemeal. So we set up a Corporate Assurance Group to oversee all aspects of our responsibilities to stakeholders – from managing risk to safeguarding the environment.



**Who are our stakeholders?**

As the size and diversity of our business grows, so does the number of interested parties. But they generally fall into one of six groups:

- Shareholders
- Customers
- Our people and their representatives
- Business partners and suppliers
- Neighbours and local communities
- Regulators and legislators.

**Balancing stakeholder interests**

We're committed to dealing fairly with all stakeholders, not just shareholders or customers. Alongside making a profit – which ensures our continuing viability – we aim to deliver value to all these groups in a socially responsible and environmentally sustainable manner.

We're realistic. We know we can't please all these people all the time. But we recognise our responsibility to strike a broadly acceptable balance.

Open and candid dialogue with stakeholders is one of the foundations of our management style. To build on it,

we aim to stimulate internal awareness of issues raised, encourage responsive action and change, and report progress back to the relevant stakeholders.

**Corporate governance and internal control**

The Board has identified a set of key business processes for which it shares responsibility with senior managers throughout the group. These processes and their associated internal controls are regularly reviewed by the Audit Committee and internal auditors, who report back to the Board.

The Corporate Assurance Group (CAG) gives us a one-stop shop for addressing the interests of all stakeholders in an integrated way. It ensures that:

- Our policies and management systems reflect the cultural and ethical values we've adopted
- We comply with national laws and regulations
- We protect the safety and wellbeing of staff, customers, the wider community and the environment
- We identify risks and manage them proactively
- We protect the value and integrity of our reputation, products, services and tangible and intellectual assets.

The CAG’s work includes helping our operating businesses to maintain effective and efficient business processes, giving advice and guidance on assurance matters, and raising awareness and understanding through education and training. It reports to the Group Board quarterly or more frequently if need be, advising on policy and ways of achieving best assurance practice throughout the organisation.

**Risk management**

We define risk as the possibility of failure to achieve key business goals; and we define these goals in relation to our stakeholders’ objectives. Taking and managing risk is a central part of our business, and balancing risks and opportunities is a key management responsibility. We have robust processes for identifying, analysing and managing risks and minimising the impact of undesired and unexpected events. All parts of the business have appropriate risk and crisis management plans that meet defined policy standards.

**Safety management**

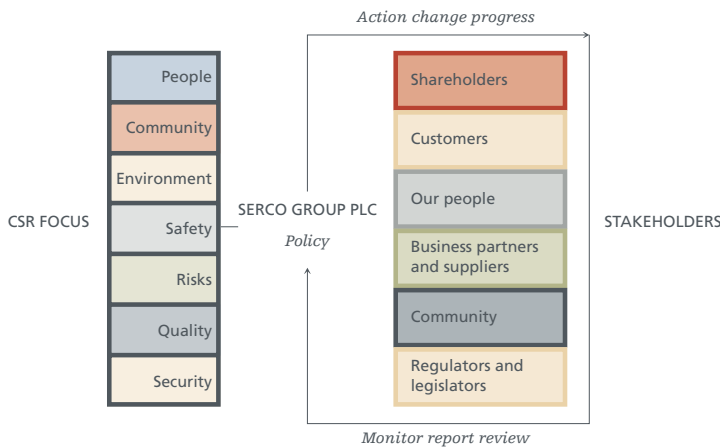
As well as taking care of our staff, we also have to protect customers and the public in many of our activities.

The group directors take ultimate responsibility for health and safety, delegated through the divisional chief executives and directors, who ensure effective implementation of health and safety policy through documented management systems.

We give staff appropriate – and regularly updated – training to protect their own and others’ health and safety. Each division also provides occupational health and welfare support.

**Community**

Our approach to corporate social responsibility (CSR) delegates responsibility for community involvement through the business divisions to individual contract managers. It aims to encourage staff at all levels to engage with local community initiatives, and channels support from the company through staff volunteers. Each business division develops and maintains processes for applying the community involvement aspects of our CSR model, setting targets and reviewing performance for each operating company and contract. Some examples of our community and environmental initiatives are listed on pages 70-72.



**AN INTEGRATED APPROACH**

*We aim to keep all stakeholder groups in the loop, and to address all stakeholder-related issues in an integrated way.*

**Environment**

Everyone in Serco is responsible for minimising our impact on the environment. We aim to reduce environmental harm, minimise use of energy and other resources, and apply sustainable development principles. Each business division is responsible for developing management systems to meet group environmental policy and relevant statutory or regulatory requirements. All divisions conduct regular reviews to update their understanding of their environmental risks and impacts.

Individual contracts may also engage with stakeholders at local level to help them determine goals and priorities. At the Atomic Weapons Establishment (AWE), for example, we set up an independent consultation exercise led by a firm of environmental consultants working with Lancaster University. During 2002 the programme sought stakeholders' views through a variety of channels including public meetings, a website and a series of workshops involving regulators, local Chambers of Commerce, heritage and conservation groups, anti-nuclear groups, employees,

trade unions, government departments and others. The project team's findings were published in December, in a 68-page report containing 45 detailed recommendations. The report can be seen on the consultation website at [www.pascalea.com](http://www.pascalea.com), where AWE has undertaken to publish its response by the end of March 2003.

**Quality**

Quality matters – in the services and products we supply to customers, and in our internal processes. Our management systems enable us to assess and manage quality, and deliver continual improvement. We obtain external quality certification where appropriate.

**Security and asset protection**

One of management's major responsibilities is the security of Serco and its customers, staff and assets, including intangibles such as intellectual property. Our risk management process includes measures to review and protect these assets, address the implications of interruption to business and ensure appropriate insurance cover.

**INSIDE STORY**  
HOW do WE  
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Because we see customers as stakeholders, our relationships don't stand still. Our marine services contract with the Warship Support Agency (WSA) has evolved from a conventional structure to a partnership that will help shape future procurement policy. But what hasn't changed is our concern for the wellbeing of other stakeholders – employees and neighbouring communities...



# Providing services responsively – and responsibly

Warship Support Agency

Our Serco Denholm joint venture provides a wide range of waterborne port services for the WSA at Devonport, Portsmouth and on the Clyde. We operate and maintain some 140 Ministry of Defence (MOD) vessels including tugs, passenger vessels, torpedo recovery and minelaying vessels and a variety of fuel, ammunition, stores and tank cleaning lighters. Originally we operated these vessels under MOD regulations. Now, after bringing them up to Lloyds Classification Society maintenance standards, we charter them from the MOD and operate them under Marine Safety Agency rules.



All our customers have expressed great satisfaction with our service since we won the original contract in 1996. The new £110m three-year contract, negotiated between August and November 2002, will take our service into its tenth year. But the new contract is fundamentally different. It's designed to prepare the way for a future public private partnership and PFI procurement programme and involves us in developing an innovative partnering arrangement with the WSA.

Over the next three years we'll be working closely with the WSA – in consultation with employees and their representatives – to devise radical new ways of providing the MOD with marine services that will reduce costs over the long term. Our ability to establish this kind of relationship reflects the way customers trust Serco to balance the long term interests of stakeholders and seek genuine win-win solutions.

The contract also requires a sensitive and responsible approach to the wellbeing of other stakeholders – our own employees, MOD personnel and neighbouring communities – as we transport fuel and explosives in the marine environment.

Our safety management system integrates operational maritime safety, occupational safety and health and environmental protection along with quality management principles. It addresses both marine and onshore legislation, meets the Code for ship safety and pollution prevention, and is certified to ISO 9001-2000 by Lloyds Register.

It's based on stringent hazard identification and risk assessment processes, and underpinned by comprehensive training programmes for all staff at the three ports. Everyone is involved in safety, and communication flows freely throughout

the organisation. Regular internal audits provide assurance to management at all levels. A centralised information reporting system provides a vehicle for problem solving and spreads best practice rapidly across all parts of the operation. Management reviews at contract and support office levels provide the structure for setting objectives and implementing new initiatives for improvement.



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