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BAE SYSTEMS

SIX MONTHS ON BAE SYSTEMS Takes Shape

Six months have passed since British Aerospace and Marconi Electronic Systems merged. For many this has been a difficult and busy time, for others this has brought little change.

So what have we achieved? Firstly there is no doubt that we are now a bigger and stronger business, better placed than ever to take advantage of the opportunities which the markets present. We have much work to do ensuring that we can effectively network our strengths, and bring them to bear on the many opportunities currently open to us. A good example was the announcement that we were teaming with Boeing, Lockheed Martin and Raytheon, in an industry wide e:procurement exchange. This will be a very important development, and the fact that we are in at the beginning, as an equal and a founding partner is a clear signal that we are now very much one of the industry leaders.

However we have much to do in defining the kind of company we wish to be for the future. We need to bring together the best of the cultures of the two organisations to forge a new culture. This will undoubtedly embrace much of the good things which were part of the whole BAe benchmark culture, but adding to it the old Marconi attention to processes, and with a sharper performance edge.

So how is the integration going? The most difficult part has been integrating the management structures, and ensuring that we get a real mix of senior people from both sides of the organisation in each of the businesses. This has been taking a few weeks longer than the original plan and has created uncertainty in many areas of the business. However the new teams we have been forming are working really well together, and I am delighted with the spirit, determination and co-operation evident in those areas where the new teams are in place. We recognise the urgency to complete this process and I am confident this will be complete by the end of April.

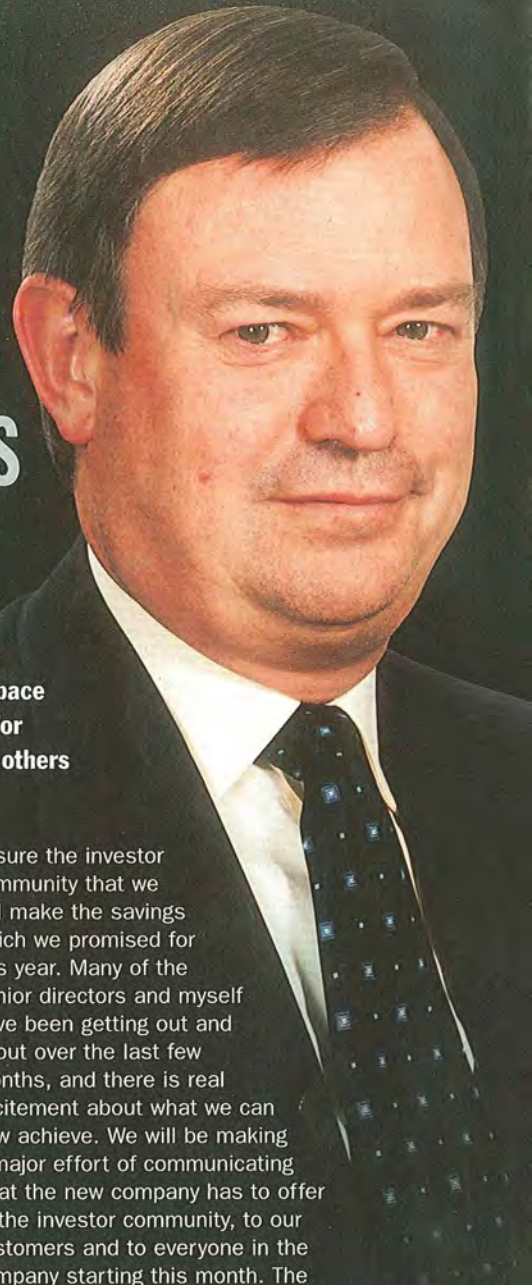
In most other respects too the programme of integration is going very well. The Synergy Delivery Teams are confirming that our expectations of savings are likely to be exceeded, and we have been able to

assure the investor community that we will make the savings which we promised for this year. Many of the senior directors and myself have been getting out and about over the last few months, and there is real excitement about what we can now achieve. We will be making a major effort of communicating what the new company has to offer to the investor community, to our customers and to everyone in the company starting this month. The combination of a superb team of people, world beating technology, a very strong position in the export marketplace, and the current strength of our balance sheet, give us an excellent position going forward. So although the process has not been easy it will pay dividends.

Our vision remains to be the Benchmark aerospace and defence systems company. The merger has completed the first step of this process, the integration of the two businesses is the second step, and using this as the launch pad for a challenging, exciting and rewarding future will be the third.

Everyone in the business can make a real contribution to this, one of our great strengths is the terrific team spirit that we generate when focused on our key objectives. I am convinced that we have what it takes to be the best in the business, but we still have a lot of work in front of us. It is as ever our people who really make a difference. I hope that this new magazine will help give all of us a wider perspective on the strengths of the organisation, and will assist us in the communications process. May I also take the opportunity of wishing you every good fortune as we go forward.

John Weston
Chief Executive



By Shirley Morgan

NEW COMPANY, NEW CULTURE...

How do you integrate two different company cultures to create one set of behaviours, one accepted way of doing things?

You could go back to the drawing board, start a whole raft of new initiatives and brand it as behavioural change – or you could build on what's already in place, make a few minor adjustments and let everyone get on with their day jobs.

As we integrate the old BAe and MES, this latter approach is being adopted. It builds on all the work done on management change over recent years in the two 'old' companies; things like the BEST programme and team leader training in the old BAe, or the Managing for Success programme in MES.

Paul Farley, Head of HR Corporate Change, describes this approach as a 'gentle touch on the tiller' – steering the company into uncharted waters using familiar methods.

Talk about merger and culture change crops up again and again in conversation. In BAE SYSTEMS it has some very high profile supporters – Chief Executive John Weston is sponsoring the Manage Change Process Council which is chaired by Group HR Director Terry Morgan. Over the past six months a huge amount of work has been done in analysing existing processes, considering the impact of behaviours on our ability to deliver and getting a handle on what our Company Values actually mean to people.

No new initiatives

Paul explained: 'We have done work with our senior managers, have held focus groups across the business and looked at how to get good leverage from what already exists. No-one would thank us for a new culture change initiative right now – and it's not actually needed.'

So do we need to change our behaviours at all? Make no mistake, the way a company collectively behaves impacts on its overall performance. It's hard to quantify in terms of the share price, but a City analyst will always look at the inherent company culture before deciding on what looks like a good bet.

Other large companies who have merged have struggled to get to grips with people processes and behaviours – and sometimes with disastrous effect.



*expect a **revolution***

Paul said: 'Our two 'old' companies had very different people styles. Take communications for instance. In MES information was simply passed on, in old BAe it was far more likely to be challenged.'

'Neither is wrong – but we need a common ground. The way we do things has to change to reflect the fact that BAE SYSTEMS is a very different company than either of its predecessors. Change doesn't have to be radical but it does have to be driven, because left to its own devices a bad practice can fester and can actually make a merger fail.'

Work currently underway will look at the four key components of an effective change programme:

- Communication – people need to know what's happening and why
- Organisational alignment – the company structure has to support the behaviours it wants people to adopt
- Skills – there's no point asking people to behave in a different way if they don't have the skill set to do it
- Role modelling – probably the most important. What's the point changing your own behavioural style if you see your boss blow a fuse and revert to type when under pressure?

The Manage Change Process Council will ensure that those four elements are in place. There is also work to be done on measuring change, and things like

Employee Opinion Surveys, attrition rates and graduate recruitment will be looked at to assess our success.

Paul said: 'It's useful to look at things like recruitment and attrition. Companies with the best culture (not just the best products) attract the best people and keep them.'

He added: 'Really it all comes down to making people realise we are part of the same team. The glue that holds the team together are the Values, which are shared across the company. We have a new organisation and simply can't allow old business boundaries to get in the way of change. We can't afford not to think about our customers every day. We can't stitch up another part of the Company because the old spirit of competitiveness still haunts us.'

If there's one thing that will touch every BAE SYSTEMS employee as a result of integration it is behavioural change. Though there are no fixed timescales for getting the new culture embedded, it's a critical part of the BAE SYSTEMS strategy.

And it all comes down to teamwork.

Paul concluded: 'In the right culture we will succeed because of each other, not in spite of.'

Future issues of Advantage will look at other aspects of the changing culture within BAE SYSTEMS. We would welcome your comments – e-mail us on Advantage@baesystems.com

New corporate identity card for all employees

A new Corporate Identity Card is to be issued to all BAE SYSTEMS employees and approved contractors other than those working within the Joint Venture companies.

Everyone will be provided with one of four basic designs dependant on status – employee/contractor – and level of security clearance. The aim of the exercise is to provide employees and contractors with an identity card that will be accepted at all sites throughout the company world-wide.

As you can imagine the identity card re-issue is likely to take some time to complete due to the number of people and the different sites involved. Work is already underway in the UK with a view to badging over 45,000 people at our larger sites as quickly as possible. In the meantime, if you are experiencing any major difficulties as a result of not having the new card, then please contact your local Security Manager.

Don't forget – the new identity card should be worn at all times while on company premises.

BAE SYSTEMS CORPORATE ID BADGE



**PERMANENT STAFF
FULLY CLEARED**



**PERMANENT STAFF
CLEARED TO LOWER LEVEL**



**CONTRACTOR
FULLY CLEARED**



**CONTRACTOR
CLEARED TO LOWER LEVEL**

All about Advantage

What's all this then?

With so many employees in so many locations, one of the main challenges BAE SYSTEMS now faces is how to keep everyone informed. If the top team were to spend their time jetting around the BAE SYSTEMS empire precious few business decisions would get made. I volunteered to take on the role of launching a new BAE SYSTEMS magazine but just when I had BAE SYSTEMS North America in my sights I realised that my travels wouldn't take me much further than the drinks machine.

So what's this all about? You may well have seen the merger brief, which has been in existence since August 1999 – great for getting the latest news but not such a good way of giving you the stories behind those headlines.

Enter Advantage. Published monthly and circulated world wide it takes a look at the integration of BAE SYSTEMS from a slightly different angle, talking to the people involved, assessing the progress being made and discussing some of the issues which a merger such as this raises.

How are we going to do all that? Regular columns like Out of the Ice Box will look at how savings are being made by unfreezing old practices and embracing the new. Our Ringback column will look at some of the key questions being asked on the John Weston telephone hotline and our Factfile will take you through what each part of the company actually does.

Advantage has some key messages to get across, but I don't want to bombard you with empty rhetoric. We are focusing on results rather than aspiration.

Finally, apologies for any language difficulties Advantage may cause. I'm relying on good old Northern UK English – so if you are reading this in Australia, the US, Saudi Arabia, somewhere on mainland Europe (or even in southern England) please stick with us.

The next Advantage will be out in early June and will alternate with the re-branded Merger Brief Advantage Online – check out the Intranet for that, and drop me a line with your comments or suggestions and help me get the stories behind the headlines. As they say on the X Files, the truth is out there...

Shirley Morgan
Editor

By Shirley Morgan

THE CHALLENGE OF CHANGE

Colin Price has worked on 15 industrial mergers – three of them bigger than the one BAe and Marconi Electronic Systems have gone through. A self confessed changeaholic he is principal consultant for the McKinsey and Company team who have been guiding our senior managers through the merger and integration process.

Advantage caught up with him as he entered his final month of 'living and breathing BAE SYSTEMS' before moving onto other McKinsey projects.

Every big company merger is unique, but the BAe Marconi merger has brought its own particular challenges, new even to someone with the track record of Colin Price. Think about it: Merge two major banks and you can achieve almost instant savings by shutting branches. It's not to say there's no pain, but the gain (financially at least) happens much more quickly.

With BAe and MES the progress towards integration is much more complex. Until last November we occupied different parts of the defence and aerospace industry and had precious little in the way of direct duplication. Which means that achieving the much-publicised £275 million savings in three years is going to be hard to do.

Add to that our dozens of disparate sites, products at very different stages in lifecycle and the real possibility of future mergers and it's clear to see why the whole process has been a complex one.

Colin and his team have been aware of the challenges – unique or otherwise – since they picked up the merger portfolio on July 2 1999. After ten months' work he is optimistic that the tough decisions which have been made will pay off, though he admits that with most mergers, the savings don't really start rolling in until year two.

A marriage made in heaven?

'So far it's looking good' he said. 'So far we have had no major outflowing of talent, no major loss of customers and no major dropping of the ball in terms of business performance. Many mergers suffer at least one of these in the early days.'

'The challenge now is to bring together two very diverse cultures and if we can do it we'll have a marriage made



in heaven – BAe's people processes and Marconi's performance focus. But get it the wrong way round and it will be a recipe for disaster.'

Integrating two companies with different business processes and ingrained cultures will take time – getting people to do things differently and overcoming inertia are problems that refuse to go away.

Getting the right people in the right posts has also caused considerable pain for some. Though 90 per cent of employees have felt barely a ripple during the merger, ten per cent have been battered by the tides of change as their business has been dismantled and put back together.

On that Colin is realistic: the appointments process was a tremendous challenge. 'The targets for getting the organisation in place were challenging but not over ambitious' he said. 'But it became too much of a 'big deal' and is something that could have been done a little quicker. But I still think that the opportunity to radically re-structure the company is something we could not ignore. We had

a once only chance to get the right people in the right jobs.'

An unnerving process

His realism will strike a chord with BAE SYSTEMS people who are used to change but not on this scale. Though he personally thrives on change and the release of energy which it brings, he understands that to others it's an unnerving process, particularly when we're talking about not just bolting two businesses together, but truly integrating them.

He admits we are still nowhere near solving all the cultural difficulties, but aside from that there are major challenges in how to deliver the savings by unfreezing current practices and how to manage the inevitable tension between merger activity and the day to day running of the business. Some mergers fail because in their eagerness to produce a winning strategy companies forget to make a profit.

Colin said: 'The savings we are looking for – at least £275 million – will come from re-engineering current practices, which is much harder than closing

branches and a bigger challenge than most mergers I have worked on before.'

Talking of other mergers – why should ours work when those between the US defence and aerospace giants have run into well-publicised problems? Colin said: 'We are doing things differently and hopefully we have learned by the experience of others. Problems in the US have not been caused by the merger being badly handled but by underlying performance issues surfacing later.'

How can we make sure that doesn't happen to us? 'By creating a structure that clearly shows performance and doesn't allow problems to be hidden.'

Some would also say that the US mergers have struggled with cultural problems that diverted attention from business issues.

If culture change is one issue that isn't going to go away then so is speculation about further mergers. The continued consolidation of our industry means that change is something we'd better get used to. Everyone working on this integration knows another big merger could be coming – the world won't wait for us to feel comfy in this new existence before we move onto something new.

Colin famously said at a senior management workshop that 'people don't want to work for crappy companies' – ones which fail to evolve, treat people badly and ultimately lose. But what is a good company and what is the key to getting there?

Colin said: 'The acid test is to ask 'would I put my own money into this company'? Leadership is the key – the people at the top have to keep the momentum going, have to focus clearly on the strategy and get some real targets in place.'

Can they do it? As Advantage went to press the top 250 managers were due to attend a workshop at which Value Plan targets were to be agreed.

Colin added: 'I think BAE SYSTEMS has the talent to manage the complexity of the merger and deliver the savings promised. It has dedicated leaders of considerable integrity who recognise that it is sustainable competitive advantage that matters – excellence in managing suppliers, tight cost control and technical brilliance.'

But with 90 per cent of the merger now behind us, isn't it time we stopped talking about it?

Colin concluded: 'Six months have passed and we have a new name, a new image. It's time to stop dwelling on the merger and look forward. As I said, the world won't wait for BAE SYSTEMS and it is hard to predict what the next five years will bring. Ultimately there will only be two or three global aerospace and defence players – I believe BAE SYSTEMS will be one of them.'

There's an old American saying that to be successful in business, being in the right place at the right time is everything. While that may be a bit simplistic, **BAE SYSTEMS'** Washington D.C. office, located in the heart of America's defense industry power base, offers a key ingredient for doing business in North America.

By Bob Hastings

THE GATEWAY FOR



BAE SYSTEMS North America Vice President for Marketing and Government Relations Bob Fitch left, discusses a recent visit to lawmakers on Capitol Hill with **BAE SYSTEMS** Director, Ordnance, Mike Armstrong as they stand in front of one of the Washington office's windows overlooking the Pentagon. This office building of key defense officials is literally within walking distance of the Washington office.

‘The Washington office is here to provide ‘one-stop shopping’ for everyone in **BAE SYSTEMS** looking to conduct business in North America, particularly in the United States,’ said Bob Fitch, Vice President for Marketing and Government Relations for **BAE SYSTEMS** North America. ‘We’re here for all of **BAE SYSTEMS**, not just the North America Group.’ Today, the North American market represents more than \$4 billion in annual business for **BAE SYSTEMS**.

‘We have tremendous resources here,’ said Tony Ennis, who serves as both Vice President for Export Marketing for the North America Group and Regional Managing Director for Israel, Japan, Taiwan, Mexico and Canada. ‘Our world-class team

includes legislative specialists who know absolutely everything that’s happening in the US Government and who to talk to on any given subject; export and import licensing coordinators who deal with the complicated and often tricky US export

regulations; market analysts and a public relations and advertising team. We also have marketing professionals with contacts and expertise covering every major program office and links to all the major aerospace and defense companies in America, a network of marketing staff covering the entire continent; and all the facilities needed to conduct business meetings and conferences in Washington.’



Capitol Building

The **BAE SYSTEMS** Washington office consists of about 55 people from nearly every facet of the global company, including representatives from **BAE SYSTEMS** Australia, the Avionics Group, Royal Ordnance Defense, Alenia Marconi Systems, the Operations Group and North America's sectors. The Washington office also provides support staff and a ‘home base’ for senior executives when they're in North America.



OPPORTUNITY IN NORTH AMERICA

It's not uncommon for BAE SYSTEMS representatives to visit key US defense decision makers at the Pentagon. After all it's only a short walk from BAE SYSTEMS' Washington office.

The Washington office was formed by integrating the best people and resources from both the legacy British Aerospace and Marconi Washington staffs. It currently resides on the 15th floor of an office building overlooking both the Pentagon (the US military's headquarters) and the US Capitol Building, home of the Congress.

'We have built very good relationships on Capitol Hill and with the other major defense contractors, and we track programs and work issues that spread across the entire company from the US to the UK to Australia. We have strong partnerships that make the Washington office the gateway for opportunity into North America,' added Fitch.

'Being in the heart of Washington helps BAE SYSTEMS keep its finger on the pulse of the US Government and our very important Department of Defense customers,' said Fitch. 'A key element of success in the US is to establish partnerships to meet our customers' needs.'

Ennis and Fitch have very important advice for those in the company wanting to do business in North America. 'If you plan to do business in America, call us first. We have the contacts, we have the



North America's Aerospace Sector Vice President of Government Relations Robert Walsh visits the US Capitol Building. The Washington office has built strong ties with members of Congress and when one of the company's Washington representatives visits, lawmakers are interested in what he or she has to say.

resources, and we have the information you need to succeed in this market. Working with Brian Tucker, the Regional Managing Director for North America, we act as one team.'

You can tap into the talent and resources of the BAE SYSTEMS Washington office by calling (001) 703-416-7800.

Going For Gold

— a joint approach in BAE SYSTEMS

It's really important that exceptional performance, innovations and the people behind them are recognised and rewarded. Which is why two successful schemes are joining forces to allow BAE SYSTEMS employees 'go for gold'.

The Chairman's Awards for Innovation were established in BAE in 1996. There are three levels of award – bronze, silver and gold. The scheme has gone from strength to strength and the gold awards night has become a highlight in the calendar.

The Recognising Excellence Scheme has been operating successfully in Avionics, Marine, Underwater Weapons and Alenia Marconi Systems and captures the outstanding achievements of employees working in those businesses.

The two schemes have a lot in common: An obvious parallel is the way that both look for benefits in behaviours, business or technology, both use similar nomination processes and both can be accessed via the company intranet.

Both schemes are being reviewed to decide how they complement each other. Watch

out locally for news of developments to the schemes.

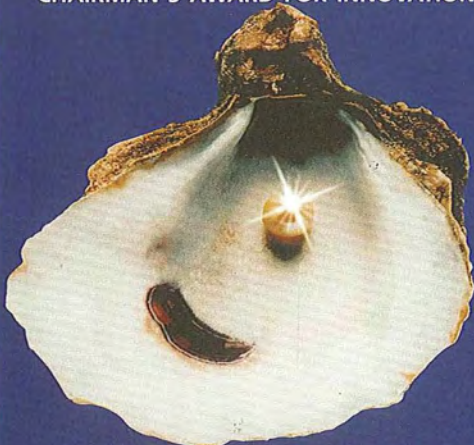
One thing's for sure – winners from all parts of BAE SYSTEMS will be treated to a superb day out at the Millennium Dome in London followed by a glittering prize giving ceremony in November. There are also plans for 'local' awards ceremonies so that everyone recognised under both schemes – not just the top award winners – is thanked for their contribution.

Interested? Got an innovation or an example of outstanding performance to share? Watch future issues of Advantage for more details and in the meantime if you want more information contact Karen White, Chairman's Awards Campaign Manager 2000 on (0)1772 855586 or e-mail her on karen.white@bae.co.uk or contact Dave Burlison, Recognition Manager on (0)1229 875518 or e-mail him on dave.burlison@gecm.com.



Sir Dick Evans presenting the 1999 Chairmans Award Community Gold Award to Peter Clapperton and Ernie Attwell of Royal Ordnance & Munitions Glascoed.

CHAIRMAN'S AWARD FOR INNOVATION



WE'RE LOOKING FOR SOMETHING SPECIAL

We're a business that places a high priority on innovation. Identifying bright ideas and acknowledging the special contributions which people have made to make them reality is vitally important to us. Everyone can help by participating in the nomination process.

YOUR NOMINATION CAN MAKE THE DIFFERENCE!

For further information contact us at <http://cal.intranet.bae.co.uk>



BAE SYSTEMS

BAE SYSTEMS will save about £500,000 a year by using a single mobile phone service in the UK. The Procurement Synergy Delivery Team has completed a tender process involving eight potential suppliers and awarded a two year contract to BT Cellnet. There are 4,500 BAE SYSTEMS mobile phones in the UK alone.

The Company name is officially BAE SYSTEMS from the Annual General Meeting on May 4th. The only way it could have been changed earlier would have been to call an Extraordinary (and expensive!) General Meeting.

There are six Process Councils, each identifying and implementing key processes across BAE SYSTEMS. They are: Managing Change, Maximising People Contribution, Managing Knowledge and Technology, Managing Business and Value, Business and Order/Contract Fulfilment.

The most commonly asked questions on the 'merger hotline' are about Pensions. Here Nigel Tinsley *Pensions Director* explains the current situation.

Following the merger, most people will see no effect on their pension benefits.

In the UK those of you who have been members of the GEC Pension Plan will have received a series of newsletters giving details of the process of splitting that scheme and the creation of the BAE SYSTEMS 2000 Pension Plan. Indeed by the time you read this, the transfer of membership to the new pension plan will have already happened. Legacy pension schemes such as the BAe Pension Scheme and the Royal Ordnance Pension Scheme, have not been affected by the merger and continue unchanged, as does

the VSEL Pension Scheme. Of course, as we go forward, we will continue to look to see if there are ways in which our pension arrangements can be developed to meet the changing needs of BAE SYSTEMS and its employees.

In the non-UK parts of the group, a broadly similar pattern of either the continuation or replication of existing arrangements has been followed. Where changes are, or have been necessary we have issued clear information to the people affected. As with the UK, we will continue to look to see if there are ways that pension provision to employees can be organised more effectively.

CUSTOMER VALUE TEAM

Have you done something really well with your customer – something that others in BAE SYSTEMS could benefit and learn from?

Alternatively do you need to improve your customer focus? Perhaps you could do

with some help to introduce customer metrics to your team?

In either case why not contact the Customer Value Team based at Samlesbury UK. They are part of Customer Solutions & Support, but provide a service to the whole company. The CVT would be happy to hear about your successes and spread the news to the rest of the company. Alternatively, if you have problems it can provide a range of 'off-the-shelf' Achieving Customer Excellence (ACE) tools, techniques and comprehensive training to help you

overcome your difficulties. In addition it has 'Symposium in a Box' material which includes many examples of best practice and learning from last year's Customer Symposium.

So why not make that initial contact with the team and get friendly advice by phoning Lynley Walker on (0)1254 766266. If you are at a former BAe site you can also visit the intranet site at:

<http://bae-web.intranet.bae.co.uk/bu/css/sites/cvt/index.htm>

Know what I mean?

Jargon: 'words or expressions developed for use within a particular group which are hard for people outside the group to understand'

It was a standing joke that BAe stood for 'bloody acronyms everywhere' and integration doesn't seem to have brought a reduction in 'company-speak'.

Acronyms apart, there are some words creeping into everyday language at BAE SYSTEMS that are being used to describe particular processes:

Synergy: In merging there are opportunities for us to combine our product

capabilities to enhance our product portfolio, to combine our purchasing power, to eliminate duplication and wasteful overlaps and to capitalise on complementary skills. Most of these opportunities are incremental – the real results will appear over the medium to long term.

Unfreezing: BAE SYSTEMS has a true commitment to unfreezing the two organisations and achieve a major change in performance as a result. It means learning to do things differently, and acknowledging that the way we have 'always done things' isn't necessarily the best way. Examples of unfreezing

old practices will come to light over the coming months.

Benchmark: A familiar one if you are from the BAe side of the fence. In old BAe Benchmark was the name given to the corporate change programme. The term is used more widely to refer to organisations or processes acknowledged to be the 'benchmark' – role models in terms of industrial performance.

Step change: A significant improvement achieved quickly, usually with a subsequent impact on the financial bottom line.

A whole lexicon of acronyms, jargon and commonly used phrases is being compiled in BAE SYSTEMS – more next time.

Our History

As the largest avionics business in Europe, we also have a significant presence in the United States aerospace market. From a background and reputation as the UK's foremost supplier of avionic systems for civil and military aircraft, Avionics has

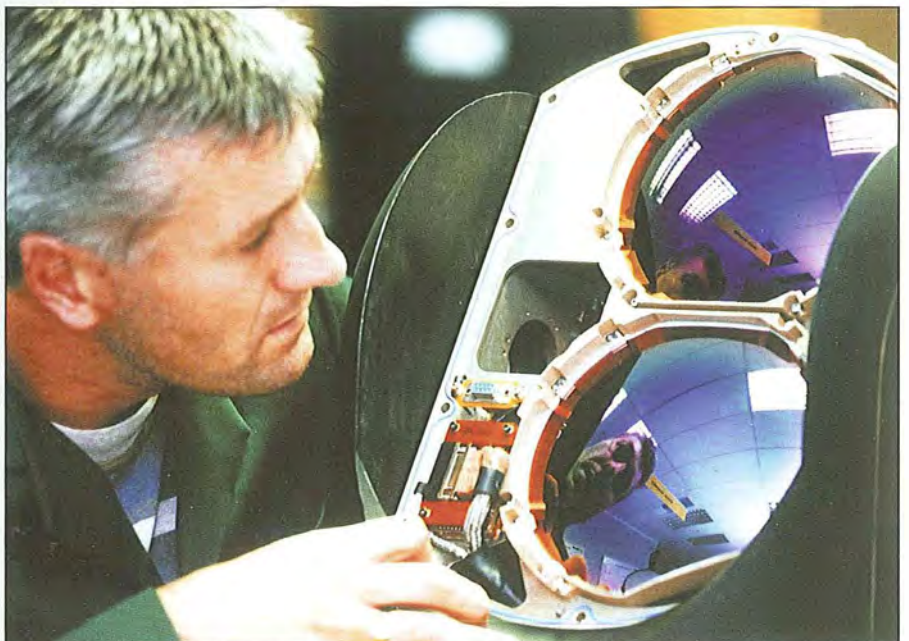


grown to represent the key to mission success in today's and tomorrow's platforms. Avionics has responded to the needs of the market and is well positioned to deliver sensor and electronic system solutions to meet customers' operational requirements to extend platform life and capability. Led for the past two years by Allan Cook and now by Chris Geoghegan, and with its Head Office in Basildon, Essex, our organisation comprises 14,500 employees covering a broad spectrum of skills. We have major facilities in Australia, Scotland and the South of England although we are represented over most of the World.

Our Organisation & Capabilities

Sensor Systems (SSD)

SSD has a proven track record and reputation in the defence market, offering a range of world class solutions for naval and airborne defence electronics requirements. These include leadership in; electro-optical targeting and imaging systems, highly advanced airborne radars, a range of self-protection early warning counter measure systems and a broad capability in Identification Friend or Foe (IFF) systems. As a single source of a wide range of advanced technologies and systems, SSD continues to lead the way in delivering truly integrated solutions. As platforms become more complex and the operators' workload increases, this is key to the effectiveness of the operator and his platform. SSD's systems are installed on Eurofighter Typhoon, Tornado, Jaguar, Hawk, Lynx, Apache, Merlin and a number of front-line warships.



Sensor Systems Division - DIRCM (Directional Infra-red Countermeasures)

Avionic Systems (AS)

AS is the world leading supplier and integrator of avionic displays, flight control and associated sub-systems. Display and control technologies are essential to optimise the Man Machine Interface (MMI). Such technologies are crucial to the operation of high capability manned aircraft and even more crucial to the potential remote operation of Uninhabited Combat Air Vehicles (UCAV). No other company in the world produces the range of cockpit display and flight control products offered by Avionic Systems, and no other company has achieved such consistent success with advanced market leading products. This is demonstrated by the range of equipment on aircraft such as Eurofighter Typhoon, F-16 and F-22 fighters, Phoenix UAV, the Boeing 777 and new generation 737, the Airbus series aircraft and Gulfstream IV/V business jets.



Customer Support Services (CSS)

CSS possesses the full range of support capabilities and skills needed to cover the complete life-cycle of electronic and avionic systems and product. CSS are a world leader in the design, development and delivery of innovative support methodologies and solutions. The tailored support solutions range from the provision and management of logistic support services to providing rapid turnaround support for spares and repairs. In addition CSS provide the logistics management tools that are necessary to ensure the optimum utilisation of assets.



Tactical Products (TPD)

TPD addresses the defence sectors of communications and information superiority, manoeuvre and precision engagement. Capabilities include the provision of defence infrastructure and tactical communications together with a range of critical enabling technologies, products and systems, which deliver platform differentiation on land and naval platforms. These include RF communications, digital signal processing, EO technologies, navigation, surveillance, targeting and weapon guidance and also fuel systems and mechanical actuation.

BAE SYSTEMS Australia

With more than 3,000 employees at locations throughout Australia, BAE SYSTEMS Australia combines key skills in engineering and systems integration, and is a leading supplier of support services, electronics and software. It offers outstanding complementary capabilities and systems integration to customers spanning all areas of defence. Capabilities extend across the areas of: communications, electronic warfare, surveillance, military aircraft systems, missiles and decoys, naval systems, simulation and support services. For more on Australia see page 12.



STRENGTHENED CAPABILITIES



Peter Anstiss, Chief Executive BAE SYSTEMS Australia, furthering links with Prime Minister of Australia John Howard on a recent visit.

success and is dedicated to setting the standard for support services throughout Australia and the region.

Best Practice: consolidation of electronic manufacturing operations in New South Wales has the potential to result in greater efficiency, significant cost savings and increased sales.

Recent Successes

In recent times, BAE SYSTEMS Australia has won some of the biggest and most prestigious projects in the region, including:

- The A\$200 million combat system design authority and combat system integration contract for the Minehunters Coastal under construction for the Royal Australian Navy (RAN).
- The A\$800 million Raven/Wagtail Tactical Combat Net Radio program; the A\$25 million ROVIS Vehicle Intercommunications program and the A\$200 million Parakeet Tactical Trunk Communications program for the Australian Army.

'DOWN UNDER'

As one of the leading defence and aerospace companies in Australia, BAE SYSTEMS has supported the Australian Defence Force since 1953.

Following the merger, the Australian business unit now has more than 3,000 employees at more than 50 locations across Australia, combining key skills in engineering and systems integration, and is a leading supplier of support services, electronics and software. The company offers outstanding complementary capabilities and systems integration to all areas of defence.

Our capabilities in Australia now extend across the areas of aircraft avionics, communications, electronic warfare and surveillance, military aircraft systems, missiles and decoys, naval systems, simulation and support services.

Strengthened Capabilities

In Australia, the integration has resulted in a strengthening of core capabilities and

executive management as well as realisation of best practice:

Hawk Final Assembly and Support: at the state-of-the-art purpose built Lead-in Fighter Support Facility beside the Williamtown RAAF Base, the Australian team has established a world class aircraft final assembly and through-life support operation.

Military Aircraft Systems: our team has been selected by BAE SYSTEMS in the United Kingdom to provide engineering design services and technology enhancements across a number of programs.

Electronic Warfare: as a leader in the discipline of electronic warfare (EW), BAE SYSTEMS Australia provides a complete turn-key design, development and production capability to meet customer needs for airborne, land and sea EW applications.

Naval Systems: the combination of mine warfare, surface ship, and missile control capabilities strengthens our position in the naval market.

Support Services: our Support Services Division has an enviable record of

● Selection by preferred tenderer Boeing, to be an integral member of the Project Wedgetail Team, to supply the Royal Australian Air Force's Airborne Early Warning and Control (AEW&C) System, as well as selection by Northrop Grumman Corporation to undertake the design, development and manufacturing for elements of the Boeing aircraft's MESA radar sub-system.

● Prime contractorship for the Integrated Avionics Software Support Facility (IASSF) for the RAAF's F/A-18 aircraft.

The company's exports include the NULKA Active Missile Decoy System, in service with the Australian, United States and Canadian Navies; MERCURY military messaging software with a number of European navies; the Muzzle Velocity System and Support Services.

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For further information: Corporate Affairs, BAE SYSTEMS Australia Telephone: 61 2 9358 2900.

All Together Now

The creation of our Operations business posed some real challenges – bringing together some diverse parts of the ‘old’ businesses was just the start. The man at the helm is Rod Leggetter, who told Advantage about his passion for delivering value, teamwork, golf – and a certain small person called Jack...

What are the main challenges of bringing disparate parts of two companies together?

RL: We are bringing together business which ranges from Marine and Export Shipbuilding through Royal Ordnance (RO), Land and Naval Systems and Underwater Weapons through to Aerostructures. In addition to this each of our businesses has its own unique challenges – in particular, the integration of the Govan yard into Marine, the bringing together of RO and LANS and the extraction of the Civil and Aerostructures business from the former Military Aircraft and its integration into Operations.

In forming the Operations Group we want to bring together operations professionals who can use their skills across our range of manufacturing based activities to deliver value. We have the common skills of supply chain management, logistics, engineering and project management and a high level of overlap in other functions such as manufacturing.

Our main challenge is to focus the entire workforce of over 15,000 people on the primary objective of becoming the supplier of choice for both internal and external customers in our chosen market sectors. Our markets are highly price sensitive and very competitive. We will need creativity and invention to drive costs down and increase customer satisfaction.

Although it's early days we are already seeing real opportunities. For example, a team who over the past two years worked in Military Aircraft & Aerostructures developing capabilities for outsourcing aerostructures components in eastern Europe and the Far East is now working with the shipbuilding teams to source low cost components for use in shipbuilding.

Have there been any surprises so far?

RL: I have been encouraged by the way our teams from various backgrounds are

engaging in the challenges of Operations. In the short term we have achieved a good level of cross-fertilisation of key players from both old MES and old BAe. It's now difficult to see any evidence of the two old companies.

A second success – and I'd like to thank all Operations staff for this – is the way in which the business teams have remained focused on the business goals and customer commitments during what I acknowledge has been a very difficult period of re-organisation now thankfully coming to an end.



What are the key targets?

RL: Undoubtedly to remain focused on our Value Plan and Budget targets. As part of the Integrated Strategic Planning Process we will be defining a long term role for Operations within BAE SYSTEMS.

Which part of the Operations business offers the biggest growth potential?

RL: I don't want to focus on any one particular business unit at this early stage as I have a high level of optimism regarding the potential of each business unit to deliver value. We have everything to play for.

In terms of top line order growth, this will come from the Shipbuilding and

Aerostructures programmes such as Type 45 and Boeing 767. Whereas RO has the major challenge to follow through and deliver the commitments made in the partnering agreement with the UK MoD.

Underwater weapons has a strong order book with good profitable prospects recently enhanced by completion of major trials on the Spearfish torpedo programme.

In the longer term there are opportunities for substantial growth in export shipbuilding, building on the recent successful delivery of the Malaysian frigate and Brunei OPV contracts.

How would you describe your own style?

RL: Given the very different nature of the business entities within Operations, I see myself supported by the Functional Directors adding value by working with each of the business teams and their MDs whilst putting a strong focus on common processes and shared services within Operations. I believe Operations can particularly contribute benchmark performance when it comes to shared services across its own Business Units and also within BAE SYSTEMS.

I see my role as supporting my Business Unit MDs whilst at the same time having a high level of visibility within Business Units – I will constantly challenge teams to work together more cohesively and profitably.

Another major part of my role as

Operations team leader is to facilitate very effective working relationships with the other parts of BAE SYSTEMS. The new organisation provides new challenges and I have been working with the Synergy Delivery Teams because we have to focus on achieving synergy benefits.

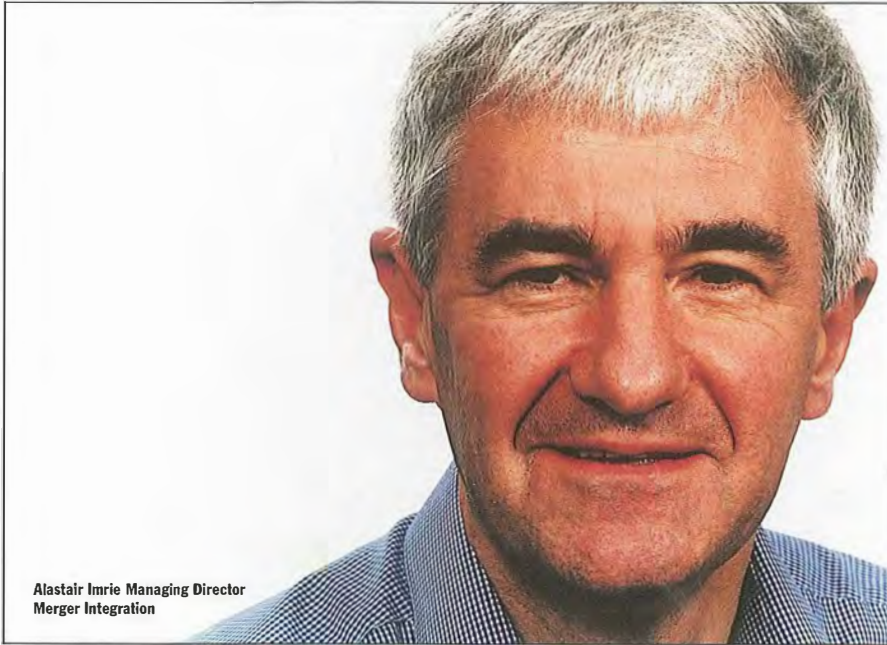
In terms of my own personal contribution I'm looking to create an environment where my business units expect and receive a high level of support, encouragement and active involvement as they strive to achieve their Value Plan objectives. In addition, I hope to be

able, on behalf of Operations, to articulate a strong argument and vision for the future to enable continued high investment in the Operations capabilities of BAE SYSTEMS.

What about life outside work?

RL: I'm very much a family man and both my wife Jan and I share a passion for golf. Most of my Saturday afternoons are spent at the local rugby club where I enjoy watching my two sons play for the local team. Latterly, I've had some company on the touchline in the shape of my two and a half year old grandson, Jack. I have his picture on my desk – on a tough day looking at him helps put everything into perspective.

New Team, New Shared Now



Alastair Imrie Managing Director
Merger Integration

Alastair Imrie is MD Merger Integration.
What does that mean six months down
the line? Is the “merger” work over and
should we now focus on integration?
What are the priorities for his team
until year end?

Alastair talked to Advantage...

It's actually been about a year now. If you remember, we announced the merger in January last year, and then we had the nine months through to the regulatory clearance before we could complete. That time gave us the opportunity to start addressing the integration issues. We couldn't really get started immediately, as the access between the two companies had to be very limited at first, but we did get out there and start to look at best practice from other mergers, and get our minds around the different ways we could address the challenges ahead.

Mike Turner was appointed to be the Board member responsible for merger integration in March last year, and he was clear from the outset that we had a great opportunity here to learn from other people's experiences. He also recognised that we would need some external help – not to actually DO the integration, but to help us think through the priorities, structure and targets for the process. We received proposals from all the big international management consultancies, and after a rigorous selection process we chose to work with McKinsey, largely due to their experience in global mergers of this scale, and their clear understanding and focus on the areas where we could drive real savings and benefit from this merger.

We were then in a position to start the detailed planning of what we had to do to get to “Day One”, and we were fortunately able to start putting mixed teams together, of people from both former companies. In parallel with this we started to design the overall merger integration process, the management and reporting framework around that, roles and responsibilities, and terms of reference for the SDTs.

All of that meant that we were able to hit the ground running from the minute the merger was legally completed. For example prior to completion the amount of data exchange allowed between the two sides was obviously limited, but we had

Vision

the world is watching



had the chance to get our minds around what we would need, and in what order, so we could start to capture information very quickly.

The Executive Directors and the Interim Integration Steering Committee had already agreed to the Synergy Delivery Team structure and process, so again we were able to get these up and running quite fast. The interim committee became the full committee once we could fully include our colleagues from the former MES and the newly appointed senior management team.

In terms of priorities between now and year end, they remain the same as always – to make sure we drive towards delivery of the £275m synergy benefits in year three post-merger that we promised the City last year. Our first year target is £55m.

People ask me how will the success (or failure) of the merger and integration be judged, other than by share price.

Our customers and our people will be the most critical judges of our success or failure. Does this new company feel different? Feel better? Give better results? Live up to the promises it has made? Remember that the other mergers in our sector have been through some

difficult times, and the world is watching to see if we can avoid falling into some of the same traps.

80% of mergers fail on culture – not integrating the companies sufficiently, and not creating early enough the new shared vision and focus for the new combined entity. That's why our focus from the outset was on bringing the EDs together, then building the senior team, agreeing the vision, values, merger aspiration and strategic intent. The organisational structure has been designed to mix management from the two heritage companies, and bring BAE SYSTEMS together as fast as possible.

I believe that the Synergy Delivery Teams are crucially important to the success of the merger. It is through the work of the SDTs that we are identifying the areas where we can deliver real cost benefit, either through unfreezing the way we do things, or through pure synergy savings due to removal of overlaps or duplication, or through identifying new opportunities for benefit from the two companies coming together. It is important to remember that the SDTs identify what is possible and achievable, and come up with the process for delivering and measuring the result.

The programmes, business units and functions themselves are responsible for the delivery of actual improvement. So being on an SDT means that you are part of the team shaping some of the key new ways of working in BAE SYSTEMS. Identifying good people to join the SDTs was not easy and we did have some initial challenges in getting them released from their "day jobs". However we had excellent support from the senior management across the business, and I believe we have some of the brightest and best people from the Group on the various teams. Each SDT will operate for a different duration, depending on the targets and objectives it holds. It is critically important that the changes the SDTs propose become part of 'business as usual' as quickly as possible. The SDTs provide a dedicated project team focus but essentially for the minimum period necessary to get the job done.

For example, the Sales and Marketing team has a specific series of tasks to perform – delivering the benefits then falls quickly into "business as usual". Engineering, Major Projects and Procurement, on the other hand, will run for another 18 months or so, as the scale of both the tasks and the opportunities for significant process improvement is so great across the Group. As I've said, the teams are populated with some of our best people, and making sure we take advantage of their experience and capability within the Group post-SDT is one of the priority interests of the Steering Committee.

We went down the SDT route after exploring a variety of structural options with McKinsey. From their extensive experience this route has been proven to be very successful. The key is making sure that the SDTs are integral to the business itself, and not seen as some separate entity, inflicting change onto an unsuspecting organisation. That's why the ISC is such an important link in the chain. The two COOs, Mike Turner and Steve Mogford and Executive Directors George Rose, Michael Lester and Charles Masefield, together with the Group MDs and functional directors form the Integration Steering Committee. The whole process is owned and key decisions made by the business leaders who run the Group.

As the results of the SDTs start to filter through it has given my team and I the most satisfaction so far – especially as we are now seeing 'unfreezing' and the emergence of real savings.

If I had one message for all BAE SYSTEMS people it would be that everyone has a role to play in making this merger a success – it's not just the responsibility of the ISC, Merger Integration Team and the SDTs. Engage with the process, and be part of something very special for the future.'

baesystems .com

One of the top priorities of the IT Synergy Delivery Team (SDT) is to introduce a common e-mail address for all BAE SYSTEMS people across the globe. Here Bob Arrand, IT SDT Project Manager explains:

Following the merger of Marconi Electronic Systems and British Aerospace and the subsequent renaming of the company to BAE SYSTEMS there is a need to change all external e-mail addresses to reflect the new company name. In time every e-mail address will simply be – **firstname.lastname@baesystems.com**.

This is a very complex project as there are a multitude of e.mail addresses in

use across the world-wide locations of the company and the intention is to rename all company locations globally to a single address structure. At this stage there is no intention to change any internal addresses but merely carry out a conversion as e-mail leaves the company so that the person who receives your e-mail will see a baesystems.com mail address. Accordingly, all inbound mail will be directed to the appropriate internal mail address so that the whole process will be totally transparent to the mail users inside and outside the company.

The work currently underway is:

- Development of standards and policies for e-mail naming globally
- Architecture and design of the solution
- Specification and procurement of hardware and software to effect the solution
- Building of a central address database for allocation of unique e-mail addresses
- Identification of future support requirements

It is currently anticipated to do a phased delivery of the solution between mid April and mid May with the United States being the first area commissioned. A full communication programme will be implemented to advise mail administrators across the company of the new processes and all mail users will be advised of their new external address and the date at which it will be live.

Next time in Advantage:

- What's happening to Charity Challenge
- News of the Synergy Delivery Teams
- Focus on Type-45

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