

# VODAFONE

Vodafone is a world leading mobile telecommunications company. Vodafone provides a wide range of communication services, including voice calls, SMS text messaging, MMS picture and video messaging, internet access and other data services. The group has 221 million direct customers including private consumers and corporate customers in diverse markets around the world.

## Governance

Overall responsibility for corporate responsibility (CR)/sustainability lies with Vodafone's Group Executive Committee (ExCo). The ExCo is chaired by the Chief Executive Officer (CEO) and consists of two CEOs from Vodafone's operating business units – Europe and Emerging Markets (Asia-Pacific, America, Eastern Europe and Africa), as well as the Group Corporate Affairs Director, CFO, Chief Technology Director, Group Strategy and New Business Director, Group General Counsel and Corporate Secretary, Chief Executive of Global Business Development, Chief Marketing Officer and Group HR Director. CR performance is regularly discussed at ExCo and once a year at Vodafone's main Board.

The Group Corporate Affairs Director is the ExCo member with responsibility for CR, and Vodafone's Group Corporate Responsibility Director reports to the Group Corporate Affairs Director, as well as leading the Group CR team.

The Group CR team works with local operating companies and Group operational functions to develop policies on CR issues. Additional Group resources are also dedicated to key issues, such as radio frequency (RF) fields and health, social products and enterprise, supply chain management and content standards. For example, there is an ElectroMagnetic Fields (EMF) and a Health and Safety Boards and committees on Content Standards, Privacy and Social Investment, and specific individuals (8) within the Group CR team focus on these issues or other more strategic aspects.

A number of the main Group operational functions are involved in CR in various ways:

- **Group Supply Chain** – is responsible for embedding CR into supplier performance management processes. CR accounts for 10% of our overall supplier rating.
- **Group Marketing** – is responsible for ensuring operating companies implement the responsible marketing guidelines; the Content Standards team is co-ordinating implementation of content controls for customers; and a Social Products and Enterprise team has been established to develop products with social value.
- **Employment** – human resources policies in individual operating companies may differ because Vodafone has expanded in part through acquisition. The Group Human Resources Director is responsible for ensuring policies and procedures are consistent for equal opportunities, diversity, health and safety, employee appraisal, training and communication.
- **Network rollout** – operating company CEOs are responsible for implementing CR policies and guidelines including performance in community consultation, energy usage, ozone-depleting substances identification and phase-out and waste management.

Vodafone believes that CR issues are most effectively managed as part of core business processes rather than as a separate 'add-on'. CR is therefore managed within the Group's mainstream management systems and responsibility allocated to operational line managers. Local operating companies play the key role in implementing CR policies and the CEO of each local operating company has overall responsibility for CR. Every operating company has employees dedicated to CR who work directly with the Group CR team and local business functions. The sizes of these teams vary among local operating companies (from one member to four-six in Germany and Italy for example). This does not include employees working for local Vodafone

foundations.

Each local operating company is free to define the CR function in whatever form works best for them, and no guidance on what the structure should be is provided by corporate. Vodafone Germany, for example, established a CR department as part of the Corporate Communications Division. It reports directly to the operating company Chief Executive. A steering committee, which includes the directors of CR, Marketing, Sales, Technology and Legal Affairs, was also established to ensure that CR is integrated throughout the company. Vodafone Germany also appoints officers within their respective departments to manage key CR focus areas - environment, child protection and RF fields, which are fully aligned with Group CR focus areas and global strategy, but are implemented taking into account local context.

Vodafone has established a suite of quantitative (203) indicators to measure and report to stakeholders its impact. A qualitative set of (200) key performance indicators (KPIs) designed as questions are used to measure internal performance. Local operating companies answer these questions on a quarterly basis, on issues such as energy efficiency, waste management, handset collection, reuse and recycling, health and safety (H&S) and community contributions. Each question is given a score of 0-15 to assess the level of commitment, integration, management of issues, and implementation. Vodafone has also defined specific CR performance targets to be embedded in the quarterly performance review process, where the senior management of Group and local operating companies meet to evaluate the performance of local operating companies. Annual results from this review process are also reported to the Group Board of Directors.

A web-based application is used to collect and report on all CR data and information from local operating companies. Data are reported through a dashboard containing the absolute results colour coded to represent progress against targets:

- Green indicates if the local operating company's score, compared to the target that was agreed by operating company CEOs at the beginning of year is on track/met;
- Amber if the local operating company is within 0 and -5% of meeting its' target; and
- Red if the local operating company has missed its' target by more than 5%.

Reports are generated at the Group-level, but all CEOs can access the dashboard to immediately see their results. They will call people responsible for different areas within their company and inquire as to why they haven't been able to meet the established targets. They then must explain this to their Group operating business unit CEO (Europe or Emerging Markets). The Group operating business unit CEOs will have a call with the Group CEO as to why they are not meeting agreed targets. At the end of the year, bonuses are tied to personal performance also against CR targets. (See the assurance section for a discussion on data validation to prevent self-inflation of local operating company scores).

Part of Vodafone's business case for CR is that the company wants to be recognized as a leader. It wants to explore the potential of promoting development and linking with partners to meet societal needs. It has a number of interesting initiatives in place that will illustrate this (see business development section).

## Business Processes

### *Strategic Planning:*

In April 2005, Vodafone approved a five-year CR plan to help the company reach its vision of being one of the most trusted companies in the markets it operates by 2010. The CR strategy sets priorities in the following areas:

- Maintain high ethical standards;
- Understand and respond to our stakeholders' priorities;
- Ensure our operating standards are consistent across the Group;
- Deliver on our promises in three key areas:
  - Responsibility to our customers
  - Reuse and recycling of mobile phones
  - Energy and climate change; and
- Capture the potential of mobile to bring socio-economic value through access to communications.

Local operating companies identify areas and activities to help contribute to meeting these strategic priorities.

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**Business Planning:** Local operating companies work to the strategic priorities identified in the corporate CR strategy, and to the established suite of quantitative and qualitative KPIs for the organization (see governance section above). Every six months, the Group CR team runs a workshop for CR managers and issue owners from all of Vodafone's operating companies. The workshops provide the opportunity for colleagues from around the world to meet, develop CR strategies and share best practices. Affiliates (companies where Vodafone does not own a controlling share) and partner networks are also invited to attend these workshop, as well as external stakeholders.

Issues of high priority that might emerge from these workshops and require further development by the company would result in a CEO from one of the local operating companies sponsoring the issue, and then bringing together people from throughout the company to further discuss the issue and define policies, guidelines/standards and KPIs to manage the issue effectively. Once approved, these would then be rolled-out across the company. These policies, guidelines/standards become tools to help local operating companies operate consistently according to corporate strategy.

Vodafone also uses a Group-wide issues management process to ensure that CR issues are fed into the company's long-range planning across local operating companies. The process involves each operating company and most Group functions reporting to the Corporate Affairs Board<sup>1</sup> on a quarterly basis the most significant local CR issues. The Board ensures that someone within the business is assigned to develop appropriate responses to each issue, feeding into strategic decision-making. This process helps Vodafone ensure that its strategic decision-making is taking full account of social trends and anticipating new issues as soon as possible.

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**Business Development:** Whenever Vodafone considers a merger and acquisition (M&A), a Global CR team member is included in the team that conducts a due diligence review. Vodafone considers a range of CR issues relating to the country of operation, such as the local supply chain, environmental regulations or levels of bribery and corruption, as well as reviewing the acquisition's existing CR policies and programs. The M&A team incorporate in the country report the information provided by the Group CR team regarding the main CR issues Vodafone will be faced with, what the local company is currently doing, and if Vodafone might face negative reputational impacts by acquiring the local company.

In terms of product development, Vodafone is increasingly working at integrating CR into its decision-making. Beginning in 2002, Vodafone began considering how its products and services could meet societal needs instead of just customer needs related to network coverage for example. The company began by commissioning third-party research to understand the impacts of mobile phones. Research indicated that there was a link between growth in

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<sup>1</sup> Includes Corporate Affairs Directors from several local operating companies and departmental heads within Group Corporate Affairs.

GDP and increases in mobile phone penetration. Social research identified that people with phones were impacted and empowered, having a stronger sense of well-being, an increased social network and increased economic status. Considering this research, Vodafone began exploring how its products and services could further enhance positive impacts and address some of the societal challenges facing various people around the world. As an example, the company trialed a program in Kenya that facilitates financial transactions through mobile phones, where they act like virtual bank accounts, receiving cash, or through a combination of PIN numbers, facilitating payments. Such a service addresses the issue of financial exclusion and makes money transfers a lot easier, as funds can be received from various outlets and the sender/receiver does not need a bank account, only a mobile phone; as well as supporting areas that do not have local bank infrastructure. The technology is also focused on greatly assisting the flow of funds from migrant workers back to their families.

Vodafone has also explored using mobile phones as a means to pay for goods through the transfer of airtime to a recipient rather than an exchange based on money. Such a program has been tried in countries like Kenya, Tanzania, Albania and Egypt. The next frontier is mobile public services so people can access services without having to physically go to government offices. This could greatly assist those without easy access to government public services. Vodafone is also working with partners such as BT, HSBC, Unilever, etc. to address the needs of the bottom of the pyramid of the world's population. This is an area where Vodafone's local operating companies have a crucial role to play by identifying the local societal needs. Local operating companies send proposals that are considered by the Steering Groups in Research and Development (R&D). Five-six ideas have been considered in the last six months; full business cases are built and if approved, the company moves forward on the idea, conducting a trial, usually through partnering with a development agency and NGOs to implement.

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**Risk Management:** Vodafone's CR team feeds into three unique processes that help the company to manage CR risks. The company has an issues management process (described in business planning section above) that helps to identify potential implications to Vodafone of issues that might impact the business and become a risk.

The company also uses a reputation risk management program that identifies the views of stakeholders, media coverage and legal views. It is run by Corporate Affairs and helps to define issues that could pose a risk to Vodafone and if considered a big risk and impact, then the company would start to build a program to deal with the impact.

The third risk management approach taken by the company that incorporates a range of CR questions is Vodafone's internal audit control questionnaire which is completed by all local operating companies once a year and signed off by their CEOs. This questionnaire is part of the company's formal risk identification process. The results are reported to the Vodafone Group Plc Board of Directors.

Each local operating company will use the same processes but the results will be unique reflecting local variables. Vodafone Romania, for example identified, identified RF fields and health, products and services for people with special needs, waste management and energy use as priorities in the 2006 financial year. Vodafone Greece was approached a number of years ago with a proposal to provide gambling services through mobile phones. In applying CR thinking, considering the social impact and the potential negative impact on the company's reputation, Vodafone said no to this opportunity.

**Project Management:** Vodafone has developed social assessment criteria to look at new products and services beyond net present value. The checklists used to assess new products propositions include a specific section on CR and direct Vodafone staff to consider certain CR factors (e.g. social benefit) and apply a score. If scores are below a certain threshold, then the project/product/service/supplier engagement will not go ahead as these may impact in the reputation of the company and the brand.

For example, a women's non-profit organization in Egypt approached Vodafone with a project that would allow farmers to easily access market prices. The project involves women going to different local markets in their area and using mobile phones to report back to a central location on the prices of various products. Farmers can then use a mobile phone and enter the product to sell and the phone will report the prices in the different local markets so the farmer can go to the market where there are higher prices and therefore make more profit selling for the highest prices avoiding unnecessary trips to check prices. Vodafone does not receive any real financial benefit from this kind of project, but the social benefit for the farmer is compelling and Vodafone believes it will lead to increased customer loyalty and therefore decided to move forward trialing this project.

**Disclosure:** Vodafone's Annual Report includes several pages of information and performance on a variety of CR issues such as employee involvement, health and safety, environmental issues (e.g. energy use, reuse and recycling, etc.), socially inclusive products, supply chain management, political donations, etc.

Vodafone also publishes a stand-alone CR report at the Group level. Vodafone uses a web-based application to collect CR data and information from local operating companies. Group guidelines on data collection and reporting define the key CR performance indicators and require all local operating companies to document sources of data, check data accuracy and have data signed off by a senior executive. Data are also checked and consolidated at the Group level before being rolled-up in the Group level CR Report. There are currently also 11 local operating companies that produce their own CR reports.

**Assurance:** Vodafone uses independent third-party assurance on its CR report, which every year involves the on-site investigation of at least four local operating companies for up-to four days to challenge data and information, look at data collection processes, etc.

In order to provide assurance on the self assessments and scores local operating companies submit against the corporate KPIs, every local operating company is visited on an 18 month cycle by the CR Director or CR Executive and one other corporate CR team member. The purpose of these two-three day on-site assessments is to take the local operating companies last quarterly report and challenge and scrutinize the results, looking for strange trends, asking for evidence to support claims, etc. The on-site assessments involve multiple meetings to discuss different CR issues, an investigation of the local operating company's processes that support CR, a review of meeting minutes to ensure CR issues are discussed, etc. At the end of the on-site assessment, a final meeting is held with the CEO to provide feedback on the findings and recommendations going forward.

Internal audit is also involved checking sites and reporting findings back to the ExCo on whether local operating companies are following Group policies and standards under Group Ethics for example.

There are a variety of other internal and external assurance processes utilized by Vodafone however; many of them are up to the local operating company to define. For example, a number of local operating companies are certified to

ISO 14001, EMAS and/or SA8000 and therefore require external verification that their operations meet these standards.

## Stakeholder Engagement

### **Community Relations:**

Vodafone engages its stakeholders in a variety of formal and informal ways, both globally and locally. The majority of engagement is carried out within business functions and in local operating companies. As an example, most local operating companies have their own local external stakeholder advisory councils to help them identify and work through issues. At the global level, there is also a 12-person advisory council with experience in the UK government, academia, other businesses, NGOs such as Oxfam, and CR consultancies/opinion leaders such as SustainAbility and Accountability.

Vodafone sought feedback from stakeholders on its Group CR Strategy as well as on communications such as the CR report. Where Vodafone is finding stakeholder feedback to be most effective, however, is when it is focussed on specific issues and solutions and informs the work of the experts and policy makers in the company. Vodafone has recently changed its strategy related to stakeholder engagement from generic events with stakeholders presenting their opinions on broad strategy and programs and the company's latest report, to topic specific conversations related to just privacy, or what can be done to support the people at the bottom of the world's pyramid, for instance. Vodafone is using this new format to try and understand stakeholder expectations related to specific topics and finding the results to be much richer.

Vodafone encourages stakeholder engagement at local operating companies by incorporating three questions into the quarterly assessment/reporting against KPIs. One of the questions specifically relates to how comments received from stakeholders have been integrated into the company's operations. Local operating companies are also required to have a Stakeholder Engagement Plan in place.

### **Investor Relations:**

Over the last year Vodafone held 14 meetings to discuss CR issues with institutional investors, both mainstream and socially responsible investors (SRIs), as part of the company's CR investors' road show. In addition, Vodafone meets with individual investors that request a meeting to discuss specific issues. The meetings are used to talk about performance and also for Vodafone to get information on the views from investors on specific issues. At the present time, the CR Director is involved in these meetings but there is a preference that Investor Relations staff take on more of this role. The CEO also desires to address CR issues more fully in his speeches/presentations to the investment community. Like many companies, Vodafone responds to SRI questionnaires, and actually has one team member dedicated to responding to these investor requests. Vodafone believes that it does well in integrating CR issues into communications and relations with key company investors and the financial community but that it could do better in this area.

## Human Resources

### **Recruitment and Orientation:**

Another area of improvement identified by Vodafone is the integration of CR factors into human resource (HR) management. Vodafone is a young company of only 20 years, ten of which were spent as a company of 300 employees. Through aggressive acquisition, Vodafone now has 60,000 employees. This has resulted in a number of HR policies throughout local operating companies and the need to focus on standardizing these policies and practices.

At the global level, CR is integrated into induction training for all new employees, through workshops that talk about the company's CR policies. All employees also receive the booklet on 'Passion for the World Around Us' that identifies the company's values and its commitment to the goals of CR.

Vodafone conducts an annual employee survey that includes questions about whether the company is generating trust and adequately managing its environmental impact. Vodafone does seek the approval of employees on what they are doing and the ratings are generally above 90%. Employees report being more highly motivated because of the company's CR initiatives, with local operating companies on average having a better understanding of CR and related higher pride for working with Vodafone.

Vodafone's internal website is also used for collecting information or ideas from employees on CR initiatives.

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**Training:** Vodafone delivers a variety of global training through the use of e-tools, including an e-module on CR. Vodafone is developing a set of new indicators to identify the number of employees that have also received classroom CR training (e.g. ten global managers received training in social audit; 84% of Supply Chain Management managers and employees have received training on the Code of Ethical Purchasing).

Other communication mechanisms are utilized to increase awareness of CR issues such as: topic emails (e.g. climate change); themed events (e.g. invited employees to attend showing of the documentary, An Inconvenient Truth, followed by a panel discussion where the Corporate Affairs Director discussed climate change and what Vodafone is doing to improve its practices); monthly CR teleconferences (CR is also discussed between Group functions and operating companies in many other forums connected with operational issues); and the monthly newsletter from the CEO normally contains a paragraph to discuss Vodafone's CR initiatives (e.g. one of the last newsletters addressed some of the external recognition Vodafone received related to CR). The CEO's newsletter often addresses Vodafone's way of dealing with an issue.

Vodafone also includes CR in the training for its managers. A session on CR is included in the Global Management Development Program, which is a three-day course for the most senior managers. The participants debate a series of issues from the perspective of different stakeholder groups and devise a response.

Vodafone is also working at standardizing processes related to training among its local operating companies. For example, Vodafone UK is piloting an e-learning training course on the Business Principles for all UK employees. If successful, this would be rolled out across local operating companies.

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**Performance Appraisal and Compensation:** In 2006, specific CR performance targets were defined and embedded into the performance quarterly review process. Local operating CEOs and Group operating business unit CEOs now have their bonuses also tied to personal performance against CR targets.

CEOs cascade the performance targets throughout their organizations so the local CR team members, the energy efficiency manager, etc. would also have a CR-related target.

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