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## Vodafone: Africa calling

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Item Type	Book chapter
Authors	Crane, Andrew;Matten, Dirk;Spence, Laura J.
Publisher	Routledge
Rights	With permission of the license/copyright holder
Download date	2026-07-11 14:38:23
Link to Item	<a href="http://hdl.handle.net/20.500.12424/173415">http://hdl.handle.net/20.500.12424/173415</a>

CRANE, A.; Matten, D.; Spence, L. J., *Vodafone: Africa calling*, in: Corporate Social Responsibility. Readings and cases in a global context, Oxon: Routledge, 2008, 166-173.

CASE STUDY 1

# Vodafone: Africa calling

## Introduction

In this case study, we see Vodafone, one of the world's largest mobile phone groups, and one with fairly good CSR credentials in its sector, operating in a global economy with varying concerns and needs. In the developed world, particularly Europe and North America, there are various social considerations that mobile phone companies need to take account of. These include: the potential dangers of radio frequency technology used in mobile phones on biological bodily systems; the accessing of inappropriate adult content through mobile phones by children; concerns about individualism, isolation and excessive consumerism among the 'mobile generation'; and the use of components procured from unsustainable sources. The developing world, represented in this case study by South Africa, still has to build its own internal economy and overcome basic social and other inequalities. Mobile telephones are being promoted by research funded by Vodafone as a way of positively contributing to fundamental needs in developed countries, with very little reference to the social concerns raised in the global North. This raises the question of what corporate social responsibility is, or should be, in different contexts, and also of where multinational companies should draw the line in terms of defining their social responsibilities and obligations in a complex multiple-stakeholder world.

## CSR in Africa

The past decade has been a time of change in Africa, with a combination of sustained conflict, poverty, disease and dictatorship existing alongside emerging democracy and economic growth. There are very real social concerns around literacy, life expectancy

(including high levels of child mortality), hunger and HIV/AIDS. The colonial history of the continent, combined with more recent socio-political developments, has left an environment in which social responsibility in business appears to be a low priority, but one with considerable potential for contributing to social and economic development. In the worst cases, corporations have been complicit in political corruption, environmental destruction and labour exploitation. They have been found to be involved in unethical behaviour such as discrimination on the basis of race, gender and people with HIV/AIDS, employee intimidation, nepotism and neglect of safety. Nevertheless, corporations are well placed to lead in the continent in terms of investment, job creation, training and skills transfer, development of infrastructure, knowledge sharing, working against environmental degradation, and in using CSR to help address social and environmental issues.<sup>1</sup> To date, much of the attention to CSR in Africa has focused on philanthropy and community programmes, with relatively few companies actually seeking to examine their broader impacts on social and economic development.

### *Focus on South Africa*

Corporations operating in South Africa in times of apartheid (which ended with the first free democratic elections in 1994) were bound to have an economic and political interest in the country, but the transition to democracy has also brought much new investment into the country. The ending of apartheid also enabled the formerly isolated South African companies entry into the global economy (including the listing of South African companies on international stock exchanges). Moreover, a more professional and systematic approach to CSR has developed, prompted partly by the need for compliance with global standards and clearer accountability, as well as by a recognition that business could play a part in the successful development of the country. Other influences include legislation and stakeholder pressure (largely through community groups). The 1996 Bill of Rights and a wave of new legislative reform relating to socio-economic development, the environment, health and safety, labour, governance and ethics have been put into place.<sup>2</sup>

None the less, having legislation in place is of little value unless it is backed up by enforcement, and this is a problem which still pervades South Africa. It is also important to note that, while the political system of apartheid has gone, economic apartheid remains, with whites continuing to have by far the best access to the best education and careers. Affirmative action programmes and investment in decent housing and education for all South Africa's citizens are helping to rectify the situation, but it will take a generation at least to integrate the people of the 'rainbow nation' fully.

A special mention is needed regarding HIV/AIDS. Prevalence of the disease in South Africa is at extremely worrying levels, with over half of the 40 million people living with HIV/AIDS in 2004 coming from sub-Saharan Africa. From a business perspective, at the most fundamental level, the prevalence of HIV/AIDS in South Africa causes labour-supply problems as employees hit by the disease are lost and need

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replacing. Apart from the direct costs of absenteeism, recruitment, retraining, health benefits and insurance, there are hidden impacts on profitability such as strained labour relations, declining employee morale, and distrust between employee and employer. A study published in the *Harvard Business Review* in 2003 estimated that the 'AIDS tax' on companies in South Africa could be more than 5 per cent of annual wage costs or as much as \$12 million annually.<sup>3</sup> Moreover, the disease is particularly dangerous for the most disadvantaged groups in terms of education, economic stability and access to health, increasing still further the problems of the underprivileged. While corporations have made some initial efforts to engage with this extremely serious problem, barriers to involvement include high financial costs, the fear that governments will not get involved if business is seen as leading the way, the need for long-term commitment, and problems of stigma, ignorance and fear.

## Vodafone

Vodafone is the world's largest mobile phone company. Originally formed in 1984, the Vodafone Group has grown rapidly through mergers and acquisitions involving Racal Telecom, Cable and Wireless, Mannesmann, and many others. After 20 years of growth, most developed markets have reached, or are reaching, saturation point in terms of phone ownership. The competitive situation is also threatened by increased regulation and competition from internet-based telephony. Key growth markets for Vodafone in the twenty-first century are therefore Africa and South East Asia, made possible in part by the liberalization of telecommunications markets.

### *Vodafone in South Africa: Vodacom*

Penetration rates of mobile phones are among the highest in South Africa compared with other African countries, at over 36 mobile phones per 100 people. Vodafone has made major investments in emerging markets, including increasing to 50 per cent their stake in Vodacom, which operates in South Africa, Tanzania, Lesotho, Mozambique and the Democratic Republic of the Congo.

Like Vodafone, Vodacom takes a clear position on social issues, stating on its website that 'The existence of the digital divide means that a company such as Vodacom has a moral obligation to use the funds generated from its revenue to assist in addressing social backlogs'. Primary areas of involvement are education, health and welfare, and safety and security. Secondary areas are arts and culture, sports development and the environment. Their activities in this area take the form of bursaries to students in tertiary education in subjects relevant to Vodacom, and the Vodacom Foundation. The Foundation makes straight donations but also takes a proactive approach in identifying areas of need and seeking out partners for longer-term collaboration. Many of their projects focus on empowering women, young people and people living with disabilities.

## A Two-worlds Anomaly?

Somewhat of a conundrum in the mobile phone industry are the different levels of concern in the developing and developed worlds about the various social implications of mobile phone technologies. A striking example of this is the debate over health effects. While in developed countries there is a recurring wave of fear that radio frequency exposure may cause serious long-term health problems, in developing countries these concerns are not widely raised. Instead, the focus is often on the economic and even health *advantages* of access to mobile phones. This difference in perspective is addressed in different ways by Vodafone.

### *The developed world perspective: the negative health effects of mobile phone technology*

An area of concern for Vodafone to address in Europe and the USA concerns public fears that mobile phone technology may have negative health implications. In the UK, the Stewart Report published in 2000 recommended that a precautionary approach should be taken to mobile phone technologies until more scientific evidence on the health effects was available. Evidence is still lacking, but areas of concern include the interference of radio frequency fields with biological systems, the impact of long-term use on epidemiology, brain function, genetic predisposition of some groups to the impact of electromagnetic field exposure, the vulnerability of children and their developing nervous systems, and the impact of base stations on well-being.

In response to worries about health effects from the radio frequency (RF) fields emitted by handsets and base stations, Vodafone notes in its Corporate Responsibility report 2006 that the company is addressing this by:

- Engaging with local communities as part of our responsible network deployment process.
- Offering guidance to those who are concerned about how best to limit their RF field exposure from handsets.
- Providing easy-to-understand information through a variety of channels including websites and brochures to help people reach informed views.
- A commitment to inform customers and the general public of significant new developments in published research. We advocate the publication of scientific research in peer-reviewed journals.
- Supporting independent research at arm's length so that areas identified by the World Health Organisation as priorities are properly funded.
- The handsets we sell and our network of base stations comply with international standards for limiting human exposure to RF fields.

Vodafone is also continuing, along with various other carriers and mobile phone manufacturers, to defend four legal cases in the USA alleging personal injury, including

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brain cancer, from mobile phone use. The threat from legal action for this and other reasons is sufficiently serious for 'Contingent Liability' for Legal Proceedings to be included in the Vodafone financial statements and reported in the 2006 Annual Report (p. 117).

While Vodacom in South Africa acknowledges the potential health impacts of mobile phone technology, it does not give the issue such import as Vodafone, deferring any concerns to Vodafone's research. On the website it says:

Even though the weight of evidence does not suggest any adverse affects, Vodacom supports independently conducted research because our technology has rapidly spread and is now used by one in six people around the world. Since 1991, Vodafone has globally committed more than six million pounds to an eight year programme of research projects.<sup>4</sup>

In fact, concerns about health issues related to use of mobile phones are very low key in South Africa. Rather, mobile phones are being heralded as important aids in promoting health in the country, and as a means of tackling the digital divide and opening up economic opportunities in a democratic way.

*Developing world perspective: the positive health effects of mobile phones in South Africa*

Africa, despite often being left behind in some of the economic advancements made in the rest of the world, has seen the world's most rapid growth in mobile phone penetration, albeit from a low starting point. The explosion of use of mobile phones in Africa has not been matched by awareness of concern for their potential health implications and other negative social impacts. Rather, the emphasis has been on the benefits of the spread of mobile voice telephony, including social issues such as maintaining social capital, stimulating a sense of well-being, improving income opportunities, and providing advantages in terms of personal security. At the most optimistic is the hope that mobile phones may be used to help offer services directly targeted at helping the poor, including health-related areas such as HIV/AIDS (for example, doctors monitoring their patients in remote regions). Clearly, this requires that the poorest in society have access to mobile phones. It is difficult to determine the current extent of access, since in rural districts phones will tend to be shared, but access to the facilities is possible without ownership of a mobile phone.

Vodafone has funded policy research, including a focus on the impact of mobile phones in Africa.<sup>5</sup> In the foreword to the 2005 report, the International Institutions Director for Vodafone Group claims that the reason for investing in the project was to contribute to systematic research on the economic and social impacts of a mobile phone. The report noted that mobile telephones are used and owned differently in developing countries from the developed world. For example, the value of a mobile phone to the individual is greater because other forms of communication are often poor. Mobiles provide a point of contact and enable users to participate in the eco-

conomic system. Many people who cannot afford to own a mobile themselves can access mobile services through informal sharing with family and friends or through community phone shops. Furthermore, use of text messaging in rural communities is much lower due to illiteracy and the many indigenous languages, which act as a barrier to the adoption of other technologies that use the written word, such as the internet.

The report funded by Vodafone found that mobiles can have a positive and significant impact on economic growth and social stability, emphasizing that:

- A developing country with an extra 10 phones per 100 people between 1996 and 2003 would have had GDP growth 0.59 per cent higher than an otherwise identical country.
- t Fixed and mobile communications networks (in addition to the openness of the economy, the level of GDP and other infrastructure) are positively linked with foreign direct investment. The impact of mobile telecommunications has grown in recent years.
- Many of the small businesses surveyed use mobiles as their only means of communication. The proportion is highest for black-owned businesses in South Africa.
- Sixty-two per cent of the small businesses surveyed in South Africa said they had increased profits as a result of mobile phones, in spite of increased call costs.
- Mobiles are used as a community amenity. Most mobile owners surveyed in South Africa allow family members to use their handset free, and a third do the same for friends.
- Seventy-nine per cent of those surveyed in South Africa said they had more contact and better relationships with family and friends as a result of mobile phones. This is particularly pertinent in rural areas, which are often not served by normal telecommunication services.

Other findings include the suggestion that mobile phones are accessible to the poorest members of the community, and normal barriers to accessing technology (gender, age, education levels) are not generally so much of a problem.

## Conclusions

Vodafone has highlighted different areas of social concern in developing and developed countries in relation to mobile telephone use. While the potential health and social problems associated with using mobile phones represent important planks in the firm's approach to CSR in the global North, not only are these sidelined in the global South, but also social responsibility is represented as more a matter of extending phone use and ownership in order to help enable development to take place. It could well be argued that these differences are appropriate, given the very different social contexts represented by, for example, the U K and South Africa. However, there is also the question of whether stakeholders in one region should expect the same degree of social responsibility from a company as stakeholders elsewhere. Ultimately, the case

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also highlights the problem of how a multinational might determine if it has social responsibilities at all beyond making a profit, producing products, employing people and obeying the law. This became a particularly pertinent question for Vodafone in 2006, when the company announced the biggest annual losses ever by a European company. This led to the sale of Vodafone Sweden and Vodafone Japan, a massive reorganization of the company, and increasingly strident calls from investors for the removal of Chief Executive Officer Arun Sarin.

## Study Questions

- 1 Consider the case for CSR as illustrated by Vodafone. Is Milton Friedman right in advocating attention solely to economic issues? Or do you agree with Henry Mintzberg that an ethical approach to CSR is necessary in the mobile phone industry? Where would these two different views suggest that Vodafone should draw the line in terms of defining its social obligations?
- 2 James Stewart at Edinburgh University has coined the phrase "Mobile phones: cigarettes for the twenty-first century". Can you draw any parallels with the mobile telephone industry's response to public concerns about health problems arising from radio frequency exposure, and the tobacco industry's response to concerns about nicotine's addictive and carcinogenic nature in the latter half of the twentieth century? Which types of responsibility as depicted in Carroll's CSR pyramid is Vodafone exhibiting and how do these compare to those of the tobacco industry?
- 3 Vodafone is a part owner (50 per cent) of Vodacom in South Africa. To what extent might we expect the influence of the larger company, Vodafone, to dictate corporate social responsibility concerns to the smaller Vodacom? What impact should local knowledge of the South African situation play? Use stakeholder theory, as presented by Ed Freeman (Reading 5, Chapter 4), to address the question of how Vodacom should develop its CSR strategy.
- 4 South Africa is thriving on the introduction of mobile phones. Would you expect health risk concerns in a developing country with significant economic needs to be less pronounced than in developed countries? Why? Answer using one or more of the arguments presented in Section A.

## Notes

- 1 See Rossouw (2002).
- 2 Details presented here drawn largely from Visser (2005). See his work for further information on corporate citizenship in Africa.
- 3 See Rosen *et al.* (2003).
- 4 [www.vodacom.com.za](http://www.vodacom.com.za).
- 5 See Coyle (2005).

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## Sources of Further Information

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