

Social Leadership: perspectives from the telecom business

Market conditions determine the level of CSR value creation

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Introduction

Many companies think hard about the internal and external position that Corporate Social Responsibility (CSR) should assume in their corporate strategy. The level of contribution by a CSR-program to a companies market position is not only determined by the CSR-program itself but also by the industry standards.

This article argues that each industry has its own level of CSR standards. The relative level of those standards is dependent on several factors such as the size of the primary target audience and the technological risk profile of the industry.

CSR as differentiator

What is the contribution of CSR to our competitive position? A very valid question that has been asked by many senior managers. As a matter of fact this question is not that easy to answer as the impact on the competitive position largely depends on the industry as a whole. In other words: as is the case with all marketing differentiators, the value creation coming from company's CSR activities is dependent on the relative added value compared to its' direct competitors. What does that mean in practice? Let's have a closer look at some examples from the telecom industry in the Netherlands.

The mobile telecom industry

In the mobile telephony industry several cases exist of NGO partnerships and high level company involvement with the wellbeing of local communities. The latter also driven by resistance of some local communities towards the placement of new antennas. In the Netherlands Orange is leading the pack and claiming the so-called social leadership position. Central theme of Orange across its footprint is to let people participate more fully in society by communication. Orange signed a long term partnership with War Child, an organization with the mission to invest in the peaceful future of children affected by war by creative communication methods. The company helps War Child with their fundraising through call centre support and it is a major sponsor of the very popular annual War Child pop-concert. Furthermore Orange provides War Child with telecom solutions in remote areas such as Afghanistan, Bosnia, Uganda and Ethiopia and uses its communication channels to promote the work of War Child.

And Orange regards their CSR efforts as part of their core business. Kevin Zuidhof, Head of Corporate Affairs at Orange Netherlands from 2001 till 2005 makes a clear point. "A brand that is not linked to society is a brand that never will get really accepted by society". It makes part of the Orange way of doing business. Not only in the Netherlands but companywide. Stephen Farrell, Orange's Account Manager at Business in the Community, a UK based NGO promoting cause related marketing, emphasizes the same point. "There is a direct relationship between corporate responsibility and realizing the benefit itself. It is not about philanthropy, it is not about altruism. It is about surviving business in the modern world".

It seems to be an industry view. Not only Orange is putting much emphasis on its CSR. Its' major competitor Vodafone also clearly claims its social responsibility albeit less vigorous. Arun Sarin,

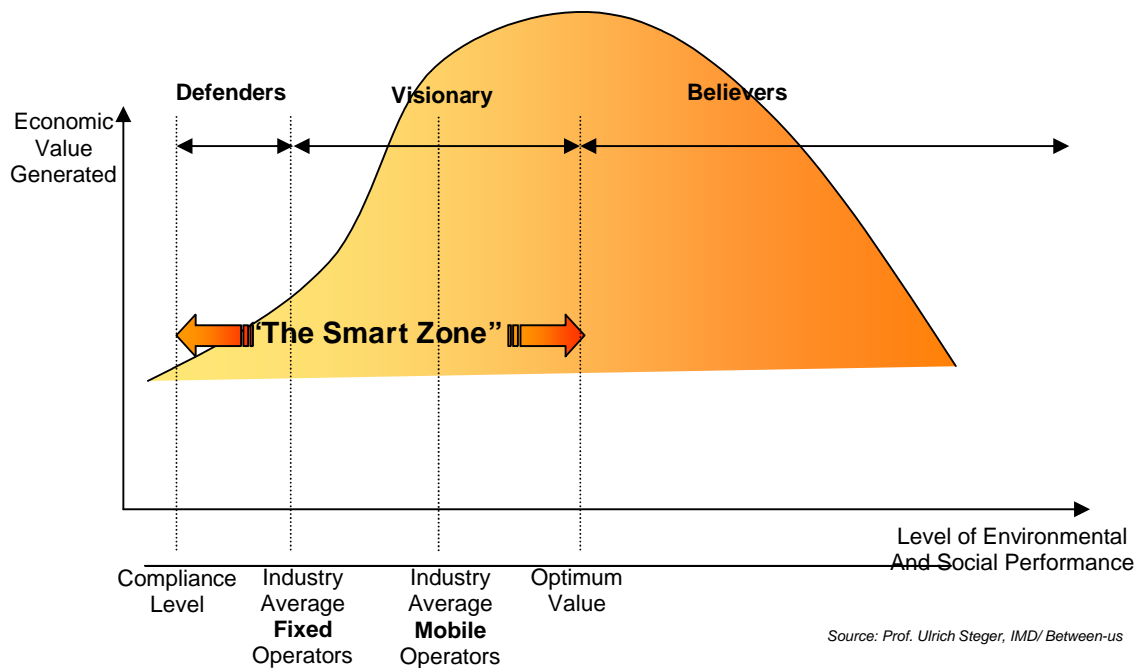
Vodafone Group PLC's Chief Executive Officer, acknowledges this point in his statement on the companies' CSR philosophy. "For me, corporate responsibility is not altruism. Nor is it just a form of risk management. Corporate responsibility will be integral to the future success of business". An example of this focus is the Vodafone Speaking phone. This device allows blind or visually impaired people to use text messages on their mobile phones. The phone contains screen reader software that converts text messages and screen content into speech.

The fixed telecom industry is less active

Compared to its' younger brother, the fixed telecom business is much less active. Dutch market leader KPN, the incumbent telecom operator and also leader in the mobile market, translates CSR into delivering telecom and internet services to schools and healthcare institutions at reduced fees or even for free. On top KPN provides special services for the deaf and hard of hearing and chronically ill. For project-sponsorship one can send a mail to KPN. However it is hard to determine what strategic value KPN is putting on CSR. Apparently KPN is lacking an integral approach and the company is not really present in the area of partnering with NGO's despite their small partnership with the Ronald McDonald Child Foundation.

Striking is that the major fixed telecom competitors to KPN such as Tele2 and Casema are even less active. All of these players do not reveal any information on CSR on their corporate websites. So with relatively little effort, KPN is taking the top spot in their business as far as social leadership is concerned.

CSR: Social leadership differs per industry



Analyzing the difference

Where is this big difference between fixed and mobile operators regarding CSR coming from? For sure one of the reasons is the age of the industry. Young tech companies clearly possess a more responsible (and modern) look on doing business. At the heart of tech company incubation, Silicon Valley, the exception is with companies that do not have any corporate philanthropy activities. Some striking examples from California are listed below:

- Google announced earlier to allocate 1% of its share capital and 1% of its profits to corporate philanthropy; in total a sum of over \$900 million.

- Intel, Intuit, Cisco Sun and HP are some of the more than 100 sponsors of Plugged In. Plugged In is an East Palo Alto charity that helps low income children to create media and apply computer technology. On top Plugged In provides free broadband access to the neighborhood through seven Technology Access Points. These are rooms where anybody can come to use the internet for free.

KPN has a long history. Its' roots date back to 1799, when several state postal monopolies were combined into one system for the delivery of mail in the Netherlands. In 1994, the Dutch PTT was the first incumbent mail and telephone company in the world to go public as Royal KPN. In June 1998, the company was de-merged into KPN and TPG (the mail and logistics arm). However several other fixed operators are much younger so age of the company cannot be the only determining factor.

Another rationale behind CSR awareness of the mobile telecom industry is the defensive position the business was forced into by its' troubles over mast sites and harmful radiation. From the outset, mobile operators were challenged on the potential negative effects of their core technology. Therefore operators had to go into dialogue with their stakeholders at a very early stage.

Last but not least the market opportunity CSR represents plays an important role. Several corporate philanthropy initiatives focus upon helping underdeveloped areas in Africa and Asia. This represents a mammoth market to them as well. Celtel International, founded in 1998 by a Brit from Sudanese background, now serves 7 million users in 13 countries in Africa. In March 2005 Celtel was sold for a whopping €3.4 billion to a Kuwait investment company.

Closer to home the market opportunity is also present. According to Forrester, 95% of all 16 to 24 year old own a mobile phone. This figure represents the highest penetration of all age groups. This is also the age category that is most sensitive to the idealism of companies and brands. So for them CSR is a big deal, especially when it comes together with interesting pop-concerts as is the case with Orange.

Upcoming convergence as a threat

With the upcoming convergence of fixed and mobile telecommunications, fixed operators in the Netherlands are obliged to step up their CSR efforts. Especially cable operators like UPC and the new merger company between Casema, Multikabel and Essent@home need to load there brand with more social responsibility. The benchmark for the level of CSR in their industry is increasingly set by the mobile players. The quickest way to close this emerging gap is to learn from others.

Take the partnerships with charities for instance as one area of improvement. Why not help create a "Plugged In Netherlands"? In collaboration with other parties such as social housing corporations and banks, fixed network operators could easily make that happen.

Newer brands such as Tommy (supporting charities actively) can also pick up the lessons from other showcases. One specific showcase company has a Dutchman at the helm. BT, led by former KPN Executive Ben Verwaayen, is providing telecom solutions for the partially deaf like KPN. The difference is that BT launched its' first product in this area in 1936 (!). In 2007 BT has been ranked top telecommunications company by the Dow Jones Sustainability Index for the seventh year running with Vodafone as runner up.

Learning points for other industries

CSR activities can clearly contribute to the value creation of a company. The overall impact on customer loyalty and brand empathy of these activities is largely determined by the typical habits of CSR activities in a specific industry. To be practical, next to a companies vision and its' core beliefs, an industry-wide competition analysis should make part of any corporate CSR-plan. This analysis should focus on the key drivers of CSR in the business. In the case of the telecoms

industry, the key external drivers for effective CSR-programs are the size of the market opportunity, the track record and history of the industry and the vulnerability of the business.

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