Case Study:

Sustainability Through Policy and Governance: The Case of Safaricom

Sustainability Through Policy and Governance.

Abstract

Safaricom developed its first sustainability framework six years ago and, since then, it has been implementing a dynamic sustainability agenda crafted under a "Top-down bottom-up cocreation approach".

The case study consists of engaging in parallel with the Senior Leadership Team and their team of Sustainability Champions to develop a framework for integrating the SDGs into corporate strategy. The key features on their strategy has included exploring untapped business opportunities offered by the SDGs, discussing business objectives and improvement areas first and agreeing on how the SDGs could enhance performance and help overcome challenges, encouraging teams to articulate the SDGs in a way that makes sense for the business and keeping a flexible approach with as many iterations as necessary until the articulation of the relevant SDGs is fit for purpose.

This approach has enabled Safaricom to adopt and integrate the SDGs in a way that has made sense for the various divisions, and empowered them to own that vision.

Background

As the biggest communication company in East and Central Africa, Safaricom (NSE: SCOM delights over 25.1 million subscribers, providing over 200,000 touch points for its customers and offering over 100 different products under its portfolio.

Safaricom's services include mobile and fixed voice, SMS, data, internet and M-PESA, a mobile phone-based money transfer service. Launched in March 2007, M-PESA now has over 23 million customers and over 100,000 M-PESA Agent outlets countrywide.

Safaricom exists to 'Transform Lives'. This purpose statement permeates every decision made by the company, and drives it to push the traditional boundaries of doing business to create value for society. With the belief that the role of business extends far beyond making profits, their goal is for their products and services to help transform lives and contribute to sustainable living throughout Kenya with a vision to use the ability to deliver connectivity and innovative services to improve the quality of life and the livelihood of every person.

Central to achieving this vision is the continued commitment to manage operations responsibly and ethically. Safaricom believes that these two commitments — to transform lives and to operate in a responsible and ethical manner — are fundamental to their continued success and duty to shareholders.

Safaricom's goal of transforming lives is the nexus at which the organization commits to sustainability and commercial success. Using a methodology developed by KPMG, Safaricom has been able to quantify and include the significant indirect (secondary) value contribution made to the Kenyan society in addition to direct (financial) contribution.

Governance

Good corporate governance remains the foundation for long-term value creation and is therefore a core focus for the Safaricom Board and Senior Leadership Team

Good corporate governance practices are essential in the leadership and management of any institution and delivery of sustainable stakeholder value. At Safaricom, the cognizance of the fact that implementation of good corporate governance practices gives the shareholders and in deed all stakeholders the assurance and confidence that no effort is spared when it comes to managing their wealth sustainably.

Safaricom continues to fully adhere to its obligations as a public listed company in compliance with the Capital Markets Authority (CMA) Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015, the various regulations by the CMA and the Nairobi Securities Exchange and the ethical standards prescribed in the Company's Code of Conduct. In addition, as a law abiding corporate citizen, Safaricom is abiding by the tenets of the Constitution of Kenya and complying with the provisions of relevant statutes such as the Companies Act, Kenya Information and Communications Act, the Central Bank Act, the National Payment System Act and regulations to mention just a few major ones that have a direct bearing on the business.

In addition, good corporate governance is critical not only at the corporate level but also at the national level. Safaricom continues to engage in promoting good corporate governance at the national level including at the governance institutions.

Safaricom is currently involved in the following: -

- o Businesses Against Corruption in Kenya (BACK) initiative which has brought together the business community and Government to brainstorm on ways of dealing with corruption.
- o Global and local chapters of the United Nations Global Compact (UNGC). Safaricom CEO sits in the boards of both the Global and Kenyan Chapters. Safaricom is also an active member of the UNGC Anticorruption Working Group;

- o Adoption of ethical businesses practices among businesses, Safaricom having resolved not to work with organizations that have not signed up to the Code of Ethics for Businesses in Kenya and
- o Other efforts undertaken by Safaricom include publicly declaring its intention to blacklist trading partners and especially suppliers accused of engaging in corrupt activities. Safaricom continues to lobby our key partners to adopt a similar stance.
- o Two key achievements: Private sector Bill on anti-corruption and co-hosting of the United Nations Global Compact (UNGC) Anti-Corruption conference as a commitment towards building an enabling environment for good corporate governance

Safaricom's enduring commitment to good corporate governance has been noticed and recognized by various promoters and watchdogs of good governance mainly the Institute of Certified Public Accountants of Kenya (ICPAK). Safaricom shared the first position with Vodafone on the fortune's "change the world list" as a result of the impact of mobile money transfer platform M-PESA which has impacted many lives in Kenya and globally.

In the 2015/ 2016 financial year, the organization continued to strive to ensure that high levels of corporate governance were achieved by focusing on the following specific areas in addition to the ongoing recurrent corporate governance enhancement actions: -

- o Optimizing shareholder returns through the adoption of appropriate strategies aimed at enabling and promoting the long-term prosperity of the business;
- o Timely, transparent and relevant disclosures to provide stakeholders with a clear understanding of our businesses;
- o Implementation of strong audit procedures through ensuring audit independence, maintaining strong internationally recognised accounting principles;
- o ensuring the undertaking of a well scoped annual audit and maintenance of robust internal controls;
- o Well defined Board and Management duties and accountabilities, ensuring appropriate director competencies, maintaining an appropriate mix of executive, non-executive and independent non-executive directors;
- o Alignment of remuneration with the long term interests of shareholders and employee participation in enhancing stakeholders' long term interests;

o   Integrating sustainability and the sustainable development goals across the business as a strategic advantage;

o   Compliance with laws and disclosure of policies to all relevant stakeholders; and

o   Upholding the highest levels of integrity in the organization's culture and practices.

Staff Ethics Training

Every member of the Safaricom staff is expected to attend ethics training at least once a year. Most of the training is undertaken through face-to face-sessions and supplemented by e-learning courses. The awareness training is tailored to address the specific ethics risks faced by the attendees. For high corruption-risk departments, the training focuses on anti-corruption and bribery.

Anti-corruption preventative measures	FY16	FY15	FY14
Ethics and anti-corruption staff training (% of total staff)	98%	94%	94%
High risk departments	98%	97%	98%
Medium risk departments	98%	83%	81%

o   * Due to the nature of their work, these departments are more susceptible to fraud

Governance Structure

Good governance remains key to the business' sustainability, integrity and maintaining investors' trust in the Company.

The Board of Directors, which is charged with the responsibility of ensuring good governance in the Company, remains committed to ensuring that the business is run professionally, transparently and equitably to protect and enhance shareholder value as well as to satisfy the interests of all the Company's stakeholders.

Directors and employees are expected to act with honesty, integrity and fairness in all their dealings with one another and with other stakeholders and to observe and respect the diverse cultures of the Kenyan people.

Board Charter

The Board charter defines the governance guidelines within which the Board exists and operates, clearly sets out specific responsibilities to be discharged by the Board, its

Committees and Directors collectively, as well as certain roles and responsibilities incumbent upon the Directors in their individual capacities.

The Board Charter guides the Board in the exercise of its responsibilities and provides an overview of the following: -

- o The separation of the roles, functions, responsibilities and powers of the Board and its individual members;
- o Powers delegated to the board committees of the Board;
- o Matters reserved for final decision-making and approval by the Board;
- o Policies and practices of the Board on matters of corporate governance, directors' declarations and conflicts of interest, conduct of board and board committee meetings and procedures; and
- o Nomination, appointment, induction, training and evaluation of members of the Board.

The Charter does not in any way or instance purport to be a substitute or a replacement of any laws and regulations that govern the running of the company.

Sustainability accountability at board level

Ultimate accountability for sustainability within Safaricom lies with the Chief Executive Officer (CEO), Bob Collymore. He is the sustainability champion on the Board of Directors and presents all sustainability-related considerations to the Board.

The Chief Corporate Affairs Officer reports directly to the CEO and provides him with regular updates on the sustainability agenda which is then fed into the board packs for discussion. All the sustainability reports of the company have had the Chairman's remarks as his commitment and the boards commitment to sustainability.

The Senior Leadership Team has sustainability related objectives integrated into their annual objectives individual targets as well as divisional targets. To deliver the sustainability objectives the Senior Leadership Team is assisted by a team of Sustainability Champions. The Champions represent every division within the business and we have a total of 40 colleagues from all Divisions of the business who work with sustainability as one of their core tasks.

Sustainability is embedded within the daily operations of Safaricom using a 'top-down, bottom-up' co-creation approach. This approach was adopted because it is flexible, inclusive and one that draws on the strengths of both the managerial and operational levels within the company.

The Senior Leadership Team and the team of Sustainability Champions work simultaneously and in parallel to articulate sustainability requirements in a way that makes sense and is relevant to each Business Unit.

This approach entails extensive, ongoing consultations and conversations at all levels and functions across the company, but ensures that colleagues at every level embrace, understand and take ownership for sustainability.

OUR SUSTAINABILITY VISION
We aspire to use our products and services to transform lives and contribute to sustainable living throughout Kenya

Responsible, ethical business

Acting responsibly, honestly and with integrity is good for business, good for individuals and good for society. We are committed to the very highest ethical standards and promote a culture that values personal and corporate integrity

Strong governance structures

Ethics and anti-corruption initiatives

Business partner sustainability programmes

Corporate social investment

Transformational products & services

Communications technology has the potential to transform lives and societies. We are committed to developing innovative products and services that help our customers realise this potential and enjoy improved access to essential services.

Affordable and relevant products & services

Financial inclusion

Public sector support

Innovation for social development

How sustainability fits into corporate strategy

Safaricom's sustainability strategy stems from the commitment to responsible, ethical behaviour in everything with the core values of 'speed', 'simplicity' and 'trust'. The goal remains that of 'transforming lives' and this purpose statement permeates every decision made by the company, encouraging the push beyond traditional commercial boundaries to have a positive impact on society and driving us towards an ever more sustainable and responsible way of doing business.

Safaricom's approach to sustainability is based on our determination to manage and grow a safe, efficient and profitable business recognizing that the business practices today must be designed to create and shape a sustainable tomorrow.

Safaricom believes that each one of their three new strategic objectives — 'Customer First', 'Relevant Products' and 'Operational Excellence' — have the potential to deliver meaningful, sustainable socio-economic benefits to society in general, as well as to customers.

The table below shows the material matters and response and management of the same.

MATERIAL MATTER	GOVERNANCE, RISK AND REGULATION	NETWORK QUALITY	INNOVATION	ENVIRONMENTAL RESPONSIBILITY
What it is	Upholding the highest standards of corporate governance and acting in an ethical manner makes business sense.	The organizations network is core to our business. It allows Safaricom to differentiate itself in a competitive market and is the medium through which they transform lives.	Innovation is central to achieving strategic objectives, retaining a competitive edge and ensuring that the organization continues to grow.	Safaricom understands that they have an impact on the environment and that they have a responsibility to mitigate negative environmental impacts.

Our response	Strong governance	1. Best network for initiatives	• NPS and Brand Equity scores	1. Bio-degradable packaging
	Safaricom is run in an ethical, transparent and accountable manner by having robust governance processes and structures in place, along with explicit guiding principles and clear lines of responsibility. Our response to governance is multi-dimensional and requires having the right structures in place and then monitoring and evaluating these regularly.	2. New app for customer experience 3. UMTS 900 sites for 3G expansion 4. Fibre optic network growth 5. Momentum in energy availability	Net Promoter Score (NPS) and Brand Equity scores to track customer satisfaction with, among other things, new products and services and how well Safaricom services the specific demands of the growing youth sector. • Mobile data usage Mobile data usage and growth provides insight into how well their data-related product and service innovations are being adopted and used. • M-PESA usage and revenue The M-PESA platform is the main way Safaricom drives financial inclusion, M-PESA usage and revenue indicators help to manage this aspect of	2. Reinvigorated e-waste programme 3. EMF concerns 4. Reducing energy consumption 5. Managing emissions 6. Embedding Environmental Management System 7. Auditing the impact of their network

			innovation.	
			• **Social innovation users/subscribers** Use numbers of active users/subscribers to gauge the impact and success of social innovations.	

Financial inclusion through M-PESA

M-PESA is one of Safaricom's flagship products. A money transfer platform that allows money, in the form of float, to be transferred from one mobile phone to another, it has revolutionized the way that Kenyans exchange money. From a relatively simple solution, launched in 2007, which allowed individuals to transfer cash to one another, M-PESA has grown into a sophisticated system with a number of functions catering to a wide range of needs and services, and accounting for 98% of all mobile money transactions in Kenya. M-PESA has partnered with various banks as a platform for financial inclusion and mobile money transactions. In 2013, it was calculated that 43% of the Kenyan GDP flowed through M-PESA.
In partnership with stakeholders, Safaricom has developed products and solutions for financial inclusion and economic empowerment. M-PESA is a fast, safe and affordable way to send and receive money. M-PESA has provided financial inclusion to many Kenyans without access to banking services. It offers real time money transfer services to individuals and businesses, paybill services, bulk payments, dividend payments and international money transfers. M-PESA is currently used by over 23 million Kenyans, with over 156,000 agent outlets, over 2000 paybill partners and over 541 bulk payments partners.

M-Shwari, a key innovation that allows M-PESA customers, who register with Safaricom's banking partner to save, earn interest and access micro loans using their mobile phones. We now have 1.2 million active customers using M-Shwari. M-PESA and M-Swhari have proved to be the most convenient and comforting mobile phone-based financial service, the world over. It has helped open opportunities for Kenyans and impacted many lives in many positive ways.   M-PESA creates a feeling of comfort at the back of the mind of every Kenyan. Safaricom's financial services provide:

1. Financial inclusion Safety, security and green footprint of M-PESA

- Easy access to banking and savings opportunities via M-Shwari
- Micropayments for various services ranging from health insurance, Agriculture and Energy;
- Financial inclusion and economic empowerment offered via M-Shwari

M-PESA continues to deepen financial inclusion

M-PESA continues to grow and evolve from a simple mobile money transfer service into a robust payment platform and a driver of financial inclusion. Revenue from the service grew

by 27.2% from KSh 32.63 million in FY15 to KSh 41.50 during the FY 2015/2016. Likewise, the number of users (active in the last 30 days) leapt up by 19.8%, from 13.86 million to 16.6 million in March 2016.

		FY16	FY15	FY14
M-PESA Revenue (KSh billion)		41.50	32.63	26.56
M-PESA Customers (million)*		16.6	13.86	12.16

* 30-day active

One pleasing aspect of this growth is the *M-Shwari* banking service, which makes it possible for ordinary Kenyans to save, earn interest and borrow money using their mobile phones and the M-PESA service, has grown from 3 million to 3.9 million active users and has facilitated KSh 8.1 billion in deposits and KSh 7.4 billion in loans at 2.0% interest.

Safaricom's partnership with Kenya Commercial Bank (KCB), which offers customers an alternative to *M-Shwari*, continues to grow and has facilitated KSh 1.47 billion in loans to date (up from KSh 950 million in FY15).

One step up: The sustainable development goals at Safaricom

The Sustainable Development Goals (SDGs) were adopted in September 2015 with a view to end poverty, protect the planet, and ensure prosperity for all. They follow on from the Millennium Development Goals, and articulate an agenda for the next 15 years (to 2030) which requires input from all sectors of society across the globe, including corporate actors who are key in the achievement of the targets.

Their consultation process, has helped develop a narrative and provides the business with a purpose statement for commitment to sustainability that fits within the business strategy:

"We commit to *deliver connectivity and innovative (Goal 9)* products and services that will provide unmatched solutions to meet the needs of Kenyans by *enabling access (Goal 10)* through our technologies and *partners (Goal 17)* and by exploring opportunities in *Health (Goal 3), Education (Goal 4)* and *Energy (Goal 7)*. We will do so by managing our operations responsibly (Goal 12) and ethically (Goal 16). This will *stimulate growth* and *generate value (Goal 8)* for our company, society and economy."

How the SDGs will empower us to Transform Lives

This statement has then been broken down for each business division and each high level commitment was then underpinned by action plans, targets and KPIs that are being integrated in employees performances starting at ExCo and cascading to the rest of the employees with the aim of securing ownership and accountability. Further details on this work can be found in the Case Study we recently published in collaboration with KPMG.