Developing a 'Sustainable Licence to Operate': Public purpose, philosophy, and public service values

'Talk into Action': Embedding change on this topic in energy and water companies

Background

1. Sustainability First's major **Fair for the Future Project** is helping the energy and water sectors to better address the politics of fairness and the environment. The Project has two workstreams: developing a '**Sustainable Licence to Operate**' (we produced a Strawman in October 2018 to stimulate and provide a framework for discussions) and **mapping political and regulatory risk** and uncertainty in terms of fairness and the environment.

2. This note is part of our Sustainable Licence to Operate workstream, which we define as ***'A company's ongoing endorsement to operate within society and the energy/water system to deliver long-term public interest outcomes'***. Our strawman document is available in full on the Sustainability First **website**.

3. We have proposed four 'Pillars' as part of our Sustainable Licence to Operate and are testing these through a series of workshops: Pillar 1, '**Public purpose, philosophy, and public service values**'; Pillar 2, '**Making best use of different types of capital**'; Pillar 3, '**Roles and responsibilities**'; and Pillar 4, '**Strategy and narratives**'. We have already hosted successful workshops on Pillars 1 and 2 and will be hosting events discussing our final two pillars later in 2019.

4. Following each Fair for the Future workshop, we hold bilateral discussions with companies to find out what they are doing to turn '**Talk into Action**' on that Sustainable Licence to Operate topic. Our aim is to identify and share good practice, building an evidence base for change in the public interest.

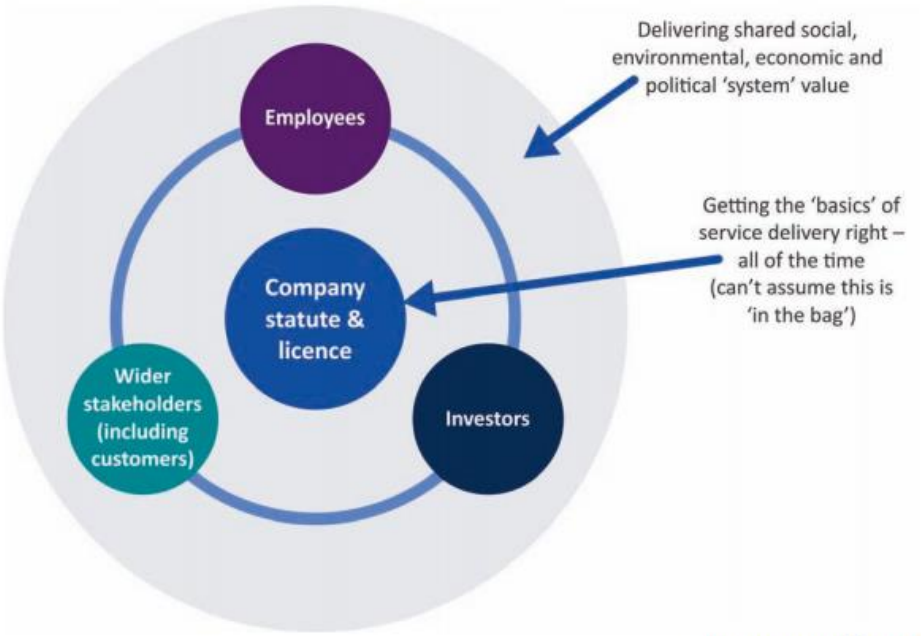
5. This note is a summary of emerging themes and specific examples resulting from this process for Pillar 1; '**Public purpose, philosophy, and public service values'.** It follows **nine bilateral Chatham House interviews** with energy and water companies on this

topic in early 2019. We refer to companies by name when they have given specific permission for us to do so.

Pillar 1: 'Public purpose, philosophy, and public service values'

6. In our Sustainable Licence to Operate strawman, we set out the importance for utility companies of engaging in continuing and balanced dialogue with employees, investors, and wider stakeholders regarding: 1) **the basics of service delivery** and whether they have got these 'right' in terms of **statutory and licence compliance** for fairness and the environment; and 2) how **public purpose may need to be reinterpreted** to make companies 'fit for the future' given the **disrupted energy and water landscape**, taking into account their roles as providers of **essential services and/or public goods within total 'systems'**.

Figure 4: The context in which decisions around public purpose and public service values need to take place in energy and water companies



Source: Sustainability First

'Talk into Action' questions on purpose and values

7. To this end, we asked companies the following 10 questions, which we felt in turn ought to be asked of chairs, CEOs, and executive colleagues in order to embed public purpose, philosophy and public service values into businesses.

i. Where and how do we, as an organisation, **express and communicate** our public purpose, philosophy and public service values? Can you say, without looking them up, what they are?

ii. When did the CEO and/or FD last discuss our stated public purpose and values with our **investors**, both equity and debt? Do our investors understand the company's purpose and values and how do these align with their investment objectives and risk appetites?
iii. How do we **engage** with our customers and wider stakeholders so that we know if their needs and wishes are compatible with our public purpose and values?
iv. How far do our **recruitment, promotion, induction and ongoing training and support** practices for our workforce support and aid delivery of our public purpose, philosophy and values?
v. How far do (1) all our **employee contracts, incentives, performance frameworks and motivational systems** and (2) our **contractor contracts** support and aid delivery of our public purpose and values?
vi. How do we ensure that the **decisions** we take are **aligned** with our public purpose and values so that we have a **consistent and coherent** approach across the business?
vii. How do we **enable and empower our front-line staff** to reflect our public purpose and values as they go about their day-to-day work?
viii. How **do we know** that everyone in our organisation deals with our customers and the wider public in accordance with our public purpose so that we really are **living our values**?
ix. If our constitutional documents such as **Memorandum and Articles of Association** were to incorporate our public purpose, what, if anything, would change about how we do business?
x. What **internal metrics** do we use to monitor our journey on purpose and values and how do we **evidence, demonstrate and communicate** that we are delivering on these to external stakeholders?

High-level emerging themes

<u>Companies are on a 'journey'</u>

8. The most immediate learning from our bilateral interviews with energy and water companies is that **each business is at a different stage of their journey** towards incorporating purpose and values into their business, and that **embedding this approach across organisations is taking time**. There appears to be a widespread belief in – and commitment to – a public purpose agenda, but concrete actions are taking time to implement. Company respondents told us that there are many **different priorities** across their organisations that need to be balanced against one another, which can impede progress with regards to action on public purpose.

9. However, even where priorities are in competition with one another and capacity is limited or stretched, energy and water companies feel as if they have an **established background of public service, customer care, and health and safety** upon which they can build. Companies undergoing significant change, in particular, consider that by focusing on delivering the essentials for customers they will provide a basis for their ultimate transition to more 'purposeful' businesses.

10. In our bilateral discussions, there was perhaps less awareness of company values, and how these may help in the delivery of purpose, than may have been expected. This could be because many of those interviewed were regulation directors rather than HR colleagues; as set out below, the organisations that appear to have made the most progress are those where ownership of purpose and values is cross functional and there are less silos in how they approach issues. However, with a move to more principles-based regulation, this fact could become a potential issue in itself.

<u>The importance of leadership</u>

11. There is a strong consensus that the effective embedding of public purpose and values is challenging and will take considerable drive and energy to be successful. However, company respondents also appeared to agree on the importance that this be **driven from the very top of the business** through the CEO, executive, and board.

12. Organisations that have enjoyed the most progress seem to be those in which the owners, company board, and wider leadership team are **aligned in their decision-making** and vision in this area. **Ongoing and interactive two-way dialogue** throughout the business, with good direction going 'down' and effective reporting going 'up', is seen as important, alongside effective systems to drive and encourage information sharing and dialogue in all directions. Rather than separate top-down and bottom-up approaches, incorporating elements of both can perhaps best embed a public purpose philosophy.

<u>The drivers behind action on public purpose</u>

13. As part of our company interviews, we were keen to understand some of the motives underlying organisational shifts towards an emphasis on purpose and public interest outcomes. Company respondents did not tend to cite one single reason here, but rather a multitude of factors including:

- **Change within the business**, such as new leadership teams or new investors committed to a 'purposeful' business agenda.

- A '**burning platform**' for change – e.g. the perceived challenge of future utility nationalisation, or short- to medium-term risks to the business from technology or issues associated with failing to meet regulatory or legal compliance requirements.
- **Regulatory factors** such as a price control, the need to prepare regulatory business plans, or broader regulatory moves towards a 'public interest' agenda – e.g. Water UK's recently announced Public Interest Commitment for the sector.
- The **external environment on governance**, for example the growing importance of the 'E' and 'S' in ESG investing, and an increased emphasis on sustainable business both nationally and globally (e.g. the work of the British Academy's Future of the Corporation programme, or, more broadly, the UN Sustainable Development Goals).

Examples of good practice from energy and water companies

Expressing and communicating public purpose

14. Those companies that are furthest along on their journeys tend to be those that are clear and transparent in articulating what 'purpose' means for their business. Crucially, they recognise that purpose and values are **interlinked**, both in terms of how purpose and values manifest **in the business** – recruitment, delivery, reward, etc. – but also in terms of the **broader 'systems' within which the business works** – i.e. economic, political, and social. Statements of a business's purpose ought therefore to be integrated as fully as possible into an organisation's ways of working.

15. Some companies are well on their way towards this goal. While being open about the fact that there was still a way to go, WPD told us how both from board level and down into the business there is a recognition that stakeholders want more than great network performance and customer service ('givens'), but also non-financial benefits for communities, staff welfare, diversity, and tax / financial transparency. Driven from this recognition, the company treats its business plan internally not as a 'business plan' at all but as a **'social contract' to be communicated throughout the business**. The respondent told us that 'where people understand the organisation's purpose, they are more likely to "do the right thing".'

Investor engagement

16. Responses to the question on the level of understanding and engagement from investors with regard to public purpose almost uniformly recognised that **although the investor landscape is changing, much more needs to be done** by investors to lift purpose and values up their agenda.

17. Most companies we spoke to were clear that they did engage their investors regularly on environmental and social impacts. South East Water reported that their investors used the GRESB framework to indicate environmental and social performance, and that there had been recent interest in providing further information on business performance in relation to these areas.

18. One organisation told us that investors on their company board had been involved in discussions over the last six months about how to 'go beyond' existing standards around being a responsible business, perhaps by means of external assurance, to allow the company's environmental and social work to get better 'cut through' with external stakeholders. UKPN reported that their organisational vision and values were presented to the board every quarter, accompanied with an overview of performance against this vision and how this aligned with the interests of wider stakeholders.

19. However, **organisations tended not to observe any 'pull' from investors** on purpose and values specifically, as opposed to broader environmental and social reporting. Indeed, one company was explicit that this was 'not on their investors' radar'.

Customer engagement

20. Organisations shared a range of projects underway in their companies to engage with customers and wider stakeholders as part of assessing whether their business's public purpose and values were compatible with their needs and wishes. Many, but not all, of these projects were driven by regulatory incentives in price controls.

21. Cadent told us that this dual process of listening to and educating customers was itself leading to cultural change inside the company; they recognised that purpose and values is **an integrated process rather than a standalone statement**, and that this **cannot be driven only from one area of the business**. To that end, the company was taking learnings from both the day-to-day interaction at **contact centres** but also focus groups with the **wider community**, including more hard-to-reach customers such as those who do not speak English as a first language.

22. National Grid told us about their independent stakeholder panel set up as part of their business plan and reported that the priorities the business had identified as a result of customer engagement had then been 'played back' to customers to ensure they were in fact the right ones. In this way, customer engagement was **iterative** and its **results could be refined** based on further feedback.

Recruitment, promotion, induction, and training

23. The companies that articulated their progress most clearly on purpose and values were those which recognised these as important **elements of the entire business** strategy, including recruitment and reward. In order to **embed** purpose and values and build these into future ways of working, it is crucial that incoming staff share in and are educated on the company vision.

24. UKPN reported that their defined **values were integral to recruitment and selection processe**s as demonstrated through measures such as gender-neutral advertisements and 'blind CV' screening for apprenticeship roles to extend inclusivity. Further, all new employees were introduced to the company's vision and values from the earliest stage as part of their **inductions**. This induction process was then monitored in order to ensure a consistent onboarding experience throughout the business. This was consistent with other company approaches.

25. Others such as Cadent and Portsmouth Water told us how they were increasingly **recruiting and inducting staff based on values**, including in Cadent's case building in an extra layer to the assessment process for candidates, and that **values-focused training** was becoming a more important part of their staff offer. For a number of roles, training can on the whole ensure that new recruits gain the necessary level of technical knowledge. However, it is much more difficult to address where employees do not share the same or similar values to the organisation. Recruiting people who do not share similar values can lead to frustrations on both sides and a higher level of staff turnover.

26. One particular example of good practice involved WPD's annual apprenticeship challenge. Traditionally an exercise in team-building for the year's apprentice cohort, last year, at the suggestion of a member of staff, this had been focused instead on informing apprentices about the company's duty to customers in vulnerable circumstances. Apprentices undertook a practical project constructing a storage facility to hold donations to the local hospice. They also distributed charity donation bags to 2,000 properties and leaflets on the PSR register encouraging residents to sign up.

Incentivising public purpose

27. In addition to recruitment, we then asked companies how their **employee and contractor contracts, incentives, performance frameworks and motivational systems** supported delivery of their public purpose and values.

28. Companies told us that their incentive plans did take into account **non-financial**

performance; UKPN weighted their plan 60/40 towards non-financial performance aligned with the company vision, for example on goals regarding safety, service, and reliability. Businesses were keen to state that this applied also to contractors and their supply chains, with respondents such as National Grid stating that **safety in particular was embedded into the business** and that they would not tolerate contractors failing to 'do the right thing'. WPD told us that all new starters are educated in the company's values right from the start of employees' careers, with an emphasis on 'treating others as you would want to be treated'.

29. In particular, one company reported that they were considering moving further away from financial incentives and more towards '**Total Societal Impact**' metrics, driven in part by a feeling that younger members of the workforce were more motivated by '**making a difference to society**'. This thinking was however in its early stages.

Aligning business decisions with public purpose

30. Organisations largely recognised the significant challenge of **aligning decisions** with their public purpose and values in order to ensure a **consistent and coherent approach** across the business. In particular, it was felt that **further high-level metrics** needed to be developed to measure this – but that this was challenging given that public purpose and values are not always about the day-to-day but also include **longer-term outcomes**.

31. WPD felt that having an **'insourced' model** gave them a 'responsible employer' focus in that it allowed this greater degree of alignment across the business. Their network is run **geographically**, which allows aggregated customer service results by postcode and which can in turn drive improvement. The company respondent observed that when local staff hear feedback from their local customers, this is more likely to lead to progress. This was a **bottom-up approach** aimed at delivering a local network for local people.

Enabling and empowering frontline staff

32. With regard to **enabling and empowering front-line staff** to reflect public purpose and values across day-to-day working, npower stressed the importance of bringing decisions closer to customers, particularly customers in vulnerable circumstances. One way of achieving this is to provide as much information as possible during customer contact. This means empowering contact centre staff through training to manage customer relationships in appropriate ways.

33. Anglian Water told us about an internal scheme encouraging staff to swap stories

about positive customer service and feedback, which in turn links into the **staff recognition scheme** where employees can nominate each other for thank you cards and small monetary rewards for 'going the extra mile'. They reported that individual employees were encouraged to **adopt leadership positions** on issued and had a licence to 'think differently' as encouraged from the CEO and the very top of the business. This company further cited one particular example of its work to assist a deprived town in need of inward investment and regeneration, where a member of staff was seconded to the Council in order to help develop investment plans for the town and apply for central government grants for regeneration and housing development.

'Living one's values'

34. Robust internal metrics can help identify if everyone dealing with customers and the wider public does so in accordance with a company's public purpose, although interviewees considered this can be challenging. UKPN cited their fortnightly town hall meeting with CEO, executive team, and frontline customer-facing teams in local areas, at which purpose and performance are openly discussed. Changes have been instituted as a result of improvements identified and feedback provided by field teams at these sessions, for example increased personal safety training. The organisation also hosts an annual 'living our values' recognition awards for their staff and was ranked ninth in the *Sunday Times* 'Best Big Companies to Work For' list.

Incorporating public purpose into a company's constitutional documents

35. We asked companies if incorporating public purpose into their constitutional documents, such as **Memorandum and Articles of Association,** would have tangible impacts on their way of doing business.

36. A range of views were expressed here, with a few organisations appearing to be receptive to the idea. One water company respondent stated that water companies should be to some extent 'tied down legally', individually and collectively, to incorporate a public purpose in their work, for example by **incorporating a public purpose in their licence conditions** or alternatively as part of the business's **articles of association**. It was felt that this may help to **futureproof** businesses against future changes, for example in board membership, and help also to 'set the right tone' and attract appropriate new investors. Further, this could be allied to some degree of meaningful and challenging **external assurance**.

37. The majority of companies, however, felt that this may lead only to a more **compliance- or legal-orientated approach** whereas purpose and values was in reality

more around **culture and behaviours**. One senior employee stated that this could encourage adherence to the '**lowest common denominator**' over '**continuous improvement**'. Another respondent stated that while they did not discount incorporating public purpose into constitutional documents, this should only be a minimum standard; more important is companies actually believing in their purpose, 'winning hearts and minds', and aligning the interests of investors, customers, employees, and contractors.

Use of internal metrics

38. The majority of companies used longstanding internal metrics to measure financial and non-financial performance, ranging from regulatory requirements around Service Incentive Mechanisms (SIMs) / Outcome Delivery Incentives (ODIs) to more detailed company-specific KPIs. Companies found it more difficult to set out the specific metrics used for monitoring their journeys on public purpose in particular, noting that this was a piece of work around **cultural and behavioural change** and as such **results will not be immediate**.

Common barriers faced by energy and water companies

Capacity and internal resource

39. Companies also cited a number of **blockers and barriers to action**, real or perceived, in their efforts to embed thinking around public purpose and values into their businesses. The most frequently mentioned factor by far was simply one of **capacity and internal resource**; organisational respondents reported that though they shared a commitment to driving this agenda forward, such work was inevitably in **competition with the 'day job'**.

Overcoming 'siloed' working

40. In addition, some of those we interviewed felt inhibited by the tendency of companies to work in **organisational and/or hierarchical siloes**. One company in particular observed that while significant elements of their public purpose, philosophy, and values were becoming embedded in the business, there was a danger of 'disconnect' if senior members of staff continue to talk about purpose while this is not yet fully incorporated in the day-to-day working of the business.

41. In addition, there is a danger that staff – particularly those experienced staff at the 'frontline' of an organisation – become somewhat wearied by or cynical of the drive to embed purpose and values. This is because they may have seen many similar past

initiatives in their business, which though they have started with great gusto come to 'fizzle out' over time. It is therefore extremely important that staff across the organisation are fully engaged as part of this work.

Measuring progress

42. Interviewees also raised the difficulty of **measuring what good practice in this area looks like**. How can one measure exactly how far a company has embedded their commitment to serving a public purpose, especially since **results will seldom be instant**? When we asked about the internal metrics used by companies to demonstrate their journeys on purpose and values – and how they evidenced, demonstrated, and communicated successful delivery of these to external stakeholders – answers tended to focus on the regulatory SIM and ODI scores in addition to long-established KPIs around customers and complaints. Company respondents tended to be less clear about which specific internal metrics they felt might be developed to better record progress specifically in relation to purpose and values.

Encouraging investor participation in the public purpose agenda

43. While there is a **growing emphasis on environmental and social factors** among investors, very few of the companies we talked to felt that purpose and values specifically were high on investor agendas. Some interviewees were clear that there had been **no 'pull'** as such from debt investors with regards to public purpose, and others explicit that these issues were '**not on their [investors'] radar**'. Companies readily acknowledged that the investment picture was changing rapidly, but this does not yet appear to have fed through to investor emphasis on public purpose, philosophy and public service values.

Stakeholder feedback and 'Talk into Action' Pillar 2

44. This document is the first of our notes on turning 'Talk into Action' regarding the four pillars of our proposed Sustainable Licence to Operate for the energy and water sectors, and we are now reaching out to energy and water companies with another set of questions for senior company respondents around Pillar 2 on 'making best use of capital'. We welcome further feedback on this document and on our proposed Pillar 2 questions.

45. **Organisations interested in meeting us for further bilateral interviews should email Kieran Dodds, our Research Officer, at kieran.dodds@sustainabilityfirst.org.uk.** We look forward to hearing from you!