

Comiston Lecture - 2007

“Improving Performance – from Vision to Reality”

A speech given by Philip Green, Chief Executive, United Utilities Plc,
at the Royal Society of Edinburgh.

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I am grateful to Sir Ian Byatt and the Water Industry Commission for their invitation to give this 2007 Comiston Lecture. It is a real privilege to be addressing you this evening.

The theme of tonight's lecture is how organisations improve performance. My focus is on the central role of a compelling vision, supported by values that engage the people we work with. I aim to provide an 'outside in' perspective on the water sector as well as outlining the journey that we have embarked on at United Utilities. I will do this in the context of the significant environmental and regulatory challenges that we are all facing.

My strongly held view on the centrality of vision and values is based on my experience in a range of companies and industries. I'm just celebrating my first anniversary as CEO of UU, and I can say the challenges and opportunities facing this vitally important industry are no different from any other. Success depends on excellence in operational execution coupled with relentless focus on customer service.

As an aside, little did I realise when entering the water industry just how high profile it would become! I've had an exciting, and something of a whirlwind, first year. Ian, it seems a long time since we had our introductory cup of tea.

My early career in business followed a classic management education – a first degree in Economics and Politics followed by an MBA at London Business School. Somewhat unconventionally I attended LBS directly from University because I was convinced a career in business was for me but I wasn't excited by any of the graduate schemes on offer.

My route into business was vital in teaching the basics of management but it is only in the last 10-15 years that I have really come to an understanding of the importance of leadership.

Management is about implementing the right processes to deliver our goals and providing the tools to measure our performance; it is largely transactional.

Leadership takes us into the domain of what most deeply inspires and motivates us: a sense that we are aiming for the right thing, the vision; and doing so in the right way, the values. I am not an avid reader of business text books, and I use General Tim Cross's definition of leadership: "winning the hearts and minds of people to achieve a common objective".

Good leaders achieve that clarity in a way that is utterly compelling and authentic. With that clear sense of direction we all know just what exceptional feats people are capable of. Without it we see apathy, unfocused effort and lack of engagement.

My early career was spent working in Coloroll, DHL and Reuters. DHL was very clear: its vision was to be the recognised global leader in door-to-door cross-border express distribution. As I will say later, the wording of visions is often in a language only understood internally!

Before joining UU I faced the challenge of turning around a poorly performing container shipping business. The challenges were many – the company had been formed as a joint venture between the UK's P&O and Dutch company Nedlloyd. Any joint venture brings issues of cultural compatibility but cross-border joint ventures present particular challenges. P&O Nedlloyd was not just performing badly but losing money. The main challenge was survival – no shortage of a burning platform, so crucial when trying to stimulate change to bridge this profitability gap with our competitors.

The container business is a simple one – it is perhaps no surprise that one recent book on the industry is entitled simply “The Box”, but a box that has transformed international trade since the 1950's.

I have described the extraordinary development of the Chinese economy in recent years as the “second industrial revolution” – it would not have been possible without containerised shipping.

For P&O Nedlloyd, the key performance measure was profitability per container. Our target was to hit the world class standard. Our performance improvement programme was titled “Bridging the gap”, i.e. the profitability gap between PONL and best in class globally.

Much of the achievement of this goal was down to minimising the time when containers sit unused on the dock side or in a freight terminal. But technology on its own is of little use if not employed by engaged and motivated people. Engagement starts with setting the vision or, as some management commentators have called it, the “big hairy audacious goal”. For P&O Nedlloyd this was “to be the recognized global leader in the point to point full container load shipping market”.

I wouldn't expect this vision to make a lot of sense to this audience or, indeed, any audience outside of the container shipping industry, but that is one of the characteristics of a vision – it has to make sense to those people who are asked to operate it, it is not necessarily the same as a publicly declared “mission statement”.

Like all good visions this is: concise, short enough to be remembered by all in the company; specific, so progress and achievement can be measured and agreed upon; and ambitious, visions are of little value if not stretching and carrying with them the possibility of failure.

Supporting the vision was a framework of performance measurement and targets. I recognised that key to achieving the vision was to be the best in the industry for product quality and service and to be upper quartile in engaging our employees and financial performance.

I am convinced that to move an organisation employing thousands of people across many countries and continents requires the embedding of deeply held values that drive behaviour.

In P&O Nedlloyd, the values I saw as essential were:

- Trust – absolute confidence in each other to work in the best interests of the company.
- Commitment – a passion to deliver on promises
- Team – the desire and ability to work as one
- Fun – to make work more rewarding

The results of this initiative were that everyone in the company be they CEO, ship captain or routing clerk could identify with a target of €80 per container.

Although we benefited from a very strong market, with demand exceeding supply, this focus succeeded in bridging the relative profitability gap. It helped turn the €200 million annual loss into a €400 million annual profit. We floated the JV in early 2004 at a share price of less than €20; by early 2005 the price had risen to €40+, then in mid-2005 we received and accepted an offer from Maersk, the Danish shipping giant, of €57, creating €1bn of additional shareholder value.

And so to UU. I joined the Water Industry convinced that the leadership challenge was no different from that I had seen elsewhere. My first year has done nothing to change that view.

UU was not a strongly performing company when I joined. It was profitable and had very successfully grown its non-regulated activities. But it was not the industry leader for customer service and has seen a pre-eminent position for efficiency slip over the course of two price reviews.

That much I could tell from the outside. On the inside, I set about finding out why.

The only way to do that is to see and speak to as many of the people in the business as possible. When I joined P&O Nedlloyd I set myself the target of seeing and being seen by 80% of the people in my first 12 months and I achieved it. In UU I set myself the same target.

Getting to know the business in this way demonstrated to me that UU has exceptional individuals, with skills and disciplines vital to running a utility business, many of whom show outstanding commitment to our customers and the wider communities of which we are a part.

Our performance for our four key stakeholders - regulators, customers, investors and employees - did not match the quality of many of our people.

I perceived a lack of clarity over the long-term ambition of the business, some strong values (responsibility, respect for individuals), but insufficient focus on high performance, and a plethora of measures that risked confusing. Despite the name, the business wasn't really United.

My task has been to some extent a simplification exercise. The business has become simpler; we sold our telecommunications

business shortly after my arrival and we will complete the sale of Vertex this month.

We now have a vision that I believe will have the enduring character we need to guide our performance over the next 10 years: “To be a world class operator of utility infrastructure.”

This recognises the fact that what unites the company is the operation (in the broadest sense) of utilities. Sometimes we own, as in the North West of England, the Philippines and Estonia for example. Elsewhere, we operate on behalf of the client owner – in South Australia and Wales.

And, of course, in Scotland through Scottish Water Solutions we help to manage delivery of Scottish Water’s capital programme. I am delighted that we have played our part in bringing about a transformation in the performance of Scottish Water since its creation in 2002.

We now have a set of values to underpin achievement of this vision: team, trust, commitment and passion. The keener eyed amongst you will spot the similarity to the P&O Nedlloyd values and the difference in swapping passion for fun – perhaps I am not sure that the water industry is yet ready for “fun” as a core value!

A further similarity between P&O Nedlloyd and UU is the crucial importance that management change plays in shifting to a high performance culture. At both companies, I set out to dramatically change the senior management teams in my first year, with both internal promotions and external recruitment.

In my experience, getting the right balance of age, gender, industry and psychological type makes a real difference in providing the necessary focus for change.

Creating a golden thread is essential for allowing every employee to see how their targets and objectives feed into the achievement of corporate goals.

UU's framework of performance management will allow us to track progress towards our world class ambition. We will measure our performance in 4 key areas – financial, customer, people and contracts. Since achieving performance improvements is critically dependent on the behaviour of our people, we are linking remuneration to performance for all employees.

When I presented our interim results to the City last December, I announced a set of measures and targets that we will report to shareholders on a 6 monthly basis.

These measurements are based around relative efficiency, security of supply, sewer flooding, pollution, customer satisfaction, and in our electricity business customer minutes lost and customer interruptions. We detailed our historical and current positions and our aspirations for future improvement.

Committing up-front to reporting against these key measures will, I believe, bring a demanding discipline and focus to the business; we are denying ourselves the luxury of choosing just which measures to report on any given occasion.

This is the early stage of a journey that I expect will take us several years. I want us to be at least upper quartile on all our key measures in that timescale. Progress so far has been encouraging – we saw an improvement from sixth to fourth in Ofwat's Overall Performance Assessment last year and our water business moved up 9 places in the opex efficiency assessment.

We will meet our rolling leakage target this year, having missed it for the last four years. Our internal measure of customer service has just hit 75%, after never exceeding 50% prior to last year.

My experience so far in the water industry has convinced me there is no important difference between it and other conventional business sectors in how one achieves high performance. The key elements of clarity of vision, clear measures and supporting values are as valid for water and wastewater as they are to container shipping or financial information. The challenge is much greater because of lack of competition and lack of a burning platform.

Its status as a public service provides another dimension to the water industry that is both a strength and a weakness. A weakness because public sector culture often manifests itself in unnecessary bureaucracy, a lack of proactivity and focus on customer service. Coupled with the lack of competition and a burning platform, this is a huge barrier to achieving high performance.

But its public sector ethos is a strength. It means there are enduring values beyond those I have described as vital to the industry. And it also means, in my view, that it is legitimate to talk of a vision for the water industry as a whole, not just visions for the companies that operate in it.

Let me give you one example. “Affordability” is a legitimate topic of concern in the water sector. It would be strange to hear car company executives talking of the affordability of their products.

So what are these water industry values? The first is I think the retention of a public service ethos, a value I alluded to in describing what I found amongst colleagues when I first joined UU. It manifests itself in the quite magnificent response one sees to extreme incidents affecting our customers, such as in the floods affecting Carlisle in early 2005.

The second is the notion of long-term stewardship. I believe we have a moral responsibility to fulfil our role as a steward of the environment, indeed the Bishop of Liverpool, James Jones, has highlighted this. He

has said “Christians have been rediscovering the moral and spiritual imperative of caring for the earth. Their concern is rooted in the biblical ethic of caring for the poor and in the theological understanding that the earth belongs to God.”

In the context of United Utilities this means that:

- We acknowledge that we hold in trust certain vital community resources, our great upland reservoirs for example.
- We recognise that our activities have an impact on the living environment, hence our approach to sustainable catchment management in the Forest of Bowland, and our announcement this week that we are reversing our trend of carbon emissions by aiming for a gross reduction of 8% by 2012 and committing to further reduce emissions in line with the long term Government targets set for 2050.
- We take decisions with an eye for the very long-term, recently raising finance with maturity of 50 years for example.

We have reflected these values in the objectives we have set ourselves for the 2009 Price Review:

- to provide best value utility services to our customers;
- in a way that is sustainable, environmentally responsible and reflects our wider social impact;
- and that we offer sufficient returns to our investors such that they continue to choose to fund our investment programmes.

Let me give some illustrations of the practical consequences of these objectives.

The first means, for example, that we will carry out robust, wide-ranging surveys of our customers’ preferences, going so far as to estimate their “willingness to pay” for the services we provide.

The second objective reflects perhaps the greatest new challenge facing the industry at this review – how to factor in the effect of climate change on our operations and assess what we should do to mitigate its impact. We may well want to build into our investment programmes the social costs of their associated greenhouse gas emissions.

The third objective takes us into the crucial issue of just how the Industry should be financed and the question of whether sufficient equity incentives remain.

And last, though not least, the industry has a challenge to persuade stakeholders that our business plans are soundly based and can be taken as an honest and robust view of the future, no little challenge given concerns expressed over company data.

These broader issues crucially affect the environment in which I am seeking to improve business performance at United Utilities. I am only too aware that unless we manage these issues of industry legitimacy in a sensitive way, high performance alone will not guarantee the future of my, or indeed, any other water company. The title of my lecture is ‘Improving Performance – from Vision to Reality’. My aim was that my perspective on the sector both as an outsider and now very much an insider would provide a compelling case for the centrality of vision and values in achieving business success. I hope you will follow my journey as we aim to achieve this at UU.

Ladies and gentlemen, thank you.