


Building Bridges over Troubled Waters

The water industry is under siege from shareholders, regulators, pressure groups and the public. Yet there is a way forward. Join us in exploring how industry leaders can create a new and audacious world of water that will satisfy everyone.



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Introduction

This paper is intended primarily for current and future CEOs of UK water companies but also for other senior stakeholders including owners and regulators.



As a CEO, you are caught in a three-sided conflict where everyone wants it all. You have commitments to pay dividends and produce increasing cashflow from operations. You are constrained by what you can do through a regulator preoccupied with low prices. And yet you are also increasingly in conflict with water users despairing at under-investment and the perceived profiteering of the industry and its equity holders. Each point of the triangle cares little about the other and there is a constant temptation to kick the conflict into the long grass.

However, the events of recent weeks demonstrate that addressing this conflict can no longer be postponed. When the industry is facing a rising tide of political, social and behavioural pressure, it can no longer rely purely on technological and operational supply-side fixes. This paper demonstrates a daring cultural innovation than can satisfy everyone but relies upon the heroism of the water industry and its leaders. Why heroic? Because success will depend on the CEO's readiness to sacrifice old ways of working and identities for a better future.

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Public and media outrage

After a barrage of negative press from high-profile figures including George Monbiot, Professors Dieter Helm, Peter Hammond and Alex Ford, BBC DJ Jo Whiley and the Chairman of the Salmon & Trout Conservation charity, Feargal Sharkey, the water industry is under pressure to reformⁱ. In the October 2021 issue of Infrastructure Investor magazine, Peter Antolik, former Director of Strategy and Regulation at Thames Water and partner at Arjun Infrastructure Partners (owner of South Staffordshire Water) declared of the frequent sewage dumping:

“What previously just ‘happened’ is now seen as unacceptable. In many cases, it’s not simply poor performance... Companies have to own this. The regulator doesn’t tell you what to do and what not to do. It sets a limit on prices, [and] you then need to choose how you spend [the funds]. Customer expectations are changing quite rapidly and companies and their investors need to respond to this.”

Antolik is not only talking of the practice of sewage dumping but the changing standards that the wider public has about the purity and cleanliness of its water and waterwaysⁱⁱ.

In the same article, Martin Bradley, Senior Managing Director at Macquarie Asset Management (which recently bought a majority stake in Southern Water) said: “Improvements in operational performance can make a difference, but we shouldn’t be setting our standard to managing ageing infrastructure. I would like to think we set our standard higher than that.”

Perhaps if they followed Bradley’s call to raise the bar, water companies would set their sights on being loved as LEGO is lovedⁱⁱⁱ. That is certainly one vision for the sector. Water UK’s 2050 Vision for the Water Sector envisions inspirational water companies that are true partners to customers, stewards of the environment, and conveners of stakeholders across water catchments^{iv}.

“Improvements in operational performance can make a difference, but we shouldn’t be setting our standard to managing ageing infrastructure.”



The 'not too bad' standard

What would it mean to set our standards higher? Britain pioneered water utility privatisation globally. Did it, at the same time, set its ambitions for serving its customers in a very British way? When British people answer the question 'How are you?' they often say 'Not too bad'. We seem to have smuggled that modest threshold of satisfaction into the management of our water companies. 'How are you doing?' 'Oh, not too bad. Our water is quite clean. We reduced prices by 15%. Customers don't hate us, and 14% of our rivers are rated good or better.' How inspiring is that? Clearly today, British citizens no longer interpret this as lovable British self-deprecation. It is an honest assessment of mediocrity^v.



For water companies to inspire, they will need to respect and pursue what their customers and stakeholders love about water and do it with tenacity. Take river pollution. If water companies are to be loved then they will have to report sewage discharges with the precision and spirit of a zealot. And if they find themselves to be failing, they will have to respond fast just like Pfizer and the drug companies did when they developed a COVID vaccine in ten months^{vi}.

Similarly, if water companies are to be loved, then social media and news outlets must not discover stories of inaccurate self-reporting frequently enough to look like systematic misreporting^{vii}. If discharge of untreated sewage is genuinely 'unacceptable' to a water company, then statements that they 'will work with the Government, Ofwat and the Environment Agency to accelerate work to stop them being necessary' and 'our aim will always be to try and do the right thing' begin to look rather lacking in conviction^{viii}.



"For water companies to inspire, they will need to respect and pursue what their customers and stakeholders love about water."

Treasure your most demanding customers



But there is a deeper problem. Most crucially, if they are to be loved, water companies will also have to stop disparaging their most demanding customers and partners. Other leading companies, like LEGO, Apple and McKinsey seek out their most demanding and committed customers and partners to stretch and test their own thinking and show them when they are getting out of step with the customers who care the most. Too often, water companies treat those customers and partners who really love water as irritants^{ix}.

In a recent conversation with us, the CEO of a major UK water company, reported on a conversion experience while visiting some customers from a clean rivers activist group. While reflecting over a weekend on what had initially been a confrontational meeting, she realised she had been treating those customers as trouble makers. The conversion came in a flash to the CEO. These knowledgeable and passionate people giving up their free time were not irritants; they were committed customers. They loved water and wanted to love the apparatus, company and people that provided it.

“Great companies set standards by building bridges to those who challenge them hardest.”

The CEO and her colleagues were wise enough to seek out not only those who shared their concerns and common sense but also those who were radically different to them, including their most difficult customers. If they, as the senior policy making team, were to transform the situation, they realised that they would have to develop a wider understanding. To do that, they would have to start listening to water lovers other than the scientists, engineers, geographers and economists—professionals, who thought as the senior policy making team did.

Great companies set standards by building bridges to those who challenge them hardest: the ones who fight with them because they love the social concern that the product takes care of. Water companies might do the same. In this paper, we show one way to do this.

Homing in on the problem

Senior managers in the water industry are worried about being able to provide enough water to people to meet the anticipated increasing demand for quantity and quality and to have sufficient capacity to remove waste and flood water swiftly, cleanly and securely. They are also concerned about the growing complaints about water pollution in the UK's rivers and beaches. However, senior managers in the water industry are just starting to take seriously that they need to enlist their stakeholders and customers in a shared mission to tackle this problem.



But when they do look towards their stakeholders, they see that meeting their goals of having enough water, enough purity, and sufficient waste removal are no longer enough. Customer demands for purity are increasingly exacting and their growing expressions of dissatisfaction are becoming more urgent. There is a rising sentiment among politicians and customers for both purity in the water and purity in the industry^x.

People want their river water, drinking water and wastewater pure or totally purified. They do not want trade-offs.



One water company's engineers told us that customers want a 100% reduction in combined sewer overflow (CSO) usage. People want their river water, drinking water and wastewater pure or totally purified. They do not want trade-offs. They are also coming to want a similar kind of purity in the water business: no high leveraging, putting shareholders ahead of future generations when it comes to financial returns; no price increases, open books; no worries that they are being ripped off. Even if leaders like Martin Bradley try to adjust to this sensibility, they will still find themselves increasingly in acrimonious, losing positions. People can always demand even more purity.

Water companies and UK citizens face both a short-term capacity issue in some areas like the Northwest and Southeast England and a long-term river regeneration and decarbonisation problem that jeopardises their reputation and requires capital investment, major disruption and cultural change. Even if the solution were clear, the industry still has funding worries for the capital programmes required over the next 40 years. The industry has to make the often Victorian water systems fit for purpose for the anticipated population and their projected behaviours.

Beyond the capital investment requirements, successfully dealing with the issues facing the sector will require popularising an industry that has, for many years, presented itself as a technical operator with a transactional customer relationship.

Downstream symptoms of the conflict that point towards the source

If we list the problems that arise, we begin to glimpse some deep-lying concerns that are marginalised at the moment yet clearly lie behind these symptoms:

1 Increasing water shortages but with no shared commitment to conservation or better water retention.

This lack of commitment suggests a weakened obligation to managing water on one's own property and local community as well as a weakened appreciation of water as a part of nature to be cherished, and even as a sacred fluid (think of baptism, ceremonial washing, and other ancient rites).

“The sense that all parties are in it together is lacking.”

2 Disgust and blame of industries for river and beach pollution but without recognition of societal preferences for convenience.

This suggests a displacement of accountability in the name of convenience in individual usage (such as flushing wipes, discarding plastic bottles, and paving over land), in small business usages (such as FSEs putting grease down the drain), and in industrial usages (such as fertilizer getting into lakes and streams). Consistent with this displacement, people are likely looking for a grand industry solution to take care these problems.



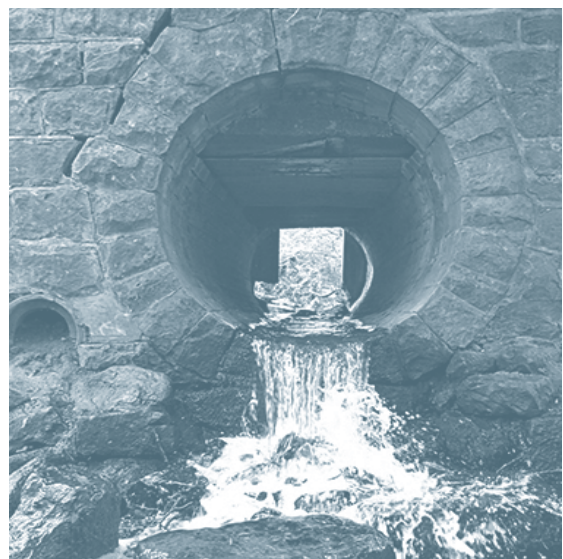
3 Distrust of pension funds and private equity for what are considered inappropriately large and frequent dividends for short-term investors at the expense of future generations of water users.

This distrust originates in the weakened experience of shared destiny that bodies of water used to evoke. The sense that all parties are in it together is lacking and a more participatory conversation is called for.

4 Huge investment in infrastructure floated – e.g. the £90 billion to £300 billion bill for replacing Victorian-era pipes that still combine water and wastewater that everyone endorses and everyone runs from.

This suggests the increasing demand for morally pure once-and-for-all solutions rather than incremental improvement plans filled with compromises, where everyone does her or his bit. This growing demand for purity speaks again to the weakening of a shared destiny.

The water shortage with little conservation, the disgust and blame directed to others over pollution, the distrust of private equity, and the huge investment costs envisioned are symptoms of underlying social problems at which we have hinted. The exaggerated way people talk about these issues suggests that they are position statements, not thoughtful reflections, made by people without actual engagement in each other's lives. We will look for the underlying relation to water and those who collect, transport, and use it.



The solutions are often overlooked



At VISION, we look behind the more obvious operational problems to discover the underlying problem in the cultural background that make the operational problems seem intractable. In this case, we see that different stakeholders are taking their own interest in water as pure and the interests of others as impure. That's why the companies and stakeholders do not work together. They don't understand each other. The geoengineering solutions commonly reached for by water executives will be necessary to address the symptomatic issues facing the industry. But engineering and natural science-oriented thinking^{xi} will not be sufficient for the conflicts lying at the source of the issues that, we believe, demand more culturally wise thinking.

We have habits and moral sentiments regarding water use left over from our past but largely hidden behind our water industry discourse. The Mesopotamians made individuals in the community civically responsible for water. Laws were written; people were compelled; this was felt as 'civic responsibility'. The pride people still feel in their local water keeps these moral sentiments alive. The Romans gave us the grandeur of the aqueducts and the healthful, convivial, civilized feeling of the baths. Medieval culture gave us water as power. The 18th century

enlightenment gave us our water industry's current sense of managing every drop of water and the people who care for it. The same moral sentiment can even be glimpsed in the idea of a circular economy.

The Victorians gave us the sense that water has to wash away the waste, indeed the sins of the world, and created great works to do that. We still have that sentiment and interaction with water. It is in wanting to have water in all these ways that we arrive at the environmentalists' wish for complete purity now. But we begin to see how these different moral sentiments still attach to our various stakeholders and how to adjust what our water companies are doing to build incrementally a new world of water in the UK.

Water leaders, including private equity and hedge fund owners, can throw off acrimony and build greater value by developing a leadership practice that collaborates enthusiastically with the dissonant voices and accommodates their concerns. The highest standard to which they can be held accountable is to lead in a way that brings back the wonder, grandeur, locality, morality, beneficence, conviviality and even intimacy that we all share in our relationship with water and allow each a time and place to shine.

“Different stakeholders are taking their own interest in water as pure and the interests of others as impure. That's why the companies and stakeholders do not work.”

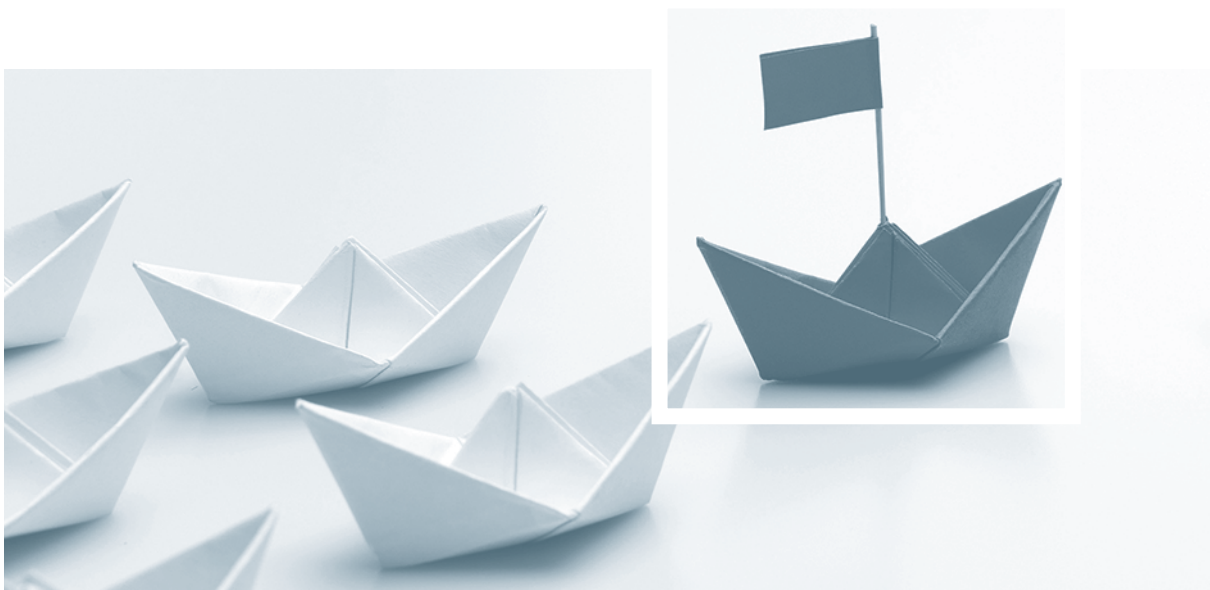
Tomorrow's water company should look like this

This is the moment for leaders in the water industry to step forward, embrace conflict and create an heroic way forward. The new water company CEO will be the 'convenor of the catchment'^{xii}. They will set up and personally lead a civic activist group that re-builds community solidarity by giving practical voice to all these sentiments and organising commitments that expresses them. The CEO's role will be transformed from an optimiser of the water system utility to a builder of new, wide and deep water value. Accordingly, the most critical skill for the CEO will be that of listening to the people she or he is serving and bridging their differences. They will not send a trusted executive in their place or rely on objective data and performance dashboards. Instead, just like our CEO did earlier, future water leaders will engage first-hand in conversations, work and play alongside water users, and accustom themselves to the real and diverse identities of their customers.

"The CEO's role will be transformed from an optimiser of the water system utility to a builder of new, wide and deep water value."

Forget delegation, detached market research and standard-setting, the catchment civic activist group will have the CEO at its centre surfacing and articulating the moral sentiments and concerns of different communities, resolving conflicts, and leading effective action. That doesn't mean that the CEO carries the load alone. They will have to transform the style of their executive team to be more like a mobilization team. Think COVID-19 vaccine. And, as we shall see, there is no shortage of leadership opportunities for water executives wanting to make a difference. But it does mean that the change starts with the CEO. It is the CEO who will set the new style. It will be a challenge but the water leaders who blend civic activism, community solidarity-building and entrepreneurship will create customers who love them like LEGO^{xiii}.

To see how this can all work in practice, let's imagine the promises the water company of the future might make to its customers in 2030 to build bridges across dissonant voices and blend their concerns with contemporary ones. These pledges all present leadership opportunities for water executives and all draw on what has made water special to us in the past:



Bring back **conviviality** by promising...

- Public communal bathing sites, like the Roman baths, for each community of 1000 people all along the catchment with guarantees about upstream CSOs and 'belt and braces' filtration of nasties, changing rooms, toddler pools, diving platforms and ladders in and out of the water^{xiv}.
 - Local pride in the source of their water. For example, in my local river, the Thames, people in Oxford, Reading and London would welcome drinking water flowing to every tap from the Cotswolds and Chiltern Hills as well as mineral water bottled at the springs at the Head of the River in the Cotswolds.
 - Clean beaches and environmental restoration of marine habitats by, for example, eliminating microplastics in Thames estuary.
 - Local community 'birth-right' investment microfinancing of the catchment water structures and practices ^{xv}.
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Bring back intensified **citizen responsibility** by promising...

- Civic pride with multiple new major engineering projects including monitoring of wastewater systems, planting of reed beds, and the separation of foul and flood drainage systems.
 - Attractive and easy-to-install grease management circular solutions for small-scale food service companies that collect and recycle fats, oils and greases (FOGs) as biofuels.
 - Biofuel trading and reputational accreditation as 'FOG-friendly' for major companies like Deliveroo, Just Eat and the multi-national branded food service chains.
 - EnTrade-like auction partnerships with Thames catchment farmers to set up various trading auctions that enhance biodiversity and reduce nitrogen, phosphate and metaldehyde leakage into rivers and estuaries on 100% of relevant arable land.
 - Progressive pricing that rewards people for doing their bit with a basic low tariff that preserves the human right to 50 litres of water each day and then has progressively premium-priced tariffs for consumption above those levels.
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Make the medicinal disciplining of **water majestic again** by promising hyper-transparency end-to-end...

- Install attractive digital gauges in people's homes and, even more importantly, on their phones and watches that let them know what is going on with their water, and water in the neighbourhood or district. How are water levels? How many CSO releases have there been? Are they legal? How pure is the water? What healthful minerals are in it? How are your personal levels of hydration, and so forth?
 - Likewise, how much fat is in the wastewater that has gone down the drain? What about other impurities? How is surface water doing? How much water have neighbours collected? Some of this could be modelled after the medical applications people now have on their phones.
 - Provide personal trackers of water industry financial investment performance and progress on capital spend programmes.
 - Encourage respectful requests to neighbours about removing foul material.
 - Establish local community partnerships with water companies with self-monitoring and policing of water system usage.
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To find out more about VISION's research and how the team is supporting water transformation,
Email: pluff@vision.com

Notes

- i This pressure intensified in late October 2021 when public pressure forced a government climbdown over its proposal to reject legislation obligating water companies to reduce the impact of CSOs. For a sober recent summary about rivers see <http://www.dieterhelm.co.uk/natural-capital/water/floods-water-company-regulation-and-catchments-time-for-a-fundamental-rethink-2/>
- ii 'Behind all the trouble and strife lies something much more profound: it is no longer acceptable to try to just hold the line on water pollution. In the twenty-first century people demand rivers clean enough to swim in and thriving biodiversity. In the nineteenth century and the first half of the twentieth century, people put up with rivers and the sea as convenient waste disposal systems. In the 1950s, this gradually became less acceptable, as did the filthy city air. Very gradually, a line was drawn, and in the 1970s clean-ups started, conveniently coinciding with the gradual deindustrialisation, and the closure of the coal industry and much water- and energy-intensive industry.' Professor Dieter Helms, <http://www.dieterhelm.co.uk/natural-capital/water/floods-water-company-regulation-and-catchments-time-for-a-fundamental-rethink-2/>.
- iii <https://sloanreview.mit.edu/article/collaborating-with-customer-communities-lessons-from-the-lego-group/>.
- iv Water UK (March 2021). *Developing a 2050 Vision for the Water Sector: A Discussion Paper*.
- v Alternatively, the water industry could have a similar regard in people's hearts as the NHS. Why does it not?
- vi <https://www.vision.com/leadership/21st-century-mobilisation-leverages>
- vii For example, Southern Water <https://www.ofwat.gov.uk/pn-21-19-ofwat-confirms-southern-water-will-pay-126m-following-investigation/>; Thames Water [OFWAT TW](#); Severn Trent Water [GOV STW](#); Yorkshire Water [ENDS YW](#).
- viii <https://www.oxfordmail.co.uk/news/19636270.new-report-criticises-thames-water-sewage-discharges/>
- ix For the challenge of seeing differently in order to think strategically, see also 'Drop-to-drop, Dot-to-dot' in *The Water Report* in September 2021, pp 12-17. I was raised never to visit a customer. "If we spoke to a customer, it was a sign of failure."
- x Bentley, Z. (2021). Who will fix the UK's water pollution problem? *Infrastructure Investor*, October, p22-24.
- xi Six of nine UK CEOs are educated in physics, chemistry, geography, or engineering though one geographer was Bachelor of Arts. Two are business and accounting graduates and one was educated in the Arts. We see disciplinary education as an inculcation in a way of practically dealing with the world. Each discipline develops practical sensibilities to see certain aspects of the world (and not others) and skills for taking certain actions (and not others). Every kind of education establishes a particular kind of seeing and its own blindness. One senior water executive related how they referred to their company explicitly as an engineering company. We leave for now the way in which the current dominant managerialist education inculcates a distinctive "anti-ideology" ideology.
- xii Water UK (March 2021). *Developing a 2050 Vision for the Water Sector: A Discussion Paper*.
- xiii For an in-depth account of VISION's approach to civic activism and its place alongside entrepreneurship see Spinoza, Flores and Dreyfus (1997) *Disclosing new worlds: entrepreneurship, democratic action and the cultivation of solidarity*, especially Ch 3. For an illustration in the water industry, see Abers & Keck (2013) *Practical authority: agency and institutional change in Brazilian water politics*.
- xiv Substantial river lidos existed on rivers in living memory. See for example, again on my local river the Thames, <https://www.henleyswimmingclub.org.uk/history.html>. For a contemporary reimagining see <http://www.thamesbaths.com>. See also images above.
- xv See also Pennon Group's WaterShare+ Scheme entitling South West Water customers to limited shares in the company <https://www.pennon-group.co.uk/investor-information/watershare>.

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