Being a socially purposeful company
Foreword

Severn Trent is a genuine pathfinder in the growing recognition by business that purpose must be put front and centre of any business organisation if it is to create value over time. In this conception the company positions itself as an organisation which one way or another is delivering a good or service that fulfils human wants and needs in a way that delivers a clear benefit to society. Making competitive returns for shareholders is essential to a company’s success - but it is not its purpose.

A statement of business purpose captures what a company does and why it does it. The notion of intrinsic purpose is key to this statement since it speaks to the motivation and informs how the business behaves directly through its operations and indirectly within society. It is this intrinsic purpose which will inform the delicate trade-offs and tough decisions involved in any successful business organisation - and so grounds it ethically. Profits are an outcome of delivering that purpose. All members of The Purposeful Company, of which Severn Trent is one, accept these propositions.

Severn Trent delivers the most crucial of all goods - water, fundamental to life. Since privatisation, some water companies have lost sight of that mission which they all share, and see themselves as but another variant of business whose primary purpose is profit maximisation. That was wrong on two counts. Firstly all business must put purpose first. And for water companies their purpose is particularly precious: their ongoing success is crucial to our capacity to live and to live well. They must curate the entire water ecosystem - from the rivers and reservoirs through to its distribution and then disposal. The water consumer and respect for nature must be at the heart of what they do.

This document sets out how Severn Trent not only accepts that view of what it should be, but how it intends to live it. Its efforts to canvass the opinion of its stakeholders on its performance through a standing panel of 15,000 water consumers is but one dimension of how it aims to invert itself as organisation around purpose. It has asked the regulator to write its social purpose into its licence to operate, and then to be systematically judged over time with pre-agreed milestones. An increasingly better trained and committed workforce, it acknowledges, will be fundamental to that effort. We know how tough this journey will be. We applaud the company, its leadership and its staff, and wish it every success. It is vital that it succeeds.

Clare Chapman and Will Hutton
co-chair The Purposeful Company
Executive summary

Severn Trent is proud to be a pathfinder for a new breed of Purposeful Company - a breed that is driven by its central social purpose and combines a spirit of service with the benefits of private investment.

We have always seen ourselves as a company with strong public service values, but since 2015 we have been on a journey aimed at better identifying what our social purpose should be, and embedding it in everything we do.

That journey began with a two-year in-depth programme of customer engagement for our 2020-25 business plan, to deepen our understanding of what is really important to our customers, and what they expect from us. Our customers expect us to be a company they can trust. Providing a safe, reliable and affordable service is vital, but for many of our customers this isn’t enough. They want to know that we do the right things for the right reasons, and that they and the communities we live in and serve are at the forefront of our decision making.

These expectations sit within a broader context of growing public scepticism in recent years over the motivations of ‘big business’. That scepticism can be underpinned in part by concerns that companies may seek to maximise their profits in the short-term above all other considerations, with this leaving customers, communities and the environment dangerously exposed.

Whilst no organisation is perfect, we want to be a role model for private companies delivering a public service, by showing that we are a responsible organisation that does things for the right reasons, and makes balanced decisions for the long-term. We believe that if we are united by a clear social purpose, we will deliver better outcomes for all our stakeholders - our customers, our colleagues, our investors, the society we live in and the environment we depend on.

Our work towards being a Purposeful Company has benefitted greatly from the advice, encouragement and support of the steering group of the Purposeful Company Taskforce. We have also sought to learn from the approaches others have adopted/proposed for the development of purposeful companies, while - as highlighted above - drawing heavily on our own customer engagement. This report sets out the features that we have identified as key to Severn Trent being a Purposeful Company (summarised in the diagram below), and describes our progress so far and intended next steps in relation to these features.

At the heart of our approach is embedding a clear, long-term societal purpose which guides all of our decision making. We have already asked our regulator, Ofwat, to change our licence to make us legally accountable for making:

*decisions for the long-term, adding value for our customers, the communities we serve and the environment, and treating all of our employees and other stakeholders fairly.*

Having a clear purpose is important, but it is also necessary to have a broader package of measures to support its effective delivery. This consultation explains the broader package of measures we are taking, or propose to take, and asks for your views as we finalise our plans.

We welcome any feedback, but we would particularly like to know:

1. What in our proposals have we got right?
2. What could be improved - and how?
3. Is there anything we are missing?

We are asking for feedback to ourfutureplans@severntrent.co.uk by 17 January. We will then carefully consider this framework with us hoping to publish our final approach in Spring 2020.

We believe passionately in the good business can do for society. Your feedback will help us to deliver even more over the long-term.
Aim of this consultation

We are passionate about the contribution long-term, socially purposeful businesses can, and do make, to society. This consultation sets out the features we believe are important for Severn Trent to lock-in our approach to being a Purposeful Company. It also describes our progress so far and our proposed next steps in relation to these features. Our aim is to benefit from feedback on our approach from a wide range of stakeholders. We would also be delighted if our experience was to be beneficial to other companies.

This report is structured as follows:

• Chapter one summarises what we learned from the in-depth programme of customer engagement for our 2020-25 business plan that began in 2015, and that marked the beginning of our journey towards being a Purposeful Company.
• Chapter two highlights the broader context in recent years of growing public scepticism over the legitimacy of 'big business', which can be underpinned by concerns that companies may seek to maximise their profits in the short-term above all other considerations.
• Chapter three provides some examples of different approaches that have been taken in efforts to promote a greater focus on company purpose.
• Chapter four sets out the features we believe are important for Severn Trent as a Purposeful Company.
• Chapter five describes our progress on our journey so far.

We conclude the report with a number of questions. The report sets out what we think being a Purposeful Company should mean for Severn Trent, but we want to hear the views of our customers and other stakeholders before we finalise our plans.

We are asking for feedback by Friday 17 January 2020. We will then consider the responses we get and publish our finalised view on what it means for Severn Trent to be a Purposeful Company by Spring 2020.
Chapter one: Understanding what is most important to our customers

In 2015, as we began to develop our business plan for 2020-25, we launched a two-year in-depth programme of customer engagement to deepen our understanding of what is really important to our customers, and what they expect from us.

We first worked to understand what is really important to our customers in their day-to-day lives. By starting with a person as an individual - not just as a customer - we have better understood the broad needs and motivations that drive choice and opinions. We used a wide range of different engagement approaches to try to get the very best insight from our customers, and didn’t shy away from difficult questions, like views on intergenerational fairness and renationalisation. Our engagement embraced the rich mix of ages, experiences, faiths, cultures and interests that our region enjoys, and for the first time, we proactively sought to engage with ‘non-responders’ - those who initially didn’t take part in our research - by finding alternative methods that worked better for them.

Alongside initiating these conversations, we sought to learn more about what mattered to our customers by looking again at the contacts our customers had made with us, and treating every contact from our customers as an opportunity to learn more. We reviewed 24,000 complaints, analysed 1.9 million contacts and digested seven million social media comments. We also asked the 5,000 plus people who have a totally unique perspective - our employees.

Our engagement model is designed to expand naturally over time. For example, we now have an online community panel of around 15,000 customers who we can rapidly communicate with. This is enabling us to maintain (and keep building) a culture of learning and of ‘asking our customers first’ as we develop our plans to improve our service further.
What we learnt

Our customers expect many different things from us, and we have found it useful to understand these as a ‘hierarchy of needs’. These range from functional needs, concerning the services they rely on every day, through to the wider fulfilment our customers can gain from knowing they’re buying a service from a responsible company. In line with this, providing a safe, reliable and affordable service is vital, but for many of our customers this isn’t enough. They want to know that we do the right things for the right reasons, and that they and the communities we live in and serve are at the forefront of our decision making.

The four things we learnt were:

• People expect a reliable service: they want us to anticipate problems and prevent them from happening.
• Customers want us to treat them as individuals, not as part of a process diagram.
• People expect us to show leadership in supporting our communities.
• And, finally, they want to know we will always act in a way that builds trust.

The figure below illustrates these findings.

These four clearly articulated expectations from our customers have underpinned our efforts to be a Purposeful Company, and our understanding of what that should mean for Severn Trent (described in Chapter four).
Chapter two: Public concerns over the legitimacy of ‘big business’ and public institutions

Our customers’ expectations sit within a broader context of growing public scepticism in recent years over the motivations of ‘big business’, and indeed of many public institutions. Edelman’s 2019 Trust Barometer found that just 47 per cent of people in the UK thought that business worked for the good of society, a low score but one that has been consistently higher than the levels of trust in government.

This research is supported by other studies. Research carried out for Severn Trent in October 2018 showed that whilst most customers want business to succeed, they were also deeply sceptical about the motivations of what they regard as ‘big business’. They believe that larger companies especially seek to maximise profit above all other considerations, which, in their minds, leaves customers dangerously exposed.

This Severn Trent research echoed an earlier study for the Financial Times in which members of the public identified larger businesses as being akin to lions (powerful, efficient, and merciless towards their prey) whilst they believed that larger businesses saw them as sheep (docile, lacking in power and easily ‘picked off’).

Other views

At the same time as the public questioning the intentions of large businesses, many long-term asset managers are also asking questions. For example, Blackrock, one of the world’s largest asset managers, wrote in 2019 to the companies in which it invests to say:

“... As we enter 2019, commitment to a long-term approach is more important than ever - the global landscape is increasingly fragile and, as a result, susceptible to short-term behaviour by corporations and governments alike...”

“...Every company needs a framework to navigate this difficult landscape (of political and economic uncertainty), and that it must begin with a clear embodiment of your company’s purpose in your business model and corporate strategy. Purpose is not a mere tagline or marketing campaign; it is a company’s fundamental reason for being - what it does every day to create value for its stakeholders. Purpose is not the sole pursuit of profits but the animating force for achieving them.”

The importance of a clear social purpose for maintaining long-term customer legitimacy, and hence financial sustainability, is being increasingly understood by the more astute investors.
Chapter three: What it means to be a Purposeful Company - learning from the experience of others

We have reviewed a wide range of models for what it means to be a Purposeful Company. A number of these approaches are summarised below, together with some examples of company and industry-level initiatives concerned with purpose. We draw upon these examples when setting out in Chapter four what we think it means for Severn Trent to be a Purposeful Company.

The Purposeful Company Taskforce

The Purposeful Company Taskforce has been instrumental in bringing businesses, investors, academics and policy-makers together to promote the concept of Purposeful Companies and to challenge companies to strike a new contract with society - a challenge Severn Trent has accepted.

The Taskforce’s *Blueprint for Better Business* has set out five principles for what it regards as purpose driven companies:

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### FIVE PRINCIPLES OF A PURPOSE DRIVEN BUSINESS

**Honest and Fair with Customers and Suppliers**

- Seeks to build lasting relationships with customers and suppliers
- Deals honestly with customers, providing good and safe products and services
- Treats suppliers fairly, pays promptly what it owes and expects its suppliers to do the same
- Openly shares its knowledge to enable customers and suppliers to make better informed choices

**A Good Citizen**

- Considers each person affected by its decisions as if he or she were a member of each decision-maker’s own community
- Seeks and provides access to opportunities for less privileged people
- Makes a full and fair contribution to society by structuring its business and operations to pay promptly all taxes that are properly due

**A Responsible and Responsive Employer**

- Treats everyone with dignity and provides fair pay for all
- Enables and welcomes constructive dialogue about its behaviour in keeping true to its purpose
- Fosters innovation, leadership and personal accountability
- Protects and nurtures all who work for it to ensure people also learn, contribute and thrive

**Has a Purpose Which Delivers Long-Term Sustainable Performance**

- Operates true to a purpose that serves society, respects the dignity of people and so generates a fair return for responsible investors
- Enables and welcomes public scrutiny of the alignment between stated purpose and actual performance

**A Guardian for Future Generations**

- Honours its duty to protect the natural world and conserve finite resources
- Contributes knowledge and experience to promote better regulation for the benefit of society as a whole rather than protecting self-interest
- Invests in developing skills, knowledge and understanding in wider society to encourage informed citizenship
Being a Socially Purposeful Company

Business in the Community’s Responsible Business Map

Purpose is also central to what Business in the Community refers to as its Responsible Business Map. Business in the Community challenges every business to strive “to be the best it can be in all areas as a responsible business”, and puts ‘purposeful leadership’ at the heart of its map.

Certified B Corporations

Another model is offered by B Lab, a not for profit organisation that provides third party accreditation to companies that fulfil its “higher standards of purpose, accountability and transparency”. Companies that receive this accreditation are referred to as certified B Corporations (or B Corps). B Corp businesses tend to be privately owned, non-listed organisations. Notable B-Corp businesses include the outdoor clothing company Patagonia, Innocent Drinks and Danone.

Company-level interpretations of purpose

A number of companies have chosen to publicly state what they regard as their purpose. Perhaps the highest profile example of this to date came in August 2019 when nearly 200 of the largest companies in the US, led by the chief executive of JP Morgan Chase, committed to the following six principles of company purpose:

1. Delivering value to our customers.
2. Investing in our employees.
3. Dealing fairly and ethically with our suppliers.
4. Supporting the communities in which we work.
5. Generating long-term value for shareholders.
6. Each of our stakeholders is essential.
Industry-wide commitments

The water sector in England provides an example of an industry-wide attempt to strengthen its commitment to a purpose: working in the public interest. In April 2019 water companies in England committed to:

- “Enshrine what it means to operate in the public interest within their business purpose...”

- Work together to achieve five specific goals:
  1. Triple the rate of leakage reduction across the sector by 2030.
  2. Make bills affordable as a minimum for all households with water and sewerage bills more than 5% of their disposable income by 2030 and develop a strategy to end water poverty.
  3. Achieve net zero carbon emissions for the sector by 2030.
  4. Prevent the equivalent of 4 billion plastic bottles ending up as waste by 2030.
  5. Be the first sector to achieve 100% commitment to the Social Mobility Pledge.

Legally-defined Purposeful Corporations

Some jurisdictions in the United States have created the legal framework for a new type of company that allows a corporation’s shareholders and directors to put a social purpose above the purpose of making a profit. For example, Washington State passed legislation in 2012 to establish what it calls Social Purpose Corporations.

The common characteristics of these type of purposeful companies can be summarised as:

- They can explicitly pursue social purposes (as defined by the company) alongside maximising shareholder value - they do not have a fiduciary duty that is widely interpreted as the maximisation of shareholder value.
- They can distribute profits to shareholders.
- They must report annually about their efforts to achieve their social purposes.

What we’ve learnt

Whilst there are many different models for what it means to be a long-term, responsible company, we believe three common themes shine through:

1. A good business should be driven by its long-term (social) purpose, not short-term profit considerations. Profit is essential to fund investment, but it is a means to an end, not the end itself.
2. Business should focus on the long-term; short-termism leads to bad decision-making.
3. A good business will underpin its approach with sound ethical principles.
Chapter four: What it means for Severn Trent to be a Purposeful Company

We have listened hard to our customers and other stakeholders, and learnt much from reviewing the approaches that others have adopted to become a Purposeful Company. Based on this, our interpretation of what it means for us to be a Purposeful Company can be summarised below (based on the diagram that reflects the hierarchy of needs given to us by our customers, as described in Chapter two).

At the heart of our approach is embedding a clear, long-term societal purpose which guides all of our decision making.

A company’s purpose should not be temporary, but instead be embedded in its core constitutional documents. As an economically regulated company, we believe this should be embedded in our company licence. We have already asked our regulator, Ofwat, to change our licence to make us legally accountable for delivering what we believe is our social purpose:

To make decisions for the long-term, adding value for our customers, the communities we serve and the environment, and treating all of our employees and other stakeholders fairly

Having a clear purpose is important, but it is also necessary to have a broader package of measures to support its effective delivery. As illustrated in the above diagram, we have identified seven elements that are key to us meeting our identified social purpose. We explain each of these elements below and why we consider them to be key.

1. Deliver excellent core services

Excellent water services are the foundation of what our customers expect from us. We should strive to deliver excellent core services today and for future generations - a particularly important consideration for long-term infrastructure companies.

2. Give a powerful voice to customers, employees and other stakeholders

We believe we can only be a Purposeful Company if we listen hard to the voices of customers, employees and stakeholders. A Purposeful Company should have robust mechanisms in place to listen to the views of a wide range of stakeholders - and to report back on exactly how these views have been taken into account.

3. Do more for communities, with a particular emphasis on the environment

Companies should strive to do what they reasonably can for their communities, accepting that there are always balances and trade-offs to be made. As a water company, we depend on a healthy environment to deliver our core services and we think it is right we should prioritise improving nature and biodiversity, not just minimising our environmental footprint. Improved environments can also have a positive impact on customers’ wellbeing.

4. Strive to be an exemplary employer

We believe that how a company treats its employees - and prospective employees - speaks much about that company. We are committed to treating everyone with dignity and providing fair pay and opportunities for all.

We also seek to foster pride, courage, curiosity and a culture of care amongst our employees. We want everyone to feel included and to make best use of all the talent available in the pursuit of our societal purpose.

5. Align investor and company interests with the interests of customers and wider society

The company and its owners should only do well if customers and wider society have first done well. As a Purposeful Company, we believe we should align our interests with those that our customers and wider society have told us are their priorities.

6. Uphold clear ethical principles

We believe a company must operate within a clear ethical framework, including a commitment to:

- Always be honest and fair with our customers and other stakeholders.
- Treat stakeholders respectfully.
- Always pay our fair share of tax.
- Be open and accountable.

7. Be transparent, hold ourselves to account and maintain the highest standards of corporate governance

We believe a company can only be considered purposeful if it is transparent and holds itself to account. We commit to reporting at least once a year on our progress as a Purposeful Company - and we will continue to actively welcome scrutiny of the alignment between stated and actual performance.

We do not believe our purpose or the supporting framework is in conflict to our broader duties, including our duties under the Companies Act 2006. Indeed, we believe our approach is an enlightened way to fulfilling these duties.
Chapter five: Severn Trent’s progress towards being a Purposeful Company

We believe Severn Trent has always been driven by a strong sense of societal purpose. The task ahead is not to invent something new, but to capture the best of our traditions, strengthen them and to make ourselves accountable for their continuation.

This chapter summarises our progress in terms of defining and enshrining our social purpose, and in relation to each of the seven key elements of that social purpose that we identified in Chapter four. For each element, we set out how we are working towards meeting our social purpose, and when and how we can be held accountable.

Enshrine societal purpose in the heart of our decision-making

How: Voluntarily ask Ofwat to change our licence to make us accountable for our social purpose.

When: We wrote to Ofwat in October 2019 to request a change to our licence and we are working with them to implement it.

The social purpose licence condition will set out that our “social purpose” is to make decisions for the long-term, adding value for our customers, the communities we serve and the environment, and treating all of our employees and other stakeholders fairly.

How we can be held to account: With the proposed change to our licence, we will be legally accountable for delivering our societal purpose, reporting annually on performance.
Deliver excellent core services

**How:** Working within the regulatory framework, and reflecting our customers’ priorities, we will publish a plan every five years setting out how we will continue to improve services and deliver excellent value for money.

**When:** Every five years, with our next plan due in 2024.

**How we can be held to account:** We will publish assured reviews of whether we have met our performance commitments every year.

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Give a powerful voice to customers, employees and other stakeholders

**How:** We will continue to base our five year plans on what our customers say is most important to them. As an important ongoing check, we also maintain a standing panel of around 15,000 customers who provide us with ongoing views and advice.

Around 70 per cent of our employees are part-owners of Severn Trent through our scheme to encourage wider share ownership, and we also have a Company Forum comprising union representatives and senior management, which has direct access to our Board about any matter it wishes to raise.

We have two Customer Challenge Groups that operate in the Severn Trent and the Hafren Dyfrdwy regions. These are independent, expert panels that challenge us to listen and respond better to customers.

**When:** Ongoing

**How we can be held to account:** Our independent Customer Challenge Groups are specifically tasked with ensuring we give a powerful voice to customers.
Do more for communities

**How:** We will actively seek opportunities to give back to our communities in the way we do things, not just the services we provide. For example, we have already made the following commitments:

**For the environment**
- Despite being a heavy user of energy (or arguably because we are a heavy user of energy) we have signed the Carbon Triple Pledge. By 2030, we will be carbon neutral, use only renewable energy and have switched our 3,000 strong fleet to electric vehicles (if the appropriate vehicles are available).
- Recognising the value to the environment, including the water environment, by 2025 we will have planted 1.3 million trees throughout our region.
- We will improve up to 2,100 kilometres of river by 2025.

**For broader society**
- We will set aside the first one per cent of any profits we make to support projects in the communities we serve.
- We will ensure that everyone has affordable access to safe, reliable drinking water, offering social tariffs with tailored discounts.
- We will offer water-related education lessons to every primary school in the regions we serve.
- We will encourage every colleague to spend two days a year - on company time - volunteering in our communities.
- Having helped set up the charity, we will continue to support WaterAid providing life-saving water services to some of the poorest communities in the world.

**When:** Ongoing

**How we can be held to account:** We will publish our performance each year in our Annual Report and Accounts.
Strive to be an exemplary employer

How: We will strive to be an exemplary employer, something we see as an enabler for delivering fantastic services and an opportunity to maximise the broader contribution we make to our communities.

We will specifically:

• Commit to actively promoting physical and mental employee well-being.
• Provide world-class training opportunities to our employees and others in our region. In 2020 we will open a £10 million technical centre of excellence to train future generations.
• Promote diversity and inclusion - to deliver the best possible services, we know we need to draw on the deepest possible pool of talent. We commit to actively seeking to attract talent from under-represented groups at every level of our organisation.
• Ensure our staff are rewarded fairly for their work and treated with respect.
• Commit to promote social mobility, in part by actively seeking to recruit in ‘opportunity cold spots’ within our region.

When: Ongoing

How we can be held to account: Our board will report in our audited Annual Report and Accounts on our performance.
Operate with clear ethical principles

How: Our overall approach is set out in our company ethics guide that we call Doing the Right Thing. It explains who we are, what we stand for and how we work. It provides a common and consistent framework for responsible business practices and set out the standards we need to follow in our day-to-day activities.

We also commit to the following ethical principles that we believe has always reflected the best of Severn Trent:

- We will always seek to be honest and fair with our customers and other stakeholders.
- We will always pay our fair share of tax.
- We will always be open and accountable.
- We will always seek to take a long-term approach.

They are supported by our company values of pride, care, curiosity and courage.

When: Ongoing

How we can be held to account: We will publish our performance annually. We additionally will make ourselves accountable to our Customer Challenge Group.
Align investor and company interests with customers and wider society

**How:** A central plank of our business plan for 2020-25 - a plan ‘fast tracked’ by our regulator - is to align our investor and company interests fully behind those of customers and wider society.

The mechanism we use to achieve this is Outcome Delivery Incentives of which we have included 37 in our plan. For each of these incentives, if we deliver beyond our customer targets, we get a reward. If we fail to deliver, we face penalties. Investors only do well if customers and wider society have first done well.

**When:** Ongoing

**How we can be held to account:** We provide annual, audited reports about our performance.

Be transparent and hold ourselves to account

**How:** Transparency is at the heart of what it means to be a Purposeful Company - it is a powerful, yet flexible tool for holding organisations to account.

We commit to:
- Publishing annual audited reports setting out our operational, social, environmental and financial performance.
- Making our board fully available to our Company Forum and Independent Customer Challenge Groups.
- Maintaining the very highest standards of corporate governance through compliance with the UK Corporate Governance Code.

**When:** Ongoing

**How we can be held to account:** We will report annually on how we are maintaining the highest standards of corporate governance, including by ensuring the majority of our directors are independent, which we report on in our Annual Report and Accounts.
Consultation

This paper has set out what we believe it means for us to be a Purposeful Company, locking-in the very best of our heritage and challenging ourselves to go even further. We would like your help to finalise our approach.

The approach set out in Chapter four of this consultation document is based on the insights we have gained from our customers and other stakeholders, and from us seeking to learn from best practice elsewhere. It is also influenced by Severn Trent’s own experience and in-built values.

Before we finalise our approach, we want to check it with our stakeholders: customers, employees, environmental groups, investors and others. We welcome any feedback, but we would particularly like to know:

1. What in our proposals have we got right?
2. What could be improved - and how?
3. Is there anything we are missing?

We are asking for feedback to ourfutureplans@severntrent.co.uk by 17 January. We will then carefully consider this framework with us hoping to publish our final approach in Spring 2020.

We believe passionately in the good business can do for society. Your feedback will help us to deliver even more over the long-term.