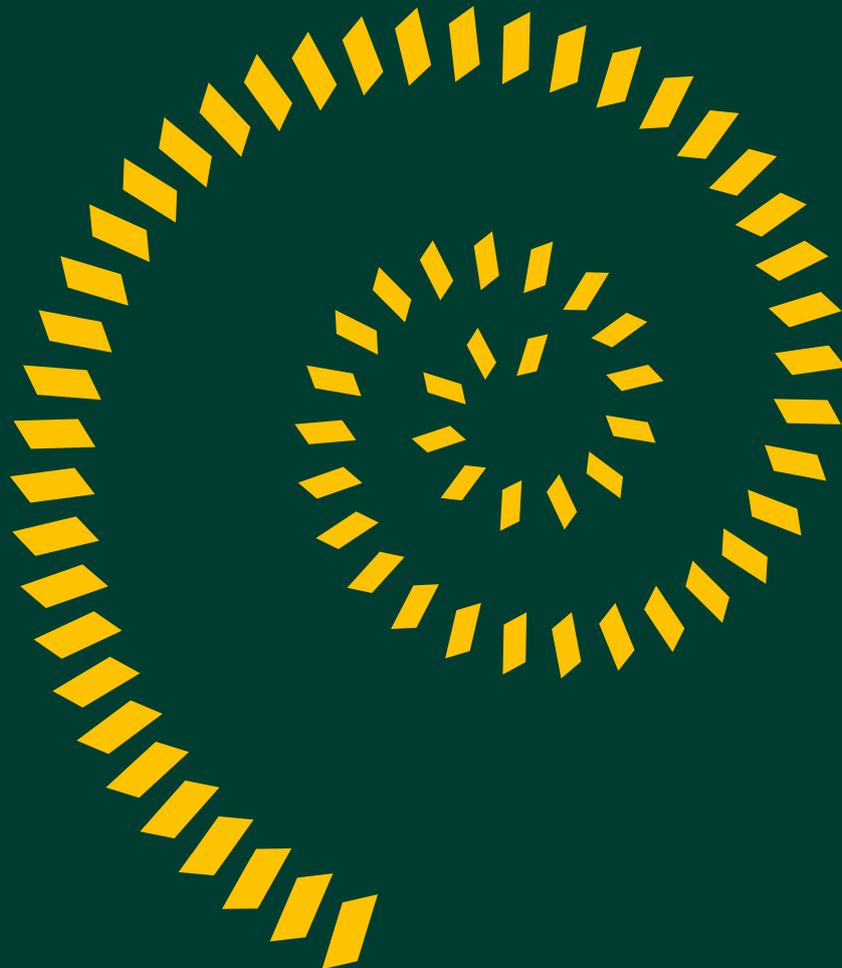




Anglian Water

An Economics of Mutuality case study



Enshrining Purpose as Legal Constitution

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Anglian Water



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About the Responsible Business Forum Case Studies

This series of case studies explores how mutual approaches to business can help companies and their partners tackle some of the most pressing global challenges. The businesses featured in this series share a commitment to objectives beyond purely financial performance, as well as a serious intent to implement mutual practices through new forms of ownership, governance, leadership, measurement and management.

In particular, these cases address the measurement of multiple forms of capital, ecosystem shaping approaches, leadership development, business education, and policy formulation through laws and regulation that promote mutual conduct. The authors appreciate the collaboration of participating companies in creating these cases.

These cases were first developed for the annual Responsible Business Forum, the convening event of the Mutuality in Business Project, a joint research programme between Saïd Business School, University of Oxford, and the Catalyst think tank at Mars, Incorporated. The Responsible Business Forum brings together global companies, MBA candidates, scholars and activists to share their experience in confronting key challenges in their ecosystems to generate financial, social and environmental value.

Authors' Note

The conclusions and recommendations of any Saïd Business School, University of Oxford, publication are solely those of its author(s), and do not reflect the views of the Institution, its management, or its other scholars. These cases are based on information provided to the researchers by participating companies.

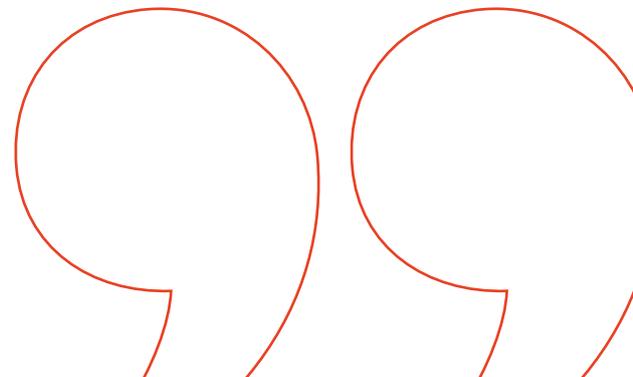
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About Anglian Water

Anglian Water is a utility company that stores, treats, and supplies water to more than six million customers in the East of England. Operating a large network of pipes and water recycling works, the company collects water from rivers and underground aquifers, stores it in reservoirs, treats and supplies it to customers, and then treats sewage and returns clean water to the environment. A subsidiary of the Anglian Water Group Limited (AWG), Anglian Water Services Limited is a private limited company and provides the majority of Anglian Water-branded services. AWG is owned by a consortium of pension fund and long-term infrastructure investors. As a regional, privately-owned company providing an essential public service, Anglian Water is embedded in social and environmental networks that are characterised by relationships of mutual dependency and impacts. To deliver its services, Anglian Water extracts fresh water from rivers and underground aquifers, treats sewage, and returns clean water to the environment. The company thus both depends on and impacts the health of the environment. Likewise, Anglian Water draws talent and skills from regional communities, whose wellbeing, in turn, depends on fresh water-access and economic opportunities provided by the company. The success of Anglian Water is thus tightly linked with the prosperity of local communities and a flourishing natural environment.

The intricate relationships between utilities and wider social and environmental ecosystems is characteristic of the water sector at large, which was privatised in the UK in 1989. A central regulatory agency, Ofwat, oversees the 32 privately-owned companies that provide water services to customers in England and Wales. Following concerns that certain water company owners have at times exploited their regional

monopoly positions (in particular, by extracting substantial dividends), the regulatory pressure on the water sector has increased in recent years. Proposals have emerged from across the political spectrum for reforming the water sector – ranging from the renationalisation of water companies to tighter regulatory oversight. Against this background, Anglian Water sought to reaffirm its commitment to serving the public interest, regardless of which policy or regulatory framework may be in place and became the first water company to incorporate an obligation to deliver benefits to society and environment into the company's legal constitution.

Enshrining Purpose

As a monopoly provider of an essential public service, Anglian Water has long had an awareness of its special responsibility to serve the public interest and generate social and environmental value beyond the provision and recycling of fresh water. This commitment is reflected in Anglian Water's corporate purpose:

"Our Purpose is to bring environmental and social prosperity to the region we serve through our commitment to Love Every Drop."²

In July 2019, Anglian Water went one step further and amended its Articles of Association (AoA) to ensure that the purpose of the company and the corresponding obligations of directors are formally recorded in the company's legal constitution. Taking this step was motivated by several reasons. Firstly, it would ensure the sustainability of Anglian Water's public interest commitment and decouple it from the support of specific management teams or owners at any point in time. The ultimate owners of the business (who are represented on Anglian Water's Board) supported the amendment of the AoA, and accepted that, as directors of Anglian Water, they have a legal duty to promote the purpose of the company. Secondly, it would support Anglian Water in building trusted relationships with regulators and customers and protect the legitimacy of the business by legally embedding its public interest commitment into corporate governance. Thirdly, the purpose enshrined in the AoA would serve as a "North Star" for the organisational culture, representing a common goal and informing the values and behaviours for employees. Lastly, it would help Anglian Water to attract stakeholders (e.g. investors, employees) who share the company's purpose and values.

The decision to incorporate purpose into Anglian Water's Articles of Association was preceded by extensive board-level discussions which centred on the question of how to balance the duty of directors to deliver economic, social, and environmental outcomes with the reasonable expectation of shareholders to earn a fair return on their investment. In this process, Anglian Water made use of "Purposely", a digital tool³ supported by the UK Department for Digital, Culture, Media & Sport that is designed to advise companies on options to embed purpose into their legal structures. Discussions within Anglian Water focused on two of the models available on Purposely (Models 1 and 2). Model 2 proceeds on the basis that directors would be obliged to place equal weight on shareholder, social, and environmental interests. While Anglian Water's shareholders, which comprise both pension funds and long-term infrastructure investors, were supportive of amending the AoA, they raised concerns that Model 2 had the potential to undermine the predictability of dividends which are essential to their ability to pay pensions to their beneficiaries. Ultimately, it was decided to adopt a modified version of the Purposely articles, drawing from both Model 1 and Model 2, which included a commitment to delivering positive social and environmental

outcomes while acknowledging the fundamental importance of delivering fair returns to shareholders and protecting the ability of Directors to fulfil their fiduciary duties. As a result, Anglian Water amended its AoA in the following ways:

1. *Purpose and nature of company*: The purpose of the company is to conduct its business and operations for the benefit of members as a whole, while delivering long term value for its customers, the region and the communities it serves and seeking positive outcomes for the environment and society.
2. *Directors' duties*: The amended AoA requires directors to promote the purpose of the company and consider
 - i. the impact of our operations on communities and the environment;
 - ii. the interests of the company's employees;
 - iii. the need to foster good relationships with customers and suppliers;
 - iv. the need to maintain our reputation for high standards of business conduct; and
 - v. the consequences of decisions in the long term.
3. *Reporting and records*: The company will publicly disclose its purpose and report its performance against this purpose in its annual report. More specifically, the Board will identify a set of responsible business principles as a standard against which the company will measure itself and report on the extent to which the relevant standard has been achieved.

Anglian Water's key challenge in amending the AoA was finding the right balance between shareholder, environmental, and social interests and carefully crafting this balance into the legal constitution of the company. This process was driven by the Chief Executive Officer, General Counsel, and the Director of Strategy and Regulation, who carried this issue into board-level discussions from 2017 onwards. Anglian Water's shareholders were also a crucial stakeholder group involved in these discussions. While some of the shareholders and independent non-executive directors initially voiced concerns over amending the AoA, it was understood that protecting the legitimacy of Anglian Water as a privately-owned public service provider was intimately tied to protecting long term shareholder value. With the support of its shareholders, in 2019, Anglian Water thus became the first water company to include the commitment to delivering positive social and environmental outcomes alongside fair returns to shareholders in the company's legal constitution.

² <https://www.anglianwater.co.uk/about-us/our-purpose/>

³ <https://getpurpose.ly/>

Exhibit A: Outcomes and Impacts at Anglian Water



Source: Anglian Water Business Model. Retrieved from: Anglian Water Annual Integrated Report 2019, pp. 24-25. <https://www.anglianwater.co.uk/siteassets/household/about-us/aws-air2019.pdf>

Enacting Purpose

In lockstep with amending its legal constitution, Anglian Water has embedded its commitments to social and environmental outcomes and impacts (see Exhibit A) into its business model. In close dialogue with its customers, the company has identified four long-term ambitions and defined ten outcomes that need to be delivered to fulfil these ambitions. Ranging from providing safe and clean water to reducing the ecological footprints of operations, these outcomes translate Anglian Water’s purpose to advance social and environmental prosperity in the East of England into a set of strategic objectives.

To measure its performance against these objectives and operationalise the corporate purpose in day-to-day business activities, Anglian Water has defined 32 Outcome Delivery Incentives (ODI). The ODIs are embedded in Anglian Water’s management processes, including the integration of ODIs into incentives structures. For example, with effect from the 2020/21 Financial Year the annual bonus of Executive Directors will be directly linked to three customer-focussed measures including the delivery of those ODIs which are of greatest importance to customers. Exhibit B provides a snapshot of four ODIs as reported in Anglian Water’s 2019 Annual Integrated Report.

Exhibit B: Selection of Outcome Delivery Incentives

ODI	Target	RAG ¹	Comments
Water quality contacts	1.23	● 1.18	The number of contacts we receive from customers about the appearance, taste and odour of their water. This is at a record low for the third year running, with this year’s total a significant improvement on previous years.
Percentage of sewerage capacity schemes incorporating sustainable solutions	25% by 2019/20	● 41%	We have set ourselves a target to deliver 25 per cent of the sewerage capacity schemes completed in the five years to 2020 using sustainable solutions. We have delivered 23 such schemes so far, including 2 in this financial year.
Customer Satisfaction Index prepared by UK Institute of Customer Service	Upper quartile by 2019/20	● 14th out of 28	This measures our performance on the annual Customer Satisfaction Index, prepared by the UK Institute of Customer Service. We are ranked against the other utilities companies that take part in the survey.
Value for money perception - variation from baseline against WaSCs (water) ²	0%	● 1%	Each year the Consumer Council for Water asks if customers think our water services are value for money. This shows how our score for the year has changed against our baseline performance. We are committed to at least maintaining levels of satisfaction.

Source: Anglian Water Outcome Delivery Incentives. Retrieved from: AW Annual Integrated Report 2019.

Moreover, Anglian Water's Board has committed to employ a six capitals model to further drive the company's social and environmental commitments into business operations. The

six capitals model captures how business activities affect employees as well as financial, intellectual, manufactured, natural, and social capital (see Exhibit C).

Exhibit C: Six Capitals Model Definitions



Source: Anglian Water Six Capitals Model. Retrieved from: AW Annual Integrated Report 2020 (to be released).

Using six capitals thinking is meant to help Anglian keep the responsibility to customers, communities and the environment at the front of their minds when making business decisions. To achieve this, they have identified key metrics to embed in their decision-making processes, starting with the capital delivery programme⁴, and with the aim of integrating these into the processes for purchasing, strategic and operational decisions over the next few years. In the capital delivery programme these metrics are designed to stimulate the creation of projects with a wider range of value creation across the six capitals, and therefore move examples of best practice and innovation into business as usual.

A set of corporate-level metrics for each of the capitals has also been developed to help understand, track and report on their impact. These will be reported in Anglian Water's Annual Integrated Report in future years. For example, Anglian Water has proposed a performance commitment to improve key aspects of natural capital in the region during the 2020-2025 business planning period. This includes but is not limited to meeting the company's obligations within the Water Industry National Environment Programme (WINEP) agreed with the Environment Agency. The set of metrics in the table of Exhibit D complement other performance commitments such as reducing the carbon footprint of both the company's operational activity and capital projects.

⁴ The company's portfolio of projects to build and upgrade water and water recycling assets across the region. See longer description in Anglian Water Systems Thinking Report, p. 36; online via <https://www.anglianwater.co.uk/siteassets/household/about-us/anh-iap-action-lra2-systems-thinking.pdf>, last accessed 12.05.2020

Exhibit D: Anglian Water's Natural Capital Targets for 2020-2025

Measure	Detail	Target
Water quantity	This measures the volume of water Anglian Water abstracts from the environment	220 litres per person per day by 2025
Ground water quality	This measures activities to prevent nitrate from entering the soil and ground water system	80% of engaged farmers altering farming practices by 2025
Surface water quality	This measures the reduction of phosphate discharged by Anglian Water's water recycling centres (WRCs) in relation to its WINEP obligations	100% of WINEP obligations to reduce phosphate discharges from WRCs are met
Biodiversity	This metric measures the positive addition to biodiversity from Anglian Water's activities	10% biodiversity net gain by 2025 from a 2019 baseline

Source: AW NC Targets. Retrieved from: Annual Integrated Report 2020 (to be released).

The six capitals model and the corresponding performance metrics help Anglian Water to enact its purpose. For example, the company employs a natural capital solution to recycle water in Ingoldisthorpe, Norfolk⁵. The removal of ammonia and phosphates from wastewater is one of the key challenges in water recycling processes. While traditional engineering solutions are available, building and maintaining these facilities comes at both financial and environmental costs (such as, for example, through carbon emissions from energy consumption). In collaboration with the Norfolk

Rivers Trust, Anglian Water has created a treatment wetland in which plants remove the phosphates and ammonia, before clean water is returned to the river Ingol. As a positive impact of the project, the treatment wetland also enhances local biodiversity by providing a habitat for insects, birds and mammals that rely on wetlands. Instead of relying on carbon-emitting and cost-intensive water recycling infrastructure, this nature-based solution therefore delivers both financial and environmental benefits.

Discussion and Outlook

After pioneering the integration of social and environmental commitments into the company's legal constitution, Anglian Water is keen to help other companies understand and potentially follow its approach within the UK water industry and beyond. As noted above, Anglian Water has committed to assessing its performance as a responsible business against an objective standard maintained by a reputable third-party body. In collaboration with the Cambridge Institute for Sustainability Leadership (CISL) and the British Standard Institute⁶ (BSI), Anglian Water is working to develop a framework to help companies embed the principles of sustainability leadership and purpose. The objective is to create a Publicly Available Specification (PAS) – an instrument to fast-track the development of a full-blown ISO standard – that introduces a common terminology and defines the qualities of organisations that pursue a sustainable purpose as an integral part of their core business. Establishing such a PAS would enable companies to either assess themselves or invite external assurance against this standard, thereby allowing for a credible verification of what it means to be a purposeful, sustainable company. Moreover, the availability of a standard could facilitate the adoption and implementation of sustainable business practices across the water industry and beyond by providing clear guidance for companies interested in advancing sustainability leadership and purpose. Pending the development of the PAS, Anglian Water proposes to report in its 2020 Annual Integrated Report on its performance using BiTC's Responsible Business Tracker measurement tool⁷, which is built upon the foundations of the UN's Sustainable Development Goals (SDGs).

Other companies in the sector are already following Anglian Water's example: the holding company that owns Dwr Cymru Welsh Water recently announced that they, too, have had their public statement of corporate purpose formally adopted into its Articles of Association⁸.

In addition to efforts to develop industry-wide standards, Anglian Water is working with its customers to develop a two-way "Social Contract" that sets out how the company can partner with customers and other stakeholders to bring social and environmental prosperity to their region. This approach rests on the realisation that many of the defining environmental and social challenges of our time require concerted efforts from multiple stakeholders. In this spirit, Anglian Water is committed to identifying where it can be most effective and deliver real benefits, such as making long term commitments to help with water bills, reducing leakage, launching community grant schemes, supporting regeneration projects, investing in further education and technical colleges, and offering apprenticeships. At the same time, the company is seeking support from customers to help reduce water consumption, spot leaks, cut use of single-use plastics, and volunteer for community and environmental projects.

This contract has been co-created with stakeholders. Initial input was gathered through Anglian's online customer community and developed further through five customer co-creation workshops spread across the region; a number of these workshops were attended by Board members. Further input was gathered from business retail customers, through an employee survey, and finally Anglian's 'Customer Board' established to feed views directly to Management Board members. Whilst Covid-19 has delayed the formal launch of the social contract a number of actions are already being progressed. For example, a £1m Positive Difference Fund⁹ was launched early to support community organisations on the front line of the battle against the coronavirus. The collaborative approach of this two-way Social Contract demonstrates how a clearly defined purpose can translate into hands-on action to deliver social and environmental benefits.

⁶ The British Standard Institute is the UK national standard body and a founding member of the International Organization for Standardization (ISO). Working with a broad range of stakeholders, the BSI develops and certifies best practice management systems, which include standards for a variety of applications that range from occupational health and safety to quality and environmental management.

⁷ <https://www.bitc.org.uk/the-responsible-business-tracker/>

⁸ See Articles of Association for Glas Cymru Holdings: <https://www.dwrcymru.com/en/Company-Information/Governance/Articles.aspx>

⁹ <https://www.anglianwater.co.uk/news/anglian-water-turns-on-the-tap-with-1million-fund-for-local-communities-adding-to-1million-assistance-fund-already-available-for-customers-in-need/>

Conclusion

Anglian Water has long recognised its responsibility as a private provider of an essential public service. Following concerns over poor corporate behaviour in the wider UK water sector, the industry faced increasing regulatory and political pressure and Anglian Water decided to reaffirm its commitment to serving the public interest. In July 2019, Anglian Water became the first water company to enshrine its purpose into its Article of Association (AoA), the legal constitution of the company. In the light of recent calls for a shift away from shareholder primacy to a more inclusive and stakeholder-oriented definition of corporate purpose¹⁰, it is timely to consider some of the factors that are likely to influence the propensity of companies to follow Anglian Water's approach.

- **Business model:** Anglian Water supplies fresh water to customers in a relatively large, but precisely defined geographical area. The company is thus both impacting and depending on the prosperity of communities and the environment in the East of England. These relationships of mutual dependency and impact between Anglian Water and its (regional) stakeholders are likely to be stronger than in the case of companies whose business model includes weaker or minimal ties to specific geographies. The stronger the dependency-impacts relationships between companies and its (regional) stakeholders, the greater the likely alignment between the conditions under which both companies and stakeholders will prosper. This, in turn, should make the step of integrating the delivery of social and environmental benefits into a company's legal constitution more straightforward.
- **Operational footprint:** The design of business models is closely related to the operational footprints of companies. The concentration of Anglian Water's operations in a specific geographic region is conducive to building strong ties between the business and local (natural and social) ecosystems. Companies with operational footprints that are geographically more dispersed are more likely to be less embedded in local ecosystems and/or face much greater complexity in terms of stakeholder relationships, making it more difficult to collaborate with stakeholders.
- **Regulatory environment:** A function of both its business model and operational footprint, Anglian Water has been exposed to one regulatory environment – consisting of one economic regulator and two service quality regulators – only. Trust is all the more important in an industry that is as highly regulated as the water sector in England and Wales and, in fact, enabling a more mature, trust-based relationship with its regulators is one of Anglian Water's key motivations to enshrine the corporate purpose in its AoA. Companies in less regulated industries might have fewer incentives to incorporate a stakeholder orientation in its legal constitution unless driven by specific market-orientated, customer demands.
- **Ownership:** Anglian Water is a private company owned by a relatively small number of shareholders. Considering the crucial role of shareholders in the discussions preceding Anglian Water's AoA amendment, and the fact that they were directly represented on Anglian Water's Board, it seems likely that companies with a larger number of shareholders, who have less direct contact with the Company, face a more challenging task in changing their legal constitutions. As a result, publicly listed companies with large and highly dispersed ownership structures might need to find alternative ways of enshrining purpose in their corporate governance. For this reason, Severn Trent Water recently consulted on a change to their Company Licence to enshrine a company purpose¹¹.

Shareholders also featured prominently in the board-level discussions preceding Anglian Water's AoA amendment and these discussions revolved around the potentially most fundamental challenge in this context: How does a company balance economic, environmental, and social outcomes? Anglian Water answered this question by explicitly integrating a commitment to consider social and environmental interests in its AoA, while nonetheless recognising shareholders' legitimate interest in earning a reasonable return for their ultimate stakeholders. The task of balancing the trade-offs between economic, social, and environmental outcomes is ultimately at the very heart of the matter and comes to the fore in most business decisions, whether they are strategic, operational, purchasing, or investment decisions. And it is precisely because of the ubiquity of this balancing act why enshrining social and environmental interests – alongside shareholder interests – in the legal constitution of companies can have significant impacts: It provides guidance for decision-making at all levels of the company.

¹⁰ For example, the Business Roundtable – a business group representing US companies with more than \$7 trillion in annual revenues – recently moved away from its long-held position that corporations principally exist to serve shareholders. Instead, the Business Roundtable issued an updated Statement on the Purpose of the Corporation that called on CEOs to lead their companies for the benefit of all stakeholders, including customers, employees, suppliers, communities and shareholders.

¹¹ See: <https://www.stwater.co.uk/news/news-releases/severn-trent-seeks-the-views-of-customers-in-social-purpose-repo/>