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Sir John Parker - The Challenge of Delivering both Shareholder and Social Value

I am delighted to have the opportunity to address you today on the conference theme of 'Business and Society - Roles and Responsibilities?'

The business perspective – new pressures, new challenges

Until recently, the purpose of business seemed straightforward. In Milton Friedman's words, 'the business of business was business'. We had our grants committees and our community relations programmes, but these were peripheral to the creation of value in economic terms. We paid our taxes, and it was the business of the public and voluntary sectors to sustain and create social value.

Today, businesses are increasingly operating on the fault line between the forces of market liberalisation and globalization on the one hand, and on the other, the forces of reaction from the excluded, the disaffected and the growing number of those simply unhappy with the pace and complexity of modern life.

On the business front the pressures of competition – or in our case, price regulation – are becoming more intense. We are facing change on every side, and the need to be acutely focused on business performance, the delivery of business objectives and the successful creation of shareholder value – necessarily, our top priority. The current recessionary outlook makes this more difficult.

Institutional shareholders, free to invest anywhere and also under competitive pressure, are becoming more demanding. We are subject to constant benchmarking, not just as regards shareholder value, but new ethical, social and environmental standards. Small wonder that the average period in office of FTSE chief executives is getting shorter all the time. On the other side, the Government is equally concerned about the performance and delivery of the public sector and its agencies. Here, it is recognized that national policies cannot be delivered successfully on a simplistic, one-size-fits-all basis. They must cater for huge diversity and complex delivery in the particular circumstances of each community.

Business approaches, techniques and skills are seen by the Government as having a valuable contribution to make in this regard, and the public sector is looking increasingly for partnership with business. Here is the dilemma. How can business and its leaders serve two increasingly demanding masters: on the one hand our shareholders; and on the other, the community and other stakeholders wanting to create social value in partnership with business?

The Lattice Group and the Lattice Foundation

The Lattice Group's experience in the field of Corporate Social Responsibility leads us to the conclusion that, with innovation, ingenuity and sharp focus, it is possible to create both shareholder and social value – and to do so in ways which are mutually beneficial. In the next few minutes, I will share some insights from this experience.

But first, a word about the Lattice Group – a recent entrant to the FTSE 100, but a company with a long and distinguished industrial heritage. The Lattice Group is one of the three successor companies of British Gas. Created eight months ago, we are a family of businesses whose prime purpose is the provision, management and servicing of infrastructure networks. Our main

subsidiary, Transco, provides Britain's gas transportation network which has led the world in opening up Europe's biggest gas market to competition and choice. Our new telecoms businesses are providing state-of-the-art infrastructure for the so-called 'broadband revolution'. Advantica is a leading international provider of technology services, particularly for gas industries. Another of our subsidiaries, Lattice Property, is engaged in cleaning up and returning to beneficial use numerous disused gasworks sites – the relics of the old town-gas era.

Then there is the Lattice Foundation which, working in partnership with our businesses across the country, provides the leadership, the financial backing, the strategic focus and the innovation for our CSR activity.

Leadership, strategic focus and innovation are the keys to my claim that it is possible to create both shareholder and social value, and to do so in ways which are mutually beneficial.

The legitimacy question

More of that later. First let me touch on one of the issues flagged up for discussion today – the legitimacy of businesses like ours working in partnership with public sector or voluntary bodies to tackle social problems. Certainly, our shareholders are entitled to be reassured that such activity is consistent with their interests. Given that it is, I have no hesitation in justifying our actions and achievements in the social sphere.

Few major British companies touch the lives and well being of people across the country more than we do. We safely and reliably transport over 40% of the country's primary energy. With 24 million pipes in 800,000 streets, we supply gas to some 20 million homes, from Buckingham Palace to those in sink housing estates. Transco's Emergency Service deals rapidly and responsibly with 6.3 million calls a year, taking our engineers into areas of deprivation and social exclusion where even the police think twice before entering. Transco engineers also encounter the widespread problems of fuel poverty at first hand – which is why our leading contribution to its eradication is an important part of our CSR activity.

Recognizing the social and environmental dimensions of the energy utilities, last year the Government enacted legislation which requires Ofgem, the energy regulator, to pursue not just economic efficiency, but social and environmental objectives.

The mutual creation of economic and social value

So much for legitimacy, but what about the big challenge facing us today the mutual creation of economic and social value?

Let me briefly illustrate this, and then share with you our experience :

- first, of successfully bringing an innovative business approach and business skills to bear on social problems;
- and then of linking the ground-breaking solutions to these social problems back into the needs of our businesses: the 'win-win' of realizing both social and business benefits.

My illustration concerns safety, and particularly the occupational health and safety of the thousands of people engaged in Transco's operations across Britain.

Three or four years ago we carried out a major overhaul of Transco's occupational health and safety management processes to bring them into line with international standards of best practice. So well and good, but the subsequent improvement of performance was disappointingly slow. We had established the right systems and standards, but we hadn't captured the hearts and minds of the thousands of Transco people needed to deliver real progress.

Then Phil Nolan, at the time Transco's Chief Executive, and now our Group Chief Executive, had an inspired idea. He launched Transco's Safety Charity Challenge, directly linking reductions in lost-time injuries and the removal of potential hazards with Company donations to the charity MENCAP/ENABLE which helps people with learning difficulties. This immediately captured the hearts and minds of Transco people. The Safety Challenge has now raised well over £1 million for the charity, and last year Transco's frequency of lost-time injuries was reduced by 34%.

The same disciplines which produced this result are benefiting all aspects of our safety performance. On every front, we are driving forward to achieve world-class standards of performance for occupational health, safety and environmental management, as measured by the CBI's benchmarking process.

We could have spent a lot more money and effort to achieve this breakthrough by conventional means. As it is, the Safety Charity Challenge has given us the best business result while delivering significant social benefits.

Bringing the business approach to bear on social problems

Let me give you another example which exemplifies the success of the Lattice Foundation and its forerunner in bringing an innovative business approach and business skills to bear on social problems.

The problem in this case is the failure of conventional secondary school education to engage the attention and interest of some of the students. The result is widespread truancy amongst teenagers who then leave school with poor prospects and at significant risk of becoming excluded and turning to drugs and crime.

Three years ago, we partnered Reading Borough Council and the Government's Education Department to launch a pilot project called CRED. CRED, Creative Education, offers an alternative business-based approach to those who are failing to engage with conventional education. Essentially, the 14-16 year olds who go through the programme are treated rather like grown-up employees.

The young people follow a work-related curriculum, spending three days a week at a Learning Centre located in one of our businesses. There, they develop literacy and numeracy skills while studying for vocational qualifications in Business Studies. They spend the remaining two days on work experience placements where the skills being developed are applied.

The results of breaking the mould in this way have been striking. The attendance record for the fifty young people in question rose from 40% in school to 85% in the CRED scheme. 60% of them have gone on to jobs and apprenticeships, and nearly 30% of the rest to further education. Just as important, but harder to measure has been the enormous increase in the self-esteem and confidence of the CRED students. It has been little short of a life-transforming experience.

Success breeds success. We recently had full Government backing to undertake a further CRED project in Peterborough. The challenge now is to replicate the essential features of the CRED idea while recognising the unique features of each situation.

The Lattice approach

This example illustrates the key features of our approach in bringing business methods and business skills to bear on social problems:

- First, we identify emerging social problems where our skills and capabilities offer the potential to contribute.

- Secondly, we aim to develop innovative solutions and end-to-end processes for delivering them efficiently. Throughout, the emphasis is on practicality , on bringing together the various elements needed for a successful outcome.
- Thirdly, we undertake a pilot project in partnership with other stakeholders who are able to contribute, and benefit, from their different perspectives. Our contribution is partly financial, but more importantly the provision of business leadership, skills and techniques the essential basis for leveraging the other contributions and resources.
- In all such cases, our aim is to find an innovative solution, which with careful adaptation, is capable of being replicated countrywide in partnership with the public sector and other stakeholders.
- Importantly our Foundation projects are evaluated, we have pre, post and follow up evaluation

I should emphasize that there is nothing exclusive or dog-in-the-manger about this approach and the successful pilot projects which it yields. For us, the benefits and the positive relationships, which it gives us with the Government and other stakeholders, lie in the early creative stages of the development cycle, which I have outlined. We are more than ready for those ideas, which are proven and successful to be taken forward, and replicated by others, sometimes in partnership with Lattice Group businesses.

Another important thing we have learnt is the creative potential of engaging both the top of our organisation, and our operational colleagues who are working in communities across the country. My chairmanship of the Lattice Foundation is much more than token leadership. I take an active personal interest in the work of the Foundation and the development of its programmes. In this, I work closely with its Director, Dr Mary Harris. We co-opt 'business champions' to provide leadership and practical guidance, including those inspired touches which can make the difference between success and failure.

Take the Creative Education pilot project in Reading. It was championed by Tom Melvin, who unusually, combines the jobs of Group Head of Taxation and Managing Director of The Leasing Group, another significant Lattice business. It was one of Tom's ideas that, instead of being given luncheon vouchers, the CRED students should use the canteen at The Leasing Group's office. The fact that, in this way, the students demonstrably were accepted as part of our organisation - played an important part in boosting their confidence and self esteem.

Realising both social and business benefits

Earlier, I said that the innovative business approach which we have used for the successful development of schemes like CRED is now being extended to yield benefits for our businesses.

A current example is another successful pilot project which has again attracted much positive interest from the Government. Our Young Offenders project also has its roots in Reading , to be precise, Reading Prison. A former Board colleague visited the Prison with Business in the Community and was horrified by the wasteful and hopeless cycle in which young offenders leave prison inadequately equipped for employment and are soon drawn back into a life of serial crime and imprisonment.

At the same time he recognised that Berkshire's overheated service economy is hampered by the limited pool of trained forklift truck drivers. The answer was obvious and the practical scheme which we put together to train the young offenders as forklift truck drivers was a notable success. Only 3 of the 50 young offenders who have been through the training programme are known to have re-offended , 6% against the normal 70% rate of re-offending.

Another life transforming scheme, and one which yields immediately tangible benefits. It costs £2.5 million a year to keep 100 young offenders in custody.

But while Berkshire's businesses need trained forklift truck drivers, the British gas industry needs to replenish skills countrywide, and on a significant scale. Moreover, we face this challenge at the same time as the industry begins a heavy programme of investment and renewal.

That is why we are starting another Young Offenders pilot project , market relevant utility training, this time providing the foundation training for skilled gas technicians. With Transco facing a £5 billion investment programme over the next 5 years, we will need the skills of the people who graduate from this pilot and the follow-up scheme.

Fuel Poverty

Earlier, I mentioned the widespread problem of fuel poverty , the inadequate inefficient and unaffordable domestic use of energy. It afflicts about 5 million households in Britain.

The barrier to overcoming this huge problem is not fundamentally economic. The fuel savings from the installation of efficient gas central heating and effective insulation are more than sufficient to cover the costs of installation under leasing arrangements. The real barriers to progress are institutional and those relating to the efficient management of complex processes in the unique circumstances of each community.

Our contribution to overcoming these barriers goes back a few years. It has proved frustratingly difficult to make progress on the scale required, but again we have been at the forefront of an innovative breakthrough.

In Stockton on Tees, we have formed a not-for-profit company in partnership with the local authority and other stakeholders. The purpose of this company, run on enterprising business lines, is to act as an intermediary, efficiently linking up the diversity of resources available on the supply side with the even greater diversity of factors, which have to be managed on the demand side. In short, its task is to create a practical end-to-end process for eradicating fuel poverty efficiently and to scale.

We are providing some of the financial backing for the Stockton Warm Zone pilot, but much more important we have seconded one of our brightest and best younger managers, Beccy Brealey, to be Chief Executive. Already, it is clear that this Stockton Warm Zone pilot, one of five formed with Government support across the country, is going to live up to our highest expectations. It is set to become the flagship project.

Mutual value

This is a classic case of the mutual creation of social and shareholder value. On one side of the equation we have the health and environmental benefits of efficiently heated warm homes. On the other, we have the expansion of the gas market which Transco's network serves. And in between, we have a substantial training programme, which on the one hand tackles the problem of structural unemployment in areas like Teesside, while on the other providing the skills needed by the expanding British gas industry.

And for us, the cherry on the cake is the unique management development challenges which assignments like this offer to our high-flyers like Beccy Brealey. As Beccy and her contemporaries step up to become the next generation of business leaders, they will be that much better equipped to succeed in the complex, fast-moving world of the future , to play their part in delivering both shareholder and social value.

Thank you.