

Ofwat Strategy review: response

1) Based on the draft in our discussion document, what do you think should be included in a shared vision for the sector? What are the collective aspirations it needs to achieve?

The Institute is supportive of the key themes set out in Ofwat's shared vision around delivering everyday excellence, long-term stewardship of the environment, assets and relationships with customers and adding value to individuals and society.

In addition, we believe that the shared vision should also give emphasis to developing an organisational culture, based on leadership commitment, engaged employees and operation excellence that will enable the aspirations in the shared vision and strategic agenda.

2) Should water companies be encouraged or incentivised to consider wider public value in what they do? What does this phrase mean to you, and should Ofwat take a role in making that change happen?

The Institute supports Ofwat's aspiration that water companies be encouraged proactively to consider and deliver wider public value in what they do.

Our own research and work with water companies suggests that there is often strong customer interest in learning more about water conservation and water companies' activity to conserve water, protect the environment and combat climate change. Water companies are uniquely placed to educate customers about water conservation and environmental protection and to take a pioneering role in showing how technologies can combat climate change.

Many water companies have the ability to work closely with their communities as they are key employers in the regions they serve. There is an opportunity to harness the influence of their employees to communicate positive messages about responsible management of water and the environment in a way that gives relevant information and enhances an organisation's reputation and impact, in the communities it serves. As concerns over climate change intensify, customers will be looking to water companies for leadership and action to help generate sustainable solutions. Therefore it is appropriate that these expectations are reflected in Ofwat's shared vision for the sector. This must however translate into genuine and tangible customer experiences.

Rather than incentivising specific activities, it may be helpful to use a broad range of customer measures that reflect not just operational performance but the impact of water companies' wider activity to promote public value and the end to end customer experience.

3) Do you think long term aspirations and targets will be effective in driving the sector forwards? What should they cover and how should they work in practice?

The Institute agrees that it is essential to articulate targets that enable Ofwat, water companies and wider stakeholders to assess progress towards the aspirations set out in Ofwat's shared vision. It is also clear from the research the Institute has undertaken that where an organisation genuinely prioritises customer experience over the longer term they are likely to achieve greater financial returns, including profitability and productivity. Incentivising customer service for the longer term is, we believe, critical.

We believe that there should be a broad mix of customer-focused measures that encourage water companies to take a holistic approach to all aspects of the shared vision rather than focusing on a narrow set of operational objectives.

We believe that it is desirable for Ofwat to set out its aspiration for the level of customer satisfaction that water companies should achieve. We know from our current work with Ofwat that it uses a benchmark based on the top quartile of organisations in the UK Customer Satisfaction Index (UKCSI). We believe this is an appropriate benchmark for water companies. Alongside this, Ofwat could also look at using the overall UK average benchmark or a benchmark of the highest performing organisations that provide essential services, such as banks, energy, water and transport organisations. It may also be valuable to explore ways of developing a consistent set of customer satisfaction measures across key regulated sectors.

In addition, encouraging all water companies to undertake ServiceMark, an independent, external accreditation is a way of demonstrating a long term and committed approach to service. As a way of measuring and verifying organisations' commitment and performance we strongly urge Ofwat to endorse and promote this independent accreditation.

The Institute's ServiceMark accreditation assesses an organisation's commitment to and performance in customer service. It is based on the perspectives of customers, employees and an independent assessment.

The Institute also believes that Ofwat should consider ways of encouraging organisations to develop a culture that promotes strong levels of employee engagement and a commitment to customer service and organisational purpose. We believe it would be beneficial for Ofwat to consider measuring levels of employee engagement, either working with water companies or through an independent method. The link between customer satisfaction and

financial performance is clear, as well as the link between high levels of customer satisfaction and employee engagement.

4) Do you think we're focusing on the right areas in which to drive transformational change, as we've set out on pages 26-29? E.g. innovation, the natural environment, customer relationships.

The Institute concurs with the themes Ofwat has highlighted in order to drive transformational change.

We also believe that Ofwat should give consideration to the following themes:

- Developing employee engagement as an essential enabler of transformational change
- Giving more customers a greater say and direct input, especially in the development of new products and services and priorities for investment
- Looking at examples outside the water sector to encourage innovative approaches to transformation and cultural change
- Benchmarking customer satisfaction performance outside the water sector and encouraging take-up of the independent ServiceMark accreditation

5) How do you think we could evolve our approach to price controls, building on the conversation on page 36?

The Institute believes that it is appropriate that Ofwat continues to see customer satisfaction measurement as part of its price control governance. We believe that it is desirable that customer service measures cover both transactional experiences and customers' broader relationships with water companies. We believe that the measures in the UKCSI are an effective way of doing this and The Institute is committed to working with Ofwat to support its shared vision and emerging strategy.