LEADERSHIP IN CHALLENGING TIMES

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ABSTRACT
As utility professionals, all of us comprehend the unique characteristics of our industry and understand the challenging nature of our business. What we sometimes forget is how important effective leadership is in a risk-filled industry. This presentation will explore the unique demands leaders face in the water/wastewater industry as well as the importance of effective leadership in meeting those demands.

While we share many common challenges with other industries, such as the impending wave of baby boomer retirements and a highly-mobile workforce, the wastewater industry is, in many ways, very different. For example, the civil service system, with its archaic ways and disproportionate influence on the way we do business, can cause tremendous challenges and must be worked with or around. Our industry is highly capital-intensive, requiring constant attention in terms of planning and funding but without the profit motive driving it. Our industry is marked by inefficient, bureaucratic work processes. We deal with the politics of elected or appointed boards and city councils. There are the regulatory challenges driven by one or more bureaucratic agencies who may work in tandem or opposition. Add it all up and the need for effective leadership is clear.

KEYWORDS
Leadership, Management, Organizational Effectiveness, Challenging Times, Interface

INTRODUCTION
This paper is divided up into eight key sections. Each of the sections is briefly explained below with additional details being offered during the WEFTEC conference presentation.

METHODOLOGY
Section 1 - Why Are We Experiencing Challenging Times?

Infrastructure and Rates
We are in trying and changing times. All leaders in our industry are facing challenges. First and foremost is our aging infrastructure. Many utilities are operating through deficit
spending – they are not investing enough in their infrastructure in order to reduce or stabilize their rates. It is widely known that elected or appointed officials are very sensitive to rates and that rates are directly affected by the required financial investment. As utility organizations develop their capital investment programs, they are closely scrutinized and reduced in order to maintain stable rates. This has a direct effect on our infrastructure’s long-term viability.

Workforce

The makeup of our workforce is rapidly changing. Baby boomers are retiring and the next generation that follows is much smaller and has a significant difference in values. This changing workforce puts pressure on all organizations and all utility leaders.

Regulatory Pressures

Almost all water and wastewater utility organizations are feeling the pinch of increasing regulatory requirements. In the wastewater industry, we have the pressure of phosphorus and nitrogen removal, as well as the changing landscape regarding biosolids and land disposal. These regulatory pressures come at a time when we are also dealing with other emerging problems, such as arsenic, that are being added to our permits on a fairly regular basis. Regulatory pressures continue to increase and not decrease.

Changing Customer Demands

Our customers are demanding more access to data – whether it is online, do-it-yourself bill pay options or immediate answers to online questions. These customers also have a different set of values, so they often demand answers to questions that historically have not been asked. While this may feel like a lack of trust to some utility managers, for the most part it is merely a changing set of values in younger generations. These younger constituents are also beginning to join our Boards, and they are asking questions of staff that have not been asked before. Our elected/appointed officials also react to these questions with a similar reaction. While it may feel like a lack of trust that is driving the questions, it is likely their inquisitiveness that is driving their need to know the answers.

Section 2 - Leadership Must Respond

To meet the challenges of changing times, leadership must respond both above- and below-the-line. Above-the-line, our leadership must communicate with elected/appointed officials and Boards above their staff organization. Below-the-line, our leadership must communicate, work with, and respond to staff within our organizations. Trust is a key factor in both lines of communications.

Above-the-line, building trust with your elected/appointed officials is crucial and dependent on the openness with which you communicate and disclose information. We aim for an environment with “no surprises” as we do not wish to challenge the Board’s trust in us and cause additional problems. Therefore, when an unusual circumstance occurs, it is important your Board be kept up-to-date. They must be notified immediately and be part of the ongoing communications. Whether you are sharing good or bad news, your Board must know what is happening immediately and what action you plan to take.
Below-the-line we refer to how we engage our employees. Engaging employees has a lot to do with how we manage them. Below-the-line micro-management simply does not work. It does not develop trust or engagement with our employees. Instead, we must establish responsibility. Each manager must understand their responsibility, given proper authority, allowed access to necessary resources, and held accountable to produce results. They must immediately inform us if something goes wrong.

Employee engagement requires an environment of trust and definition of the ground rules. Generally speaking the two most important ground rules are:

1. **No surprises.** If something happens, good or bad, the General Manager needs to be informed.

2. **Ensure results are derived.** Goals are set and reviewed with each leader to ensure progress is being made and that they are accountable for their responsibilities as defined.

**Section 3 - New Leadership Model**

The new leadership model, shown below in Figure 1, requires that the General Manager shows ongoing courage to make the right decisions for the organization, even if they are unpopular. The second factor in the new leadership model is strategic thinking, anticipation, and preparation. This new model requires the General Manager know the details of each of the issues that are on the Board agenda. This ensures the difficult, controversial issues will be understood extremely well by the General Manager. The less controversial, but important, issues are understood well, and the staff members are there to back up the General Manager when the technical questions are asked. Preparation establishes credibility with the Board and is vital.

![New Leadership Model Diagram](image-url)
The third factor in this leadership model is to trust your staff and be trusted by both your staff and your Board. As you begin to delegate and allow your staff to have responsibility, authority, and accountability, you must trust them. Otherwise, you will spend all your time checking up on them.

The fourth leadership factor is to have open and honest communication with your Board and staff. Hold nothing back and disclose everything including bad news. This requires courage but is where trust is developed.

The fifth factor is competence. It is essential that General Managers and their staff demonstrate competence to the Board as well as the remainder of the employees so they are willing to follow the leadership demonstrated.

And last but not least, the sixth factor in the new leadership model is results. It is important that results are consistently demonstrated by the staff to the General Manager and by the General Manager to the Board, so the Board sees progress and that your organization is heading in the right direction.

This new leadership model is based on Level Five Leadership identified in the book *Good to Great* by Jim Collins.

**Part 4 - MWRD Who Are We**

Metro Wastewater Reclamation District (MWRD) in Denver, Colorado, is a wholesaler with 20 member agencies. The District has 67 Board members who represent those voting member agencies. More populous member cities have a larger number of voting members while smaller cities have fewer voting members. The organization also has 24 non-voting members, called special connectors, which are increasing in number.

The District’s treatment process includes nitrification, denitrification, secondary clarification, dechlorination, and chlorination. In addition MWRD has anaerobic digestion, cogeneration composting, and land application. The District generates electricity, steam for heat through cogeneration and applies the biosolids as fertilizer and compost for home and commercial applications.

MWRD’s treatment capacity is 160 MGD. The system is highly automated with two separate treatment facilities: the North Secondary and the South Secondary. In addition, there are a number of pump stations managed by the District. Their discharge during nine months of the year represents 85 percent of the flow in the South Platte River. This requires a significant treatment level in terms of nitrification and denitrification. The Central Treatment Plant is in the process of being expanded and upgraded. Over the next 15 years the District will spend $1.5 Billion in upgrading the treatment process and capacity.

**Part 5 – Above-the-Line Leadership at the District**

The District manages above-the-line as shown in Figure 2. The key to managing a Board of 67 people, representing all of the more than twenty members, is preparation at the lower levels.
Staff meetings are held each week and the agenda outlook reviewed for the next three months. Agenda items are added and deleted that require Board action. As a particular Board Meeting gets closer, some items fall from the immediate agenda and are moved to a future agenda. This creates a short-list and those items are discussed and finalized.

Finalized Board issues and potential agenda items are then moved up to the next phase of work, which is preparation by the staff. Staff prepares business items for each of issue that they believe should appear on the upcoming Board agenda. Business items are reviewed within the staff meetings and are edited heavily, with the final edit coming from the General Manager. The General Manager pays particular attention to those items that may be controversial – he knows these inside out. For less controversial items, he understands from a member standpoint (almost a political point-of-view). Any technical issues brought up can be addressed by those staff members in attendance along with him. The items prepared as business items (reviewed and edited) are considered 99 percent complete. They are ready, from an organizational standpoint, to be approved.

All items are sent to each of the four Standing Committees, so each Standing Committee receives a packet of the items they need to deal with along with all the other Standing Committee packets. In this way, they all know what is going on. This is part of the openness that is required to maintain trust. Nothing is hidden or being sneaked through – everything is on the table. Each of the Standing Committees reviews their items in detail. This is the stage where the Board’s work is really done. The staff and the Board work together to make presentations to the various committees. This allows the committee members to ask technical as well as philosophical questions. Typically they have some minor changes to what is originally prepared, but it ends up being a “yes” or “no” vote. They either approve the business item with minor changes or they disapprove and recommend that it not go forward.
These four packets, with their respective Standing Committee recommendations, are then sent on to the Executive Committee. The Executive Committee prepares the Board agenda. They review the minutes from each of the Standing Committee evaluations and review their recommendations (approve, approve with minor changes, disapprove, approve with significant changes). The Executive Committee then decides which items go on the agenda to be submitted to the full Board, which items need to be slightly modified, and which items potentially need to be moved to another meeting (perhaps due to controversy surrounding the item). The Executive Committee reviews each of the Standing Committee recommendations, develops final agenda, and forwards the final agenda to the full Board with all of the appropriate business items in the packet to be individually moved and approved.

Each business item is voted on one at a time. Usually the Board meetings are short because the Board members have all served on one of the Standing Committees and several have served on the Executive Committee. This brings continuity from the staff, to the Standing Committees, and to the Board. Each Board item is something they have previously seen on at least one occasion, sometimes twice. Generally speaking the full Board meetings do not require much work or action other than approving or not approving the individual business items. The Board has already studied these items previously.

If your organization works with a Board, this concept of preparation low in the organization – talking about what the agenda should be, looking at the agenda from three months out, and moving the agenda items out further as the items stack up – is beneficial. However, you should be aware and sensitive to how much a Standing Committee can accomplish in one sitting. This process works. Drive the work and education down to the Standing Committee level so that when it moves up to the Board level the work has already been done.

Section 6 – Below-the-Line Leadership at the District

The General Manager’s below-the-line refers to how he works with his senior staff and the rest of the organization to operate the District. The General Manager is the District’s Chief Operating Officer, who is responsible for the day-to-day, month-to-month, quarter-to-quarter, and year-to-year operation of the utility. The General Manager holds weekly staff meetings that vary in time from 30 to 90 minutes depending on business to discuss. No time is wasted, and the leader is very sensitive to effective time management during these meetings. Every meeting includes a discussion of the issues and Board items that need to be added, moved, or deleted.

Leading below-the-line, Denver’s General Manager does not micromanage. His senior staff all have a clear understanding of their responsibilities, their authority to spend money, how to get the necessary resources, and their accountability. The General Manager’s leadership is based on Responsibility, Authority, and Accountability (RAA). His golden rule is, “Don’t surprise me with good or bad. Tell me ahead of time – warn me. Otherwise I’ll have 67 Board members who will surprise me unless you keep me abreast of what is happening.”

If something happens, either through error or through circumstance, as the leader he wants to be the first to know. He wants to know what happened, what the ramifications are to their organization/facilities, did they follow our obligations to notify the regulatory agencies or other agencies if necessary, what are they going to do about it, and how are they going to fix
it so it never happens again. When you come in to the General Manager’s office there is no blame, no fear. There is a conversation so he can understand what happened and what can be done about it permanently. Fear has no place in your organization. Fear in the organization will only impede communications.

In situations where people are not micromanaged and their responsibilities are clear, you can have open-ended conversations. Very rarely does Denver’s General Manager go to his senior managers looking for updates. The reporting structure and the “no surprises” structure leads the senior managers to periodically update the General Manager on what is happening. His senior managers feel trusted, and they can be creative about carrying out their work. Each senior manager expressed the feeling that they enjoyed coming to work because each day included challenges, with the freedom to think and execute. Some of their challenges include pushing the responsibility, authority, and accountability philosophy down into the organization and having staff realize the same feeling of high responsibility with freedom to think and execute. In this way, both the leaders and the employees are engaged. Below-the-line leadership leads to engaged employees, and engaged employees lead to continuous improvement and motivation.

RESULTS
Section 7 - Benefits of the New Leadership

There are six main benefits to following the new leadership methods:

1. **Improving the Political Stability.** With a Board of 67 individuals, it is extremely important that the issues are clear and the politics are handled correctly – knowing the Board’s nature and being able to read them correctly. You need to know the third of the Board you can go to for participation and help, the third of the Board that you can communicate with in terms of an upcoming vote, and a third of the Board that will go with the wind. Stable politics requires openness, trust, and credibility in the leader. Turning a Board into a collaborative unit is very important.

   As Chief Operating Officer at the District, the General Manager, must propose his budget to the Board for approval. The Board has never turned down a budget request in his 19 years as General Manager. That is an amazing track record!

2. **Collaborative Regulatory Relationships.** When the General Manager started as General Manager/Chief Operating Officer of the District, it was obvious that the relationship between the District and the regulatory body was not working effectively. There was no trust or collaborative relationship – they viewed one another with suspicion. It became obvious that this relationship needed to be fixed.

   To move to a positive direction, the General Manager invited the members of the regulatory body out to the plant. In doing this, they began to move toward a more open, trusting, and collaborative relationship. Deep listening to the desires of the regulatory body was involved; listening for understanding. For example, the regulatory body might say they want phosphorus removal, nitrogen removal in the new permit. However, the District might respond that they could begin thinking about phosphorous and nitrogen
removal for the next permit which might be three years from now, but there is no way they could sign a permit to have phosphorous and nitrogen removal with the current permit. A compromise could be reached where three years from now when they discuss the permit again, phosphorous and nitrogen would be on the table. Currently, however, they would stay at the same level of phosphorous and nitrogen giving them the time necessary to evaluate ways of removing more nitrogen and substantial pieces of the phosphorous to assist in developing a new permit. This type of collaborative relationship has continued, and they gained openness and trust. They go to the regulatory body immediately so there are never any surprises. They tell them the good news and the bad news which has allowed them to build a trusting relationship crucial to the organization.

3. **Engaged Employees.** As shown in the graph in Figure 3, engaged employees substantially outperform unengaged employees. It is in our best interest to do everything we can to treat employees so they see their work as more than a job. They need to see passion and enthusiasm from the very top of their organization – that they see the productive nature of the senior managers and embrace the idea of continuous improvement. When the senior staff is passionate about what they do, their passion is then driven down to their employees.

As reflected in Figure 3, when the employees are engaged each of the dimensions that are important to an organization (e.g., unexpected time off) indicate that the employees treat this as more than a job and are more effective.

![Figure 3 – Engaged Employees Substantially Improve an Organization](source: Gallup Organization, July 2006)

4. **Continuous Performance Improvement.** The first area at MWRD that embraced continuous improvement was ISO certification in biosolids. The continuous improvement mentality that was fostered in biosolids has now caught on in other parts of the organization such as engineering. The organization is continually improving and getting more results because of the continuous performance improvement method that were taught and to which the organization is now accountable.

5. **Control of Costs.** The first step of cost control is planning. In order for the organization to understand cost control they looked out 50 years into the future through strategic planning. They then broke the larger plan into a three to 10 year window for capital planning. Further drill-down took the plan to a one-year operating budget level that included the capital plan for the upcoming year. To minimize the impact of changes to
the operating plan, the closer the organization got to the current year plan, the fewer changes to the plan were accepted. Some changes invariably need to occur, but the fewer changes made to the current year’s plan, the more credible the plan is to the Board. Changes to the three to 10 year plan are also closely scrutinized to minimize their impact and improve credibility. Change in the near term is not viewed favorable – of course, not all instances of change are avoidable, but they are kept to a minimum.

Cost control includes rate control. As MWRD moved from debt funding to cash funding, rate increases were required. Historically, MWRD’s rate structure was up and down – there were years of no rate increases and even negative rate changes. As the organization moved from a debt to a cash basis, basically eliminating all long-term debt by paying for it out of cash reserves, they required an increase in rates. The rate increases had to be explained to the 67-person Board. These increases continue to be a controversial issue with the Board, especially as the Board members change. As younger members join the Board, who are not afraid of debt, they often wish to use debt funding to keep the rate increases to a minimum. This debate is ongoing and will be ongoing for the life of the organization. As cash funding has very definite advantages, debt funding has the advantage of allowing smaller rate increases. The question is that of financial security versus rate stabilization or reduction of rate increases.

When the General Manager took over, he needed to understand where spending was taking place, the budget variances, capital plan funding while moving from debt financing to cash financing, etc. The 67-member Board liked what he was doing and felt he had a good grasp of the situation. Their audit statements went from having over 100 notes to three or four. The cost control was accomplished with huge benefits in large part due to the new leadership model.

6. **Minimal Turnover.** The new leadership model led to the senior management team both having fun and being challenged. As you can see in Figures 4 and 5, this contributed to an extremely low turnover rate throughout the organization. The graph shows the Metro Wastewater Reclamation District consistently has a six percent turnover rate over the years compared to an average utility turnover rate of 14 percent. MWRD’s turnover rate is less than half of what the typical organization’s turnover is throughout all branches of its organization.

*Figure 4 – MWRD’s Employee Turnover is Less Than Half of the Industry Average*
When we analyze the data at the very top of the organization, with the senior level managers, we see a typical turnover rate of five percent in organizations. At MRWD, they have less than one percent turnover, as shown in Figure 5. This is dramatic! *People will not leave an environment where they are learning, challenged, and having fun.* They do not leave, and this adage is followed by the General Manager/COO, at MRWD.

**DISCUSSION**

Leadership interface with the elected and appointed Board in addition to the staff.

**CONCLUSIONS**

**Section 8 – Conclusion**

Applying the twenty-first century leadership model contributes to optimum business performance by:

- Stabilizing Politics
- Promoting a Collaborative Regulatory Relationship
- Engaging Employees
- Continuously Improving Performance
- Controlling Costs
- Minimizing Employee Turnover, which is important to all of the other advantages

**REFERENCES**

Collins, J, (2001) *Good to Great*