



Strike a balance

In the darkening environment of the credit crisis, **Steve Lucas** of National Grid speaks to Nigel Ash about keeping a steady hold on the finance function.

Most of today's finance leaders will have experienced at least three recessions, says Finance Director of National Grid, Steve Lucas, even if they were in junior positions at the time: 'You need a little bit of historical perspective and that comes with experience. I don't think it's possible to be a really high-quality FD unless you've got a bit of experience which has hardened you for times that are tough.'

Lucas believes that past experience will have a large part to play in dealing with the credit crunch. 'We benefit hugely from having moderately good memories. Most people, including some with investment banks, who have been in employment for say 20 years will have lived through testing credit conditions – the Asian and Russian crises and the LTCM hedge fund collapse,

for instance, when credit markets tightened spectacularly but thankfully rather briefly.'

In the kind of business that requires one investment but then a return on that for 30 years, Lucas explains that having a long-term view that isn't just about turning a quick buck, does require a certain sort of person. 'You won't find very many trading types in National Grid. We're just not that kind of fast-moving, wheeler-dealing environment.

'That's not to say that we are any less talented, because the sort of things we do requires very, very intense and high levels of analytical ability. We make some very big bets. We make single investments in the billions and those have to be good, well managed investments. So in a sense I think

it takes quite a lot of professionalism and indeed professional courage sometimes to work up a recommendation around a big investment like that.'

'M&A is the classic arena where those attributes come to the fore. So I would say there is virtually no sort of value to National Grid that is not long-term. In other words, it's hardly ever going to be the case that you should focus only on the short-term and ignore the long-term drivers. We're lucky because most of our short-term actions are completely concordant with long-term shareholder value.

In turn, though, he says, this does have an effect on management and leadership style, and ultimately the smooth-running of the business.



'I think it's quite difficult to be a senior finance person in any discipline or sub-discipline of finance and not have some important leadership attributes. For instance, the ability to communicate; no matter how talented you are, if you can't communicate once you get above a certain level, your career pretty much hits the buffers. But having said that, I'd like to think that I do not have a finance organisation that is full of clones. Rather they are a mixture of talents. We have bookish techies

– we need those who do all the very abstruse IFRS stuff and then I've got other finance leaders who are members of business unit finance teams, or FDs of business units. These are business units that turn in operating profits of more than a billion pounds a year, so they are big companies in their own right.

These people are big leaders; part of big management teams leading big businesses. They need to have a wide

spread of leadership talent apart from just financial acumen. They need to be good business people. I need tax people who will have certain attributes in terms of focus on accuracy; treasury people who are obsessed with the last basis point. I need a whole spread of skills because finance is not a homogeneous function.'

Support network

As the leader of such a multi-talented team, Lucas has to take responsibility and offer

'I think you do have to develop the ability to be consistent and constant. We're not the sort of business that can accommodate easily U-turns in investment priorities.'

'We're a supertanker which means you need to be very confident that you are headed in the right direction to start with, because it ain't so easy doing U-turns with a supertanker. And I think that therefore requires there to be a cadre of people, not just in finance, who are comfortable with long-term decisions and comfortable with living those decisions for a long time.'

'If I fell under the proverbial bus tomorrow, there would be individuals within my organisation well qualified to take my place.' This, he explains, demonstrates National Grid's determination to foster its own future financial leaders. He believes there has to be a balance between external and internal recruitment.

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'Refreshing the gene pool with a little bit of external recruitment can be beneficial, but obviously if you do too much of it, it very much discourages your internal talent from aspiring and you potentially get into a vicious spiral of decline.'

Nurturing talent means offering finance professionals a range of opportunities. 'We can address much of the experience requirements within National Grid. We offer different geographies and, even within the utilities business, we have different businesses.'

'Then, of course, within finance we have corporate functions and financial management as well as a new feature in the last few years, which has been shared

services finance. All of them require different skill sets and give people opportunity to have different sorts of experience. So I'm not finding myself lacking in opportunity to give people variety and experience.'

Where outsiders are most typically hired is for discrete functions. 'In very specialist areas like tax we will recruit and also for accounting. It is very difficult within a corporate to keep up with technology because you don't have all the support structures you do in the profession. We have

tended to recruit externally into our senior technical role; it's only one role and it's our chief accountant role, but our judgement is that that is the right use of external resources. Otherwise, very occasionally we plug a gap with external recruitment but actually, if I look around at my organisation, I'm blessed with a great talent pool at pretty much every layer.'

The finance function is always guided by what it takes to make a very good team and the leadership skills necessary at each level.

Stream of conscience

'We don't stream our people as such,' says Lucas. 'And I think there has been a shift from promoting people based on potential to promoting people based upon achievement. We tend to fall into the latter camp, which is that doing a great job in your current job qualifies you for your next job, rather than, "You look like a senior leader of the future therefore we'll put you on a trajectory".'

'Now that's not to say that we don't manage careers; of course we do, but the whole thing is conditional on the performance in the current role. We do however have professional development programmes on both sides of the Atlantic. They are necessarily different to reflect the different characteristics of the finance market.'

'In the UK we've got all these great professional institutes like CIMA. All of them now offer the ability to train in industry and all of them offer qualifications that very substantially support our professional and technical needs as a big industrial company. And we have at any one time in the UK probably 30 to 40 people training or working on their qualifications. On top

of that we'll also have a small handful of people working on their treasury and tax qualifications. All of that is with the company's sponsorship, both in terms of money and time off. At the end, it leads to a qualification and I think that's good for the individual and of course good for the company.'

'The US is completely different; people tend to train at college or develop their technical skills and knowledge at college.'

'So the way we develop or bring on our talent is we recruit particularly in the New York area, in the colleges offering finance, administration and accounting programmes. We team up with these colleges and offer internships to the brightest and the best. Those internships in many, many cases then lead to offers of employment. We've now got in quite senior positions in our US organisations, people who ten years ago were interns with the company. It's a slightly different model; both models work very well in their respective markets.'



support and guidance. 'That is what a leader is for, a leader leads. For me, with a very high quality team, I don't often have to tell them how to do their jobs but what I do have to do from time to time is give them air cover and support so they can do their jobs effectively. This creates the dynamic for a strong, self-confident function; that you've got people who feel confident that, if they do a really thorough, professional job, they've got leadership right up to me, who will support them in doing that job. I think that's really important.

'It's not unqualified support because, if people let me down, I'm quite happy to be forgiving once or possibly on a couple of occasions. If people take decisions, and act in good faith based upon their best professional judgement, then I'll absolutely support them. This creates an environment in which people feel very confident to perform and do their best. So I think that's one of the most important things I can do for my organisation.'

'You need to be straight about performance and not fall into the trap of saying everybody performs wonderfully all the time.'

The other leadership quality is honesty.

'It's my experience that people are not very good at being honest. You need to be incredibly straight about performance and not allow yourself to fall into the trap of saying everybody performs wonderfully all of the time, even though actually I think my organisation does perform out of its socks most of the time. But every now and then you do need to be seriously objective with people. It's about honesty and integrity, those are company values but they're also personal values. Everybody benefits from constructive criticism, constructive being the operative word, because there is no one who is beyond improvement.

Constructive criticism

I think if we all learn to be objective and constructively critical about performance, then for a start you're not telling people stuff they don't already know – people know themselves much better than I know them. But it enables you to help them reach their goals and their ambitions because you are actually helping

people with their development needs rather than constantly saying "what a fantastic job you've done". So that's another really important factor, being really objective and honest with performance and feedback'.

Finance, says Lucas, is one of the most distinct disciplines within any company, which almost always merits its own board level leader.

'So there's no question of the importance of the function. And I think, without being self-important, just being objective, that the organisation then gets quite a lot of pride from having a board level leader. It's nice for me but it's also nice for them. So it's a function with clout and that makes everybody feel valued'.

Finance also motivates its people with significant levels of professional development and what Lucas sees as a highly individual career path.

'Within one function you can be quite successful in any big corporate. You just stay in finance your whole career, as indeed I have. I haven't stepped out of finance. There was nothing really philosophical about that, I was never really given an opportunity but never felt I needed it either'.

Another strong attribute required for the finance function is that of identity.

'Way back in the middle of my career, the company I was with established a commercial function with a commercial director. They would negotiate contracts and do deals from the supply and the sale side. It failed because it lacked strong identity. It lacked professional identity in terms of qualifications and experience and it was very much a transient organisation; people come into commercial jobs and then leave commercial jobs. Whereas finance has a very strong identity that makes people feel very confident about a long term career.' ■

Accurate measurements

On the basis that improving and delivering excellence in leadership performance is fundamental to delivering excellence in company performance, Steve Lucas pays close attention to the measuring the right qualities.

'We have a two axis system for assessing performance. On one axis is what people achieved and on the other axis is how they achieved it and they have an equal weighting.

'Over the last two years, National Grid has created its leadership programme, Performance for Growth, a company-wide performance management, assessment and reward system.

'We've had people-development processes in finance for a long time' says Lucas, 'but they really took off when they were part of an overall company programme. So we've got I think now a very strong set of processes that also include function-specific talent development processes. For instance, my finance management team and I formally review our talent pool quarterly.

'Thankfully we've got a great pool of talent and I've always got a queue of people waiting for every opportunity, which is great. But that isn't an accident. That is a managed outcome in terms of giving people the experience that they need in order to be able to fulfil not only their ambitions but also our expectations. That is now very much a product of a very formal and established set of processes which we've enhanced strongly over the last 18 months.'

Steve Lucas

Steve Lucas has been FD of National Grid since October 2002 and is also responsible for UK and US shared services. He joined the board following the merger of National Grid Group and Lattice Group. He had previously been executive director of finance for Lattice Group since its demerger from BG Group plc in 2000. Before joining BG Group plc as treasurer in 1994, he was with Shell International Petroleum Company for 11 years.

