Key Lessons from the 32nd PURC/World Bank International Training Program on Utility Regulation and Strategy
June 11-22, 2012

Annotated by Sanford (Sandy) Berg, University of Florida

Teachers learn from their students, and students learn from each other. As in the past, the 74 participants from 32 nations in this training course identified some key lessons learned over the two-week period. During the concluding session of the program, they shared their reactions to formal presentations and informal networking. The PURC team appreciated the dedication and energy exhibited by participants: attendees brought insight and understanding to the sessions and shared their ideas with all of us.

Note that while most of the lessons refer to regulatory agencies and to those developing infrastructure reforms, the principles apply to operators as well. Organizations face the same challenges: creating a sustainable infrastructure system where all stakeholders have confidence in the integrity of the process and have a shared vision of improved infrastructure performance.

As PURC’s Director, Mark Jamison, observed: “Many of the lessons tend to be strategic rather than technical in nature—suggesting that many of the important ideas involve how regulators, representatives from government ministries, infrastructure managers, and consumer advocates need to ‘get on the balcony.’” Intentionally stepping back from the “give and take” of regulation allows leaders to see how various stakeholders limit or promote reform. We hope the annotated list of lessons stimulates further discussion among those involved in these important sectors. I take full responsibility for errors of interpretation in this summary of key lessons.

Sandy

1. Identify Strengths and Weaknesses in Current Arrangements: An analysis of the current situation is essential for providing a baseline so you can evaluate the impacts of any policy changes. A SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats) helps your team determine what is working and what needs improvement. The analysis also needs to anticipate future challenges—some which represent opportunities for improving performance and some which could greatly weaken your organization (or even make it irrelevant). In general, infrastructure decision-makers face three basic challenges: (a) Improving transparency, so citizens can evaluate past trends and the effectiveness of current arrangements; (b) Addressing the tension between commercial imperatives (for financial sustainability) and social pressures (to keep prices low, while investing in pro-poor programs); and (c) Gaining the confidence of investors and donors that funds will be used wisely (which requires a track-record, documented by audited income statements and balance sheets).

2. Explore a Range of Strategies: We learned that no one size fits all: there is no single recipe for improving infrastructure performance, though basic principles are applicable across nations and regions. Just as being careful about the baking temperature, using fresh ingredients, and including appropriate seasonings, all are required for a great meal. Fundamental regulatory concepts are the foundation for cost containment, network expansion, and customer satisfaction. We can learn from our own mistakes . . . better yet, we can learn from the mistakes (and successes) of others!
3. **Seek Insulation from Political Pressures while Establishing a Reputation for Fairness:** It has been said that the task of a regulatory agency is to “Disappoint stakeholders at a rate they can endure.” No stakeholder gets all it wants from a decision. Thus, regulatory decisions need to balance a range of interests, while promoting efficiency and fairness. One participant noted, “The absence of a good, stable regulatory framework is like a vehicle with no brake.” Regulators earn credibility with government ministries (and investors) and legitimacy with citizens by demonstrating their competence and balance. As Daniel Carpenter writes in *The Forging of Bureaucratic Autonomy* (2001, Princeton University Press): “Bureaucratic autonomy . . . emerges not from fiat but from legitimacy. It occurs when political authorities see it in their interest to defer to agency action, or when they find it too problematic to restrict it. They defer to the agency because (1) failure to do so would forfeit the publicly recognized benefits of agency capacity, and/or (2) the agency can build coalitions around its innovations that make it costly for politicians to resist them. These coalitions are part of the agency’s reputation; reputations are not ethereal but are embedded in network-based coalitions.” Public communication is central to this process.

4. **Be Aware of Stakeholder Impacts:** Decisions by both managers and regulators affect many different groups. That means the consequences of actions need to be anticipated, and decisions must be carefully explained to stakeholders. Prior to taking an action, the concerns of each group must be identified—through meetings, workshops, and other venues. Then, you are in a position to identify the stakeholders that have the most power, those with the most information about the sector, and those that are willing (and able) to support particular strategies. Note that one group NOT sitting at the table consists of future customers: someone needs to represent the concerns of those who are harmed if political expediency and rhetoric rule the day. Good environmental stewardship is another area that requires particular attention.

5. **Communicate Decisions to Affected Parties:** Infrastructure decisions affect many groups; the differential impacts can depend on region of the country, income levels of customers, political pressures, type of input supplier, unionized and other workers . . . and the list goes on. Managing stakeholder expectations requires attention to all groups in society, using appropriate channels of communication to get your message across. Public education and awareness are elements that can strengthen support for infrastructure reforms. In addition, make decisions that are timely and “neutral.” Delays are not neutral with respect to impacts. Those favoring the status quo (over reform) are content with current poor performance: they fear legislative leaders who set clear goals and regulators who implement and evaluate programs. “Neutral” or balanced decisions will tend to focus on substantive issues, weighing the consequences of alternative rules in terms of national priorities (as reflected in legislation). A regulatory process that adheres to schedules and results in timely decisions is important. However, substance (attention to consequences) is even more important.

6. **Develop Technical Skills:** One of the benefits of the two-week course has been exposure to technical concepts and skills that are essential for evidence-based decisions. Data allow regulators to compare past trends, evaluate current performance, and identify best practice (for targets). Decisions that are data-driven are less likely to be challenged on the basis of
insufficient information or inappropriate procedures. Executives only manage what they measure; regulators can only reward what is quantified. In addition, the art of regulation requires the development of adaptive (so-called “soft”) skills (related to communication, negotiation, and problem-identification). “Soft” does not mean “easy” or “unimportant.” Finally, commissioners need to know enough not to be intimidated by specialists. “Experts should be on tap, not on top.” (Winston Churchill).

7. **Prioritize Objectives and Activities:** While political pressures are likely to be important elements of the decision-context, it is essential to focus on the job at hand. Whatever your role in the organization, you can contribute to improving performance. The decision to engage in organizational politics is tempting, but ultimately damaging to the system you are supposed to be improving. That does not mean ignoring the reality of internal disputes or personality conflicts. However, instead of contributing to dysfunctional outcomes, seek ways to link your professional development to the achievement of stated organizational objectives. Ultimately, both you and those around you will begin to see the benefits of “jobs well done.”

8. **Achieve Autonomy:** Regulators and managers of state-owned enterprises both need some degree of insulation from day-to-day political pressures. The time horizon for network infrastructure involves decades, which requires careful planning and regular maintenance of equipment. Political patronage and cronyism damage organizations. Regulatory rulings that are linked to the election cycle make planning difficult and signal to citizens that it is acceptable to have extremely low prices (associated low service quality and low network coverage). At the same time, regulators need to be aware of political factors: “Stupidity is not the best way to demonstrate independence.” (Winston Hay, former Director, Office of Public Utilities—Jamaica)

9. **Utilize Resources and Continue Networking:** Each participant has been exposed to a wide range of concepts, ideas, strategies, and skills. How does one maintain momentum in the area of capacity-building. In one of the course evaluations, a participant said, “I do not regularly read resource material on regulatory issues: that will no longer be the case.” This important change in behavior represents the recognition that there is a wealth of information available on the Web [www.regulationbodyofknowledge.org](http://www.regulationbodyofknowledge.org), at PURC, in local universities, and through regional and international meetings. If we do not take advantage of these opportunities for continuous learning and for sharing experiences and expertise, our impact on improving sector performance diminishes.

10. **Identify and Manage Problems:** The issues facing infrastructure decision-makers are complex and changing. That means problems can be managed but not “solved,” since if there were an easy solution, it would have been adopted and everyone would have moved on. Further, there is no single approach suitable for all settings, since the legal system, cultural traditions, social values, political cycles, and stage of development differ across countries, and even within countries. Leadership involves bringing issues to the forefront so the organization deals with the “elephant in the room.”

11. **Anticipate Technological Change:** Innovations and changes in scale economies can change what needs to be regulated and what can be left to the competitive market. Convergence in telecommunications is probably the best example of a change that is affecting the structure of
an industry. Are regulators and managers truly ready to address the many issues raised by ubiquitous digitalization? Sometimes we think we have the answer and begin to move on. However, as W.S. Coffin noted, “Unanswered questions are not as dangerous as unquestioned answers.” We need to be sure our answers are based on solid analysis and not on wishes, ideology, political expediency, or half-baked theories.

12. **Continue Capacity Building:** An “educated guess” is a starting point, not the end-point when analyzing various options and selecting the one that best meets the organization’s objectives. Thus, regulatory agencies and infrastructure firms alike must take advantage of ongoing educational opportunities. Technical terms, while inappropriate for a press conference, provide a common basis for communicating within an organization. Given the complex financial, economic, engineering, and managerial environment, professionals must keep up-to-date regarding best practice. Furthermore, new regulatory and managerial techniques are becoming embedded in information systems, making information technology (IT) a key tool in a modern organization. Vision statements are not self-implementing: little of true significance is accomplished in very short periods.

13. **Promote Transparency by Breaking down Artificial Walls:** We all know that information is power: organizations are riddled with silos and little potentates who view themselves as gatekeepers. Their self-importance depends on their ability to delay decisions and manipulate data to their advantage. Such behavior is destructive to organizational success. It constrains sound analyses and elevates personalities and process over performance (actual outcomes). Of course, legacy systems (and information silos) are not automatically dismantled when new approaches to decision-making become possible, but leadership and teamwork can support organizational change; you can continue to build on concepts developed in the **PURC/World Bank International Training Program on Utility Regulation and Strategy**.

Since some people think thirteen is an unlucky number, I will add another “Lesson”:

14. **Take Advantage of the Gator Nation:** InstiGators, LegisGators, InvestiGators, EduGators, NegotiGators, PromulGators, CommuniGators, OperGators, and ReguGators. We now take our new skills and attitudes home for the benefit of those who supported us. The friendships established at this training program can give technical support, inspiration, and hope. Networking with new friends and with colleagues can be a source of strength as we all tackle infrastructure challenges in the days ahead.

The ultimate objective of regulation is improving the welfare of all the people. Citizens will not view the regulatory system as legitimate if regular improvements are not available. We all make mistakes: admit them, since ultimately the “bad news” will become widely known. Mistakes cannot be avoided. Whenever a regulatory or managerial decision turns out to have unanticipated negative consequences, admit it, learn from it, and move on. No one expects perfection. Most citizens appreciate candor.