

The Regulatory Balcony

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“The most important task of an organization’s leader is to anticipate crisis.... To wait until crisis hits is abdication.” – Peter Drucker

As we approach the 100th anniversary of regulation by public utility commissions in the United States, I am impressed by how much things have changed and how much they have stayed the same. What's changed? The technical challenges of 100 years ago have been resolved and new issues have arisen. What's stayed the same? Technical issues almost always present adaptive challenges, which are hard to resolve and require leadership that takes a balcony viewpoint.

Before talking more about this balcony, let me explain what I mean by “adaptive challenges” and why they require leadership. The term adaptive challenge is probably best defined by contrasting it with the expression “technical challenge.” A technical challenge is a problem that may be quite complex, such as designing electricity transmission prices or setting up an emissions trading system, but that can be solved by experts using the right analytical tools. In contrast, an adaptive challenge is one that requires people to rethink valued traditions and practices that may clash with new realities. For example, efficient prices for water may require some people to change lifestyles and others to change their livelihoods. New realities in competitive telecommunications are forcing people to either give up traditional pricing for local telephone service or face having the service disappear.

People resist change, especially when it means giving up things they value. For example, politicians who value obtaining favorable treatment for their constituents resist independence for regulators. Those who hold command-and-control regulation dear are often scornful of the more hands-off techniques of incentive regulation even when they benefit customers.

Resistance to change often leads people to put off facing hard realities until there is a crisis. Delaying decisions in the California energy crisis was politically expedient, but it cost the state billions of dollars. Similarly, it is impossible to know for certain the costs of legal and regulatory proceedings, forgone efficiencies, lost innovations and the like that resulted from our unwillingness to recognize that long distance telephone companies were more a creation of regulation than of markets.

What can regulators do to help people face hard realities before crises hit? Exercising regulatory authority generally isn't enough. Regulators need to identify adaptive challenges while they are still in their infancy, understand when the regulator is part of the problem, and engage people in performing adaptive work. Let's focus on the first step in this process, namely identifying adaptive challenges, which requires that regulators get on the balcony.

Getting on the balcony is a metaphor developed by Ron Heifetz and Marty Linsky of Harvard University for seeing what is really going on with yourself and others. On a dance floor, you mainly see yourself and the people immediately around you. That gives you one perspective on what is happening, including only one perspective of yourself. But if you leave the dance floor and get on the balcony, you can see much more; for example, who is dancing and who is not, how the music affects different dancers, and where dancers are on the floor.

How can regulators get on the balcony to foresee crises? One of my favorite approaches is one developed by my predecessor as PURC's Director, Sandy Berg. He likes to ask people, "If you could have a report on any topic on your desk Monday morning, what would that report be about?" Answering this question makes people think about their priorities, the effects of these priorities, and what it is they do not know. Another favorite approach is to apply a thought experiment developed by Robert Kegan and Lisa Lahey that helps people identify value conflicts that cause problems to persist over long periods of time.

To see distant parts of the dance floor and how the areas of the floor interrelate, regulators can step back from the daily work of regulation and ask questions such as "Who really cares about the actions I am taking?" "Why are some people engaged in what is going on, why are others passive, and why are others resistant?" "What seems to be happening beyond my vision?" "What about my work keeps me up at night?" and "If I do this, what will happen next?"

Regulators can also rely on others to provide a balcony view. For example, university think tanks can challenge conventional wisdom, provide careful research, and provide neutral forums for dialogue and education. Industry representatives might call attention to discontinuities in their business. Stakeholder advocates may notice and point out disruptions in the normal flow of regulatory work.

Infrastructure regulation will always be a work in progress, and adaptive challenges will continue to be an integral part of that work. Leadership can come from many directions, but regulators will always play key roles by viewing things from the balcony and engaging people in adaptive work.

References for this article include: Ronald A. Heifetz and Marty Linsky, 2002, Leadership on the Line: Staying Alive through the Dangers of Leading, Boston, MA: Harvard Business School Press; Mark A. Jamison, 2005, "Leadership and the Independent Regulator," Public Utility Research Center, University of Florida, and The World Bank; Robert Kegan and Lisa Laskow Lahey, 2002, How the Way We Talk Can Change the Way We Work : Seven Languages for Transformation, San Francisco, CA: Jossey-Bass.