Leadership and the Independent Regulator

Mark A. Jamison
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Public Utility Research Center
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"Unhappy with consumer protection, OUR"

"OUR budget still awaiting cabinet approval"

"The RLC - are they really here to protect?"

Jamaica Gleaner, 2000

Jamaica Gleaner, 2001

Trinidad & Tobago Express, 2004
Why dangers for regulators?

Independence means
• Loss of political power
• Loss of political options
• Loss of influence

Player in the process
Meaning of Independence

- Consumers
- Operators
- Politicians
- Other Interests

Public Utility Research Center
UNIVERSITY of FLORIDA
Regulating the Regulator
Cost of Independence

- Firms
- Independent
- Regulator
- Buyers
- Political
- Control

Short Run
Long Run
Regulator as Player

• Formal policy advice
• Exercising leadership
## Authority vs. Leadership

<table>
<thead>
<tr>
<th>Authority Work</th>
<th>Leadership Work</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provides solutions</td>
<td>Identifies challenges</td>
</tr>
<tr>
<td>Protects</td>
<td>Discloses threats</td>
</tr>
<tr>
<td>Restores order</td>
<td>Exposes real conflicts</td>
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<tr>
<td>Maintains norms</td>
<td>Challenges norms</td>
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</table>

From Heifetz, 1994
### Neuroscience

<table>
<thead>
<tr>
<th></th>
<th>Controlled</th>
<th>Automatic</th>
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<td>Linear and analytical, Subjective effort</td>
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<td>Cognitive</td>
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<td></td>
<td></td>
<td>Accepted values and threats</td>
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Experts

• Experts are those whose experiences map well to their beliefs
  ▪ Doesn’t mean that they know reality, just that their experiences are the experiences they expect, given their beliefs

• Examples
  ▪ Chess
  ▪ Securities traders
  ▪ Sports
## Neuroscience

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### Cognitive
- Recognize what is
- Process novel information
- Technical expert

### Affective
- Emotions and Motivation
- Consider emotional response
- Accepted values and threats

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Exposure to novel patterns creates ambiguity
Adaptive learning uses controlled processes to change automatic processes.

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<td>Recognize</td>
<td>Changing requires reworking of emotions, values, traditions</td>
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**Controlled**
- Linear and analytical
- Subjective effort

**Adaptive**
- Pattern based and quick response

Changing requires cognitive effort
Confronting an adaptive challenge

• What happens when we cannot map an experience to our beliefs; i.e., encounter a novel experience?
  ▪ Creates
    • ambiguity – a sense of not knowing how things really work
    • anger – a sense that someone is screwing with us
  ▪ The “stress” of ambiguity drains mental energy, which lowers productivity
Adaptive learning

• Investigating the novel experience to learn new realities (changing beliefs) and to adapt rules and strategies

• Effects
  ▪ Lowers ambiguity, which improves productivity
  ▪ Requires conscious effort and consumes mental resources
  ▪ Inspiration: Potential to increase “profits” by improving beliefs

• Reversion risk if do not abandon former practices
Stress and mental work

Stress
Increasing Cognitive Activity

Stress
Decreasing Cognitive Activity

"Flooding"
Leadership with Authority

Mixing Roles

Solutions vs. Challenges

Order vs. Conflict

Protection vs. Disclosure

Norms vs. Challenges
Getting on the Balcony
Observing from the Balcony

What is really going on?  What are your emotions?

What are the motivations?

What are their reactions?

What are your reactions?
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<th>Adaptive</th>
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<tr>
<td><strong>What’s the work?</strong></td>
<td>Apply current know-how</td>
<td>Learn new ways</td>
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<tr>
<td><strong>Who Does the Work?</strong></td>
<td>Authorities</td>
<td>The people with the problem</td>
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From Heifetz and Linsky, 2002
Create a Holding Environment

Safety + Stress
Conclusion

“The good leader is he who the people revere. The great leader is he who the people say, ‘We did it ourselves.’”

Lao-Tzu