Leadership and the Independent Regulator

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About PURC

• Research on energy, water, telecoms, institutions, and leadership

• PURC/World Bank International Training Program
  ▪ 140 countries, >2000 professionals

• Customized and advanced courses
Online Resource

- Narratives summarize key topics
- Additional Resources: Glossary in Spanish and four other languages
- Frequently Asked Questions, including
  - Social pricing to promote access
  - Management and regulation of State-owned Enterprises
- 500 PDFs as References
- Self-paced Quizzes (for capacity building and classrooms)

www.regulationbodyofknowledge.org
Outline

- Purposes and design of infrastructure regulation
- Frictions in independence
- Leadership in stable and changing times
Purposes of Regulation

• Public Interest Theory (Glaeser 1927; Trebing 1984, 1987)
  ▪ Control market power
    • Natural monopoly characteristics ⇒ undersupply, discrimination
  ▪ Ensuring sector stability
    • Inherently destructive competition
    • Imbued with public interest
• Neoclassical economics (Peltzman 1976; Posner 1971)
  ▪ Redistribute wealth
  ▪ Extract rents from service providers
Regulatory Institutions

• Limit Opportunism (Spiller 2005)
  ▪ Independence ⇒ checks and balances
    • Political, operator, stakeholder
  ▪ Independence improves investment and stability (Henisz and Zelner 2001; Gutiérrez 2003)

• Overcome information asymmetries
  ▪ Private information (moral hazard; adverse selection). Incentivize efficiency.
  ▪ Expert, credible information
Meaning of Independence

Consumers

Operators

Regulator

Politicians

Other Interests

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Independence ≠ Sovereignty: Regulating the Regulator
Structure of Independence

• Staggered Terms
• Non-removal except for cause
• Regulate under law with judicial oversight
• Legislative or independent budget
• Split authority in appointment process
  ▪ Although some are elected
• Transparency
Practice of Independence: Dangers

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

Player in the process
Independence for long run
Regulator as Player

- Formal policy advice
- Exercising leadership
Pressures in the Caribbean

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

"OUR budget still awaiting cabinet approval"

"Unhappy with consumer protection, OUR"
Pressures in the U.S.

- Maryland legislature attempts to disband the state’s PSC
- Illinois governor pressures ICC chairman out of office
- Florida governor announces that commissioner reappointments depend on rate decision
Challenges to Independence

• Are the political pressures a pattern or a set of random events?

• If pattern, why?
  ▪ Lower quality of politicians?
  ▪ Lower quality of regulators?
  ▪ Change in the political qualities of utility services, e.g., greater importance or greater volatility?
Do we need...

- Institutional changes?
  - Structural problem
- Training/education?
  - Personal skill problems
- Patience?
Practice of Adaptive Leadership and Leadership without Authority

• Framework
• Tools
• Reset
• Pedagogy
# Technical vs. Adaptive Challenges

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

Safety + Stress

DANGER AHEAD
Technical Problem or Adaptive Challenge?

- **Limit of Tolerance**
- **Threshold of Learning**
- **Work Avoidance**
- **Technical Problem**
- **Adaptive Challenge**

**Productive Range of Distress**

From Heifetz and Linsky, 2002
Reset

In some contexts, change is important. The change might be to go where others have gone before, but it might be onto new ground. “Reset” means developing fresh perspectives and knowledge about the future, trusting the wisdom of the past.

• Focus on **Next** practices, not **Best** practices.
• Focus on **Why** rather than on **What**
• Focus on **Leadership** not on **Leading**

(Jamison and Castañeda, 2009)
Next practices, not Best practices

• Best practice is about imitation (following in someone else’s footsteps). A focus on next practice is needed when we are going into areas where no one has gone before.

Why rather than What

• When we ask ourselves “What should we do next?” we emphasize practice. But the practice needs a foundation, basic principles, and values.
• Ask “Why have certain practices or why have experiments been successful or unsuccessful?” so that we analyze our underlying priorities and our context. We learn, keep what is important, and discard what holds us back.

Collins, 2009. How the Mighty Fall and Why Some Companies Never Give in
Leadership vs. Leading

- Leader provides direction (when the right direction is already known).
- Leadership mobilizes people to tackle difficult and often ambiguous problems and circumstances.
  
- A node in a complex system, influencing the system
## Authority vs. Leadership

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<th>Authority Work</th>
<th>Leadership Work</th>
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<tr>
<td>Provides solutions</td>
<td>Identifies challenges</td>
</tr>
<tr>
<td>Protects</td>
<td>Discloses threats</td>
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<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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From Heifetz, 1994
Pedagogy

**Didactic**
- Lecture
- Instant Feedback
- Small Group
- Panel Discussion
- Debates
- Advocacy

**Experiential**
- Case Studies
- Role Play
- Simulations
- 360° Feedback

**Technical Training**
- Leader: Controls
- Learner: Passive
- Essence: Intellectual
- Recall: Limited

**Developing Heuristics**
- Leader: Takes Risks
- Learner: Active
- Essence: Personal
- Recall: Maximized

**Leadership**
- Case in Point
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