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Investing in stakeholder strategy: how a supportive stakeholder environment can drive revenue and profitability

Today, many electric utilities are proposing large system investment programs that will require broad stakeholder support to ensure their future success. In particular, an increasingly diverse group of influencers have an impact on the utility's ability to gain approval for these programs, which may be pivotal to the company meeting its earnings targets. Given this, utilities may need to consider whether their current engagement strategies are effectively positioning them for success.

In many cases, relationships between stakeholders and utilities are fragmented, inconsistent, and sub-optimized due to a lack of professional and rigorous management. In this paper, we share what we perceive to be the important elements of an integrated stakeholder strategy, describe how a similarly highly regulated industry, life sciences, has used a forward-thinking approach to change mind-sets and secure patient access to new drugs, and provide some questions that utilities should be asking about their current engagement strategies. The benefits of adopting a highly focused and proven approach can be in both reputation and performance, and yet many large organizations take this highly impactful aspect of their business for granted.

Context and rationale

Under traditional cost of service regulation, investor-owned electric utilities are entitled to earn a reasonable rate of return on capital that is prudently deployed to serve their customers. Defining what is and what is not a prudent investment is typically the job of the regulator, who must decide whether the utility's investments are in the best interests of the customers. Regulators explicitly and implicitly consider a range of factors to evaluate investments, including cost, reliability, safety, diversity, economy, and sustainability. How these factors are evaluated is a matter of considerable judgment. While some factors may distill to hard numbers (e.g., cost, improvement in reliability scores), others will be highly subjective (e.g., are we being sustainable enough?). Moreover, regulators will need to decide how all these factors should be traded off. For instance, is an expected quarter-hour improvement in System Average Interruption Duration Index (SAIDI), a measure of average outage duration minutes, worth a large investment in line switching and a resulting rate increase?

To formulate an opinion on the prudency of a particular utility investment, regulators will generally listen to a wide range of opinions from special interest groups that represent customers, businesses, employees, governments, and even the industry itself. An objection by any one group about a utility's planned investment can have significant consequences. Most utilities have been forced, at one point or another, to abandon a large capital project as a result of the actions of one or more stakeholder groups. For instance, in 2015 Duke Energy was pressured to abandon its plan to run a transmission line through the Blue Ridge Mountains to serve an increasing load in Asheville, NC. Duke was fortunate in that it was able to negotiate an alternative investment program. However, in other cases, abandoned projects can lead to lower earnings and reductions in shareholder value as the Street becomes less confident in the utility's ability to gain approvals.

While utilities actively manage stakeholder relationships as a matter of course, several key factors make this task significantly more complex today and increase the risk of negative regulatory outcomes for utilities operating under the status quo:

1. Many large utility investments involve new technologies, which may be inherently risky.
2. Social media has made it easier for groups to assemble and given small groups a larger voice.
3. Low-load growth has led to substantial increases in retail rates for many and, in turn, more scrutiny on utility investment plans.
4. The largest global energy consumers are leveraging their power in the market and forcing deals with their utilities, which could have an effect on other customer groups.
5. The drive for sustainability has gone mainstream and substantially increased the number, size, and influence of these special interest groups.
6. The digitization of the grid, combined with declining cost of distributed generation, has led to many new market entrants and increasing competition for utilities.

A new environment for stakeholder engagement

The challenges identified above have broad implications across two distinct aspects of stakeholder engagement: how it is planned and the impact it can have on outcomes for both utilities and the relevant stakeholders.

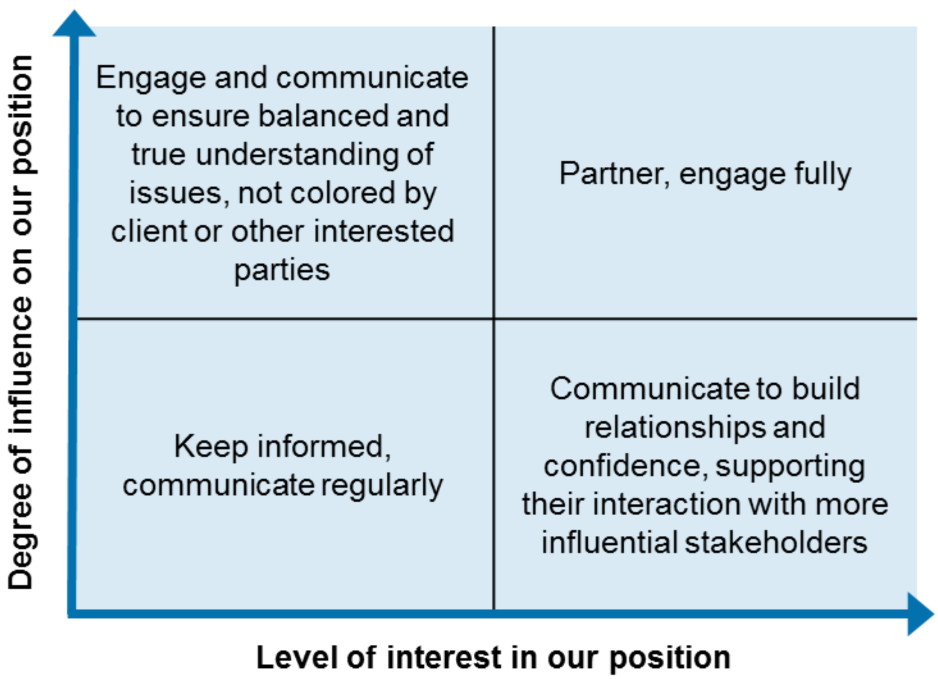
The first aspect relates to utilities having a clear view of who their key stakeholders are (who matters and how they can influence outcomes of regulatory policy making) and the primary issues to be addressed in their communications and engagement with these stakeholders. And in markets where there are degrees of (or potential for) deregulation, the regulators are inevitably aware of, and sensitive to, issues that might previously have been peripheral to their decision making. Consequently, utilities need to put more emphasis on planning and managing relationships with key stakeholders. This helps utilities meet regulator expectations, and positions them favorably when it comes to an assessment of their customer-focused initiatives. While this can be effectively managed and have positive outcomes, it is still based around utilities seeking to drive their agenda, communicating carefully crafted messaging among identified target groups in the hope of securing buy-in for an integrated resource plan (IRP) or other strategy directives that require regulator support. This first aspect is the current norm.

The second aspect represents a step-change in attitude toward, and delivery of, stakeholder planning that goes beyond what most utilities considered necessary in the past, but could make all the difference in the evolving regulatory environment. While key stakeholders have previously been straightforward in identifying and engaging through well-defined and proven channels, the rules are no longer so clear cut. There are increasingly disparate groups of stakeholders, who are more empowered to seek out information on utilities and their performance, to communicate about these or related issues, or to interact with other stakeholders using social media or other channels.

These stakeholders are less easy to identify and interact with individually, yet they have potentially more autonomy to act or take decisions that affect utilities. They are a mix of advocacy groups, quasi-competitive companies, and individuals that extends way beyond the experts and policy influencers; they share relationships across a web of fragmented communications channels and they have immediate access to extensive public information and evidence. Moreover their motivations and degrees of influence vary significantly and therefore require individual consideration.

Asking the right questions about stakeholders will help to prioritize them and focus how you choose to engage with them:

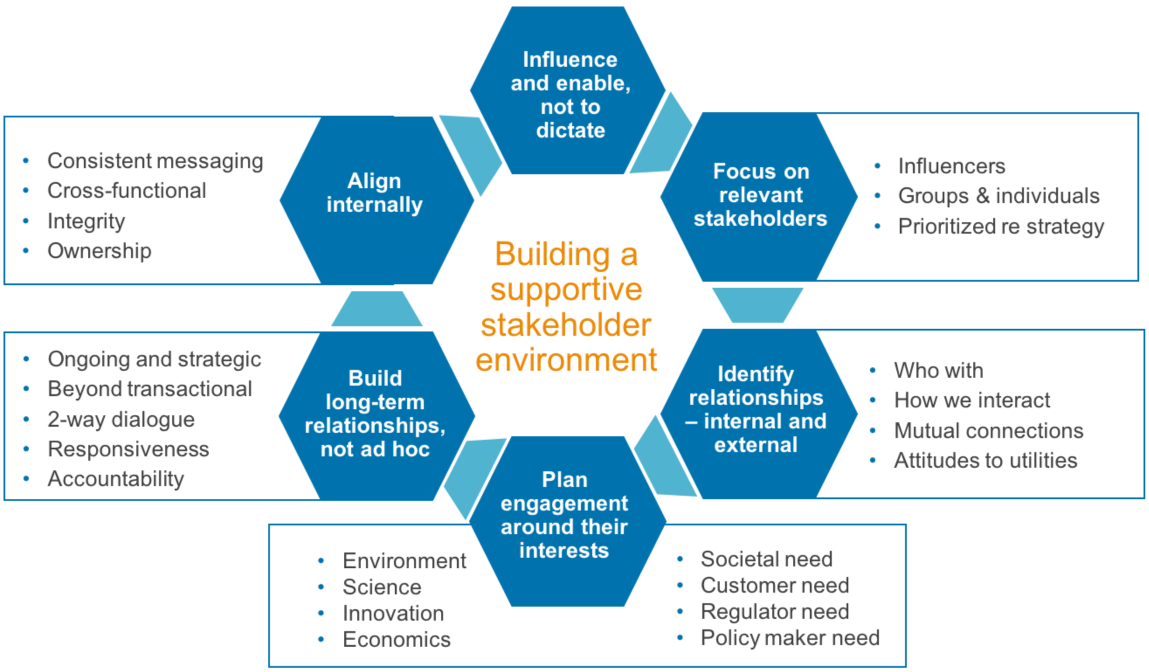
- Who are the key players, internally and externally? Are they influencers or just interested parties? Where do they fit on the grid below?
- What are their priorities?
- How do they interact with each other?
- How important is wider collaboration rather than direct interaction?
- How do we best interact with them?



Managing this more circumspect approach to stakeholders requires more pace, flexibility, and clarity on where relationships are owned within utilities. It therefore needs genuine alignment between multi-functional internal teams who are all critical in managing individual stakeholder relationships, rather than relying on companywide campaigns. External stakeholders interact with each other, so it is essential that they are hearing consistent information, whatever their contact point is within the utility. For example, the utility may assign a specific team to work with large customers and engage around upcoming changes in rates or rate plans. Meanwhile, a regulatory or government affairs team may be interacting with trade groups that represent those same customers. It is imperative that both teams are delivering a consistent position to common customer sets to ensure that the intended message is not misconstrued.

Building an effective framework requires a meticulous focus on stakeholder analysis and commitment to orientating activity around each stakeholder's priorities and concerns, with broad internal participation and alignment to prevent the customary failings mentioned above. With a rationale based around two-way dialogue where stakeholders are respected for their position, this may require a shift in the corporate mind-set, especially where there is potential conflict. Utilities may consider entering into collaboration or even partnership with groups who may not be natural allies, potentially relinquishing unilateral control of both process and messaging. But at the same time, they will be working to balance short-term performance goals with longer-term reputation drivers. This new approach requires adherence to the six guiding principles in the figure below.

Figure 1: Guiding principles behind effective and rigorous stakeholder engagement



Source: CRA analysis

Parallels to life sciences: what utilities can learn

Interesting parallels exist with the health care sector, where major pharmaceutical companies face similar stakeholder challenges to those encountered by energy utilities. The life sciences industry is highly regulated and involves very large corporations with ambitious earnings targets, but with stakeholders that range from highly influential, well-organized professional and advocacy groups down to individual stakeholders – patients.

In developed societies, we all expect access to electricity to support our modern lifestyles as well as access to available therapies to treat us when we are unwell. Our assumed entitlement to these near commodity resources drives the level of stakeholder activity in these two markets, which is why utilities and pharmaceutical companies can learn from one another when it comes to managing critical relationships and sustaining reputation. Furthermore, the combination of expectation among the well-off and the potential for abandonment of the less well-off (no access to medicines, energy poverty), provides additional fuel for political actors and external commentators, such as the media.

In one recent project concerning treatment of a retinal disease in the US, a client was facing a serious challenge around the introduction of innovative new therapies in competition with a long-established, often less-effective, and potentially harmful treatment which costs only a fraction of the price of the newer therapies. Understandably, many US insurance companies, known as payers, were keen to push for use of the lower-priced product to avoid the economic impact of the new technology. But this came with substantial risks to some patients that could only be predetermined by retinal experts. However, because the established treatment is effective in some patients, and the physicians themselves stood to benefit financially from the use of the more expensive drugs, there was cynicism among payers around moving to a new technology. At the same time, there was much discussion of the concept that physicians are trained and personally motivated to make the right choices for their patients and that to prevent this from happening is both unethical and an irrational drift towards payers making clinical judgments for which they are not qualified.

There are valid arguments on both sides, with vested interests among all stakeholder groups, so it was essential to create a novel approach to build authenticity around loss of control for any one stakeholder. Getting to this stage required all groups to coalesce around an approach built on rigorous stakeholder analysis to understand who mattered, where mutual relationships existed, how influence was delivered, and the individual priorities of every stakeholder group. This fed into a multi-stakeholder summit meeting which led to more trusting relationships, collaborative planning, and shared participation in creating and delivering a professional program of stakeholder interaction to more effectively engage with payers and change their decision-making criteria and behavior. Not only did the outcomes for all stakeholder groups match their aims more closely, but their reputation as patient-centric organizations was also enhanced.

The parallels with the utility market are clear, particularly with respect to stakeholder influence over power generation decisions in the face of more efficient, cleaner but potentially more costly technologies, and where there are multiple stakeholders with conflicting and vested interests. Furthermore, in markets like these, where evolving strategies are delivered over long timescales, relationships with key stakeholders, including opponents, have to be nurtured on an ongoing basis. In this situation, short-term communication campaigns to seek buy-in only when it is most needed, are doomed to fail.

Case study: National Grid and Sunrun

One example of a utility moving beyond traditional notions of stakeholder management is the partnership between National Grid and Sunrun. Formed at the beginning of 2017, the partnership includes a joint marketing agreement, a collaborative grid services pilot, and a direct investment by National Grid in Sunrun. Sunrun manufactures and sells solar systems primarily to residential customers. A key aspect of the partnership was the relationship that Sunrun’s top policy officer, and a former Maryland regulator, forged with National Grid. Historically, many utilities have had a combative relationship with residential solar developers over concerns about losing or weakening customer relationships. National Grid’s actions transcended the traditional modus operandi of utilities to protect their own turf. National Grid recognized an opportunity to work with stakeholders to achieve a different, but not necessarily inferior, end point. By collaborating around technologies and issues that matter to their customers, National Grid is building reputational capital and potentially aligning themselves with wider stakeholder groups for better long-term performance.

Five questions every utility should ask

Utilities should assess their framework for stakeholder engagement and whether it is optimized to their current operating environment and adaptable as conditions change. The following questions may help clarify whether utilities have an effective framework:

1. Do you really understand your stakeholder landscape, how different groups interact with you and each other, and how they perceive your organization?
2. Is your approach to engagement oriented around key stakeholders and their priorities or is your starting point always message development and outbound communication?
3. How rigorous are you in aligning the views and approach of your internal teams so that external stakeholders are never surprised by their interactions with you or by what they hear from other people?
4. Do you invest in building long-term relationships or does your focus on stakeholders only really take effect when you need them to advocate on your behalf?
5. Are you committed to collaboration or are you, in truth, focused on your own agenda and the expectation that stakeholders can be persuaded?

Conclusion

Electric utilities are operating today in a market where there are increasing numbers of diverse stakeholders who are more aware, better coordinated, and less compliant with the status quo. And with rising energy prices, there is closer scrutiny by regulators and other influential stakeholder groups. Size and clout are not enough in this environment, where communication is instant and negative public opinion can spiral out of control. This creates an inherent need for utilities to adopt a more empathetic and professional approach to their external relationships. Genuine commitment to engaging with stakeholders need not cost a great deal in financial terms, and can pay dividends in terms of long-term, sustainable performance.

The implications of getting things wrong are easy to discern, both in terms of how regulators perceive a utility and how its reputation could rapidly unravel. The reverse is also true of course: organizations that effectively and transparently engage stakeholders become more credible across the energy market and are differentiated by their behavior, resulting in an enhanced reputation. They become leading stakeholders themselves, known for being reasonable to deal with and not only interested in their own success.

About the authors

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