

Capability Building in a Government Regulatory Firm (A)

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Meenakshi Aggarwal-Gupta¹
Shailaja Karve²

Abstract

Western State Electricity Regulatory Commission (WSERC) was a Government Regulatory Firm in India and worked in the areas of electricity and power. Its scope of work had significantly expanded after a decade of existence and the organization needed to keep pace with the changing requirements. There was a need for agile functioning in a market driven power economy in the areas of power generation, transmission and distribution. The firm needed to transition from being a regulator to being a change agent to support the reforms in the power sector.

The firm was operating with a skeletal support staff and key areas of expertise had been outsourced. The case presents the challenges of operating with an outsourced model and the need to move towards self-sufficiency. The firm wanted to now rely on internal expertise instead of depending on external consultants. The change of hiring practice would also need to be supplemented by change in the style of functioning. The case ends with the chairman pondering on how best to enable this change.

Keywords

Government organization, outsourced manpower, mentoring, interpersonal conflict, delegation

Discussion Questions

1. What were the factors that led to the need for a change in WSERC? In your view, was a change initiative really required?
2. What were the options available to WSERC for the capability building of its employees? What are the advantages and disadvantages of these options?
3. Do you agree with the organization's approach to capability building? Could the mentoring initiative have been managed without training?
4. What do you think of the role played by Arun in initiating change in WSERC? Was he effective or could he have done anything differently?

¹ Associate Professor, Indian Institute of Management Indore, Madhya Pradesh, India.

² Professor, K. J. Somaiya Institute of Management Studies and Research, Mumbai, India.

Note: This case is based on a real organization. As requested, the name of the organization and the characters have been disguised to protect the organization's identity.

Corresponding author:

Meenakshi Aggarwal-Gupta, Associate Professor, Indian Institute of Management Indore, Madhya Pradesh.
E-mail: meenakshig@iimdr.ac.in

There is a need for greater role and goal clarity among all employees—both technical and non-technical. We would like to help people link their roles to organizational goals.

—Arun Nalwade, Chairman, WSERC

It was 2011, and Arun Nalwade, the chairman of Western State Electricity Regulatory Commission (WSERC), had just finished a meeting with his two directors. Once again, there had been complaints about the work output of the advisors and regulatory staff (RS). The Director of Tariff had needed some specific data to resolve a conflict between utilities and consumers regarding tariff rates. However, the data provided to him were incomplete, and the referencing to provisions of the Electricity Act 2003 and precedents had not been sufficiently cited. A lack of preparedness had wasted the commission's time and there was a possibility of unsatisfactory rulings that could later be challenged by any of the affected parties.

At the time of its establishment in 1999, the Chairman of WSERC had visualized a lean organization that would be driven by expertise. Since it would not be possible to hire experts in areas such as energy pricing, management and conservation at government pay scales,¹ it was decided to outsource the critical work to experts. WSERC would work with skeletal staff on maintenance functions and the rest of the activities would be outsourced to consultants. However, after more than a decade of functioning, it was felt that this model of outsourcing needed to be reviewed. In the past decade, along with the increased scope of work, the cost of hiring consultants had also increased from 10 per cent to more than 50 per cent of the organizational cost (Exhibit 1). Arun felt that it was time for WSERC to carry out the routine and repetitive work internally and employ consultants only where the issues were novel or where expertise was required.

WSERC had to keep approaching consultants for every report or information that it needed. There were occasions of conflict of interest and the knowledge resided with the consultants rather than the organization. There were interpersonal issues, lack of well-defined roles and work processes, limited skill sets and many more such issues. Arun knew that he had to find a long-lasting solution to these recurring problems and overdependence on consultants, which spoilt the atmosphere at the workplace and left everyone dissatisfied. He realized that he had to do something before things spiralled out of control.

Electricity Power Sector in India

With an installed capacity of approximately 185.5 gigawatts (GW) in 2011 (Ministry of Power, 2012), the electricity sector in India was the fifth largest in the world, behind only the United States of America, China, Japan and Russia. India had one of the world's fastest growing energy markets, and it was expected to be the second largest contributor to the increase in global energy demand by 2035. In order to meet the electricity requirement, electricity generation needed to be expanded as India suffered from a major shortage of electricity generation capacity. By 2030, India's dependence on energy imports was expected to exceed 53 per cent of the country's total energy consumption. The National Electricity Policy (NEP) had set a target of electric power for all by 2012, but had fallen short by almost 60 per cent (Mishra, 2013). Various reasons were identified for this shortfall, such as, shortage of coal, outdated technology, regulatory environment and manpower capability. In all earnestness, the government also initiated a series of reforms to address problems at each level.

Governance of Power Sector

Ministry of Power (MoP)

MoP was India's apex central government body, which regulated the electrical energy sector. It was formed in 1992. Electricity Regulatory Commission Act (1998) and Electricity Act (2003) were enacted to change the governance and functioning of various public and private entities² in this sector. MoP was responsible for perspective planning, policy formulation, processing of projects for investment decisions, monitoring project implementation, training and manpower development, and the administration and enactment of legislation such as Electricity Act, 2003, (Ministry of Power, n.d.a) for thermal and hydro power generation, transmission and distribution.

Central Electricity Authority of India

The Central Electricity Authority of India (CEA) was a statutory organization governed by Section 70 (1) of the Electricity Act, 2003. The CEA advised central and state governments and regulatory commissions on matters relating to the NEP and formulated short-term and perspective plans for the development of electricity systems and all technical matters relating to generation, transmission and distribution of electricity. It was the key institution for promoting and ensuring that government schemes and plans were completed on time and the electricity systems were improved. The government set various targets (Exhibit 2) for itself and worked towards these targets through appropriate investments on one side and a supportive regulatory environment on the other. Thus, regulatory bodies became important vehicles to carry out government plans.

Central and State Electricity Regulatory Commissions

The Central Electricity Regulatory Commission (CERC), a key regulator of power sector in India, was a statutory body functioning with quasi-judicial status under Section 76 of the Electricity Act 2003. Under this Act, there was a provision to create electricity regulatory commissions for each state with powers to set tariffs without having to enact separate state laws.

CERC and State Electricity Regulatory Commissions (SERC) were the two electricity regulators—one operating at the central level and the other at various state levels. CERC's primary function (CERC, n.d.a) was to regulate the tariffs of central generating stations as well as all interstate generation, transmission and supply of power. It also aimed to promote competition among various utilities (e.g., Reliance Energy, Tata Power) on all fronts of the power business continuum (production/generation, transmission and distribution of power) and modernize its functioning to incorporate public-private partnership (Exhibit 3). The primary function of the SERCs was to determine bulk and retail tariffs and to regulate the operations of intrastate transmission. The organizational output was in the form of various rulings and/or judgments in a court setting presided by the chairperson of the commission.

Western State Electricity Regulatory Commission (WSERC)

WSERC was established in 1999 in a large state in Western India. Similar to the State Electricity Regulatory Commissions, the WSERC's primary responsibility was to determine tariffs, and issue

Table 1. Employee Strength at WSERC in 2012

Employees	Number
<i>Employees on contract or deputation</i>	
Individual Consultants (legal and non-technical)	11
Advisors (technical consultants)	10
Regulatory Staff	7
Regulatory Staff on Deputation Basis	5
Junior Regulatory Staff	15
<i>Employees on organization's rolls</i>	
Directors, Secretary and Undersecretary	4
Section Officers	2
Clerical Staff	9

Source: Company records.

licenses for the generation, transmission and distribution of electricity (Exhibit 4). Apart from that, WSERC adjudicated on disputes between and among various parties such as those between licensees and distribution companies, and advised the state government as appropriate. It followed a three-step process to ensure that its rulings were considered opinions backed by sufficient research and perspectives (Exhibit 5).

At the apex, WSERC was governed by a commission (see Exhibit 6 for the organizational structure of WSERC). The commission comprised of a chairperson and two members having a fixed tenure of five years. Reporting to the commission was the Secretary (on deputation), who headed the technical and administrative functions of WSERC and was responsible for the day-to-day operations. The technical functions were further managed by two directors (director tariff and director electrical engineering). An undersecretary, supported by administrative and other support staff, was in charge of the administrative function.

Manpower at WSERC

All permanent employees at WSERC were hired after receiving approval from the state government. The state government had initially sanctioned 24 posts in June 2000.³ Most of the people hired were from the clerical and administration functions. All other people were recruited as consultants or brought in through deputation (see Table 1). This was done to ensure that the organization had access to the best available resources within the constraints of government rules and regulations. Thus, while the organization's function was technical, most of the technical staff required to assist in this function had been hired on contract basis.

After the enactment of the Electricity Act, 2003, the functioning of the commission had diversified and work had increased considerably. As per the provisions of the Act, the commission could hire consultants for technical, legal, administrative and financial functions on contractual basis. These consultants could be firms and/or individuals and could be hired at varied levels such as experts and freshers. In order to cope with the increased scope of work, the government approved 39 more positions in March 2010. However, there was a dearth of qualified people in the market. WSERC had hired people across two additional levels as consultants in the hope of building capability for the firm. Arun had been hopeful that people at these two levels would be trained in their jobs and eventually be hired by the organization. Some of the bigger consulting firms were also empanelled as consultants to WSERC.

Most of the people that were currently employed by the organization had been hired after 2010. Thus, the organization comprised long-serving employees who were from the administrative functions, and technical employees who were associated as consultants and had been with the organization for a very short period of time. This led to a unique condition in the organization where there was no knowledge repository or access to tacit knowledge among the employees. Since the output of the organization was in the form of rulings and judgments, organizational memory formed a critical component of decision-making. Only those consultants who had been associated with the organization for a long time were equipped to cite precedents and use historical knowledge for efficient functioning of the organization. While the rulings and judgments were available in the public domain, the process that led to these rulings such as expert advice and data analysis was known only to the consultants. There were often delays in reaching the consultants or receiving their response when the commission needed their advice. Other employees also found these consultants reluctant to share their knowledge and experience. Arun was uncomfortable with this overdependence on consultants and felt it was time for the commission to have permanent employees whose expertise would be available whenever required.

Moreover, all consultants were hired by WSERC on time-bound contractual basis, which were periodically renewed as per the requirement of the commission. The individual consultants comprised people at three levels—advisors, regulatory staff (RS) and junior regulatory staff (JRS). Advisors were usually people who had retired from technical jobs in various firms in the power sector, either public or private. These were seasoned professionals who advised the commission on all technical aspects. RS were people who had worked for a few years in the power sector and JRS were hired on probation straight from various colleges for a career in the power sector. Both groups supported the directors and advisors in doing preliminary functional work in their respective areas. It was expected that over time, they would get trained to carry out their work independently.

Problems in Functioning

Electricity sector in India had earlier focused only on power generation and the role of all government bodies was to ensure sufficient supply of power. Cost of generation was not important. It had been assumed that whatever was generated would be transmitted and distributed. Over a period of time, the role of regulators had moved from ensuring adequate generation and supply of electricity to creating new markets and competition within these markets. Market-based approach meant that costs became important since tariffs were fixed either based on cost plus or competitive bidding approach. This change in the functioning of the power sector required an across-the-board change in the style of functioning. Arun felt that the regulatory commissions needed to act as agents of change in order to bring about reforms in the electricity sector. According to him:

The required reforms have already been decided by the government. The pace of these reforms however will be determined by market forces rather than administered forces. The commission has the responsibility of supporting these market forces to encourage the pace of reforms. The role of the commission has become far more diversified now. Earlier, the main role of the commission was to give rulings on petitions filed by various utilities⁴ and consumers. It now needs to encourage competition and work towards the development of the wholesale market. Newer players need to be brought in. (Arun Nalwade, personal communication)

He felt that most of the current employees and consultants had not seen or been exposed to the working of regulators, and thereby did not understand the requirements of a regulatory set-up or concepts of level playing field, whistle-blowing and penalizing. A greater emphasis needed to be placed on sensitizing

Table 2. Number of Cases Filed with WSERC

Period (April to March)	Number of Cases Filed
2000–2003	83
2003–2007	236
2007–2011	549

Source: Company records.

employees and associates about the functioning of WSERC and expectations of its stakeholders. As mentioned by Neil Vardhan, the director of electrical engineering:

There is a need to understand the Electricity Act as a whole story and not as individual sections pertinent to specific departments. People need to acquire domain knowledge and at the same time develop an understanding of the markets for different components of functioning and adjudication. Even experienced people such as advisors have expertise in only one domain. They need to know about other areas.

Due to the absence of a holistic perspective, various departments were operating in silos and there was a lack of coordination among them. In Arun's view, the interaction between different departments such as legal, finance and electrical had to be enhanced to enable the commission to take informed decisions. While the employees had come from predominantly hierarchical organizations, WSERC needed to have a collegial atmosphere rather than a hierarchical one. With the evolving role of the commission, there were new problems and challenges coming up in the sector. The number of cases filed with the commission had gone up multiple fold (Table 2).

This increased and diverse work demanded face-to-face interactions rather than a reliance on formal systems or mails, etc. For instance, a financial consultant mentioned that two of the major power companies were being reimbursed more income tax than what they were paying to the government. In the regulated business, these firms were entitled to tax reimbursement. This overpayment had happened since both these companies were conglomerates that could use segment accounting to apportion tax to electricity division. Since tariffs were fixed based on costs, income tax formed a major input to determine the total cost of generation. However, the technical consultants who had worked out the tariffs earlier did not accept this input. They were also unwilling to engage in a discussion and routed all internal communication through the Chairman. Arun felt that the firm needed to have a work culture that fostered open discussions and thinking for a competitive open sector rather than based on hierarchical meetings in which opinions were rarely voiced or long-drawn formal processes that only delayed decision-making.

The critical technical and advisory jobs were still being managed by experts (advisors). The JRS and RS were utilized only for routine low-end tasks. Arun believed that the new young consultants would be ready for their roles by working with the experts. For example, if tariff for a generation station needed to be fixed, a person had to know the process of power generation in a thermal plant, for example, knowing how much coal was required to be burnt to produce a specific amount (kcal) of energy. CERC had provided guidelines for acceptable levels of efficiency and heat rate (CERC, n.d.b). Experts, who had worked with the utilities for more than two or three decades, could look at the figures submitted by a power plant and immediately recognize whether the plant was working efficiently or not. It was expected that the experts would share their evaluation and decision-making process with the junior staff so that they could become competent at calculating costs and fixing tariffs. However, the envisaged knowledge transfer did not happen. Sanjay Patil, a senior member of the firm had complained:

The advisors should act as mentors. They don't permit decisions to evolve on their own. Their thoughts get dictated to the juniors rather than providing an opportunity for the juniors to think. As a result, the commission's objective of grooming the new recruits to become experts in their respective areas is not being met.

It was also felt that the advisors were afraid that if the younger staff became competent, they would be replaced; they therefore assigned minimal routine work to the RS and JRS, which did not build their knowledge.

Interestingly, the advisors thought that they were not being utilized appropriately by the organization. As Abhay Kulkarni, one of the advisors mentioned:

Since our contract is renewed every year, there is no sense of continuity or belongingness. The organization should encourage greater confidence in the advisors by promising longer stay so that we feel a sense of ownership. Our role needs to change from executors to advisors in the true sense.

Many of the newer hires had been with the organization for more than a year now. Yet most of the senior members felt that the JRS' levels of job expertise were not up to the mark. However, the JRS had a different perspective. As Ramesh, a JR in the organization mentioned:

Coming straight from an engineering college, regulatory work is new to us. We are attached to the advisors and given bits and pieces to work on. We don't understand the whole picture, and reading regulations does not appear very exciting.

Simultaneously, there were other conflicts in the organization. The advisors were people in their late fifties or early sixties and had developed their individual styles of working. The JRS and RS, on the other hand, were either fresh engineering graduates in their early 20s or working professionals in their 20s and 30s with few years of organizational experience. There appeared to be a preference for different styles of working with both sides unwilling to adapt to the other's style.

What Next?

Arun had meetings with various key people in the organization, including the directors and HR consultant, to identify ways to resolve these issues. A formal mentoring programme was suggested as a means to ensure knowledge transfer from experts (advisors) to the RSs, JRSs and any new recruit. However, Arun was not sure if mentoring was the best way to ensure this knowledge transfer or if the organization was ready for it. His fear was that even knowledge transfer would not resolve many of the other conflict areas. People needed to change their style of functioning to suit organizational realities. This would require the organization to conduct trainings so that people could become aware of their own functioning styles and also know what was required to meet the organizational vision. In the past, all trainings had always been technical workshops and seminars. In fact, since the year he had joined the organization, there had been no expenditure on any kind of training (refer to Exhibit 1). Knowing the variety of challenges being faced by the organization, he was left wondering what should be the first step towards initiating the process of change in the organization.

Exhibit 1. Revenue and Cost as Percentage of Total Revenue and Cost

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues												
State Government Grant	100.0	93.4	77.4	50.1	71.8	34.2	4.6	0.0	0.0	0.0	0.0	0.0
Fee and Other Income	0.0	6.5	22.6	21.4	6.1	12.7	59.0	44.4	42.3	40.3	58.6	24.8
Costs												
Salaries and Stipend	10.2	12.2	17.2	25.1	38.0	16.3	17.0	9.8	8.8	8.7	8.1	9.6
Office Rent	63.4	57.2	46.6	31.4	0.0	36.9	23.6	16.2	20.5	21.6	20.3	35.8
Consultancy/ Professional Charges	9.0	12.6	17.2	15.5	27.4	23.4	34.7	51.7	44.2	53.7	59.4	37.3
Seminars and Workshops	0.0	0.1	0.0	0.0	0.0	0.0	0.3	0.1	0.2	0.0	1.4	0.9

Source: Company records.

Note: Only the key sources of revenues and costs have been mentioned so the figures may not add up to 100.

Exhibit 2. Targets under National Electricity Policy

Since the enactment of the Electricity Act, 2003, the government has set challenging targets for itself. These targets included (MoP, n.d.b)

- access to electricity for all by 2012
- increase in per capita consumption to 1,000 units by 2012
- minimum lifeline consumption of 1 kWh/household/day by 2012
- demand to be fully met by 2012
- availability of adequate spinning reserves
- financial turnaround and commercial viability of the sector

Source: Company records.

Exhibit 3. Functions of CERC**Mandatory Functions (CERC, n.d.c)**

- To regulate the tariff of generating companies owned or controlled by the Central Government
- To regulate the tariff of generating companies other than those owned or controlled by the Central Government specified in clause (a), if such generating companies enter into or otherwise have a composite scheme for generation and sale of electricity in more than one state
- To regulate the interstate transmission of electricity
- To determine tariff for interstate transmission of electricity
- To issue licenses to persons to function as transmission licensee and electricity trader with respect to their inter-state operations
- Improve access to information for all stakeholders
- To adjudicate upon disputes involving generating companies or transmission licensee in regard to matters connected with aforementioned clauses (a) to (d) and to refer any dispute for arbitration
- To levy fees for the purposes of the Act
- To specify Grid Code having regard to Grid Standards

- To specify and enforce the standards with respect to quality, continuity and reliability of service by licensees
- To fix the trading margin in the inter-state trading of electricity, if considered, necessary
- To discharge such other functions as may be assigned under the Act.

Advisory Functions of CERC

- Formulation of National Electricity Policy and Tariff Policy
- Promotion of competition, efficiency and economy in the activities of the electricity industry
- Promotion of investment in electricity industry
- Any other matter referred to the Central Commission by the Central Government

Source: Company records.

Exhibit 4. Mandate for WSERC⁵

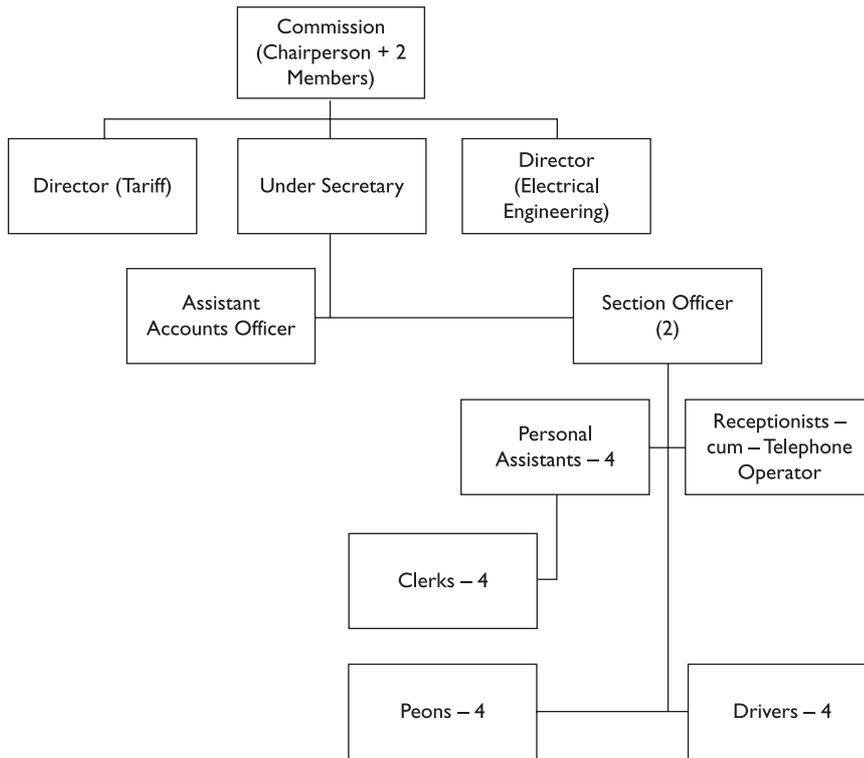
- To determine the tariff for generation, supply, transmission and wheeling of electricity, wholesale, bulk or retail as the case may be within the state
- To regulate electricity shall be procured from electricity purchase and procurement process of distribution licensees including the price at which the generating companies or licensees or from other sources through agreements for purchase of power for distribution of supply within the state
- Facilitate intra-state transmission and wheeling of electricity
- Issue licenses to persons seeking to act as transmission licensees, distribution licensees and electricity traders
- Promote cogeneration and generation of electricity from renewable sources of energy
- Adjudicate upon the disputes between the licensees and generation companies and refer to any dispute for arbitration
- Levy fee for the purposes of this Act
- Specify state grid code
- Specify standards with respect to quality, continuity and reliability of service by licensees
- Fix the trading margin in the intra-state trading of electricity, if considered, necessary
- Discharge such other functions as may be assigned to it under this Act
- Advise the state governments as mandated under Section 86(2) of the Electricity Act, 2003.

Source: Company records.

Exhibit 5. Decision Process at WSERC

Step I	Step II	Step III
Before Public Hearings	Public Hearings	Order
Technical and Expert Validation	Issue Public Notice	Evaluate Viewpoints
Assess Proposal	Invite Objections, Seek Clarifications from all Stakeholders	Issue Order
Seek Clarifications	Conduct Public Hearings	
Seek Consultants' Input	Call for Response and Rejoinders to Objections	

Source: Company records.

Exhibit 6. Organization Structure of WSERC

Source: Company records.

Notes

1. In India, pay scales of people employed by the government are decided every 10 years by a pay commission. While minor changes are possible based on experience and/or expertise of an individual, no significant departure from the accepted range is possible. These salaries tend to be much lower than in the private sector—sometimes as low as 25 per cent of the salary for the same level of hierarchy and work.
2. For review of the reforms, a reader could look at Sharma and Kumar (2012) and Singh (2006). *IIMB Management Review* also published a series of articles on the power sector in India in its March 2004 issue.
3. Electricity Regulatory Commissions Act, 1998, Sections 21.2, 21.3 and 21.4 state the terms of employment for the support staff. The commission needs to seek the state government's permission to hire regular staff. See <http://www.cercind.gov.in/ElectReguCommiAct1998.pdf>
4. Utilities are organizations that engage in the generation, transmission and/or distribution of electricity.
5. Most of the state electricity commissions have a similar mandate mentioned on their website.

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