

Customer engagement

Towards a new era in economic regulation?

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Growing customer engagement is a topic whose time seems to have come. Across regulated industries, regulators are proposing different forms of customer engagement. Of course, ideas about customer engagement are hardly novel – what is novel, at least in the case of the UK, is the encouragement for regulated firms to directly engage with their (various) customers.

In the UK, customer engagement has been advocated as a major departure from existing regulatory arrangements and its innovative potential has been emphasised (Doucet and Littlechild 2006; Littlechild 2008, 2009, 2014). Others have suggested that customer engagement offers, at best, an interesting institutional adjustment *within* existing arrangements. Regardless of perspective, engaging with customer involvement in economic regulation provides critical insight into the ongoing evolution of the British regulatory state (Lodge and Stern 2014).

Customer engagement has been trialled in different sectors across different parts of the UK, ranging from airports, to energy and to water regulation (Bush and Earwaker 2015). Accounts of these experiences vary, but they also highlight the considerable differences in initial design and eventual process across different regulated domains. Considerable differences have been in evidence, whether in terms of the extent to which issues were ‘delegated’ to the negotiation between customers and regulated firms, the extent to which regulators were ‘accompanying’ the engagement process, and the extent to which participants in this process expressed their satisfaction with the outcome. What unites these experiences is a shared curiosity regarding the problem-solving capacity of such customer engagement processes.

This discussion paper brings together a number of approaches and experiences in customer engagement, with a special focus on experiences across the UK and different regulated sectors. It draws together a number of key participants to customer engagement processes. It builds on wider debates about the evolving nature of the British regulatory state and, more generally, debates about the future shape of regulation and the role of citizens.

This short contribution focuses on three issues – how the growing call for customer engagement reflects on the fact of regulation in general being in crisis, how customer engagement might be a universally popular term, but arguably for very different reasons, and, finally, how customer engagement processes raise key issues for the role understanding of the different parties involved.

Customer engagement as a response to regulation in crisis

The ongoing debate about how to advance customer engagement suggests that these initial attempts at customer engagement were hardly a one-off set of experiments. At the same time, the contemporary debate points to considerable concern about how to institutionalise customer engagement in regulation, and how to enhance the capacity of such processes to achieve desired outcomes (e.g. CCWater 2014; Customer Forum 2015; Defra 2011; Ofwat 2015). This debate is shaped, on the one hand, by the search for institutional arrangements to offer credible safeguards to all the parties engaged in these processes. Here the focus is on differences between industries, for example, in terms of regulated firms, their ownership structure and levels of entrenched conflict between different parties.

On the other hand, the debate about customer engagement is also shaped by fundamental questions about the role of citizens and customers in regulated markets. The latter concern highlights in particular how the growing interest in customer engagement in regulation can be regarded as a wider realisation that existing approaches are in crisis. This sense of regulation being in crisis and the subsequent interest in customer engagement can be illustrated in three ways:

- Customer engagement can be interpreted as a response to growing dissatisfaction with the practice of existing regulatory approaches that are seen as having increasingly become ‘worn down’ – as illustrated by extensive gaming and second guessing strategies by regulatory companies and regulators, leading to increasingly complex and high cost processes whose overall effectiveness has been questioned. It is therefore not surprising that it was the regulators who initiated the enhanced role for customer engagement rather than political or ministerial initiatives.
- Customer engagement can also be interpreted as a response to an increasing sense of crisis across regulated industries in terms of their legitimacy. After all, concern with rising prices for utility services or the need to justify major investments have attracted considerable political interest. In such an age of hostility towards regulated industries, customer engagement might offer the promise of enhanced support for pricing and investment strategies. In addition, it might be argued that customer engagement also deals with a sense of crisis regarding customer representation itself as those bodies tasked with representing consumers and citizens are accused of being largely ineffectual.
- Customer engagement can, finally, be regarded as a response to a much broader sense of crisis in the nature of the regulatory state and the regulated firm. Such concerns with legitimacy regarding privatised public services and econocratic regulatory agencies have been long-standing. However, the financial crisis might be seen as a particularly pivotal moment in that it highlighted the limitations of supposedly high intelligence regulation in preventing disaster. Customer engagement might therefore be seen as an

attempt to re-establish legitimacy for institutional arrangements that have come to be seen as increasingly problematic and under challenge.

More broadly, this concern with the wider legitimacy of regulatory institutions and processes, in the area of economic regulation of essential services, but in broader policy concerns, such as budgeting, or justice systems, has attracted a considerable interest in participatory governance mechanisms (Fung 2015). Any discussion about customer engagement in economic regulation therefore also offers critical insights for those interested in encouraging participation in public decision making, whether this is for reasons of greater agency effectiveness and information, or legitimisation.

Customer engagement – different meanings divided by a common language?

It is commonly acknowledged that the ‘acceptance factor’ is a crucial part in any adoption of a reform idea. This acceptance factor is largely shaped by a particular term’s ability to appeal to different constituencies at the same time (Hood and Jackson 1991; Hood 1998). The same applies also to the term ‘customer engagement’. Drawing loosely on the well-established grid-group cultural theory framework (Lodge and Wegrich 2012), it is possible to distinguish between four different rationales as to why customer engagement has enjoyed growing popularity.

For some, customer engagement processes offer the promise of removing regulatory agencies from much of the decision making. If only customers were fully empowered to engage with firms, then it would be in both firm and customer interest to establish negotiated arrangements that would also be monitored by customers rather than bureaucratic actors. Comparisons between different customer engagement processes offer the opportunities for decentralised discovery and learning processes without the need for formal benchmarking by bureaucratic actors, such as regulatory agencies. In other words, customer engagement is seen as a means to an end, namely, one that seeks to reduce, if not eliminate the role of regulatory agencies.

For others, customer-engagement processes offer the promise of a genuine entrenchment of *citizen* interests in the regulated process. Such a view suggests that existing regulatory processes are largely dominated by highly econocratic analysis and well established interests with little concern for customers and citizens. Customer engagement, accordingly, provides for opportunities to include different types of citizen interests (in order to provide for the representation of inter-generational interests). Furthermore, the emphasis is less on *customers* and more on *citizens* in order to highlight the importance of enhancing the publicness of the regulatory process in essential public services.

For others, again, customer engagement offers the promise of dealing with the growing disillusionment and fatigue that surrounds existing regulatory arrangements. According to this perspective, any regulatory approach will eventually run out of steam, and customer engagement is a novel perspective to force regulated firms to be responsive to customers, if only by taking their customer surveys and complaints more seriously.

Finally, customer engagement might also be regarded as enhancing the quality of existing regulatory decision making processes. It offers one way of increasing the information basis on which regulators depend by including a different form of challenge and consultation forum to existing regulatory processes without necessarily challenging the primacy of the regulator in making final determinations. Furthermore, it arguably offers a ‘cheaper’ way for regulators to monitor consumer complaints and involvement as such tasks are delegated to specific customer engagement groups.

Table 1 summarises these four perspectives. Each offers contrasting rationales for advancing customer engagement. However, it is unlikely that representatives of these perspectives will come to any long term agreement as to the functioning of customer engagement, leading to inevitable disappointment and criticism

Table 1 Four perspectives on customer engagement

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| Enhanced responsiveness Customer engagement has novel opportunity to force regulated firms to engage with customers | Enhanced regulatory decision making Customer engagement as enhancing regulatory information basis and reducing regulator’s need to monitor regulated firms |
| Enhanced decentralisation Customer engagement has opportunity to reduce, if not eliminate, need for regulators | Enhanced publicness and citizen involvement Customer engagement as enhancing citizen involvement and publicness of regulated industries |

Each of these perspectives also points to potential pitfalls that may affect customer engagement processes. Accordingly, an over-reliance on firms negotiating directly with customers might bring the risk of particular, i.e. well represented, customers to dominate the engagement processes without sufficient safeguards that other customer groups would be sufficiently represented. Furthermore, eliminating agencies also brings the growing risk that firm interests will eventually outgun customer interests as firms exploit their inbuilt information advantages over customers.

Similarly, too much reliance on citizen involvement might be argued to encourage ‘populism’ as customers might be particularly interested in price reductions today rather than long term investment. Others may see customer engagement as a largely ineffective means to force regulated firms to engage firms with their customers. Rather, firms will maintain their primary reliance on privileged access to regulators (and the world of politics) to ensure that their interests are well represented, especially as increased attention to customers is likely to reveal the highly volatile nature of customer preferences in these sectors.

Finally, the view that customer engagement enhances the quality of regulatory processes is open to its own source of failure in that the need to closely monitor customer-engagement processes reduces their ability to innovate and, inevitably,

become highly rule-bound exactly at the same time as overall interest in participating in such processes withers away. Table 2 summarises this argument. It is not that any one of these pitfalls will inevitably occur, but that any particular emphasis in the design and practice of customer engagement processes is likely to increase the likelihood of such perverse consequences.

Table 2 Four perspectives on pitfalls in customer engagement

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| Fig leaf Customer engagement process fails to enhance firm responsiveness due to presence of well-established channels of influence | Juridified withering away Customer engagement processes lead to increasing rule-bound processes with reduced engagement over time |
| Firm dominance Customer engagement processes enhances the information asymmetry of firm over customers and regulators | Populism Customer engagement processes adopts short-term populist perspectives and excludes wider and econocratic considerations |

Customer engagement and institutional implications

Finally, then, what are the institutional implications for the different parties involved in customer engagement? The most immediate challenge is for regulatory agencies themselves. Regardless of the underlying rationale for customer-engagement processes, the role of regulatory agencies is challenged by the delegation of negotiating power to bodies tasked with representing customer interests. Even in those cases where the regulator remains formally in charge, there is a trade-off between, on the one hand, encouraging ‘active’ engagement between firm and customer representatives by committing the agency to respect the outcome of these engagement processes and, on the other hand, the concern that too much delegation will lead to ‘weak’ outcomes.

A second challenge is how regulators are to support customer engagement. The experience of customer engagement in the Scottish water sector suggests that one of the most critical ingredients of the widely shared perception of a successful process and outcome was the background support of the relevant regulator (WICS) for the customer representatives, the Customer Forum. Such a bespoke advice role is less feasible in the context of multiple regulated firms where companies might be particularly concerned about ‘uneven’ advice. More generally, customer engagement forces regulatory agencies to become venues for mediation and negotiation, something that sits uneasily with bodies that seek to establish their reputation through hard edged competition-driven economic analysis.

Customer engagement also has considerable consequences for bodies devoted to customer-rights advocacy and representation. Direct engagement in regulatory processes considerably stretches the resources of such bodies, and the technical knowledge about economic regulation may not be available, especially over the long

term. Such challenges therefore call for more resources for such consumer bodies – something rather problematic in an age of financial austerity. More fundamental, direct engagement processes also pose a challenge to the core mission of customer advocacy bodies. Their function is to challenge and criticise companies and to represent customer interests. Dealing directly with companies and haggling over business plans and the design and interpretation of surveys that supposedly reveal customer preferences might be seen as a ‘dangerous’ departure from the original mission of such bodies.

Finally, regulated firms are also challenged by customer-engagement processes. After all, such processes disrupt the, by now, well established ‘regulatory conversation’ between firms and regulators. More fundamentally, they also point to difficult trade-offs on behalf of the firm. One is that it requires firms to identify relevant customer representatives – such identification processes might be less tricky in regulated services, but become more difficult where relevant ‘customers’ are more complicated to identify – such as in transmission networks. A second is the difficulty of establishing what customers actually want, which leaves companies with unresolved conflicts over difficult trade-offs between long term investment plans to establish ‘security of supply’ which inevitably leads to being accused of ‘gold-plating’, and calls for cost reductions which, in turn, will be criticised as ‘asset sweating’.

It is not argued here that institutional actors should not be stretched and to reconsider their role. Rather, the argument is that customer-engagement processes do pose considerable strain on existing actors and that any debate about the future design of such processes needs to consider the implications for the parties concerned.

Conclusion

This short contribution highlights some of the implications of the increased interest in this field. It has been argued that customer engagement is an important trend and one that is unlikely to fade away in the medium term future as it represents a useful recipe to address the varying sets of diagnoses of crisis in regulation. However, these processes are faced by inherent tensions regarding different rationales and they pose considerable challenges to the key actors involved.

As customer engagement becomes entrenched in the regulatory landscape, it is inevitable that these tensions and challenges will become increasingly prominent as such processes are further trialled and implemented. Customer engagement may offer an important remedy for dealing with some of the existing problems in the regulation of key economic sectors, but its potential to introduce its own tensions and dynamics should not be underestimated.

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