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Management of Corporate Political Strategies: the Case of Light

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ABSTRACT

The Brazilian electricity sector has undergone major structural changes since 1995, which marked the start of privatization, requiring companies to adopt political strategies, particularly aimed at influencing regulations. These strategies are carried out through actions that aim to maximize returns or mitigate losses derived from the regulatory environment. The objective of this article is to present the result of applying an analytic framework for management of corporate political strategies (MCPS) in the electricity distribution company Light. The MCPS framework is composed of a model, method and reference lists and was developed to help the strategic management efforts of companies in regulated sectors, considering their alliances. This application brought contributions to the theoretical construction of strategic management of firms subject to regulation and provided insights for better strategic management of Light.

Keywords: Strategic management. Corporate political strategies. Analytic framework from the relational perspective. Regulation. Electricity distribution. Strategic alliances.

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1 INTRODUCTION

The Brazilian economy has undergone great structural changes in many sectors since 1995, with the shift from a model involving control of strategic sectors directly by government-owned companies to one of private initiative subject to regulatory agencies. Among the most affected was the Brazilian electric sector (BES), the subject of this study. Privatization required the creation of an institutional and regulatory apparatus to assure adequate provision of public services with the proper balance of the interests of the various interested parties. The supply crisis of 2001 (requiring electricity rationing) led to questioning of the sector's structure, triggering a new reform starting in 2004. Its dominant assumptions were the search for tariff moderation by the institutional route, efficiency of government actions, mistrust of private companies because of their focus on profits and long-term planning of electricity supply by the government (LEITE, 2007), along with improved reliability of supply and universalization of services (TOLMASQUIM, 2011).

The figure of the regulatory agency, created with the reform of 1995[1], is intended both to keep consumers from suffering abuses by the natural monopolist utility company and to prevent the utility from being at the mercy of governmental demands other than those established in the concession contract (KELMAN, 2009). In response, company managers need to formulate and implement political strategies to influence regulation. In this article, we use the expression "corporate political strategies" based on Oliver & Holzinger (2008), defined as the set of strategic actions planned and executed by firms to maximize the economic returns and mitigate losses from the regulatory environment.

The model of the BES is structured in a network, not only from the physical standpoint of the power grid, but also from the institutional governance perspective, with a wide range of actors having complex relationships, forming a relational network that is eminently strategic in nature.

Companies naturally and intuitively try to establish alliances and direct their strategies, based on those alliances, to contribute to the generation of value. To be effective, this effort needs models and tools that give priority to the relational perspective, i.e., pertaining to

[1] The Brazilian electric sector is divided into four segments: generation, transmission, distribution and trading. Most generation is from hydropower, supplemented by thermoelectric plants and to a lesser extent by wind farms. Almost all distribution and trading companies are now in private hands, and new transmission and generation projects are put up for auction to private enterprise under long-term concession contracts for construction and operation, but there is still a substantial direct public-sector presence in these two segments through government-controlled companies.

relationships, notably alliances, and the network formed by them. However, in the BES, firms' strategic management regarding regulation in general is eminently ad hoc and ex post, which can cause inefficiency and ineffectiveness.

The problem, then, is how to help managers in the Brazilian electricity distribution segment to structure and carry out political strategies aimed at influencing the regulatory environment. To address this issue, we carried out a study and developed an analytic framework, composed of a schematic map, a strategic analysis method and reference lists, to support management of corporate political strategies (MCPS).

The initial step of the research, involving review of the literature and interviews with executives and specialists in the electricity sector, produced the mentioned analytic framework, preliminarily presented in Bastos & Macedo-Soares (2011) and subsequently adjusted. In this article, we present the results of the case of Light, the main electricity distribution company in the state of Rio de Janeiro, in which the analytic framework was applied to exemplify its utility and to demonstrate how it can add value to the company. The results provide insight into political strategies aimed at regulation.

2 THEORETICAL REFERENCES

The framework used included collective action, positive political, institutional, agency, stakeholder and network theories. The theory of collective action aims to identify and evaluate solutions to the problem of collective action versus individual action (OLSON, 1971). This problem arises when an individual (firm) can benefit from the contribution from a group. Knowing that the group will defend its interests, the individual, out of cost considerations, can leave the group and still benefit from its actions as a free rider. But if all individuals do the same, all of them can be harmed. Positive political theory recognizes the interdependent relations among institutional actors in the formulation of public policies (RIKER; ORDESHOCK, 1973) and offers a conceptual approach to identify settings where the regulator is hostile from the firm's point of view, by defending the preferences of some political institutions (HOLBURN; VANDEN BERGH, 2008).

Companies are open systems that are increasingly under the influence of the public business environment, marked by a loss of legitimacy of companies as social institutions and recrudescence of government regulation in some industrial segments (ULLMANN, 1985). The literature on strategic management, starting in the 1980s, has reflected the shift, albeit still timid, from ad hoc to structured (strategic) political action by companies, even though in practice the majority of firms continue acting reactively (YOFFIE; BERGENSTEIN, 1985).

The political and regulatory environment is a source of uncertainties and risks for many organizations, which respond to this with specific strategies to influence public policies (BAYSINGER; KEIM; ZEITHAML, 1985; BARON, 1995; HILLMAN; HITT, 1999; BONARDI; HOLBURN; VANDEN BERGH, 2004; GARCÍA-CANAL; GUILLÉN, 2008; KEIM; HILLMAN, 2008). Management researchers are just starting to develop studies of the development of corporate strategies to influence government policies (PEARCE; CASTRO; GUILLÉN, 2008).

One theme of strategic management studies is the relationship with stakeholders (FREEMAN; REED, 1983). Political strategies can be aimed at various stakeholders – shareholders, employees, customers, suppliers, trade associations, etc. – to indirectly influence lawmakers and regulators (BAYSINGER; KEIM; ZEITHAML, 1985).

According to Holburn & Vanden Bergh (2004; 2008), firms in regulated segments should carefully evaluate the institutional targets of their political strategies. Hillman & Hitt (1999) propose two approaches - transactional (short-term vision, one at a time) and relational (long-term vision, continuous treatment of strategies with public policymakers) – and two participation levels – individual (independent efforts of the company) and collective (actions of organized interest groups). In turn, Dahan (2005) proposes general strategies for interaction and pressure, in function of the use of political resources and the roles each of these resources play in executing strategies: primary, supporting and complementary.

The agency problem is present in the regulatory context, with implications that range from the level of regulatory policies to that of human relations, related to self-interest (EISENHARDT, 1989), since one of the tasks of a regulatory body is to mediate multiple interests. The institutional approach is a counterpoint to the technical demands of management and productive processes, by focusing on the analysis of elements of the relational networks and cultural systems that influence the structure and action of organizations. Institutions are components of a society's ground rules, establishing restrictions on human action (NORTH, 1990). As pointed out by Keim & Hillman (2008), North recognized that business activities are inserted in an institutional context, one that varies from place to place and evolves with time as a result of the interaction of organizations and institutions.

The literature on alliances is still timid regarding the relations between private companies and public entities, especially regarding the role of the latter in the value network of the former. The proposal of Rangan, Samii & Wassenhove (2006) to enable the formation of public-private partnerships is an exception in a vast literature on networks and strategic alliances (GOMES-CASSERES, 1996; GULATI, 1998; GALASKIEWICZ; ZAHEER, 1999; GULATI; NOHRIA; ZAHEER, 2000; KALE; SINGH; PERLMUTTER, 2000; KNOKE, 2001).

Among the various models intended to help firms strategically manage their alliances and networks (MADHAVAN; KOKA; PRESCOTT, 1998; MCEVILY; ZAHEER, 1999; GNYAWALI; MADHAVAN, 2001; CONTRACTOR; WASSERMAN; FAUST, 2006; DIRKIS; LEWICKI; ZAHEER, 2009), strategic network analysis (SNA) stands out (MACEDO-SOARES, 2002). It was developed to consider companies that work in alliances and networks globally (MACEDO-SOARES, 2011). This framework has been widely applied in various business sectors (MACEDO-SOARES; MENDONÇA, 2010; BASTOS; MACEDO-SOARES, 2007; TAUHATA; MACEDO-SOARES, 2004; PITASSI; MACEDO-SOARES, 2003) and allows mapping the main alliances and describing the relational characteristics of the firm's value network. This network is formed by the firm in question and the other strategic actors that interrelate with it, highlighting its principal strategic alliances and the types of ties that unite them. Furthermore, this theoretical framework allows analyzing the strategic implications pertinent to the adequacy of strategy in the case of companies in alliances.

Based on the thoughts of Barney (1990) regarding good strategies, a corporate political strategy is assumed to be adequate in the sense of assuring good performance when, given its characteristics, it allows the firm to marshal forces and reduce weaknesses in its alliances, to enable it to take advantage of opportunities and mitigate threats from the regulatory environment and its relationships.

By incorporating elements of the theories mentioned here in the SNA framework and considering the variables pertinent to the strategic analysis of electricity distributors, we produced a preliminary variation of the model presented in Bastos & Macedo-Soares (2011) and subsequently refined, including with support from application of the model to Light. Therefore, it is important to point out the differences between the MCPS framework and its main starting reference, the SNA framework.

In formulating the model proposed here, we considered elements of the models of Bailey (1997), Bonardi, Holburn & Vanden Bergh (2006), Vanden Bergh & Holburn (2007) and Oliver & Holzinger (2008), specific for political strategies to confront regulation. Indeed, this model can be considered an evolution of the structure developed by Bonardi, Holburn &

Vanden Bergh (2006), with the categories of actors adapted for the Brazilian electricity sector, particularly the stakeholders of the focus company, the sector and its representative associations. Besides this, we considered direct and indirect regulatory strategies.

The working method was adapted in the sense of treating the case of regulated companies and their political strategies to face regulation. Therefore, in characterizing the strategy, we adopted as references the typologies of Bailey (1997), Dahan (2005), Hillman & Hitt (1999), Holburn & Vanden Bergh (2008), Oliver & Holzinger (2008) and Yoffie (1985).

Using as a reference the typology of political resources of Dahan (2005), we restructured the reference list for internal analysis to focus on the new construct of reputation (individual and collective). In turn, we developed the reference list for analysis of the macro-environment, based on Austin (1990), with specific factors for the case of electricity distribution companies.

We also adapted the types of reference connections/strategic alliances for the case of the electric power sector with highlight on the specific types of contracts (concession, supply, trading and connection), as well as the instruments for adhesion to sectorial bodies and trade associations. With respect to the constructs for relational analysis, this article contributes by introducing the natures of mandatory or voluntary ties. We identified various specific performance indicators, although we did not compute them for lack of data in the case studied.

These adaptations and inclusions indicate the originality, specificity and value added by the MCPS framework in comparison with its main source of inspiration, the SNA framework. Figure 1 summarizes the MCPS framework, indicating its components.

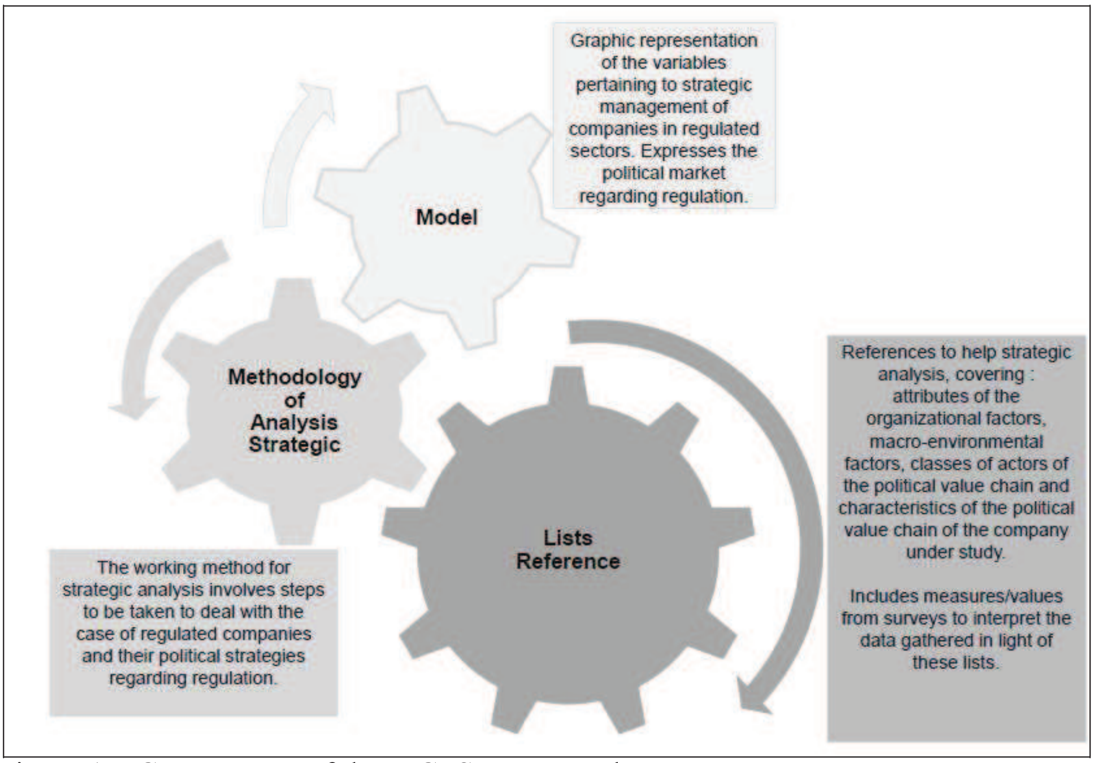

Figure 1 – Components of the MCPS Framework.

3 RESEARCH METHODS

We performed a case study by applying the MCPS framework to Light. The case study method is suitable to help construct theory by taking into account the business context in applying the analysis (YIN, 1994; REMENYI et al., 1998). The limitations of this method, such as the impossibility of statistical generalization, were not hindrances because this was not our aim. We used various sources of evidence – investigation of documents, survey with questionnaires and interviews – following the principle that the triangulation of methods can lead to convergence of data and validation of discoveries (YIN, 1994).

We conducted interviews with 12 officers, superintendents and managers of Light who work directly or indirectly in the formulation or execution of the firm's corporate political policy aimed at the regulatory environment (people in the regulatory, legal, institutional relations, commercial and operational areas). The empirical and documental research was carried out between September 2011 and January 2012, and was typically sectional with a longitudinal perspective, given that the evidence often referred to the changes in the sector's model (1995; 2004). The respondents' comments were subjected to content analysis, followed the steps suggested by Dallagnelo & Silva (2005): pre-analysis, exploration and analysis of the material, and then interpretation. In the exploration and analysis step, all the transcribed interviews were loaded in the Atlas. TI software, in which passages considered relevant were codified by following a hierarchy that reflected the need for empirical support of the analytic framework utilized.

The case study was carried out according to the following protocol: a) approval of senior management; b) identification of a person to act as the focal point (regulatory area); c) preparation of a form to identify perceptions; d) validation of the form; e) identification of key informants; f) disclosure of the study; g) disclosure of the form and collection of perceptions; h) analysis of the forms received; i) formulation of a script for the in-depth interviews; j) refinement of the script; k) realization of the interviews with the key informants previously identified; l) collection of public data on the company and other evidence available from documents; m) description of the case; n) obtainment of any necessary clarifications from the key informants; and o) consolidation of the data and the case study. The comments of the respondents are identified with "R" followed by a sequential number, without mentioning their positions, to respect confidentiality.

4 RESULTS

Founded in 1905 by Canadian investors under the name The Rio de Janeiro Tramway, Light and Power Co. Ltd., after undergoing various changes in structure and focus, Light was taken over by the Rio de Janeiro state government in 1969 and then was privatized in 1996. In 2005 it underwent a de-verticalization process, with the creation of the holding company Light S.A., the parent of several operational companies, among them Light Serviços de Eletricidade S.A. (the focus of this study), which distributes electricity in 31 municipalities in the state of Rio de Janeiro (including the city of Rio de Janeiro) and has over four million consumers.

The results are presented according to the analytic method proposed, formed of 10 steps, with steps 2 and 3 related to the so-called "traditional" analysis, i.e., without considering relationships such as alliances, and steps 4, 5 and 6 involving relational analysis, i.e., considering alliances.

Characterization of the corporate political strategy focused on regulation

The first step consisted of characterization of Light's corporate political strategy aimed at regulation. The company's declaration of mission and the values instilled in the employees do not specifically cover the regulatory question. The principles of collective action are targeted at a wide range of stakeholders, with explicit mention of the state and governments. Among the guidelines declared by the company is exercising leadership in institutional and regulatory relationships. For this purpose, it has "developed a new internal model for relationship with regulatory bodies and other institutions, so as to present an integrated vision of the concessionaire and the Brazilian electric sector" (LIGHT, 2012).

Light's political strategy can be seen as interaction, under the terms proposed by Dahan (2005), and reaction as proposed by Oliver & Holzinger (2008), since the company works to burnish its public image and political reputation as well as to collaborate with stakeholders, with the ultimate goal of sustaining its resources/competencies in its relationship with political actors, notably the National Electric Energy Agency (ANEEL). Among these resources/competencies, priority is given to organizational and relational factors, technical and regulatory expertise and expertise in political administration.

The term "reactive" to describe the company's strategic stance was mentioned by several respondents, implying the entire formulation of actions after a new development in legislation or regulation (ANEEL or other political actors).

> In terms of strategic planning, there is preparation related to the known themes, which are on the regulator's agenda or calendar for regulation, such as tariff adjustments and revisions[2]. [...] The interactions with the regulatory environment are in response to each change proposed by ANEEL. (R4)

However, with respect to some critical themes, such as energy losses and customer default, Light oscillates between the anticipatory and proactive approaches, as defined by Oliver & Holzinger (2008). There was affirmation of the effort to create value, sometimes by adjusting to regulation and at times by trying to influence its construction. The concern over the economic impact of regulation is constant.

> There are two main aspects: 1) to reach decisions that are aligned with the regulations; and 2) to influence the development of regulation. [...] There is preoccupation with the economic return of decisions (interpretations of regulations/management of risks of fines), but the main concern is the company's reputation. [...] There's always quantification regarding a new rule under discussion: what the effect on EBITDA will be if that rule is approved as proposed by the regulator. (R1)

A perception exists that the regulations tend to be increasingly demanding – with respect to economic, service quality and environmental aspects – which guides collective actions, such as through the Brazilian Association of Electric Energy Distributors (ABRADEE), and individual ones, such as direct contacts with representatives of the regulator, to try to mitigate disadvantages. The large number of rules issued by ANEEL

[2] Rates are adjusted every year, basically for inflation and impact of non-manageable costs like energy supply, while revisions happen every four or five years, based on a more general analysis of changes in the market and technology. In both cases, the aim is to preserve the financial balance of the concession contract.

supports this perception: “The pace of regulatory change is still very fast; the regulations are still very recent, only dating from the past 10 years, so we’re still in the infancy of regulation” (R1).

“The company’s regulatory strategy is part of its strategic planning and the actions of the company’s regulation sector is determined by this planning” (R11). Each year, under the strategic planning ambit, a regulatory scenario is constructed by the Management Committee, but “long-term regulatory or sectorial trends are not analyzed, such as distributed generation of smart grids” (R2).

The structuring of strategies via trade associations, when originated from previous agendas, leads to greater internal organization. “When there are previous agendas from the associations, yes, there is planning [...]; otherwise the subjects are dealt with as they arise” (R7).

The relationship between ANEEL and Light is amicable, with action of the company oriented to the regulator. Some political actors are the focus of special attention, such as the members of the state and municipal governments. For example, regarding requirements to bury power lines, which would impact tariffs, “there is a triangular relationship of Light/state government/ANEEL, which has to be managed” (R4).

The main tactics of Light with respect to regulatory matters have been direct meetings with technical staff and directors of ANEEL, participation (alone or joint) in public hearings and consultations and collective action through ABRADEE. Finally, mention must be made of the strategic unit of the Light Group, which has interests in various segments of the electric sector. This guides the group’s activities in the distribution segment without making Light dependent on the other segments.

To sum up, there is a habitual reactive and interactive posture, but in an apparent incoherence, this can oscillate to anticipation and proactivity. The evidence shows that these coexist within Light due to the strong impact of the regulatory theme on the company and the resources available to deal with it.

Strengths and weaknesses of the company

The second step of the proposed analysis was identification and assessment of the strategic implications of organizational factors. For this purpose, we used lists of constructs pointing to desirable/necessary attributes. Their comparison with the characteristics found in Light allowed identifying real or potential strengths and weaknesses. The main organizational factors classified as strengths were competencies, culture, reputation, management style, leadership style and communication. “The elites of the company have to understand the entire regulatory process, just as in technology companies they focus on innovation” (R1). There is strong concern to develop and maintain competencies related to the regulatory setting, since the market is competitive for professionals with these qualifications.

The total commitment of senior executives to regulatory themes is a real strength. “Corporate decisions are attuned to the regulatory question” (R1), so there is total commitment among the management corps.

The company’s reputation, or credibility, as often put, was highlighted as a strong point: “Light is not a champion of causes that benefit distributors, but it does have credibility of its positions, regardless of the resulting benefit or drawback” (R1).

The structuring of the regulatory management processes was identified as a potential weakness. These processes mainly involve control of the exchange of documents with the regulator and management of participation in associations, relations with stakeholders, participation in events, regulatory obligations, scheduled inspections and tariff revisions. Classification as a weakness does not mean there is omission by the company in its regulatory obligations. This implication is a function of a combination of excessive use of resources, lower productively than possible and higher risk of regulatory nonconformity. There is a certain informality in the processes, impairing their efficiency and thus constituting a weakness**.** On the other hand, management of the reaction to scheduled inspections was identified as a strength of the company. “The resolutions have to be interpreted, so it is good to look outside, such as in the pre-inspections carried out by a service provision firm” (R5).

Systems of transactional information and regulatory information were considered critical points, and often bottlenecks, configuring a potential weakness. “Processes and systems tend to be unstable, a situation caused by high turnover and absenteeism, that is, by the human variable” (R5). All the difficulties regarding information technology are magnified in a retail company, with a huge volume of customers, information and assets. Change of processes, adjustments of the information technology that supports them and workforce training “have been the big challenges of Light” (R5).

Opportunities and threats from the context

Based on the documental evidence and the responses, we identified macroenvironmental factors related directly or indirectly with the regulatory dimensions, which due to their strategic implications result in threats or opportunities, real or potential, to Light. This was the third step of the strategic analysis method.

We identified real opportunities resulting from the perspective for growth of economic activity and consequent increased energy consumption, as well as low risk of a shortage of energy supply. The tight labor market poses a real threat of increased costs and lack of regulatory expertise.

Even with economic growth, the concession area still contains relevant low-income regions (shanty towns, for example), which is a threat. The large burden of taxes and other charges on electricity bills contributes to perspectives for a reduction of the level of tariffs, representing a real threat. Also, the migration of large consumers that can potentially purchase power from other sources or rely on cogeneration can represent a loss of revenue.

Another potential threat is related to the youth, relative inexperience and ideology of the technical staff of ANEEL. “ANEEL has a technical staff with strong ideology, which places emphasis on the supply of better services to the country, while the upper echelon is [...] more balanced in outlook” (R1).

The influence of public policies on the decisions of a regulatory nature was identified as a leading potential threat, such as the case of renewal of the concession contract and tariff subsidies. In these cases, “the scope of the discussion is more political” (R5). “Executives pay lip service to greater responsibility while lawmakers are only interested in votes, [...] so they make a habit of criticizing the distributor” (R3). The head people at ANEEL, although they are concerned with independence and have a “very strong egalitarian vision”, still maintain “strong relations with the executive branch of the government” (R7), which can imply difficulties for distributors.

The complexity of the sector leads to difficulties in establishing proactive regulatory management. This scenario poses a real threat, as evidenced by the statement that “You see lawmakers drafting often inconsequential bills, you see judges rendering preposterous decisions, and you create an imbroglio within the sector” (R6).

Regarding demographic factors, the fact that the concession area is highly urbanized was identified as a real opportunity, but the low population growth rate and still serious urban disorganization were considered real threats.

Actors of the political value chain

The fourth step of the method is identification of the actors of the political value network and evaluation of the strategic implications – whether they constitute opportunities or threats, real or potential, for Light. Based on generic roles, we identified the strategic actors/partners of the political value network of Light and characterized the company's relationships with them.

Among these actors, interest groups in the distribution area stand out (e.g., ABRADEE, Instituto Acende Brasil, or "Light up Brazil Institute"). They can represent opportunities. Distributors often act as a block. However, a rule that benefits one distributor in detriment to another is always possible.

The actions of other agents in the electricity sector – those engaged in generation, transmission and trading – always can imply losses to distributors, so representative associations linked to these segments are potential threats. However, this is to a certain extent minimized by the participation of other companies of the Light Group in these segments.

There are stakeholders that do not pose real threats due to their low organization and mobilization (e.g., customers). Nevertheless, stakeholders of the electricity sector as a whole can apply pressure in the political and regulatory environment so as to pose potential threats, although more tenuously than those from the stakeholders of the company itself. The executive, legislative and judicial branches, along with ANEEL and other entities of the institutional environment, are constant potential threats, since they influence, to a greater or lesser degree, the level of legal and regulatory demands on the company, and consequently its profitability.

Other companies of the Light Group play an important role, as sources of real opportunities, notably through the exchange of information, resources and competencies, as well as the joint orchestration of the corporate political strategy, in line with the particularities of each company.

Mapping of the ego-network

The fifth step of the method consisted of mapping the ego-network of Light. Figure 2 depicts its graphical representation. An ego-network, inspired by Knoke (2001), is a network composed by a focal company and its main alliances in the ambit of its value network (MACEDO-SOARES, 2002). It involves actors and their strategic ties and covers general macroenvironmental factors, i.e., all factors that to a greater or lesser extent imply threats and opportunities. With respect to the focal company, in more precise terms the network involves specific macroenvironmental factors, i.e., those that act directly on the company.

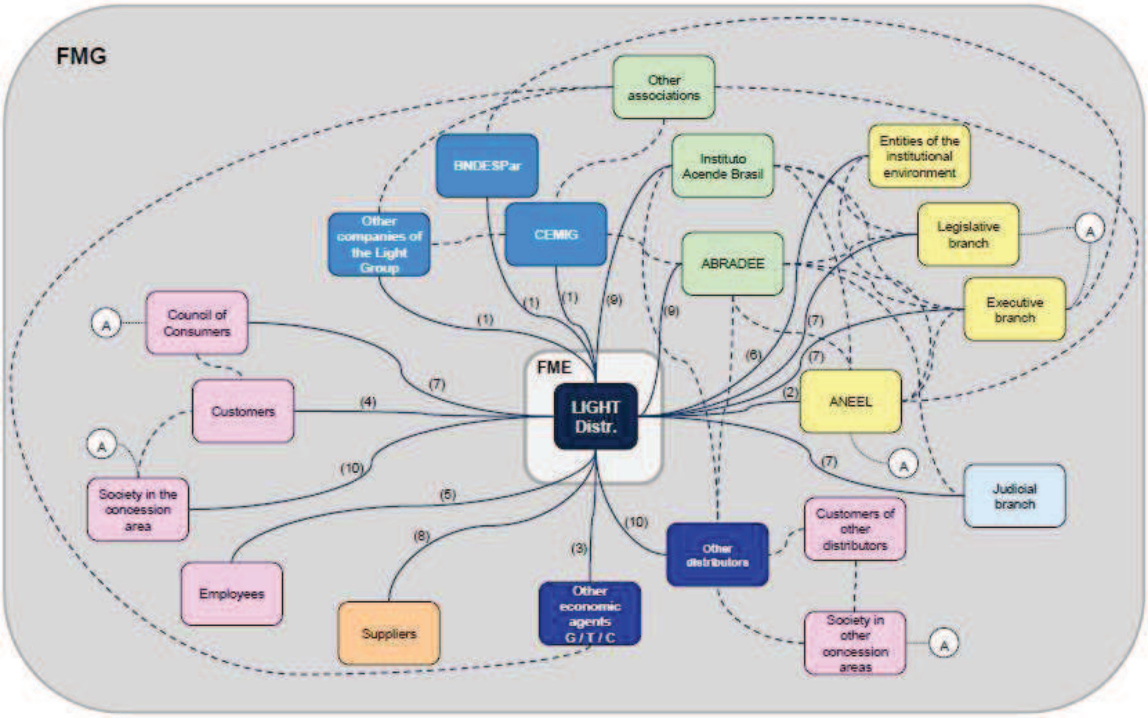

Figure 2 – Ego-network da Light

The main actors and their connections with Light are represented by solid lines. There is a number on each line, from 1 to 10, representing the degree of intensity of the connections, from more (1) to less (10) intense. The connections that do not directly involve Light, but that can relevantly affect the regulatory environment, are represented by thick broken lines, without any indication of the intensity. These actors and their connections are the target of the political strategy on regulation of Light, i.e., these actors are influenced indirectly by means of other actors with which Light has a direct relationship. Finally, the influences of public opinion on actors of the value network – notably the executive and legislative branches and ANEEL – are represented by fine broken lines and a label "A". The intermediation of the media in these relationships and the effects on public policies, and hence on regulation, are relevant.

In the graphical representation of Light's ego-network, no distinction was made regarding the executive and legislative branches at the federal, state and municipal levels. Nevertheless, the company's relationship with the authorities of the state of Rio de Janeiro and the various municipalities in its concession area, particularly the city of Rio de Janeiro, are of great importance, and these authorities interact with each other. The complexity of Light's ego-network is easily seen in the diagram.

Characteristics and implications of the ego-network

The sixth step of the method consisted of identifying the characteristics of Light's ego-network and analyzing its strategic implications at the level of the company itself and the industry level (electricity distribution), based on lists of reference constructs of the proposed framework. Analysis of the industry environment indicated predominance of opportunities, while at the company level, strengths and weakness were relatively evenly divided. Some of these strategic implications were particularly relevant, and are shown in Charts 2 and 3.

Construct	Characteristic	Strategic Implications at the Industry Level
Structure of the network		
Density	High	Potential opportunity – High density of alliances implies a search for improvements in regulations and good capacity for argumentation when there are threats to the company's profitability.
Scope	Restricted to concession area	Real opportunity – Captive market in the concession area assures remuneration in the distribution segment, except for rate reductions imposed by ANEEL (e.g., periodic tariff revisions). Potential threat – Loss of large consumers that can acquire energy from other sources or from cogeneration, so that revenue only comes from use of the distribution network.
Position and centrality	Intermediate in relation to the distribution segment	Potential opportunity – Access to resources/information and shared protagonism to influence regulation, individually or through the trade association (ABRADEE) is a potential advantage.
	Peripheral in relation to the electricity sector	Potential threat – As a distributor, although one of the largest, it is peripheral in the electricity sector as a whole in terms of regulation/legislation. However, this threat is minimized because the company is part of a business group.
Composition of the network		
Identity of partners	Strong	Real threat – Practically all of the actors/partners of the political network have strengths and can directly influence the regulatory environment, notably in terms of tariff moderation and quality requirements.
Status of partners	Success	Potential opportunity – The actors/partners have kept an open relationship with technical emphasis, allowing them to positive influence the profitability in the segment.
Access to resources	Difficult	Potential opportunity – Although it is a regulated segment, with strong efforts by ANEEL to reduce information asymmetry, this is still a source of advantage for companies to leverage their profitability.

Connections		
Strength of the connections	Strong	Real opportunity – There are strong and lasting ties, covered by formal instruments, which brings benefits to the industry in terms of stability, and this tends to positively affect profitability. Changes are normally negotiated and take time to implement, allowing a new adaptation and maintenance of the opportunity.
	Weak	Potential threat – There are informal relationships with actors from the legislative and executive branches, both by the company and trade associations.
Nature of the connections	Collaborative	Real opportunity – The formal connections with companies of the group, with suppliers and actors of the institutional environment, particularly the regulator, have a collaborative nature.
	Opportunistic	Potential threat – In the political arena, there is margin for opportunistic connections (tense and unstable).
	Voluntary	Potential opportunity – There are voluntary connections (e.g., suppliers of equipment, materials and services) that contribute to the response to the regulatory environment and have expected benefits (e.g., absorption of knowledge and optimization of costs).
	Mandatory	Potential threat – There are many connections of an obligatory nature, limiting the capacity for action with economic agents of the industry. These tend to favor consumers, society and public policies, even though ANEEL has the mission of being independent and of balancing the interests of stakeholders in the electricity sector.

Chart 1 – Strategic implications of the alliances and networks of Light at the industry level

Construct	Characteristic	Strategic Implications at the Company Level
Structure of the network		
Density	High	Real strength – The large number of customers, suppliers and political actors allows access to a wealth of information, heightening the information asymmetry in relation to the regulator and contributing to the company's performance.
Scope	Restricted to concession area	Potential strength – The restricted operation to the concession area, with limited growth capacity, can lead to accommodation and poorer performance in the long run. However, the installation of electric meters in shanty town areas previously outside the regular control of the public authorities has increased revenue by decreasing non-technical losses (energy theft).
Position and centrality in the network	Central: ambit of the concession area	Potential strength – Access to resources/information and control over operational management (technical and commercial) are strong as a result of the high centrality in the concession area. This enables the accumulation of information, knowledge of processes and development of capabilities that contribute to the company's performance.
Structural	Exist	Real strength – Consumers that are free to choose their supplier still need to

holes		pay for use of the distribution network of Light; suppliers of network materials and equipment only reach customers through the intermediation of Light; the Council of Consumers places priority on the relationship with Light and has little access to other actors of the political network.
Type of connection	Invisible	Real strength – There are strong ties with political actors who are invisible, especially the personal relations of employees of Light with key elements of the segment. This can be used in benefit of the company.
	Visible	Real weakness – Because the company is regulated, the ties are public, which limits the actions to benefit the company.
Pattern of connections	Direct	Real strength – Direct ties (suppliers, customers, regulator) are beneficial to the company, allowing it to accumulate information and experience, which can be used in the relationship with the regulator.
	Indirect	Real strength – There are indirect ties regarding the relationship with political actors, by means of trade associations. In this case, all the benefits expected of direct ties are maintained.
Composition of the network		
Identity of the focal company	Strong and favorable	Real strength – The economic weight of Light is large and highly favorable.
	Strong and unfavorable	Potential weakness – questioning about the quality of services vis-à-vis the economic importance of the service places the company in an unfavorable position, which is a weakness, since it means additional costs (e.g., fines).
Status of the focal company	Strong and favorable	Real strength – The status of Light with partners in the industry, political actors and the regulator is high and very favorable.
	Strong and unfavorable	Real weakness – With respect to public opinion, segments of organized society, the media and local political actors, the status of Light, although strong, is unfavorable, with a perception of expensive and substandard services.
Modality of connections		
Strength of the connections	Strong	Real strength – Lasting ties mostly governed by formal instruments gives strength, leading to a more informed and objective decision-making process.
Nature of the connections	Collaborative	Real strength – The connections with other companies of the group, associations, suppliers and public actors in general, including ANEEL, are collaborative.
	Opportunistic	Potential strength – Any time there is a need for ad hoc actions with partners to reach the regulator, the company builds opportunistic connections. Normally these originate from personal ties of employees.
	Voluntary	Real strength – There are voluntary ties, such as with suppliers of equipment, materials and services, that help the response to the regulatory environment and to political actors.

	Mandatory	Real weakness - There are many connections of an obligatory nature, limiting the company's capacity for action. They tend to favor consumers, society and public policies.
Management of the network		
Governance mechanisms	Not appropriate	Real weakness – There is no structured mechanism for management of the various relationships of Light, whether or not of a strategic nature. Management is ad hoc, which is a weakness.
Routines for exchange of information	Highly developed	Real strength – There is strong exchange of information between distributors, with or without the intermediation of ABRADEE.
Experience with multiple alliances	Extensive	Real strength – The nature of a network in the segment provides the company with extensive experience with alliances.
Alignment of interests	Adequate level	Potential strength – Interests are not always aligned, but there is discussion that can lead to consensus for collective action or a decision for individual action.
Measurement of performance of the network	Not appropriate	Real weakness – There are no structured instruments for ongoing measurement of the performance of the alliances.

Chart 2 - Strategic implications of the alliances and networks of Light at the company level

The relational analysis – steps 4, 5 and 6 – revealed opportunities and strengths overlapping with threats and weaknesses, in relation to the "traditional" analysis carried out in steps 2 and 3 of the proposed method. Standing out in this respect were the strong connections and voluntary and direct collaborative ties, and the strong identity of Light.

Performance

The seventh step of the method involved analysis of the company's performance. Identification of the portion of Light's performance making a contribution to its corporate political strategy was an insurmountable challenge. Although various regulatory performance indicators were mentioned in the interviews, it was not possible to have access to their quantitative measures. It was made explicit that internal indicators exist, of which the following can be considered relevant: index of acceptance of requests submitted to the regulator (ANEEL; impacts on EBITDA of each relevant regulatory effect, the main one being tariff revision; fines avoided or reduced; and regulatory obligations satisfied timely. There are no indicators of the volume of work, such as number of participations in meetings of associations, with ANEEL or any other political actors. In an ideal situation, it would be helpful to measure the degree of influence of Light in the sector in relation to ANEEL.

With respect to the company's general performance, which can assumed to result partly from its corporate political strategy, there is evidence of evolution in the period from 2006 to 2010. The company's financial situation was dire when the current management took over at the start of 2010, so the effects of this changeover had not yet been reflected in the data for the period analyzed.

Evaluation of the strategic adequacy

The eighth step consisted of assessment of the strategic adequacy of Light. According to the research premises, we sought to verify, in light of the performance, whether the corporate political strategy permitted leveraging the strengths and minimizing the weaknesses, to enable taking advantage of opportunities and mitigating threats from the macro-environment, especially the regulatory one.

The analysis from the "traditional" perspective, carried out in the second and third steps, indicated that the company has strengths that allow it to face the set of threats from macro-environmental factors, with highlight on: 1) regulatory competencies – from the technical and motivational standpoints; 2) management style with empowerment of the regulatory area; 3) culture oriented to regulation; and 4) individual and organizational reputation. Regarding processes and information systems, these are points of potential weakness that are being addressed by management. The set of organizational factors, based on the evidence gathered, is consistent with the challenges of the macro-environment and aligned with the regulatory strategy direction.

In turn, the relational analysis, resulting from steps 4, 5 and 6, based on identification of the main actors/partners that interact with Light and the qualification of the existing and potential alliances established by the company, more clearly revealed the complexity of its political value network and indicated additional strategic implications. ANEEL is the main actor in the electricity sector. Various relationships stand out that play a direct or indirect role in Light's strategic efforts to curry favor with the regulator: 1) the representative associations (ABRADEE and Instituto Acende Brasil); 2) the other companies of the Light Group; 3) suppliers of materials, equipment and specialized services; and 4) government officials of the executive branch at the federal, state and municipal levels.

The analysis from the "traditional" perspective revealed a large number of threats involving the roles performed by the actors of Light's political value network. In turn, the strategic analysis from the relational standpoint showed how the threats can be turned into opportunities when alliances are established. Particular mention can go to the trade associations. Both in the ambit of the distribution segment and at the level of the company, the composition and modality of the political network produce a variety of opportunities and strengths, respectively.

The analysis revealed evidence that Light's activities regarding regulation are aligned with its declared strategy and this strategy has contributed to improve its performance. This means that no adjustments or improvements are necessary according to the strategic analysis undertaken.

Definition of changes in the organizational factors and strategic direction

The next steps are: step 9 – definition of changes in the relational or organizational factors to improve or create the necessary conditions for adequacy of the corporate political strategy aimed at regulation; and step 10 – reaching strategic decisions, with adjustments or adoption of a new strategy. With respect to the organizational and relational factors, the following points were indicated as priorities for improving the strategic management oriented to regulation: 1) sustainment of a positive posture and techniques to give consistency to the individual and collective reputations of the company and to enable it to have an influential voice in the institutional and regulatory environment of the electricity sector; 2) emphasis on improving the regulatory management processes by formalization and improvement of informatics aspects; and 3) development of competencies and tools for managing the network of strategic alliances.

The first point involves maintenance of an existing strength to which, given its importance, close attention should be paid so that it is not impaired in the future. In turn, the regulatory management processes have potential for significant improvement, notably with greater formalization and the possible use of informatics tools. The aims, already perceived by the company, would be: regulatory knowledge, management of documents and allocation of responsibilities/time limits for regulatory actions. The solutions for improvement of these processes should thus include better structuring of a collaborative environment, greater formalization of the management of documents and better automation of work flows.

The relational analysis evidenced the incipient nature of the company's management of alliances. The establishment of alliances that add value to Light's corporate political strategy aimed at regulation occurs in ad hoc form, even though there is a clear intention for influence and proactivity with the actors of the political value network. The ability for mobilization and articulation, case by case, was demonstrated, but the use of opportunities and mitigation of threats in a complex regulatory environment fall short of the company's possibilities. This can be adjusted by developing specific competencies for managing those alliances, supported by structured management tools adequate for the conduction of the corporate political strategy aimed at regulation. The company does not carry out formal mapping of the ego-network, does not plan the construction of alliances on a regular basis and does not engage in any organized management of stakeholders.

The establishment of alliances with government authorities and the media would minimize the weaknesses due to the generally unfavorable image of the company among the public, a problem caused by the position as distributor at the end of the productive chain that begins with generation. However, there are various examples of favorable status in the eyes of political actors and suppliers, which is a real strength, arising from the company's credibility. To sum up, there are many examples demonstrating that although the strategic analysis carried out did not indicate a need for significant changes in Light's strategy, it did show the emergence of the mentioned adjustments.

5 CONCLUSION

The application of the proposed framework to the case of Light indicated it can assist the analysis of strategy and add value to the process of making decisions regarding regulatory matters, providing various insights that can possibly enrich the company's strategies. This is exactly the purpose of the MCPS framework, and those insights were exposed in the last step of the method – definition of changes in the organizational factors and strategic aims – for which we can suggest three main lines of action: 1) sustainment of a positive technical posture for the actors of the political value chain; 2) emphasis on improvement of regulatory management processes; and 3) development of competencies and tools for managing the network of strategic alliances. The relational nature of the proposed framework contributed to this, permitting producing richer inputs for analysis of strategy than those provided by a non-relational approach.

Although this study focused on a single company, operating in a regulated sector, other companies of similar size that are also components of business groups have very similar political networks, arguing for the assumption of reproducibility. With respect to smaller electricity distributors, there are possibly particularities that can still be investigated.

Effective management of corporate political strategies is essential in a setting of intense production of public policies that orient the regulatory environment, as observed in this study. The case presented here contributed to refinement and demonstration of the applicability of the MCPS framework for analysis of strategy, initially proposed in Bastos & Macedo-Soares (2011). This framework is a suitable tool to help companies in managing their political strategies. As covered in the Theoretical Framework section, the MCPS framework incorporates a series of components and adapts others in comparison with its main reference, the SNA framework. Therefore, it is a practical instrument in the context of theoretical construction of companies' strategic management. Future applications to other electricity distributors and firms in other regulated environments will contribute to the development of the analytic framework and the field of theory.

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