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The Indirect Business Benefits of Utility Rate Affordability Programs for the Poor

NOTE TO READERS

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Utility Rate Affordability: The Indirect "Business Benefits."

Aside from the direct financial benefits of promoting home energy affordability as documented in the last issue of FSC's Law and Economics Insights, the provision of affordable rates will generate considerable additional indirect financial benefits for the utilities that implement them. In considering these indirect benefits, the utility not only promotes its own self-interest, but succeeds in applying the learning about the "business benefits" it has generated from pursuing other commonly-accepted "social" programs such as promoting work-place and board governance diversity, pursuing multi-cultural policies, and ensuring workplace safety.

These business benefits are concrete and substantial. They have been documented in innumerable studies of analogous "social" programs.

The indirect benefits of rate affordability programs should be considered by the utility as instrumental uses of such programs in furthering business objectives.¹ The extent of these instrumental uses document that the offer of low-income affordability programs can be "grounded in economic rationality and self-interest."² In this respect, the consideration of these additional business benefits should be viewed in the same

¹ See e.g., The Conference Board of Canada (1995). *Dimensions of Diversity in Canadian Business: Building a Business Case for Valuing Ethnocultural Diversity*, The Conference Board of Canada: Ottawa (ONT); see also, Taylor (1995). Building a Business Case for Diversity, *Canadian Business Review*, 22(1):12-14.

² Compare, Burstein (2004). *Developing the Business Case for Multiculturalism*, at 9, Outreach and Promotion Directorate, Multiculturalism and Human Rights Branch, Department of Canadian Heritage: Ottawa (ONT); see also, Gandz (2001). *A Business Case for Diversity*, Richard Ivey School of Business, University of Western Ontario.

way that the business benefits of multiculturalism are viewed. As the Department of Canadian Heritage found:

Another problem that emerges in respect of cross-cutting, strategic policies, such as multiculturalism, is the public nature of the benefits they produce. Expenditures on multicultural policies oftentimes yield non-specific benefits (externalities) that cannot be entirely appropriated by any one agency or department. This is a situation that chronically leads to under-investment, even where there is a business case to be made because overall benefits outweigh costs.³

The benefits of providing affordable energy are much akin to the business benefits of providing multiculturalism in these regards. The affordability of home energy yields “non-specific benefits” (e.g., public health, public safety, improved nutrition, improved education) that cannot be entirely appropriated by Manitoba Hydro as the utility providing the energy. As a result, the utility traditionally under-invests in affordability programs.

WORKFORCE IMPACTS/INTERNAL PRODUCTIVITY

Initiatives such as affordable home energy program can deliver business benefits through enhanced staff productivity. The inability (or unwillingness) to effectively manage the growing presence of factors creating conflict creates business costs that impede “desired organization and business outcomes.”⁴ According to a February 2010 analysis of the costs and benefits of promoting workplace diversity by the U.S. Military Leadership Diversity Commission, “such costs can be direct (i.e., produced by turnover and absenteeism among employees who are the

minority in their work group) or indirect (i.e., the result of conflict or reduced communication between employees who are different).”⁵

The provision of affordable low-income rates allows utility customer service representatives to avoid imposing similar direct and indirect productivity costs on the company. The provision of affordable low-income rates provides utility staffpersons greater satisfaction in their jobs. By enhancing home energy affordability on the front-end, utility staff face fewer customer confrontations, have a greater number of options available leading to successful conclusions from the customer/company interaction, generate a higher success rate in obtaining payment, and reduce the daily stress imposed on staff addressing nonpayment situations.

Improving employee satisfaction delivers business benefits to the utility.⁶ “[E]mployees with supportive workplaces are the most satisfied with their jobs and the most loyal, which leads to reduced turnover among workers as well as a reduction in the costs related to such turnover.”⁷ As the Military Leadership Diversity Commission found, “retention and turnover of personnel are fundamental concerns for . . . businesses. There are significant costs associated with recruiting for replacements, and organizations make considerable investments in training each individual.”⁸ Helping to reduce “avoidable turnover costs” may have “real bottom-line financial implications for firms.”⁹ Costs are

³ Business Case for Multiculturalism, at 12.

⁴ Military Leadership Diversity Commission (2010). *Business-Case Arguments for Diversity and Diversity Programs and Their Impact in the Workplace*, 2, Issue Paper #14, Military Leadership Diversity Commission: Arlington (VA).

⁵ Id.

⁶ Duboff and Heaton (Jan/Feb. 1999). Employee Loyalty: A Key Link to Value Growth, *Planning Review*, 27(1).

⁷ Fairfax (2003). The bottom line on board diversity: A cost-benefit analysis of the business rationales for diversity on corporate boards, 2005 *Wisconsin Law Review* 795, 829 (2005); see also, Harter et al. (2002). Business-Unit-Level relationship between employee satisfaction, employee engagement, and business outcomes, *Journal of Applied Psychology*, 87, 268 – 274,

⁸ Business-Case Arguments for Diversity, at 3.

⁹ McKay et al. (2007). Racial differences in employee retention: Are diversity climate perceptions the key?, *Personnel Psychology*, 60, 35-62; see also, Jackson et al. (1991). Some differences make a difference: Individual dissimilarity and group heterogeneity as correlates of re-

associated with retention, recruitment, training and related employee activities.

REVENUE IMPACTS: BUSINESS LOCATIONAL DECISIONS.

Offering affordable rates to low-income customers can be expected to have long-term positive impacts for the utility from the perspective of maintaining and expanding its revenue base. The provision of a strong social safety-net so that individuals and households do not face the deprivation of basic household necessities is a strong and growing factor in businesses making locational decisions.

These locational factors are particularly important for high technology firms, which represent a particularly strong future growth potential for the economy. Research for Ontario's Ministry of Enterprise, Opportunity and Innovation, in collaboration with the Institute for Competitiveness and Prosperity, reports that sound economic development policy includes ensuring that "the right social investments are made to ensure social harmony."¹⁰

These results are confirmed by research looking specifically at the relationship between poverty and business competitiveness. The *Competitive Assessment* of the Indiana economy was prepared by Market Street Services for the Indiana Department of Commerce. According to the final report, released in January 2002, the purpose of that Department of Commerce sponsored study was "to help the State clearly assess its

recruitment, promotions and turnover, *Journal of Applied Psychology*, 76, 675-689.

¹⁰ Gertler (2002). *Competing on Creativity: Placing Ontario's Cities in North American Context*, report produced for the Ontario Ministry of Enterprise, Opportunity and Innovation and the Institute for Competitiveness and Prosperity. In this sense, affordable home energy can be viewed in the same way that health and education are viewed. "There are numerous empirical studies that demonstrate the links between education, health and competitiveness. In particular, both health and education are correlated with superior economic outcomes such as higher productivity, higher per capita incomes, and faster growth." Business Case for Multiculturalism, at 8.

competitive position both in relation to other states and the nation."

The Indiana Department of Commerce report said:

The Corporation for Enterprise Development (CFED) identified several key challenges that must be overcome at the state level in particular, to achieve successful economic development in the near future. The *primary barriers or problems that exist today* include sprawl and unmanaged growth, the negative impacts of globalization, such as fragmenting markets and global competitors, and income inequality from unequal earnings.¹¹

(emphasis added). The *Indiana Competitive Assessment* reported that "cost of living is a common consideration for employers making expansion and relocation decisions as they attempt to retain and recruit qualified employees."

The Department of Commerce's report then found: "Regional meeting participants stated time and again that they feel Indiana is a very affordable place to live for people of all income levels. Participants felt that the moderate cost of living helps their competitive [posture] with other Midwestern states as well as places around the country." (emphasis added). The report finally noted that Indiana should: "keep[...] in mind that pockets of poverty—whether the businesses locate there or not—is not a business climate asset overall."

While this assessment was made with respect to telecommunications, it is consistent with the continuing statements made throughout the *Indiana Competitive Assessment* report about the need, from the perspective of maintaining the competitiveness of Indiana business and industry, to address pockets of poverty to ensure that these pockets are not "left behind."

¹¹ Market Street Services. *Indiana Competitive Assessment*, at 8, Indiana Department of Commerce: Indianapolis (IN).

The observation here is being increasingly recognized as relevant to various services. “It should be noted that businesses focus on quality of life considerations when making location decisions because they are relevant for attracting a high quality workforce.”¹²

Economic developers are increasingly recognizing the importance of quality of life in business location decisions. Quality of life has been deemed particularly influential for companies involved in research and development and high technology, and in enterprises employing highly skilled workers in information or knowledge-based services and production. Evidence of this observation is a study conducted by Love and Crompton in which they surveyed 174 decision makers of businesses that had initiated, expanded or relocated to Colorado in the previous five years. . . quality of life was considered the second most important factor for prompting the business move and not selecting a specific community, as well as the third most important factor in the final selection of a specific community.¹³

The connection between assuring access to basic household necessities and maintaining the competitiveness of the local economy has been recognized throughout Canada.¹⁴ Given the reliance of utility sales, revenues and profit on a strong economy, to the extent that a local utility contributes to this local competitiveness, the

¹² Taylor, et al. (2006). *A Cost-Benefit Analysis of Universally-Accessible Pre-Kindergarten Education in Texas*, Bush School of Government and Public Service, Texas A&M University: College Station (TX).

¹³ Id. (citations omitted).

¹⁴ *Improving the Competitiveness and Standard of Living of Canadians: Common Position of Provincial and Territorial Finance Ministers* (December 1999); see also, Human Resources and Skills Development Canada, *Social and Economic Impact of Labor Standards* (March 2008); Pindus et al. (2007). *Place Matters: Employers, Low-Income Workers and Regional Economic Development*, The Urban Institute: Washington D.C. (“racial inclusion and income equality can enhance regional economic growth”) (citations omitted).

company will derive benefits as a result. In this regard, the local utility is not merely a participant in the local economy, but is also a direct and active beneficiary of a thriving local economy.

REPUTATIONAL CAPITAL.

The adoption of an affordable home energy program will benefit the local utility in that it will expand the “reputational capital” of the utility. Adopting a low-income program allows the utility to acknowledge that it is taking proactive efforts to ensure the availability of home energy as a basic human need. Pursuing such programs allows the utility to speak from a position of strength of community involvement. The enhanced ability of the utility to speak with “moral authority” is a business asset that adds value to the corporation.¹⁵

This notion of “moral authority” is not a theoretical construct that has little practical meaning to the financial performance of the utility.¹⁶ It is associated with “reputational capital,” which in turn has multiple operational (and thus financial) implications. On the one hand, corporations that enhance their reputational capital through programs such as a low-income affordable rate help to preserve what the Center for Corporate Citizenship refers to as their “license to operate” (sometimes referred to as their “freedom to operate”).

“In coming years, it will be important for companies to find ways to prevent or reduce the cost of challenges to their projects and operations. By developing a presence as corporate citizens through positive actions in communities and

¹⁵ Business Case for Multiculturalism, at 9.

¹⁶ “A University of Pittsburgh Business School review of 46 studies on the links between [corporate social performance] and [corporate financial performance] found a positive relationship between social and financial performance. . . thirty-two studies found a positive relationship between social and financial performance. Five studies found a negative relationship between social and financial performance. Fourteen studies found no effect or an inclusive relationship between social and financial performance.” Roman et al. (1999). *The Relationship Between Social and Financial Performance*. *Business and Society* 38(1).

society, businesses can preserve and enhance their license to operate.”¹⁷

Viewed in this way, the business benefits associated with this impact arise with respect to projects ranging from construction and/or development proposals to acquisition strategies, both of which are particularly applicable to electric utilities. Enhanced reputational capital attributable to social performance has been found, for example, to allow companies to forego and/or minimize costly battles for site placement with communities and/or government officials.¹⁸

The contribution which an affordable home energy program makes to enhanced reputational capital generates business benefits to the utility in a number of ways.¹⁹ An enhanced reputational capital affects the full-range of stakeholders in the community: customers, employees, regulators, and the broader community. Each of these stakeholders with whom the utility interacts will contribute to the financial benefits derived by the company.

ECONOMIC DEVELOPMENT

Low-income rate affordability programs generate substantial economic development impacts in the jurisdictions in which they operate. As a significant contributor to economic development, low-income rate affordability programs provide substantive benefits to the utility as well as to all customer classes. Because rate affordability programs

¹⁷ Determining the Value of Corporate Community Involvement, at 7.

¹⁸ Waddock and Graves (March 1996). Good Management and Good Stakeholder Relations; Are They Synonymous,” presented at the Annual IAMBS Annual Meeting.; see also, Waddock and Graves (1997). The Corporate Social Performance-Financial Performance Link, *Strategic Management Journal*, 18(4). 303-319.

¹⁹ Rochlin and Googins (2005). *The Value Proposition for Corporate Citizenship*, at 12, Center for Corporate Citizenship: Boston College, Chestnut Hill (MA); citing Nelson and Bergrem (2003). *Values and Value: Communicating the Strategic Importance of Corporate Citizenship to Investors*, World Economic Forum/International Business Leaders Forum.

contribute to additional disposable income within the low-income population, it helps drive additional job creation, income generation, and economic activity for local businesses.

A study for Entergy Services Corporation, a major electric utility serving the Middle South, found that a low-income rate affordability program would be a significant generator of jobs, economic activity, and income throughout the region. The report found:

The distribution of energy assistance first creates economic activity for the Entergy states through the direct delivery of benefit dollars. In addition to the dollars of cash benefits, however, the delivery of energy assistance will also free up household dollars that would have been devoted to the costs arising from the payment and behavior consequences of energy bill unaffordability. These dollars, too, can then instead be spent (and circulated) in the local economy.

* * *

While the discussion of the economic impacts of energy assistance looks at economic benefits on a statewide basis, in fact, the economic impacts provide particular advantage to low-income communities. Existing research indicates that low-income households tend to shop at local retail establishments. For food in particular, low-income households tend to shop at small, local food stores. Moreover, not only are low-income *households* more likely to shop locally, but the *businesses* serving low-income households are more likely to shop locally as well. It is clear, therefore, that not only will the provision of energy assistance provide income and employment to low-income households, but the earnings and employment that are delivered to such households will likely be spent, retained

and re-circulated within the low-income community as well.²⁰

Ultimately, the Entergy study found that “energy assistance serves as an economic stimulant for the economy in three distinct ways. It creates economic activity. It generates additional earnings. It supports jobs.”

SUMMARY AND CONCLUSIONS

The discussion above documents how promoting affordable home energy, in addition to generating the “public benefits” (sometimes referred to as “social benefits”), generates an entire range of corresponding business benefits where a utility *does* capture a part of the benefits arising from those social impacts. These business benefits are not merely associated with the positive social impacts, they are inextricably tied to the social impacts.

Simply because these benefits involve “complex, multi-dimensional outcomes” does not mean they should be ignored. As the Center for Corporate Citizenship reports: “current evidence suggests that corporate social performance and corporate financial performance are positively linked, that they can influence one another, and that both directions of causality are statistically significant and positive.”²¹

It would be inappropriate, and in error, for a utility to refuse to consider these financial benefits in any assessment of the “business case” for adopting a low-income affordability program.

²⁰ Roger Colton (August 2003). *The Economic Development Impacts of Home Energy Assistance: The Entergy States*. Entergy Services Corp: Little Rock (AR).

²¹ Rochlin (2000). *Making the Business Case: Determining the Value of Corporate Community Involvement*, at 2, Center for Corporate Citizenship at Boston College: Chestnut Hill (MA) (“a compelling new argument contends that the traditional view of corporate involvement in social issues – that of being a soft ‘add-on’ which may distract from core functions—is outmoded. Today, observers from a variety of sectors propose that not only is corporate citizenship consistent with good business practice, it is in fact a business essential.” Id., at 4).

For more information on assessing the indirect benefits of utility rate affordability programs, and drawing the parallels between these programs and other social programs such as workplace diversity, contact:

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Fisher, Sheehan and Colton, Public Finance and General Economics (FSC) provides economic, financial and regulatory consulting. The areas in which FSC has worked include energy law and economics, fair housing, affordable housing development, local planning and zoning, energy efficiency planning, community economic development, poverty and telecommunications policy, regulatory economics, and public welfare policy.