What is engagement?
How an international power company expanded its operations in India

Rahul Sharma, President of Public Affairs
Genesis Burson-Marsteller

Sarah Elizabeth Clark
The Fletcher School
Executive Summary

India is one of the largest and most rapidly growing energy consumers in the world, and natural gas is an important natural resource for electricity generation. While the demand for natural gas is rising, the unstable supply is a big issue – frequently causing power shortages throughout the country.

This case study is about how an Indian communications and public affairs firm, Genesis Burson-Marsteller (GBM), assisted an international power company's efforts to expand its operations in India. The case study is told from the point of view of GBM, and while the identity of their client – an international power company – is to remain confidential, understanding the specific actions that GBM implemented on behalf of the power company is helpful for any company grappling with regulatory requirements when entering an emerging market.

In 2008, an international power company sought to expand its operations in India by purchasing an existing natural gas-powered electricity plant. The company was soon confronted with regulatory hurdles it had to overcome in order to receive an allocation of natural gas from the government, and produce electricity. The power company had never gone through the process of obtaining a long-term natural gas supply contract.

The power company also had ambitions of securing greenfield power generation projects in key energy-producing states. This required the company to engage with various state governments and participate in the government’s rather complex and time-consuming bidding procedures.

For these reasons, the power company hired GBM to guide it through the regulatory framework at the state and federal level. In sum, GBM developed and executed a strategic engagement and advocacy program with the government on behalf of the power company.

Within 18 months, the power company successfully obtained a signed contract with the government for the allocation of natural gas. It also won the bid for a greenfield thermal power project in a north Indian state. Since then, the power company has continued to expand its operations in India, not only in natural gas, but also coal- and wind-powered electricity plants, and remains one of India’s major private sector energy providers.

While hiring GBM was critical to this power company’s success, GBM’s experience illustrates that there are several important actions any company can implement when entering an emerging market, especially a country like India where there is a veritable maze of policy.

In this case study, “engagement” involves not only constant communication with government officials, but also encompasses a broad range of complementary activities, including: understanding the market as well as the relevant procedures and policies; identifying key stakeholders and analyzing their interests and concerns; forming industry associations; and implementing corporate social responsibility and community outreach programs. In sum, engagement involves “localizing” the business strategy, seeking long-term solutions, and in the words of GBM, “promoting the greatest good for the greatest number.”
Background

India is one of the largest and most rapidly growing energy consumers in the world. Currently, India is the world’s fifth-largest energy consumer – accounting for about 4.1% of the world’s total annual energy consumption – and is growing fast enough to become the third-largest consumer by 2025 after the US and China.\(^1\) Figure 1 illustrates the rising production and consumption of natural gas, oil, and coal in India over the past two decades.

**Figure 1: Production and Consumption of Coal, Oil, and Natural Gas, 1989-2009**\(^2\)

Following coal and hydro, natural gas is the third most important fuel for electricity generation in India (Figure 2).

**Figure 2: Percent Share of Energy Generation by Type of Fuel, 2010-11**\(^3\)

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\(^1\) World Energy Council – Indian Member Committee, “India Energy Book 2012”


\(^3\) Figure created by authors. Data from “India Energy Book 2012” (World Energy Council – Indian Member Committee)
While the demand for natural gas is also rising, reserves of natural gas are proving to contain smaller quantities than originally estimated, and India has been slow to develop additional reserves. These are the primary reasons why India continues to suffer massive shortages in energy production. Given India’s current and projected growth, it is imperative that its energy needs are met. The manner in which it meets those needs, however, is of great concern to multiple domestic and international stakeholders in India, who seek to balance energy expansion for economic growth with meeting the needs of the urban and rural poor.

In 2008, the Indian Ministry of Petroleum and Natural Gas developed a natural gas allocation policy to prioritize the supply of natural gas to various industries, including fertilizer producers, power generators, petrochemical refineries, and municipal natural gas providers. An Empowered Group of Ministers (EGoM) is responsible for allocating domestic natural gas, based upon sector priorities, gas availability, and potential natural gas markets in different regions of India. Existing users are given priority over greenfield users. As major consumers of natural gas, fertilizer producers and power generators enter into contracts to receive the lowest rate from the state-owned oil and gas companies (e.g. Gas Authority of India Limited (GAIL), India Oil Corporation (IOC), among others).

In the same year as the new natural gas allocation policy was implemented, the subject of this case study, an international power company, sought to expand its production in India and purchased an existing electricity power plant that was fueled by natural gas. The company also began exploring opportunities to set up greenfield projects in key energy-producing states. In order to secure its expansion, the power company would have to first navigate the labyrinth of state and federal policies.

### Forcing Event

Although the international power company had been operating in India for a few years, the company had never gone through the process of attaining a long-term gas contract with the government. The company had been purchasing natural gas in the spot market, but because of the volatility of natural gas supply (and prices), the company sought a more stable, long-term solution. If the company were not able to register with the Ministry of Power as a user of natural gas, or secure a long-term supply of gas, the company would simply not be able to operate its newly acquired power plant and generate electricity.

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4 The name of the energy company is confidential
In other words, while the capacity to generate electricity was present, the biggest problem was the limited supply of natural gas (the raw material needed for generating electricity). Furthermore, multiple companies were competing for the same scarce raw material.

The second problem was that the company did not know who to talk to, or what specific processes to go through in order to attain government approval and an allocation of natural gas. There existed a veritable maze of important stakeholders including, but not limiting to, the federal Ministry of Power, Ministry of Petroleum and Natural Gas, and multiple state departments.

And in its endeavor to set up greenfield projects, the company faced a new set of challenges in the form a complicated bidding process. The concerned state government invited competitive bids from various players (including Public Sector Undertakings5) and a state level committee then evaluated these bids. The process involved completing various forms and following complex negotiation processes. Furthermore, the state and federal regulatory requirements were often different, and there were challenges regarding how specific approvals should be attained (i.e. how to deal with corrupt officials seeking bribes).

**Response**

In order to overcome all these challenges – and quickly – the power company hired Genesis Burson-Marsteller (GBM), a global integrated communications firm, with a 20-year long presence in India. GBM possessed a deep understanding of the country's business landscape and had considerable experience in engaging with the state and federal governments as well as other influential entities on a variety of regulatory and policy-related issues across sectors and industries. When GBM was hired in 2008, the consultants became an extension of the international company's existing business development team, which was managing the company's government engagement.

GBM implemented a full range of public affairs management services, which began with mapping the regulatory issues faced by the power company at the state and federal levels. GBM also assisted the power company in identifying the key stakeholders involved, including officials at the state and federal levels (e.g. the State Electricity Board, the Ministry of Power, and the Ministry of Petroleum and Natural Gas among others). In addition to identifying the key stakeholders, GBM analyzed their interests and concerns, as well as their role as one piece in the larger regulatory puzzle. GBM also held the power company's hand in working with officials in ways that did not involve bribery, although it may have taken longer to reach the desired goal.

GBM’s handholding also occurred at an extremely micro level – advising the company on how much to accept and when to push back during their negotiations with the government officials. For example, in the final leg of negotiations, company representatives were consulting with the GBM team on the telephone after slipping out of the meetings on pretext of toilet breaks. The GBM team advised the company on their response at every step during the tough negotiations – what to say, how much to say, what not to concede, and when to say the dreaded ‘no’.

In addition to the regular strategic engagement with key government officials, GBM also advised the power company to encourage other players to form an industry association as well as implement a corporate social responsibility and community outreach campaign at their plant sites.

5 In India, a government-owned corporation is called a Public Sector Undertaking (PSU)
The Association of Power Producers was formed in order to deal with the competition for scarce resources and the delay in fuel allocation. GBM had little power in speeding up the slow action of the government, and of course GBM’s client power company was not the only one dealing with the problem. The solution was to form an industry association in which the competing companies could work together to influence the government. Leaders from the association then met with many key individuals, all along the decision-making hierarchy. The formation and success of the industry association illustrates one of GBM’s core principles – that the best strategy is one that promotes the greater good for the greater number.

The power company also launched a corporate social responsibility and community outreach program in key states where it had large operations in order to demonstrate to the government and the community that the company was “here to stay” and cared about the impact of the power plant on the local community. The community outreach program involved the construction of infrastructure that benefited the local community (e.g. hospitals, road and rail connectivity), as well as a commitment to hiring local workers. In one of the states, the company mobilized the formation of self-help groups to increase local employment and wellbeing in the long term.

Evaluation

Taken altogether, the strategic government engagement and advocacy program was successful and achieved its desired goals. With the aid of GBM, the power company successfully navigated the regulatory landscape, and expanded its operations in India in both renewable and non-renewable energy projects. When the power company first began operating in India in 2002, the company’s combined output was 650 MegaWatts. Currently, the power company is operating at 2600 MegaWatts – four times what they were generating when they first entered the Indian market.

GBM entered the picture to help and advise the international power company at a critical time. Generally speaking, the power company’s success stemmed from actions they took externally (i.e. stakeholder engagement and community outreach), and not from changes made to internal company processes or structures.

While hiring GBM was critical to this power company’s success, there are several important actions that any company can implement when entering an emerging market with complex regulatory requirements, especially India. First, regular engagement with the relevant government officials is of the utmost importance. Regular engagement means:

- Engaging 365 days a year, not only in times of crisis;
- Phone calls, in-person meetings, and participation in industry associations and conferences;
- Reaching out to stakeholders at all levels, from grassroots up to the top;
- Understanding and being well-versed in the relevant issues and policies, as well as the concerns of the various stakeholders;
- Having patience, continually establishing rapport, and not letting officials forget you (if you hit a wall with one official, identify another you may reach out to); and
- Identifying and reaching out to individuals “outside” for support (for example, in other parts of government or in the media)

6 Most notably, this year, the association was successful in meeting with the Prime Minister who then issued a directive to finalize pending fuel supply agreements within 30 days.
In addition to regular engagement with government officials, the power company’s formation of and industry association and the implementation of corporate social responsibility and community outreach programs enabled the company to gain the buy-in of the government officials and expand its operations throughout India.

Ultimately, the key to the enduring success of the power company has been a commitment to the economic development of the states in which it operates as well as the wellbeing of the local people. The power company also learned the necessity of having relationships with individuals from the grassroots to the top. Only when both of these elements were firmly established, was the company able to ensure its continued operation and success.

**Conclusion**

When entering into an emerging market, companies should allow for a certain degree of risk, but there is a limit to the amount of tolerable financial loss. In this case study, one power plant’s entire operations were at stake. GBM’s targeted advice for companies facing regulatory challenges in emerging markets is as follows. All of the five actions have equal importance:

1. Understand the market as well as the relevant procedures and policies;
2. Seek long-term agreements and do not take shortcuts;
3. Promote the greater good for the greater number;
4. Localize the strategy; and
5. Engage, engage, engage