



# **Getting Ahead of Risks Before They Become Government Failures: *An Imperative for Agency Leaders to Embrace Enterprise Risk Management***

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**Authored by:**

**Thomas Brandt**, President

Association for Federal Enterprise Risk Management

**Bill Valdez**, President

Senior Executives Association

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# Getting Ahead of Risks Before They Become Government Failures: *An Imperative for Agency Leaders to Embrace Enterprise Risk Management*

*Several recent reports and studies have detailed a range of worsening trends and developments that are creating an increased risk for significant government failure. Many of the reports offer recommendations for action by Congress and the Administration. However, they do not go as far to suggest and recognize what agency leaders can do, and in many cases are doing, to help address these challenges. This paper aims to highlight how agency leaders can use enterprise risk management to reduce the risk of government failure while increasing the likelihood for the successful delivery of agency missions.*

## **The Widely Reported Increased Risk of Government Failure**

Agencies are under increasing pressure to perform their missions more effectively and efficiently, while the types of challenges that government confronts are growing more complex. Agency leaders are expected to keep programs and operations on track by getting ahead of risks before they turn into problems.

In a survey administered to Senior Executives Association (SEA) members by the Association for Federal Enterprise Risk Management (AFERM), 20% of respondents said their agencies had experienced a significant crisis within the last 3 years, and 85% of respondents said they could envision a serious threat or disruption happening at their agency in the next 2-3 years. A series of recent reports have focused attention on the increased risks for crises to arise in government.

Earlier this year, the SEA released a report<sup>i</sup> in partnership with a team of researchers raising concerns that the U.S. Government is at risk of failure, in large part due to declines in federal workforce capabilities. The report describes a current state where civil servants are increasingly operating in an environment that prevents them from making decisions, hinders their ability to respond to challenges, and stifles innovation and creativity.

These limitations increase the likelihood that government efforts to prevent or respond to the next major crisis or crises will be ineffective. The fact that the report was issued during what turned out to be the longest partial government shutdown in U.S. history, served only to illustrate how the determinantal factors and conditions identified in the paper as under-mining and eroding government could manifest in ways that could pose serious consequences for the country and its citizens.

A similar warning came from Paul C. Light, professor of public service at New York University and author of a report into the causes of government failures<sup>ii</sup>, who penned an editorial as the shutdown entered

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its fifth week to raise awareness and concern that the government shutdown could quickly become a government breakdown, with damaging long-term consequences for the country. He cited a characterization of prior government failures as having a set of common root causes, including failures of policy, capabilities, and management. In concert with the SEA researchers' concerns, Professor Light described the federal bureaucracy as "on autopilot with limited alertness in a moment of great vulnerability."<sup>iii</sup>

To mitigate the risk of government failure, both reports point to some common fixes – revamping government personnel systems, reducing layers and flattening the chain of command, making critical investments in essential areas such as information technology, and promoting innovation and entrepreneurialism. These solutions echo similar recommendations and urgent calls to action by numerous experts and practitioners in public administration.<sup>iv</sup>

While the current climate in government has made it difficult to gain action and traction in overcoming institutional inertia and realizing these types of transformational changes, the Administration and Congress are making attempts to bring some relief to a beleaguered bureaucracy. The President's Management Agenda, for example, sets out several priorities and goals for modernizing government, including a technology modernization fund, workforce funds, and reorganization proposals that could foster the adoption of more effective and modern capabilities in government.

Passage by the last Congress of the *SECURE Technology Act*, aimed at improving the management of supply chain risks; the *Evidence-based Policymaking Act*, intended to enhance the quality of decision-making; and, the *Good Accounting Obligation in Government Act*, which draws attention to open and unresolved audit recommendations that may represent areas of risk exposure, show that bipartisan support for improving the viability and effectiveness of government programs and policies is possible.

These actions represent progress, but they don't quite get to mitigating the key foundational and structural weaknesses of a government that is still overly reliant on 20<sup>th</sup> century practices to address 21<sup>st</sup> century challenges. While the previously cited reports and recommendations focus largely on the changes Congress and the Administration must enact to reduce the risk of government failure, they don't put as much attention on what government leaders should do or what many government leaders are already doing to manage and address these risks – and that is, to practice and embrace Enterprise Risk Management or ERM.

## **Applying Enterprise Risk Management to Reduce the Risk of Government Failure**

In the summer of 2016, the U.S. Office of Management and Budget issued guidance<sup>v</sup> that established ERM requirements for government, and sixty-three percent of respondents to the 2019 SEA/AFERM survey said their agencies were implementing or practicing ERM. Agencies that have taken steps to

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implement ERM are beginning to realize the value it can enable for enhancing their ability to allocate resources to the most critical needs and to identify, understand, and respond to potential risks and opportunities proactively.

ERM can also help leaders, managers and employees navigate through a landscape of escalating threats and challenges by equipping them with enhanced organizational and individual capabilities for identifying, assessing and managing risks to agency missions. Through ERM, leaders can engage the entire organization, from the front line to the C-suite, in activities that help to minimize threats while maximizing opportunities.

In practice, ERM identifies top risks to achieving an organization's mission and carrying out its objectives. Through dialogue and discussion, leadership and management consider the types of risks that could manifest, assess the likelihood and impact that might result, and then make informed and deliberate risk response decisions.

While most organizations have some experience in risk management, those efforts have often occurred on an ad hoc basis, have been limited to addressing risk in individual functions or programs, or have focused on specific types of risk, such as fraud or insider threat. ERM provides a mechanism for focusing on critical risks to the organization as a whole, and when ERM is linked up with agency strategic planning and budget processes, it can help in obtaining resources that can be applied toward the mitigation of the most serious risks an agency is faced with.

Looking back at some of the fixes mentioned at the beginning of this paper to the challenges facing government – specifically, reducing layers and flattening the chain of command, making critical investments, and promoting innovation and entrepreneurship, there are ways ERM can help:

- *Reducing layers and flattening the chain of command:* ERM helps agencies ensure that information flows fluidly and quickly up, down and across the organization, enabling better informed decision-making.
- *Making critical investments:* ERM fosters a forward-looking portfolio view of risk and opportunities for the organization are aligned to and assessed against its mission, vision, and strategic goals and objectives. This better enables agency leadership to proactively allocate resources to the areas of most critical need and to anticipate and plan for the needs of the future.
- *Promoting Innovation and Entrepreneurism:* ERM supports an environment of openness where alternate viewpoints can be shared freely, and where challenging the status quo is encouraged and valued. ERM helps organizations take risks in an informed manner; this can help agencies become less risk averse and more willing to try new or innovative solutions, since they can



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understand the risks and determine the appropriate response, including, in some cases, to accept the risk, because it is worth the potential outcomes.

### **Roles for Agency Leaders to Support Enterprise Risk Management**

To be fully effective, and to add value to the organization, leaders need to embrace the full range of capabilities that ERM offers up to help effectively lead and manage complex organizations. Here are some simple actions federal executives can take now to promote the practice of ERM in their agencies:

- Identify who in your agency is implementing or practicing ERM and reach out to offer your support and involvement.
- Set the tone at the top of your organization and engage personally to demonstrate a commitment to risk awareness.
- Create an environment of openness with your teams where information, including bad news, travels quickly, and where employees are thanked for speaking up.
- Invest in staff to develop ERM expertise in core functional areas.
- Use ERM as a tool to support innovation and change efforts, recognizing that risk management is not only about preventing things from going wrong but is also about increasing the likelihood that things go right.

Leaders should also establish an expectation that risk information and risk insights are part of managerial decision-making by encouraging diversity of thought, actively seeking alternative viewpoints, and carefully considering and articulating the levels of risk that are acceptable to take. Through these actions, leaders can foster an environment of transparency and collaboration, attributes essential for creating a positive risk management culture at all levels of the organization.

### **Enterprise Risk Management and GAO's High Risk List**

In March 2019, the Government Accountability Office (GAO) issued its biennial update to the list of the most critical risks facing the federal government<sup>vi</sup>. These risks represent some of the most challenging, intractable and complex risks, as reflected in the number of risks that seem to have taken permanent resident status on the list. But risks do graduate off the list when GAO determines that substantial enough progress has been made in five key areas:

- Leadership commitment – Demonstrated strong commitment and top leadership support.
- Capacity – Agency has the capacity (i.e., people and resources) to resolve the risk(s).
- Action Plan – A corrective action plan exists that defines the root cause, solutions, and provides for substantially completing corrective measures, including steps necessary to implement solutions GAO recommended.

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- Monitoring – A program has been instituted to monitor and independently validate the effectiveness and sustainability of corrective measures.
  - Demonstrated Progress – Ability to demonstrate progress in implementing corrective measures and in resolving the high-risk area.

These criteria align directly to the intended practices and capabilities of ERM. As federal agencies more fully integrate and operationalize ERM throughout their organizations, they should equip themselves with processes and techniques that can help in getting off the GAO High Risk list, if they are already on it, or stay off the list if they are not.

GAO acknowledges that many of these risks will require actions on the part of the Administration, Congress and agency leadership in order to demonstrably minimize the risk to more manageable or acceptable levels. However, as those closest to the risk, and those usually first in line to be held accountable if something goes off course, government leaders have an imperative to ensure their agencies are deploying the tools and management practices necessary to manage these risks.

In that regard, we recommend that GAO add to its future assessments and evaluations of high risk areas a consideration of the extent to which agencies associated with each risk have implemented ERM. The effective practice of ERM should be factored in as a critical measure of progress when deciding whether to remove a risk from the High-Risk List.

### **Focus on Risk Prevention versus Crisis Management**

Leaders may say they are so busy putting out what's on fire now that they don't have time to worry about what could catch fire tomorrow. That, unfortunately, is a recipe for continuous fire-fighting. Without setting aside time for risk prevention, leaders will never move out of that cycle, and, they run the real risk that one of those fires will result, on their watch, in catastrophic consequences.

ERM won't guarantee zero risks will occur. But ERM can, if practiced with intent, reduce the likelihood and impact of risks occurring, and, enable greater resiliency should a risk manifest, by promoting awareness, preparation for, attention to and practice in risk response.

The challenges facing government are becoming increasingly complex, and the capabilities of the federal workforce to develop and deploy effective solutions have become impaired. While ERM isn't a fix for the root causes of those problems, it can help draw additional attention to these large-scale risks, their potential impacts, and the need for action, while, in the interim, equipping leaders with the early warning indicators necessary for undertaking and deploying mitigations that, hopefully, end up reducing the likelihood and/or alleviating the impact of these risks to the Country while there is still time.

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For more information about ERM, including relevant training, tools, and resources, visit [www.aferm.org](http://www.aferm.org).

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<sup>i</sup> Molly Jahn, Gregory F. Treverton, David A. Bray, Buddhika Jayamaha, Bill Valdez, Ben Carnes, Liam Hutchison, Will Mulhern, *Are Declines in U.S. Federal Workforce Capabilities Putting Our Government at Risk of Failing*, Senior Executives Association, January 2019.

<sup>ii</sup> Paul C. Light, *A Cascade of Failures: Why Government Fails, and How to Stop it*, The Center for Effective Management at Brookings, July 2014.

<sup>iii</sup> Paul C. Light, *The Government Shutdown Could Become a Government Breakdown*, The Washington Post, January 18, 2019.

<sup>iv</sup> See additional reports such as: *No Time to Wait: Building a Public Service for the 21<sup>st</sup> Century*, from the National Academy of Public Administration; *Recommendations for Renewing America's Civil Service*, from the Volker Alliance and the Partnership for Public Service; and, *Government for the Future: Reflection and Vision for Tomorrow's Leaders*, from IBM's Center for the Business of Government.

<sup>v</sup> Office of Management and Budget, *Circular No. A-123: Management's Responsibility for Enterprise Risk Management and Internal Control*, July 15, 2016.

<sup>vi</sup> Government Accountability Office, *High-Risk Series*, GAO-19-157SP, March 2019.

#### **About AFERM:**

The Association for Federal Enterprise Risk Management (AFERM) is the only professional association dedicated to the advancement of Enterprise Risk Management (ERM) in the Federal government through thought leadership, education and collaboration. AFERM provides programs and education about benefits, tools, and leading practices of Federal ERM and collaborates with other organizations and stakeholders to encourage the establishment of ERM in Federal departments and agencies.

#### **About the SEA:**

The Senior Executives Association is a non-profit professional association that promotes ethical and dynamic public service by fostering an outstanding career executive corps, advocates the interests of career federal executives (both active and retired), and provides information and services to SEA members. The SEA is the professional association for career members of the Senior Executive Service (SES) and equivalent positions. SEA also represents aspiring leaders (GS-12 to GS-15s) who are part of SEA's leadership pipeline program.

