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Risk Management Accountability and

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On the morning of February 18, a fire in the subway in the South Korean city of Daegu rapidly turned into one of the world's worst subway disasters. The official death toll stood initially at 133 with scores of people missing and hundreds reported injured (WSWS.Org 2003).

At least 23 young children were killed in a fire that swept through a dormitory at a seaside summer camp southwest of Seoul (CNN 1999). According to the BBC (1999) Survivors and family members of those killed in the Korean school camp blaze have been quick to blame the tragic death toll on a lack of fire safety equipment

During early August,1998 the City of Seoul experienced the worst flood disaster since the 1987 floods which claimed 381 lives, injured 428

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and affected 151,000 people. On the 5th and 6th of August. a storm deluged the metropolitan area of Seoul 1 with 620 millimeters of rain, making it one of the heaviest downpours on record. The resulting floods and mudslides killed 131 people, left 61 missing and caused damage estimated at US$ 323 million. Several days earlier, the same storm caused flash floods which killed 95 people, left 20,000 homeless and inundated 55,000 hectares of farmland. These floods were also accompanied by mudslides which engulfed buildings, damaged infrastructure and triggered an outbreak of disease. Earlier in the year the northern parts of the country were ravaged by floodwaters. the heavy rains which started towards the end of July culminated in serious flooding, affecting a wide area. Some 270 people were killed, more than 150,000 people were evacuated and damage to property exceeded US$ 689 million. Over 47,000 hectares of farmland were swamped and large areas of the rice crop completely destroyed. (IDNDR-ESCAP 1999)

In October 1994 a central section of the Songsu Bridge in Seoul collapsed under the weight of rush hour traffic. Dozens of vehicles and their occupants fell into the Han River, 32 people died.

In April 1995 a gas explosion at a construction site in Taegu killed or injured 300 workers and passers-by.

Two months later in June 1995 Seoul's Sampoong Department Store collapsed in the worst peacetime disaster in South Korean history. More than 500 shoppers were crushed to death and another 900 were injured.

Is the common denominator of all these tragic stories just bad luck? According to one source (BBC 1999) in its breakneck race to become a developed country, critics argue, issues of safety and construction standards fell by the wayside. Thus the BBC (1999) notes that some Koreans calls this the "ppalli ppalli," or "hurry-up syndrome": a mentality of making things work - just - and getting on with the business of

making money that has been the basis for much of Korea's stunning growth. Can this explanation be taken seriously? Ask a practicing public administrator in Korea and you are likely to be told that while there is some truth in the explanation offered by the BBC and some truth about the bad luck the real explanation is much more complicated. The simplistic view offered by this world class broadcasting service is not likely to sit well with many Korean public managers. Many of them, and rightly so, are likely to argue that the BBC does injustice to Korea offering the said explanation since similar, or even worst disasters have been recorded in other countries during the same period. The following examples illustrate this point. In Rhode Island (USA) 100 life have been lost when The Station Nightclub fire caught in 2003 (Laconia 2003), in June 2003 at least eight children have been killed in a suspected gas explosion at a boarding school in central Turkey (Annova 2003), a May 2002 train disaster in the UK resulted in several fatalities and was blamed, among others, on privatization (Evatt Foundation 2002) and, in July 2000 Sogo a major department store chain in Japan declared bankruptcy leaving its creditors with hundreds of billions of Yens. According to media reports (Landers 2000) just to the Government of Japan Sogo's debts exceeded 97 billion Yen (US$905.2 Million). With these few examples in mind it seems that we must look for an additional, and maybe a more potent explanation of the reason common calamities happen all over the world or why governments in various countries are surprised again and again by their magnitude. The Big Blackout of August 2003 that left more than 50 million people in the USA and Canada without electricity for few days is the hot story as this paper is written with blaming fingers pointing in all directions.

The argument of this paper is that the missing explanation may have to do with subtle but continuing change in the role of government in

society as governing gives way to governance coupled with government retreat from its traditional regulatory roles. Changes in the global and national economies resulted in corresponding drastic changes in the nature of governing presenting governments with a new challenge of managing risk. The current paradigm shift from governing to governance (Halachmi 2003) changes the interface of the governments with their publics but not their responsibility to assure safety and security. Terms such as accountability, transparency and public interest depict an old consensus that government must assure and demonstrate an effort to assure public safety. The modern twist is the willingness of the public to accept a good effort of risk management as a genuine attempt to secure property and assure personal safety.

The paper starts with a brief discussion of recent developments that changed the nature of risk management for public administrators due to globalization, migration from governing to governance and deregulation. The paper goes on to review some of the approaches and thinking about risk management in some countries. The paper concludes that in order to live up to their obligations and in order to meet public expectations elected officials and public agencies must pay better attention to risk management.

Ⅰ. What is the New Challenge of Risk Management?

In order to describe the new challenge facing public managers when it comes to management of risk we must first highlight some of the important, and interrelated, attributes of risk management. First of all, it is important to note that there is more than one possible approach to managing risk. Thus, for example, Baccarini (2001:1) offers the following observation:

> Interestingly, whilst most risk management literature promotes risk identification as the first step of PRM, Standards Australia
> commendably highlights the need to firstly understand the strategic, organizational and project contexts. A key context is the'project context: project scope, goal and objectives (e.g., cost, time, quality) and their relative importance must be established; the link between the project and the organization's strategic
> goals and business plans must be understood.

The implication of this attribute is that evaluating an organization's approach to risk, let alone the selection of such an approach is a complicated process that involves more than meets the eye at first glance.

The second attribute is that risk management is a continuous process. It involves three critical efforts: 1) identification of what can go wrong, 2) judgment calls about which of the identified risks are more important and which ones are of lesser importance and, 3) development and implementation of a strategy for dealing with the more important risks. These efforts usually utilize the results of a meta-risk-analysis effort which generates information such as: the cutting off horizon (Dror 1968), namely the frame of reference for identifying risks for consideration. The need for such meta analysis, i..e., analysis of the analysis, is needed since organizations cannot be expected to consider all the possible risks. The meta analysis provides the organization with an idea about what it must consider and its capacity to do so. Also, the meta stage produces tentative data about the upper and lower risk tolerance of the organization. This data convey an educated guess about the agency's capacity to absorb an interference without a significant

disruption of operations or deterioration of service (product) quality. Since the external environment is rapidly changing re-assessment of each stage of the process at regular intervals is a must. Such reviews of all earlier assessments of risk is called for also when additional insights and understanding of the production process become available. This attribute, in turn, is making risk management an on going activity that must not be compromised as long as any project, program or policy are alive.

The third attribute is that while risk management is an internal management process from the organizational perspective it cannot be fully accomplished without some collaboration with elements in its external environment. To understand the need for such minimum level of collaboration we must note that no agency can have a)the capacity to meet, prevent, mitigate, or deal with all the risks that can threaten either the quality of given goods (or services) or b) the ability to protect the process the organization is using to produce them. Following Bridges (2002) the first kind of risk (i.e., the capacity to meet, prevent etc.) might be labeled business risk. This term is used to denote the threats associated with project [program or policy] not delivering products [or services] which can achieve the expected benefits. The second kind of risk (i.e., the ability to protect etc.) might be labeled project risk to denote threats to the project [program or policy] being able to deliver the required products [or services] within time and cost constraints. The implication of this attribute is that assuring the quality of goods and services or their availability requires a proactive effort to collaborate with other systems or organizations to establish the necessary cooperative arrangements for dealing with various contingencies. In other words, no agency can afford to managed its own affairs in relative isolation from other organizations.

With the evolvement of the global village the three attributes of risk management as discussed above transformed the nature or scope of risk management in general and in the public sector in particular. To illustrate this point let me share with you a personal observation. As an undergraduate student, almost fifty years ago, I was taught that in order to prepare for any risk concerning the supply of raw material the firm might pursue vertical integration and acquire its own sources. The example used by the professor to illustrate this point was the New York Times. Owning its own forests and paper mills, the professor claimed allow the New York Times to secure the supply and cost of the raw material it needed to print the paper. It does not take much to see that these days such an approach to risk management is likely to increase the exposure of the New York Times to risk than to assure the availability of the raw material, its quality or price. While the need to secure the raw material did not change for the New York Times the nature of the contingency plans for dealing with various scenarios where the supply of paper might be threaten has changed dramatically. Issues of global warming, indiscriminate burning of forests in some places and mass harvesting of trees for all kind of uses in other places, along with changes in international and national labor laws, export and import regulations and some readers' preference of the New York Times virtual edition over the printed one imply that the Times needs to come up with new answers to new risks.

The tragic event of September 11, 2001 underscored the similarity between the situation of the New York Times and New York City when it comes to risk management. If the parallels were not clear before, the developments following the attack highlighted the need of government agencies in general, and local authorities in particular, to examine and review their risk management practices in a more critical way.

As would be explained bellow a paradigm shift from governing to governance (Neu 1996, Adashead and Quinn1998, Mayntz 2002, Rhodes1996) is going on. Fir that reason government agencies can no longer confine their risk management efforts to a narrow framework that considers only the risks that may result from their own business process. The resulting new challenge of risk management for government agencies is the need to meet public expectations and live up to their responsibility to be ready to deal with risks to life and property beyond the narrow scope of government operations. The challenge resulting from this new need is that government agencies must consider a broader list of risks to the welfare of the communities they serve when our common past experience, let alone their own particular experience, are of little help or relevancy. To be sure, the risk management unit of a local authority, for example, can no longer limit its scope of operations to addressing only the traditional risks which may result from operating machinery owned by the city or injuries to people on city property. Preparing for the risks the public may face in areas that used to be the domain of government operations in the past (e.g., fire protection, public transportation, garbage collection, parks or water supply) remains in the public mind the responsibility of government as well. Contracting out operations does as absolve local officials from political liability and accountability issues even for operations they do not control. As illustrated by each of the cases we listed at the opening of this paper the common expectation is that government would take the necessary steps to assure personal safety and protect property values even though specific clues or warnings that governments needs to do so are usually absent. In the public's mind, government should have anticipated and be ready for any calamity and with the help of hindsight and the mass media this notion is articulated and expresses again and again following natural and man-made-disasters

around the glob. Because of this public expectation, government agencies cannot limit their risk management operations to issues of insurance or the safety of their employees and service recipients. Elected officials are going to be held accountable whenever there are threats to life or property in any domain where there is (or were there was) government presence in any way (e.g., as provider or as a regulator of goods and services). Since we know that in the aftermath of any unfortunate event, whether its man-made or not, one of the accusing fingers is likely to be pointed at government does it not make sense to address possible risks before hand in order to optimize the response to them?

Ⅱ. A Paradigm Change: From Governing to Governance

A paradigm change from governing to governance took place in the last part of the 20th Century (Neu 1996, Adashead and Quinn1998, Mayntz 2002, Rhodes1996 Halachmi 2003). The notion of governance have been used by various writers (Mayntz:2002, Halachmi 2003) to depict a deliberate effort by public officials to meet the welfare needs of citizens in a better way through partnerships with other elements of the civil society. The purpose of such partnership is the overcoming of at least three major obstacles to government operations namely: limits on action due to governmental structures, institutions or procedures, reduce the high profile of agencies as part of de-regulation and reducing the cost of doing business and, constraints on the ability of governments to mobilize new resources or to lunch new activities. From pragmatic point of view all this translated into contracting out and load shading by agencies at all levels of government. However, while more activities that used to be performed by government and others that should have been

performed by government became the domain of for-profit and not-for-profit organizations little has been done to address the issue of comprehensive risk management. Thus the current literature about public sector productivity, finance or welfare is missing critical discussions about one important question namely, how current governance practices enhance (or undermine) the management of risk. Addressing this issue is important beyond its possible implications for homeland security of every country since the management of risk, broadly defined, includes (or should include) issues of financial solvency of pension funds and other welfare, health, education and public works accounts. The question that comes to mind at this juncture is why is it that in an area of renewed calls for government to be managed more like a business so little been done until recently in comparison with the intensive development of risk management operations at well managed corporations in the private sector?

To understand the issues involved in the development of risk management in the public sector (or the lack of such progress) we need to understand the dynamics of the shift from governing to governance. Sabel and O'Donnel (2000) assert that quietly, without the raucous clash of party and program that mark even lesser stirrings, democracy is on the move. They note that the economic turmoil and political revolts of the 70s and 80s together with the globalization of world markets that continues today resulted in both renewal and disruption. At the local level, they note, citizens in many countries are directly participating with government in solving problems of economic development, schooling, policing, the management of complex ecosystems or drug abuse. Their successes, though manifestly fragile, already suggest possibilities of public co-ordination that even recently seemed beyond reach. According to Sable and O'Donnel (2000) central governments of nearly all political

colors encourage such participation by devolving authority to lower levels. This observation is consistent with the position taken other writers (Neu 1996, Reid 1999, JRF 2001) about current and future reshaping of local authorities. Sable and O'Donnel (2000) point out that governments have been loosening the grip of public bureaucracies on the provision of some services while wholly privatizing others. As illustrated in Reinventing Government (Osborne and Gabler 1992) central governments can tolerate local experimentation by waiving formally, or through inaction, their statutory rights to specify how programs are administered.

The central government tolerance of such developments by lower level authorities seems to suggest that the center is reforming itself not by changing its mode of operations but through a change in its role as provider of certain goods and services. Sabel and O'Donnel (2000:1) note that such view of the central government is remarkable more in its capacities for self-limitation and dis-entrenchment than its positive abilities to co-ordinate and construct. An important observation when it comes to explaining the slaw pace of developing risk management activities. The authors are quick to point out that when viewed from the local problem-solving units, the central government seems indispensable as an ally in the consolidation of nascent innovations, but capriciously unreliable in its ignorance of local circumstance and its own potential to foster development. The two perspectives offered by Sable and O'Donnel take government as disjointed and fragmentary, not formative and framing. In this they invite questions about the practicality and legitimacy of representative democracy, which centers law making in the legislature, in a world where the centre devolves more than it directs.

According to Carmichael (2002) whereas 'government' is concerned with the formal institutions of government, 'governance' signifies a change in the meaning of government, focusing upon wider processes through

which public policy is effected. To use a Mintzberg (1987) like language policy is an emergent plan of action rather than a blue print that is followed by all participants in the policy making process. Governance, Carmichael (2002) suggests, refers to the development and implementation of public policy through a broader range of private and public agencies than those traditionally associated with elected government. Thus, government is increasingly characterized by diversity, power interdependence and policy networks (Peters and Pierre 1998, Mayntz, R, 2002, Rhodes1996). According to Carmichael (2002) there is a hollowing out of the nation-state as functions are either pooled upwards to supranational bodies like the EU, downwards to devolved administrations and regional bodies, and outwards to civil service agencies or even removed from direct public sector involvement altogether by privatization.

Stern (2000:1) notes that by the 1990s a subtle new concept was making its way through development seminars and research studies. This concept was "governance". The term, he notes, began to be used in the development literature in the late 1980s, particularly in Africa. According to Stern (2000) the Report of the Governance in Africa Program of the Carter Center in Emory University in Atlanta spoke of governance as "a broader, more inclusive notion than government and the general manner in which a people is governed. As cited in McCarney, Halfani and Rodriguez (1995: 94) governance can apply to the formal structures of government as well as to the myriad institutions and groups which compose civil society in any nation".

A more restrictive and state-centered view was that of the World Bank, which defines governance as "the manner in which power is exercised in the management of a country's economic and social resources for development"(World Bank 1992, 3).

A lengthy discussion of governance - as it applied to urban examples throughout the developing world - concluded that the important element that was explicitly lacking in many official and agency-based definitions was the connection of government, and particularly local government, to emerging structures of civil society. Accordingly, McCarney, Halfani and Rodriguez (1995) proposed to define governance as "the relationship between civil society and the state, between rulers and ruled, the government and the governed" (McCarney, Halfani and Rodriguez 1995, 95). Stern (2000:1) claims that this definition [of governance] was picked up by other researchers writing about comparative local government in developing countries and was eventually established as the essence of the UNDP's definition. In its publications UNDP offers the following definition:

> *Governance can be seen as the exercise of economic, political and administrative authority to manage a country's affairs at all levels. It comprises the mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences* (UNDP 1997, 2-3).

McCarney (1999) observes that when governance, defined as the relationship between civil society and the state, is considered at the local level. A notion of urban governance helps to shift thinking away from an equation with good government and, more generally, from state centered perspectives that have predominantly focused on urban management. Accordingly, an urban governance framework, he claims, allows us to include elements which, in conventional terms, are often considered to be outside the public policy process. These elements McCarney (1999) asserts are instrumental in the socio-economic and cultural development

of third world cities. They are highly responsible for shaping the urban landscape. These elements according to McCarney (1999) include a smorgasbord of community players such as civic associations, "illegal" operators, "informal sector" organizations, neighborhood groups and social movements. Through their interactions with each other and with various government agencies at various levels of government these players influence the morphology and development of urban centers.

McKinlay (1999) concludes that what McCarney is describing is a situation common in developing countries of civil society organizations, both formal and informal, filling the void created by lack of capacity on the part of formal organizations of the state. However, it is not hard to see that the same may be true in the case of many developed countries. This possible conclusion is consistent with a more recent claims by Dror (2001:3) that (1) the quality of governance constitutes a major variable shaping the future of societies, states, and humanity as a whole and, (2) that this is the case despite contemporary illusions that free markets and civil society can be relied upon to bring about by themselves a positive future.

Like other writers (Peters and Pierre 1998, Bjrk and Johansson 1999) McKinlay (1999) notes that under the impact of globalization the capability of national governments in developed countries to intervene in pursuit of desired outcomes gradually diminishes. The economic problems of Japan in recent years may be a case in point. For our purposes here the main difference between the periods before and after the end of the cold war is the frequency with which a lack of government capacity to intervene and secure the necessary conditions for a smooth functioning of civil society manifest itself. In a developing country context, the lack of capability on the part of formal government institutions, whether central or local, is immediately apparent (Wunsch (n.d)) yet it may not

be as crippling as it is in the case of developed countries.

The lack of government's capacity to intervene to restore the conditions necessary for a civil society, e.g., to stop riots, looting or wild strikes, necessitate the mobilization of other means to restore the said conditions. This, in turn, suggests that the formal structures of government are just one of the means available to the community (civil society) to pursue its objectives. Furthermore, it proposes that the necessary means for attaining important societal objectives may not always be available no matter how critical the specific issue may be to the good governance of the community. From this perspective, governance appears as the process of the community involving its preferred futures and choosing the appropriate means for pursuing those.

A similar perspective on governance comes from the work of the Governance Co-operative. In a paper published in June 1998, the Governance Co-operative declares:

> *"Governance has to do with the institutions, processes and traditions for dealing with issues of public interest. It is concerned with how decisions are taken and with how citizens (or stakeholders) are accorded voice in this process. In its early form government was seen as a process whereby citizens came together to deal with public business.Today, government is viewed as one of several institutional players, like business or labor, with its own interests. The emergence of government as a free-standing organization in society with its own agendas and interests has created the need for a word to describe a process distinct from government itself."* (McKinlay 1999)

March and Olsen (1995:248) assert that the democratic creed is predicated on the possibility of improving the organization of society and

thereby the ability of citizens to achieve their purpose and better their lot. But how can the organization of society be improved? As can be derived from the previous review of scholarly perspectives, moving from governing to governance is one way of doing it. However, the question remains as to who is responsible for risk management in the aftermath of such a move? In other words, it is bad enough that government agencies may not have the capacity to address important issues or handle difficult situations. It is not very encouraging that government must relay on the cooperation and functioning of non-governmental entities that may not have the service of the public interest as the primary guide or first priority. However can the public tolerate any uncertainty concerning the responsibility for handling a tangible threat to life and property? Is it not the case that to most citizens government officials should be held accountable when it comes to risk management in either the public or private sector? Are public outcry and media criticism of public officials not as harsh in the aftermath of a bank or any corporate collapse than they are following a snafu by a government agency? The reality that following any major disturbance the blaming finger eventually points to government officials was well demonstrated by the blackouts in California in 2000 and 2001 (PBS 2001) and more recently by Greatest Blackout in American History on August 14, 2003. The fifty million people that were left without electricity on a hot afternoon in August 2003 did not care that utility providing the electricity to New York City, Consolidated Edison, where it all began, was a private entity. Nor did they care weather the problem started in New York or Canada or if the problem was in the electrical grid that connect the various utilities or lack of power generation capacity anywhere. People expected, and got public officials such as the Mayor of New York, the Governor of New York and even the President of the United State and Canadian Prime Minister to

step forward and do their best to address the questions and concerns of the public (NY-Times 2003a, 2003b, Boston Glob 2003, ABC News 2003, Reuters 2003, McKinley 2003). The common blame of deregulation in both cases of electricity disruption provides another interesting insight for our purposes here namely, that regulations is (an alternative or an optional) instrument for carrying out the government's role in risk management.

For the purposes of this paper the corresponding implications for risk management which result from migration or paradigm shift from governing to governance can be summarized in the following way:

> governing has to do with control while governance has to do with steering. Governing is the sole prerogative of governments because it involves the possible use of coercion while governance involves cooperation and collaboration among multiple governmental and non-governmental actors with diverse economic and non-economic interests.
>
> The implication for risk management is that under *Governing* the authorities can force all entities to manage risk using its regulatory powers. Under *Governance* the authorities must find other ways to induce risk management.
>
> Governing is state centered while governance assumes a polycentric (or at least a decentralized) institutional structure with the government apparatus as only one of several centers. Simultaneously, in concert or independent of each other, these centers are seeking legitimacy, initiating variety of programs, competing for and mobilizing public and private resources.
> The implication for risk management is that there is no reason to assume that risk management plans which are developed

independently of each other would somehow be synchronized, be consistent with each other or would not undermine each other. There is no invisible hand to coordinate risk management effort unless government steps in to do it.

Governing takes place within the national or internationally recognized borders of a given polity while governance results from interactions within and across such borders. Governing assumes the existence sovereignty, sole jurisdiction and a clear hierarchy of norms (i.e., a legal system). In the governing framework actors have either primary or subsidiary roles to each other. Governance, on the other hand, is multidimensional. It tolerates multiple jurisdictions, alternative sets of values with actors playing either primary or subsidiary role in some public policy arena and a different role in other public policy arenas.

The implications for risk management is that risk management cannot be based on any assumption that has to do with territoriality. Risk cannot be related to a specific geography as illustrated by the SARS epidemic of Winter 2003 which affected Hong Kong and Toronto independently of each other. Hence risk cannot be defined by a reference to a unique source that can be defined by borders, that fall under specific laws/jurisdiction or, by whether it is (or can be) controlled by any one government.

Ⅲ. Risk Management: A Brief Review of Public Sector Approaches in Selecte Countries

A according to the Australian Auditor General Office (http://www.audit.sa.gov.au/98-99/a3/reform.htm) risk identification and management provides a basis for facilitating the establishment and maintenance of effective internal control structures within public sector agencies. As such the review of risk management practice within agencies is fundamental to that Department's audit mandate and auditing activities.

> Risk management has been a prominent factor in the various policy and guidance framework initiatives by Australian government in recent years as illustrated by the evolvement of The Australian/New Zealand Risk Management Standard between 1995 (RMR 2000) and 1999 when specific provisions to fit the public sector have been added. The Treasury Board of Canada Secretariat built on that base and created an integrated risk management framework for government in 2001. In a corresponding development in the UK Risk: Improving government's capability to handle risk and uncertainty was published by the UK's Strategy Unit in November 2002. That publication was a direct result of recent crises in the UK that included the Mad Cow disease, rail safety issues, undesired environmental change, and, of course, the shock of September 11, 2001. The British publication is a certain admission that government has lost public trust by failing to address many risks as well as it should. The Report, plus its six major and 66 specific recommendations, will be implemented within the next two years. In his Foreword, Prime Minister Tony Blair confirms that risk managementgetting the right balance

between innovation and change on the one hand, and avoidance of shocks and crises on the otheris now central to the business of good government. Among the other important contributions of this report are the following points:
First, the report acknowledges that all states are at root guarantors of the security of their citizens and that public expectations are creating new demands for that security. The nature of risk has changed because of the rapid pace of development of new science and technology and because of the greater connectedness of the world. The report says in so many words that governments, including the UK government, must take a new approach to risk and uncertainty.

Second, the Report recognizes that the language of risk management continues to be unclear, even messy, confusing both the public and government officials. It tries to redress the balance, defining both risk and risk management in sensible terms. Risk refers to uncertainty of outcome, whether positive opportunity or negative threat, of actions and events. It is the combination of likelihood and impact, including perceived importance.

Bringing the idea of risk perception into this definition is significant because in the aftermath of an undesired experience perceptions influence how people feel and thus how they respond to ensuing consequences. This was addressed in earlier publication as the second order effects of an emergency (Halachmi 1978). The second order effects influence the ultimate impact and cost of any disruption. The approach of the UK report is consistent with the concept of second order consequences as illustrated by its proposed definition of Risk

> Management. According to the report Risk Management covers all the processes involved in identifying, assessing and judging risks, taking actions to mitigate or anticipate them, and monitoring and reviewing process. It should be noted also that the said report carefully avoids the trap of measuring risks, response and results primarily in financial terms. In the long run the psychological impact of a traumatic event can easily exceed the market value of lost assets. Thus preparing to deal with risk must include provisions for dealing with damage to non-tangible assists including the welfare of humans that are effected by it.

In a speech to the National Institute for Governance Canberra Ian McPhee (2002), Deputy Auditor General of Australia, pointed out that the challenge for public sector managers is to balance a range of objectives which include: achieving the most cost-effective program outcome consistent with government policy and legislative requirements, meeting customer service obligations, investing in innovative approaches to improve program design and administration, providing employees with rewarding jobs and development opportunities, and liaising effectively with Ministers and other stakeholders; all in a responsive and courteous manner.McPhee (2002) acknowledged that public sector managers accept these responsibilities, and would probably add a few more to boot. Yet, he pointed out, that while there may be nothing new under the sun, the combination of different circumstances in our environment requires managers to have a disciplined approach to planning for, and gauging, the best management strategy or response in all of the circumstances. Risk management in his opinion forms an important component of this disciplined approach. Such direct reference to risk management was not common in Australia ten or fifteen years ago.

Risk management, McPhee (2002) noted, was often seen as a defensive strategy in keeping with the more risk averse culture of the day. More recent literature and practice indicates that risk management should also be seen as a vehicle for identifying positive business opportunities. We see this particularly in public private partnership arrangements where risk sharing is central to such arrangements. Importantly, risk management strategies must flow into the corporate and business-planning approaches of entities so that they are integrated into the management actions of staff at all levels in the organization. This requires the organizational planning timetable to allow for risk identification and treatment to be contemplated ahead of the traditional corporate and business-planning processes.

The challenge for public sector managers, according to McPhee (2002) is to balance a range of objectives in a way that achieves the best overall program outcomes and other organizational goals. In his words:*Effective governance arrangements require those charged with governance responsibilities to identify business risks, as well as potential opportunities, and ensure the establishment of appropriate processes and practices to manage, in an integrated way, all significant risks associated with the organization's operations*. McPhee went on to assert that in the public sector there is a need to consider an agency's full range of responsibilities, including their particular responsibilities to their Minister(s). It is fairly well accepted, he noted, that agencies should have in place adequate information sources and systems to inform Ministers in relation to their executive responsibilities, including those relating to policy development and the monitoring of existing policies. The implication of that is that agencies should take a broad rather than narrow view of their responsibilities and the range of risks that potentially attach to them. This broad view should be informed by

Ministers' own views.

McPhee noted (2002) that these changes are occurring in organizations that have traditionally been regarded as risk averse. The public sector requirements for accountability, probity and emphasis on ethics combined with the scrutiny over the activities of public sector officials, particularly in the Australian Public Service exercised by the parliamentary committee processes, have tended to reinforce a risk averse culture. The tension that is created by this culture and the need to operate using modern risk management principles is recognized by the Chair of the Joint Committee of Public Accounts and Audit (cited by McPhee 2002) who has observed that:

> *In order to manage risk you have to take risks, otherwise we go back to a risk averse public sector.*

The importance of taking a whole of organization approach to the management of risk cannot be underestimated. Current approaches are too firmly entrenched in command and control and thus rooted in the past and the culture of risk aversion. Such practices may not be suitable for dealing with an entity's continually evolving risks and opportunities.

An Enterprise-wide Risk Management posture should help any organization aligns strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the uncertainties the enterprise faces as it creates value.

In New Zealand they reason that The management of risk is one of the fundamental responsibilities of an organization's governing body, for obvious reasons: if major risks are not managed, they have the capacity (in the worst case) to destroy an organization, and, in less dramatic instances, adversely affect the ability of the organization to achieve its

objectives. (Good Governance Group 2000)

The currant writings about risk management seem to be in agreement that the study and management of risk is important to any organization. This literature highlights two important points. The first point is that increasing levels of risk in any business plan should be compensated by increasing levels of reward. The second point is that as part of the community every organization has a social obligation to a wider group of stakeholders than the one it uses for compiling its core business strategy. This is particularly so in the case of those organizations which are integral to the well-being of any community, i.e., those that provide essential goods and services..

A comprehensive risk management program is one mechanism for ensuring that the organization achieves its objectives, and that the objectives of the organization's stakeholders are managed. The key aspects of the design and implementation of a comprehensive risk management program are:

> The program should ensure that the organization is able to realize the upsides in adopting risk positions as well as managing or limiting the downside risk;
> The program needs to be driven by the executive to be successful and occur throughout the organization-wide approach;
> Risk must be recognized as being of high importance within the organization and the risk appetite of key stakeholders must be appreciated; and
> The risk management program must identify which risks need to be addressed, analyze the identified risks, allocate consequences, determine if the risks are managed or unmanaged, establish probability and severity of occurrence

(high, medium or low), develop an impact assessment of high probability/high severity risks (key risks), establish the strategy for addressing these risks by insuring (i.e., selling) the risk or by sharing it with others so that cost of risk (or ensuing damage) is spread and can be born by more than one entity.

Regardless of whether the aim is to remove or manage the risk, the risk management program must establish the time frame within which various actions need to be performed and the scope of the cost for implementing the risk management program. Without concrete terms to address the timing and cost issue a risk management program is a wish list at best and a dangerous excise in symbolic politics

According to Gruber (2002) assessing the management of risk as part of assessment of agency performance is starting to become a regular activity in the USA. Gruber (2002) reports the finding of a Government Accounting Office (GAO) report that found that nearly 80 percent of major federal agencies have made progress over the past two years in addressing their biggest management challenges which GAP label high risk.

Beginning in 1999, GAO has compiled a Performance Accountability and High Risk Update with a high-risk list, every other year. The list was streamlined from 26 to 22 high-risk agencies and federal management programs when it was last compiled in January 2001.

From September to October 2002, GAO analyzed agencies' fiscal 2001 performance reports and fiscal 2003 performance plans, required by the 1993 Government Performance and Results Act, to see how well agencies have responded to two government-wide high-risk areas identified in 2001: strategic human capital management and information

security. The report (GAO-03-225) also looks at how agencies have addressed their unique management challenges.

Of the 23 agencies reviewed, 18 took action to remedy all high-risk management areas in fiscal 2001 and 16 plan on doing more to overcome management challenges in fiscal 2003. Five agencies, including the Nuclear Regulatory Commission, Education Department, Justice Department, Federal Emergency Management Agency and the Agency for International Development, failed to report any progress in improving at least one of the specific challenges they faced.

All 23 agencies reported progress in dealing with strategic human capital management issues, an area added to the GAO's high-risk list in 2001. In addition, 21 of the 23 agencies described progress toward enhancing information security in their fiscal 2001 reports.

In general, Gruber (2002) notes that according to GAO reports agencies needed to do a better job of finding measures to evaluate progress on management challenges. For example, the GAO noted that the Federal Emergency Management Agency's annual report said the agency planned to streamline its organization and develop its workforce, but the report listed no measures to track progress in meeting either goal.

Agencies also had trouble making progress in addressing their own specific management challenges, the GAO report said. The Housing and Urban Development Department, which responded to an agency-specific challenge by planning to improve oversight of its single-family mortgage programs, was an exception.

Officials from the 23 agencies agreed with the overall GAO report, but expressed concern over the accuracy of a few technical details. GAO plans to compile a new list of high-risk areas and release it in January 2003 in its biennial Performance Accountability and High Risk Update.

The GAO report suggest progress on risk management but this progress is limited. Agencies respond to GAO concerns about operational risks but have yet to develop a robust in house capacity to identify and address strategic risks. There is also no indication that agencies follow the advise of the Australian Deputy Auditor General. as reported earlier, namely to develop a broad rather than narrow view of their responsibilities and the range of risks that potentially attach to them and that this view should be informed by the Secretary own views. By the same token the recent report from the USA does not suggest that agencies are taking a proactive approach to risk management by attempting to share risks through partnership, by considering expected value of anticipated desired results against the (negative) value of possible undesired ones to maximize returns. Last, but not least, the GAO report says nothing about any progress in the USA when it comes to assessment of risks and their management by various entities outside government (such as NGOs) though they may be important partners in the governance process.

The approach of the Federal Government in the USA to risk management should, however, be examined in its political context as this context influences the direction it is taking. A simple review of the activities and policies under the Clinton and George W. Bushes' Administration can illustrate this point. Under the Clinton Administration, the liberal and Democratic Party view of the role of government justified a proactive approach to risk management which was advocated in connection with Executive Order 12866 of September1993 (http://usgovinfo.about.com/library/bills/bleo12866.htm). The general purpose of EO12866 was to "enhance planning and coordination with respect to both new and existing regulations; to reaffirm the primacy of Federal agencies in the decision-making process; to restore the integrity and legitimacy of

regulatory review and oversight; and to make the process more accessible and open to the public." The order amended and consolidated previous related Executive Orders issued by President Reagan. According to Bruce Curtis, DOE's (Department of Energy) 1995 risk management plan was derived OR 12866. The cover letter which explains DOE's principles for using risk management goes on to say:

> As stated in Executive Order No. 12866, "In setting regulatory priorities, each agency shall consider, to the extent reasonable, the degree and nature of the risks posed by various substances or activities within its jurisdiction" [Section 1(b)(4)]. Further, in developing regulations, federal agencies should consider "...how the action will reduce risks to public health, safety, or the environment, as well as how the magnitude of the risk addressed by the action relates to other risks within the jurisdiction of the agency" [Section 4(c)(1)(D)]. (Curtis 1995)

Yet, with the change of Administrations, as regulation weary Republicans with their view that less government is better took over the White House we can see a different approach. This approach attempts to minimize the role of government in any respect and in particular when it comes to regulating non governmental entities. Accordingly, OMB released in July 2002 a New Business Reference Model to Improve Agency Management. The Business Reference Model is an analytical tool that is aimed to provide a common understanding of the federal Government's business operations. The model is shaped like a pyramid and consists of three parts: services to the citizens at the top. support delivery of services at the middle of the pyramid and internal operations/infra structure at the bottom of the pyramid. In this model, risk management becomes an internal function. Under the label internal

risk management and mitigation risk management became part of the middle section of the pyramid support delivery of services. This approach, though it may be consistent with common business practices in the private sector may prove to be short sighted. With the current change of governmental responsibilities due to the transition from governing to governance, the reduced role of government involvement in the direct provision of goods and services does not translate to reduced responsibility for them. In fact, there is a good chance that precisely because government is not directly involved in producing or delivering goods and services, as it used to in the past, the public looks to public officials to assure no disruption to its welfare. Recent critical views of the government role in regulating economic activities to assure the integrity and viability of the market place. The cases of failed corporations, energy shortages, cost of health services are some examples that illustrate this point.

The currant culture that advocates risk management have yet to rise to the new challenges and the new risks which result from the transition from governing to governance. As illustrated by the case of ENRON and by recent litigation by foreign corporations against the USA under Chapter 11 of NAFTA (in place allegedly to protect the rights of investors) government agencies fail to do proper risk management. In the case of NAFTA actions or lack of actions by NGOs involved in setting accounting standards or firms in the business of energy or accounting resulted not only in violation of the social responsibility standard but in violating common principals of accountability and transparency. In the case of the NAFTA litigations, government institutions such as the court and jury system, authority of local governments and residents to manage their environmental risks to health and safety are challenged because they interfere with the profit making of corporations.

In other words the move from governing to governance did not result in corresponding demands that active participants in the process assess, disclose and manage the risks their operations may pose to society or other participants in the process.

Ⅳ. Concluding Remarks

For one set of reasons we have witness during the later part of the 20th Century a global migration from governing to governance. This paradigm shift resulted in corresponding changes in the division of labor between government and other providers of goods and services from the private and not-for-profit sector. During the same period and for another set of reasons governments minimized their involvement in regulating the production and provision of goods and services by non-governmental entities. Quality, safety and any possible implications for the public interest were left to be handled by the invisible hand of the market place. The synergetic result of the two developments is the absence of a central or coordinated effort of risk management and planning for contingencies that involve concrete threats to the physical, mental or economic wellbeing of citizens.

As it appears now, maybe the efforts to reduce the economic and political cost of governments' operations did not generate all the desired political and economic gains. In the United States, this possibility seems to be illustrated by the aftermath of the electricity shortages in California during the Summers of 2000-2002 and the big blackout of August 2003 in New York and other parts of the USA. In either case deregulation of the industry or allowing the industry to carry out its own risk management proved to be a political and economic disasters. The

deliberate actions to reduce government involvement in the production or provision of goods and services on the one hand or in their regulation reduced the economic and political cost of government operations in the short run. However these activities did not absolve governments and elected officials from direct responsibility for the consequences of undesired developments. In the case of California re-call of Governor Davis who is scheduled for October 2003 and legislative investigations of the Big Blackout of 2003 at the State and Federal levels are underway at the time this paper is being written. The likely result in either case is going to be greater government involvement in production, provision or regulation of electricity in the USA at a greater political and economic cost than it used to be. As pointed out elsewhere (Halachmi 1991) the common response to any breach of computer security is usually more excessive (and thus more elaborate more demanding and more expensive) than what it would have taken to prevent it in the first case. The reaction to the electricity problems of California in 2001 and in the East of the USA in Summer 2003 are going to follow the same pattern. Yet, one must ask what are the implications for local governments and risk management in other places?

As I see it government agencies cannot afford to continue with the currant practices of risk management. Local authorities, for example, manage risk at this time by planning for the event that something bad is caused by its employees, its equipments or to someone who is visiting the buildings and grounds they own. Local authorities handle such risk through self insurance, by buying insurance from commercial providers or by various arrangements of risk sharing. However, little is done to plan for contingencies where the risk to agency operations is from sources outside government. At this time, even less is done to prepare for risks to innocent third party within the geographic boundaries of any local

authority by operations of non-governmental entities or act of nature. As pointed out in this paper governments and elected officials are being held accountable for any such miss-happening. For that reasons it behoove agencies and elected officials to look for efficient way to plan for the management of threats to the wellbeing of their citizens from sources that are not fully under their control.

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