**Business of Government**

# INSIGHTS

*Issue Brief: Leadership and Risk Management*

## *Public Management in an Uncertain Environment*
## Lessons from Enterprise Risk Management

*Harvard Business School Professor Emeritus John Kotter has proposed that business organizations develop networks internally to help their traditional hierarchies function in today's fast-changing environment. Government too finds itself increasingly beset by difficult problems that challenge the ability of departments and agencies to respond promptly and appropriately. One area where Kotter's combination of hierarchies and internal networks already functions well is Enterprise Risk Management (ERM). U.S. government organizations are increasingly adopting ERM as a defensive measure, to help avoid being blindsided by major risks. ERM, and its approach to building new networks into traditional hierarchies, offers important practical lessons about how to improve agility and decision making not only for risk management but also across other government operations.*

**Thomas H. Stanton**
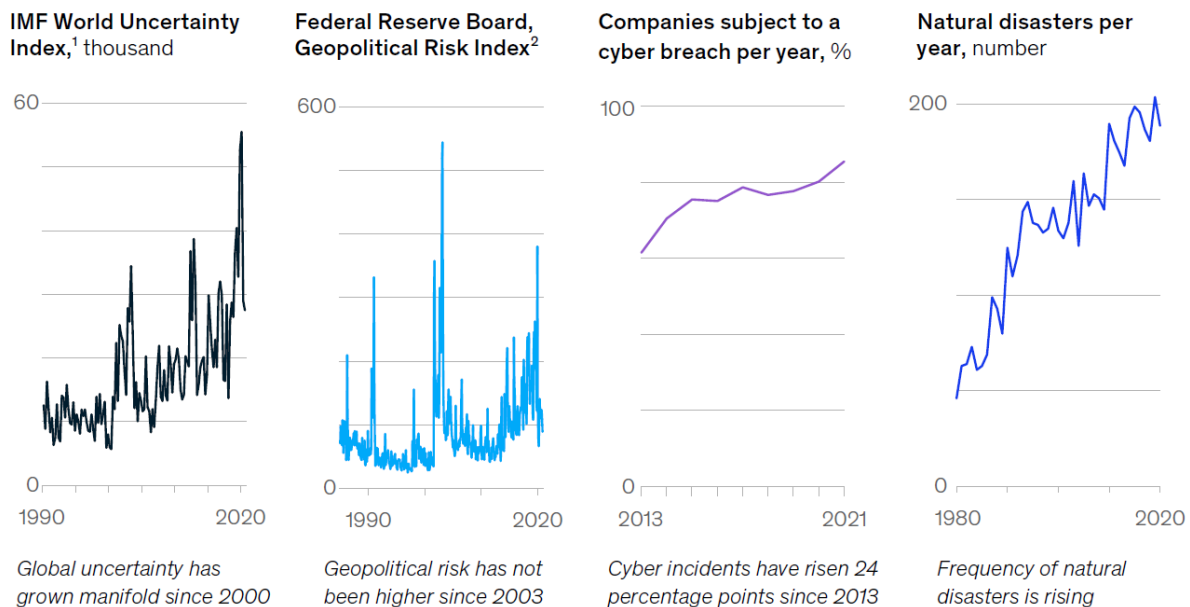**Fellow, Johns Hopkins University**

25th ANNIVERSARY

## Introduction

The environment in which government departments and agencies operate is changing at an increasing pace and in multiple dimensions. Advances in technology lead to changes in expectations for those whom a government agency serves, changes in ways to meet those expectations, and changes in external threats such as from cyberattacks. Economic changes lead to changing budgets and changing demand for an agency's services; an economic downturn for example, may lead to increasing demand for social services even as budget resources become constrained. Changing politics leads to the redirection of government priorities and agency missions, sometimes with major implications for agencies. Finally, the natural environment itself is changing, leading to growing physical threats from wildfires, floods, and other climate changes.

**Figure 1**, from a 2021 McKinsey & Company report, indicates that the magnitude of some of these uncertainties can be considerable.

**Figure 1.**

### Disruption is becoming more frequent and more severe.



| IMF World Uncertainty Index,[1] thousand | Federal Reserve Board, Geopolitical Risk Index[2] | Companies subject to a cyber breach per year, % | Natural disasters per year, number |
|---|---|---|---|
| *Global uncertainty has grown manifold since 2000* | *Geopolitical risk has not been higher since 2003* | *Cyber incidents have risen 24 percentage points since 2013* | *Frequency of natural disasters is rising* |

**Source**: Fritz Knack, Luca Pancaldi, Thomas Opensider, and Olivia White, "The resilience imperative: Succeeding in uncertain times," McKinsey & Company, May 2021 (footnotes omitted; the graphs chart risks globally).

For Harvard Business School Professor Emeritus John Kotter, growing uncertainty presents competitive opportunities, sometimes major ones, for a private company. To seize big opportunities and address major risks, Kotter proposes that companies adopt a "dual operating system" of the traditional organizational hierarchy joined with one or more internal networks that

can liberate big companies from the constraints on creativity and agility that a corporate hierarchy imposes.[1]

A process in government that reflects Kotter's dual operating system is Enterprise Risk Management (ERM).[2] While Kotter focuses primarily on private companies, his work also applies to government organizations. His idea of a dual operating system explains why ERM can be so effective in government agencies. ERM in turn shows how to apply Kotter's dual operating system to increase the performance and agility of government agencies.[3] The present paper provides (1) an introduction to John Kotter's dual operating system model, (2) an overview of Enterprise Risk Management as it operates in government organizations, (3) lessons from ERM about how to apply the dual operating system model to government organizations, and (4) opportunities for expanding the dual operating system model from ERM to operations of government organizations more broadly.

## John Kotter's Model of an Organizational Dual Operating System

Professor John Kotter has spent much of his career seeking to understand and teach about ways that business organizations can manage the change that is needed for them to succeed in a rapidly changing environment.[4] Kotter's 2014 book, *Accelerate: Building Strategic Agility for a Faster-Moving World* (Harvard Business Review Press), looks at the organizational aspects of achieving

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[1] John P. Kotter, *Accelerate: Building Strategic Agility for a Faster Moving World*, Harvard Business Review Press, 2014. See also, Ori Brafman and Rod A. Bekstrom, *The Starfish and the Spider: The Unstoppable Power of Leaderless Organizations*, Portfolio Publishers, 2006.

[2] See, e.g., Kenneth C. Fletcher and Thomas H. Stanton, eds., *Public Sector Enterprise Risk Management: Advancing Beyond the Basics*, Routledge, 2019; and Thomas H, Stanton, "Enterprise Risk Management (ERM): A Powerful Federal Management Tool," guidebook prepared for the Association of Government Accountants (AGA), February 2017, available at https://www.agacgfm.org/Research-Publications/Online-Library/Research-Reports/An-Agency-Guide-for-ERM-Implementation.aspx; and, Thomas H. Stanton and Douglas W. Webster, eds., *Managing Risk and Performance: A Guide for Government Decision Makers*, John Wiley & Sons, Inc., 2014.

Federal government documents include, Office of Management and Budget, OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, July 15, 2016; Chief Financial Officers Council and Performance Improvement Council, *Playbook: Enterprise Risk Management for the US Federal Government*, Fall 2022 update; Office of Management and Budget, OMB Circular A-11, Section 260 (Enterprise Risk Management), FY 2023 Budget Guidance; and, US Government Accountability Office, *Enterprise Risk Management: Selected Agencies' Experiences Illustrate Good Practices in Managing Risks*, GAO-17-63, December 1, 2016.

[3] ERM in the United States began in the private sector and has been adapted to government. For private sector applications of ERM, see, e.g., John R.S. Fraser, Rob Quail, and Betty Simkins, editors, *Enterprise Risk Management: Today's Leading Research and Best Practices for Tomorrow's Executives*, second edition, (John Wiley & Sons, 2021); and Thomas H. Stanton, *Why Some Firms Thrive While Others Fail: Governance and Management Lessons from the Crisis* (New York: Oxford University Press, 2012).

[4] Kotter's books on achieving change range from *A Force for Change: How Leadership Differs from Management* (Free Press, 1990), to *Change: How Organizations Achieve Hard-to-Imagine Results in Uncertain and Volatile Times* (John Wiley & Sons, 2021), written with Vanessa Akhtar, and Gaurav Gupta. He also has written many other books, articles, and Harvard Business School case studies on the topic.

major change. In that book he contrasts the strengths and limitations of two organizational types: the organizational hierarchy and networked governance. Kotter argues that organizations are most effective when they combine the hierarchical and networked models into what he calls a "dual operating system."

Kotter begins his analysis by looking at the operations of a firm just starting up. The small staff organize themselves into a network; the status of individual employees matters less than their capabilities. Start-up firms are agile and responsive to their environments. One person may have an idea how to improve operations and share it with others who refine the idea, which the group then implements. The network gives the organization strength, agility, and the capacity to adapt and grow.

At some point as the organization grows, Kotter notes, the network model no longer suffices. A hierarchy is needed to engage in essential routine tasks such as budget, human resources, purchasing, and planning. Over time, the hierarchy becomes stronger and more important to the organization's success. Silos develop and hierarchy, with its attendant status differences, chains of command, and formalities, eventually displaces the original network. The flow of information becomes more structured, and leaders at all levels turn into managers.

Kotter's insight is that both hierarchy and networks are important to an organization. The hierarchy provides reliability and efficiency while the network allows the organization to move quickly in response to challenges or opportunities. Allowing growth of networks in an organization is different from traditional approaches such as task forces or tiger teams. Rather, networks bring people together from across the organization to identify and solve problems in a less structured way, and with less attention to network members' organizational status, than the hierarchy otherwise would permit. Says Kotter (*Accelerate*, pp. 20-21), "Populated with a diagonal slice of employees from all across the organization and up and down its ranks, the network liberates information from silos and hierarchical layers and enables it to flow with far greater freedom and at accelerated speed."

In Kotter's world of large complex corporations, multiple networks may be called for. Key to the dual operating system is to link these networks to the hierarchy. Without such a linkage, chaos could ensue as different parts of the organization tried to move in different directions. Kotter's solution is to create a "governing coalition" for each network, again consisting of a "diagonal slice" of employees of the organization, and to ensure that the governing coalition remains in close regular contact with the firm's top leadership. The hierarchy remains in charge but pays due respect to the different nature of its networks and their different operating approaches. The challenge is to get the best people involved and not just those considered merely available.

Kotter also addresses another issue that besets organizations: constant pressure on individuals to meet their performance goals leaves little time in the workday for other activities. Kotter has found that participating in a network changes the culture: participants become energized by their freedom to provide insights and creative ways to identify objectives and develop useful approaches. Participating in a network also allows participants to develop both personally and professionally. As a result, participants may contribute their own time to network activities without slacking on their day-to-day responsibilities in the hierarchy.

Indeed, participating in the network can increase their capabilities, performance, and understanding of their roles in the hierarchy. Kotter concludes that adopting a dual operating system may be essential for a company to keep up with major opportunities for growth in today's rapidly changing environment.

The power of Kotter's model also shows itself in emergencies. Under pressure to respond, traditional hierarchy and status considerations weaken as networks emerge to deal with a crisis. When the response is well managed, the networks remain well coordinated with the hierarchy, thereby giving structure to what otherwise could be disorganized chaos. A recent example was the response of the New York Mount Sinai Hospital System to the surge in demand from Covid. Existing networks, such as the Mount Sinai system for allocating patients among its eight hospitals, became more spontaneous. Instead of the usual pattern of overburdened hospitals trying to push their excess patients to others, during Covid, hospitals actively reported their availability to accept patients from hospitals experiencing a surge. Networks can benefit from familiarity and common history. Colleagues who had earlier worked together at the U.S. Department of Health and Human Services, and who now were in different organizations reconnected to arrange to build a new field hospital to take patients during the surge. The Mount Sinai system reconfigured its medical staff into teams. Hierarchy and status disappeared as work allocated itself among those who were best suited to carry it out. Medical residents, who knew how a hospital worked day-to-day would instruct more senior physicians how to be most useful. As a Mount Sinai retrospective study of the early Covid period notes:

> *"Clinical teams were structured based not on seniority or title but on proximity to the knowledge needed to treat this infectious emergent illness. Often it was the newer team member, the one with the fewest years out of medical school – the medical resident – who was in charge."[5]*

Covid caused the cancellation of classes at the Mount Sinai Medical School and students quickly organized themselves into a COVID-19 Student Workforce to support physicians, staff, researchers, and hospital operations in any way that they could.[6] The system's leadership maintained overall direction of the entire response effort such as through rapid approval of new and evolving protocols to structure the way that medical teams interacted with patients. Finally, Mount Sinai organized a network of researchers whose work had been stopped because of Covid,

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[5] Deborah Schupack, Relentless: *How a Leading New York City Health System Mobilized to Battle the Greatest Health Crisis of our Era*, Mount Sinai Health System, 2022, p. 122. See also Michelle Kang Kim, MD, PhD, Loren Galler Rabinowitz, MD, Satish Nagula, MD, Andrew Dunn, MD, Jason Chalil, BA, Tao Xu, MD, Eric Barna, MD, Beth Raucher, MD, David C. Thomas, MD, MHPE, and Barbara Murphy, MD, "A Primer for Clinician Deployment to the Medicine Floors from an Epicenter of Covid-1," *NEJM Catalyst*, May 4, 2020.

[6] Rohini R. Bahethi, Benjamin Y. Liu, Benjamin Asriel, MD, MFA, James R. Blum, Zina Huxley-Reicher, MD, Alexandra Z. Agathis, Shravani Pathak, Michelle Sainte Willis, and David Muller, MD, "The COVID-19 Student WorkForce at the Icahn School of Medicine at Mount Sinai: A Model for Rapid Response in Emergency Preparedness," *Academic Medicine*, vol. 96 no. 6, June 2021, pp. 859-863.

to build a "biobank" of samples from over 800 Covid patients at all stages of their illness, an essential resource to help researchers develop ways to fight the illness. After 49 days, when sample collection ended and data generation became the focus, a Mount Sinai leader commented, "It ended as quickly as it started. They were like these superheroes that just appeared in the night, came to the rescue, then went back to their day jobs."[7]

The Mount Sinai system experience shows how preparation is needed to apply Kotter's model of a dual operating system. Mount Sinai's established leadership and good management practices helped to build organizational resilience and the capacity to develop effective networks and integrate them with ongoing operations, so that the system could respond as well as it did when the crisis occurred.

## Enterprise Risk Management in Government Organizations

Advance preparation is needed to apply ERM to address major risks that an organization may face. Agencies and their leaders will need to chart a course that rolls out ERM in a form and sequence that most suits the culture and circumstances of each agency.[8]

In its simplest form, ERM is a process that helps an organization to identify, prioritize, and address risks that could prevent it from achieving its objectives. A more formal definition of ERM comes from the Association for Federal Enterprise Risk Management (www.AFERM.org):

> "ERM is a discipline that addresses the full spectrum of an organization's risks, including challenges and opportunities, and integrates them into an enterprise-wide, strategically aligned portfolio view. ERM contributes to improved decision making and supports the achievement of an organization's mission, goals, and objectives."

The simple definition shows why ERM is so powerful: it focuses on the big risks that can affect the agency's mission, and helps leaders avoid getting distracted by the myriad small risks that otherwise could absorb scarce time and management attention while big risks go unattended. By taking the perspective of risk management across an entire organization, ERM can help deal with the problem that risks that materialize in one part of an agency can affect operations in many other parts. ERM applies the agility of Kotter's model to identify and manage major risks.

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[7] Deborah Schupack, *Relentless: How a Leading New York City Health System Mobilized to Battle the Greatest Health Crisis of our Era*, Mount Sinai Health System, 2022, p. 203. See also, Alexander W. Charney and coauthors, "Sampling the host response to SARS-CoV-2 in hospitals under siege," *Nature Medicine*, August 2020, pp. 1157-8.
[8] For background on the origins of ERM in government, see, e.g., Thomas H. Stanton, "Increasing Adoption of Enterprise Risk Management in the U.S. Federal Government," Chapter 12 in John R.S. Fraser, Rob Quail, and Betty Simkins, editors, *Enterprise Risk Management: Today's Leading Research and Best Practices for Tomorrow's Executives*, second edition, (John Wiley & Sons, 2021).

The ERM process can be summarized in these steps:

1. Establish the context for risks (the agency's internal and external environments).
2. Develop risk criteria to identify the most significant risks.
3. Conduct initial risk identification.
4. Analyze and evaluate major risks.
5. Prioritize risks.
6. Develop options for response to major risks.
7. Respond to major risks.
8. Monitor and review to ensure that risks are appropriately managed.
9. Learn lessons and factor them into the process for the future.
10. Build and continuously strengthen a risk-aware culture across the organization.

Aspects of ERM are important to note. First and most important, senior officials cannot compel their subordinates to implement ERM. That's because a list of risks that an official must produce on demand may not be a very good one. Second, by taking an organization-wide perspective, ERM helps to surface important risks that may be hidden in one part of the agency or distributed across the agency. By bringing major risks to the attention of agency decision makers and then prioritizing them, an agency can allocate its scarce resources (funds, staffing, management attention) to deal with the most important risks as a priority.

ERM depends on a process of increasing the flow of risk information up and down the hierarchy and across the organization to decision makers who need the information. A hierarchy tends to stifle "bad news" about major risks. Managers in charge of organizational silos may try to keep news about major risks within their control rather than sharing the information with others. This may be because of optimism, sometimes misplaced, that a risk can be managed without higher-ups ever knowing about it. Or a manager may fear personal consequences or burdens of additional oversight if information about major risks leaks out. The tendency is exacerbated when officials towards the top of the organization are unwilling to receive news about major risks, insisting instead that lower-ranked managers deal with problems by themselves.

ERM is a way to address such barriers to information flow so that reporting of "bad news" about major risks becomes the way that the organization does business rather than an act of personal courage by a messenger trying to tell unwelcome truths to those in power. ERM thus depends on leaders who welcome feedback so that they can deal with problems before they get out of control. With top leadership encouragement, the risk function can come to be seen as providing extra support for managers rather than as a burden. While uncongenial unit heads can stifle ERM, it may be possible to suggest that encouraging ERM as a source of information is far preferable for their future careers than being blindsided by a catastrophe in their organization that could have been prevented. Because such mishaps have become increasingly likely in today's ever more uncertain environment, ERM is increasingly seen as a necessary management tool in government agencies. Building a risk-aware culture across an agency can help to sustain the momentum for ERM across changes in its leadership. In the United States context, sustained encouragement from the powerful Office of Management and Budget and from the Treasury Department also help to build support for ERM across the federal government.

**Figure 2**, below, provides one template for the governance and organization of the ERM process:
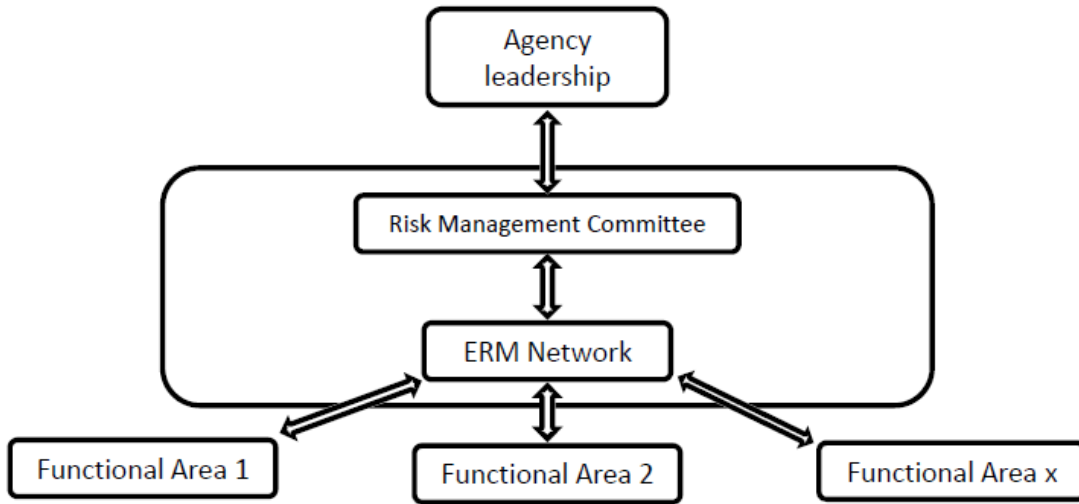


**Source**: Adapted from Nancy Potok, George Washington University Center for Excellence in Public Leadership

*Note: The Chief Risk Officer supports the agency leadership and Risk Management Committee, helps with the identification of major risks, and provides analyses and other information needed to prioritize major risks and develop ways to address the highest-priority risks.*

Consider the roles of the primary participants in this structure:

1. The *agency leadership* sets the tone from the top and systematically reinforces the importance of ERM to the agency. The agency head or deputy also may chair the Risk Management Committee. If the agency head does not support ERM then it may be useful to move to another level of the organization, such as one or more of the more salient subordinate units and implement ERM at that level.

2. The *Chief Risk Officer (CRO)* is a central figure in the risk management process. The CRO facilitates the continuous identification of major risks, investigates reports of risks, conducts analyses as needed, and reports to the Risk Management Committee. In supporting the risk committee, the CRO provides information to help with the prioritization of risks. Rather than possessing power to compel production of information, the CRO functions as a supportive figure helping to bridge the agency leadership and individual units where risks reside. Depending on the size of the agency, a risk office might include (1) the CRO, who is a leader with drive, credibility, and stature, (2) a facilitator, with a congenial personality, to help conduct workshops and other group meetings, and (3) a data analyst, to gather and analyze relevant information and help develop relevant indicators. In smaller agencies, the CRO might need to be responsible for most or all of those activities.

   Significantly, the CRO does not directly manage risks. Rather, the unit heads where a risk resides "owns" the risk and is responsible for

implementing the agency's plan for addressing the risk. That's because the unit head knows the context and contours of the risk and is in the best position to implement the agency's plan. The CRO checks progress in carrying out the agency's risk management plan and reports back to the Risk Management Committee.

3. The *Risk Management Committee* consists of senior officials of the agency. Sometimes the risk committee may consist of members of the management committee of the agency playing different roles. The Risk Management Committee has five functions, to:
   a) Prioritize identified risks.
   b) Recommend ways of addressing high priority risks.
   c) Propose a risk management framework and plan.
   d) Support the CRO; and
   e) Create and enhance a constituency for ERM.

   The Risk Management Committee advises the agency's top leadership. The committee reviews identified major risks and may add to or remove risks from those the CRO has proposed. With guidance from the CRO, the committee prioritizes identified risks, ensures that the agency is tracking the most important risks, and proposes responses to high priority risks. The agency's Chief Financial Officer, who should sit on the Risk Management Committee, adds information about available budget resources to help address major risks that may require additional funding. As the risk committee deliberates about major risks and ways to address them, the agency head or deputy benefits as much from the discussion as from the committee's specific recommendations. The agency head makes the final decision about allocating agency resources and which risks to address; the risk management committee by itself has no independent authority.[9]

4. The Chief Risk Officer supports the development of a network of *ERM Liaisons* from across the agency. Ideally, each significant agency unit should have a liaison. Over time the CRO trains the liaisons in the value of ERM and how it is implemented. Again, the purpose of the network is a supportive one, to increase the flow of information about possible risks to the CRO and, depending on the importance of the information, to the risk committee. The liaisons also help develop a risk-aware culture across the agency, suggesting areas where help may be needed.

The ERM process, while taking place within the traditional hierarchy and across the silos of a government agency, is designed to elicit cooperation rather than compel it. By removing traditional patterns of blame from the risk process, ERM helps to overcome the problem of leaders and managers who, if they fear being blamed for mismanagement, might remain silent or make only a pro forma report about a major risk and let superiors take the blame if something goes wrong. ERM helps to build a risk-aware culture that encourages teamwork and a sense that together everyone in the agency is part of the process of protecting the agency and its important

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[9] An excellent (and rare) view of a Risk Management Committee at work is, Anette Mikes, "Enterprise Risk Management at Hydro One (Multimedia)," Harvard Business School Multimedia/Video Case 110-707, June 2010.

mission from being blindsided by a major undetected or undermanaged risk. By seeking to remove blame from the discussion of risks, ERM seeks to meld managers and employees into a team that has a common interest in helping the organization to perform well, without allowing major risks to materialize and cause harm. Often a risk management plan will involve re-allocating or providing additional funds or staff to help address a major risk, and this too can reinforce the idea that reporting risk is to everyone's benefit.

ERM is a useful supplement to other major agency processes. A Chief Financial Officer may set aside a pool of funds to allocate to address major risks that otherwise might be neglected in the ordinary budget process. Agency leaders can strengthen the process of reviewing proposals for new initiatives by requiring that the proponents also discuss major risks and how the agency can address them. And strategic planning, weak at many federal agencies, can be strengthened by explicitly considering risks that could prevent an agency from achieving the objectives that planners propose to agency leaders. The CRO can become a trusted adviser to officials responsible for such processes, helping them to achieve improved outcomes. ERM is not intended to supplant existing agency risk management activities. So long as they are operating well, those activities should continue as before. ERM is intended to be a supplementary process to help agencies track major risks and address any that are not yet being managed adequately.

It is especially important to build ERM into agency personnel performance standards, and especially standards for senior executives. For ERM to succeed and a risk-aware culture to grow, officials and employees should be evaluated and developed in the extent that they (1) support the performance of the agency as a whole and not just the particular unit to which they are assigned, (2) collaborate well with others, (3) identify, own, and promptly bring "bad news" to relevant decision makers (and the CRO) and (4) give and take feedback graciously. Besides benefiting the ERM process, these attributes can help build an organization that increasingly functions as a community that values the contributions of all of its members.

Finally, a cautionary note: many federal agencies face a growing disparity between demands for their services and the resources available to provide those services. Given a choice between cutting benefits delivered to their constituents and cutting funding for agencies to maintain their capacities, politicians tend to favor the latter. Introducing and growing a successful ERM program in this resource-constrained context means that the development of ERM must proceed with careful attention to showing value to agency decision makers that exceeds the costs of the ERM program, in terms of staff and funds. ERM practitioners regularly speak of the importance of "quick wins" to show leaders the value of their work.[10]  This is in addition to the essential risk management work that continues outside the view of many in the organization.

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[10] See, e.g., Frank Vetrano and Jason Stayanovich, "Using Data and Analysis to Add Value from ERM," Chapter 3 in Kenneth C. Fletcher and Thomas H. Stanton, eds., *Public Sector Enterprise Risk Management: Advancing Beyond the Basics*, New York: Routledge, 2019.

## Lessons From ERM About Applying Kotter's "Dual Operating System" Model to Government Organizations

Kotter's model can provide significant benefits to a government agency because of the way that it can help leaders to overcome organizational patterns that foster bureaucratic hierarchy and stultify individual initiative. While the Kotter dual operating system looks different in a government context from its application in the private sector, it provides the kind of flexibility and strength that government agencies increasingly need to function in today's rapidly changing operational environment.

Enterprise Risk Management illustrates one valuable application of the dual operating system model in government. Return to the model of the ERM process in **Figure 2** (p.8). Some differences from Kotter's dual operating system become apparent even though the basic approach remains similar. While Kotter's governing coalition is loosely tied to a firm's management committee, ERM features a Risk Management Committee that is completely subordinate to the agency leadership and in many cases may be the agency's management committee itself, playing a different management role. The Risk Management Committee lacks independent power over the ERM process and merely advises the agency head or deputy.

That said, ERM in government shows its power for all the reasons that Kotter suggests: a government hierarchy, with its rigidities reinforced by a myriad of congressional rules and proscriptions by itself cannot be expected to identify many of the major risks of the organization on an enterprise-wide basis. ERM is based on the need to *elicit* information about major risks rather than trying to compel it. A network is the best way to extend into the far reaches of an organization (including geographically remote field offices) to find risks that could pose a major threat if left unaddressed.

A strength of ERM is the ability to direct information to decision makers in the organization who need it. To take a recent example, the Food and Drug Administration (FDA) acted against a producer of baby formula that then closed a poorly managed major facility to make required improvements in health and safety. Because that one facility produced roughly a quarter of all baby formula in the United States, this precipitated major shortages across the country. Steven Kelman of the Harvard Kennedy School contends that, "…some folks at FDA failed to take some simple steps that could have averted this crisis…I think it is appropriate to blame whoever did this. It would appear that they had such a narrow idea of their job responsibilities that if their job description didn't explicitly say 'report supply disruptions that can affect product availability,' they felt no responsibility to do so."[11] ERM provides a way of doing business that encourages employees to make such reports about risks (here, effects of closing a large facility

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[11] "Steve Kelman asks whether any well-placed Food and Drug Administration officials could have anticipated the current baby formula shortage," FCW.com, May 23, 2022, available at https://fcw.com/comment/2022/05/should-fda-have-done-more-months-ago-about-impending-baby-formula-shortage/367253/.

with shortcomings that needed correction) to those higher in the agency who may be able to address those risks before harm occurs.

One other issue is relevant here. As Kotter points out, one of the strengths of a network is how it forces organization heads to become leaders and not merely managers. In a hierarchy, a manager can try to require subordinates to comply; in a network a leader must elicit cooperation and support. This issue becomes especially salient in government. The selection of heads of agencies and departments is a political process. Some may have the potential to be good leaders, and others not. In risk management generally, and ERM in particular, "tone at the top" is required to make risk management a useful process rather than a pro forma exercise. [12] The rigidity of a government hierarchy may exacerbate the inclinations of those political appointees who would rather lapse into a defined role at the top of an organization chart than actively lead their organizations. If support from the top is not forthcoming, it's best to try to take ERM to a subordinate level in the agency headed by a leader who understands its importance.

## Opportunities for Expanding the "Dual Operating System" Model

Return to the opening discussion above, about the increasingly uncertain environment that government agencies face. Rigidity in this context can lead to unpleasant surprises, such as from a major internal operating risk that materializes and causes harm. Or, as has happened with the U.S. Postal Service since the widespread popularity of the Internet, a change in the external environment that, without modernization, could cause an agency's mission to become obsolete. A network approach, structured according to the intended purpose, also can have major benefits for an agency beyond risk management. For instance, a network can:

- **Help an agency address budget pressures by winnowing low priority activities and costly low value processes while preserving core mission capabilities.** If these are significant enough, an agency may need to consult with relevant congressional committees. The evidence available from a network can help to inform such discussions so that the agency may be able to identify lower priority activities and persuade an appropriations subcommittee, for example, to eliminate these rather than more important ones. Officials at some agencies have developed trusting relationships with congressional committee staff that can make this a fruitful exercise.

- **Help identify areas where, despite limited resources, an agency may be able to make small investments that have major benefits for operating units and their productivity.** This is a form of what is known as participatory budgeting, a method of setting aside an amount of money and inviting affected stakeholders to propose how they might allocate that money. Practitioners of participatory budgeting report that insights and allocations from this

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[12] See, e.g., Thomas H. Stanton, *Why Some Firms Thrive While Others Fail: Governance and Management Lessons from the Crisis* (Oxford University Press, 2012).

process can be more useful than if merely a top-down budget allocation were applied.[13] John Koskinen, former Commissioner of the Internal Revenue Service, provided the present author an example of his use of such an approach with respect to allocation of scarce technology funding resources, albeit without creating a Kotter-type network. Mr. Koskinen was surprised to learn from the process about the nature of projects that senior executives considered most important. Less actively hands-on leaders than Mr. Koskinen, who personally polled some 60 of his senior executives, could use a network to achieve similar results.

- **Help to create cross-agency support for changes in culture or operations that leaders seek to achieve.** Again, the benefit of a cross-agency network is how it can transform a change in agency direction from a compliance exercise to a positive experience, with network members developing essential information that then can be applied in decision-making. A classic example of effective network management comes from the Port Authority of New York and New Jersey. The agency leadership conducted listening sessions with 2,400 employees and developed six focus areas for improving its approaches to Diversity, Equity, and Inclusion (DEI). A ten-person Leadership Steering Committee, consisting of senior officials of the agency, then enlisted 125 volunteers from across the agency to serve in almost two dozen teams. This network then generated some 25 important areas for the agency to address. The agency's top leadership then reviewed, refined, and approved these focus areas and delegated to departmental leaders the responsibility for implementing the initiatives and integrating them into the agency's operations.[14] Once again a key to success of this effort has been the application of network management to identify issues and propose responses within a hierarchical structure that can ensure proper implementation.

Given the value of networks in improving the flow of information to leaders who need it, the question then becomes how to create useful networks. As in the case of ERM, or the Mt. Sinai examples, leaders often can build an organizational infrastructure to support networks to carry out needed functions. The key is to select people from across the enterprise who can provide contributions from their respective areas of expertise but who take a collaborative outlook to serve the best interests of the organization as a whole and its mission.[15]

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[13] See, e.g., Hollie Russon Gilman, "Engaging Citizens: Participatory Budgeting and the Inclusive Governance Movement within the United States," Harvard Kennedy School, January 2016.

[14] Port Authority NY NJ, *Taking Action on Race Dynamics: The Complete Report from the Leadership Steering Committee*, April 5, 2021.

[15] An especially insightful analysis of how a network can help to overcome bureaucratic barriers to the flow of information to decision makers who need it is, Gen. Stanley McChrystal, with Tantum Collins, David Silverman, and Chris Fussell, "Beating the Prisoner's Dilemma," chapter 9 in *Team of Teams, Rules of Engagement for a Complex World*, Portfolio/Penguin, 2015, pp. 172-198.

## Conclusion

These examples show how a dual operating system can be a new and better way to manage government agencies. While retaining silos and their functions, the dual operating system helps to overcome their shortcomings as barriers to information flow and cooperation. This helps leaders and managers to know what's going on. ERM is a good example of this approach. Even while building an ERM network across the organization, ERM also establishes the risk office as a continually growing source of knowledge about the agency and the risk-reward lessons it has learned. By helping agencies to make better decisions involving risk-reward tradeoffs, ERM also helps leaders and managers to focus their efforts and "pick important problems and fix them."[16] ERM is a dual operating system in action at many US federal agencies and in an increasing number of state and local governments as well.

By giving agency officials experience leading and participating in internal networks, the dual operating system also strengthens their capacity to lead larger multi-organization networks.[17] To succeed at network management, officials need to be trained and evaluated on their ability to lead as well as direct staff, their flexibility and agility to respond to unexpected events, and their willingness to give and take feedback and accept bad news graciously. They will know how to sell their ideas and visions rather than merely imposing them and how to lead rather than merely manage their subordinates. Ultimately, then, the biggest contribution of applying Kotter's model to government may be the extent that government officials themselves adopt a personal dual operating system in their day-to-day work.

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[16] Malcolm K. Sparrow, *The Regulatory Craft: Controlling Risks, Solving Problems, and Managing Compliance*, Brookings Institution Press, 2000, uses this helpful formulation.

[17] A particularly helpful analysis of the value of multi-organization networks in dealing with problems that spill over organizational boundaries is Stephen Goldsmith and Donald F. Kettl, eds., *Unlocking the Power of Networks: Keys to High-Performance Government*, Brookings Institution Press, 2009. For a personal account of the importance of leading multi-organizational networks, see ADM Thad Allen, "Complexity in a Changing World," 2017 Nesta M. Gallas Award Lecture, available on the website of the American Society for Public Administration, www.aspanet.org.

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