

The Washington Times

www.washingtontimes.com

Responsibility and governance

By Richard W. Rahn

Published May 14, 2004

Should the president resign if employees within the government fail to their jobs properly? Sensible people will say "of course not." However, the serious question is, when should top officers or directors of any organization be held directly responsible for failures or misdeeds of subordinates?

The public is exposed to what appears to be an almost continuous series of management and governance failures in: Major private corporations, such as Enron, WorldCom, Credit Lyonnaise, and Parmalat; News organizations, such as the New York Times, USA Today, and the BBC; and Government agencies, such as the CIA, MI6, the FBI, the U.S. Defense Department, the Securities Exchange Commission, the United Nations' Iraq food for peace program; and what seems as the never-ending scandal of corruption in the French government.

As a result, serious students of management, and corporate and government governance have been holding conferences and other forums to discuss improvement in governance.

In virtually all the failures, one of more of the following conditions existed:

- Inadequate communication to all members of the organization of required behavioral and ethical standards.
- Overreliance on the formal chain of command for information flow.
- Failure of top management and/or directors to take quick and decisive corrective action when failures were detected. Also, there is a tendency in almost all organizations to either implicitly or explicitly suppress bad news. It is not necessarily true, though widely believed, that coverups and bad news suppressions always fail.

Failures in private business organizations are hard to suppress over long periods because the pressure of competition eventually reveals the poor performers. In the meantime, incompetent or corrupt executives might have pocketed millions of dollars that has been taken from stockholders in the form of reduced value of their investment. As bad as business scandals are, the market eventually forces a change in behavior or the firm goes out of business.

The more serious problem is with governments and government agencies because, being monopolies, their failures are often not readily apparent and poor performance can go on for decades. Too few government agencies and programs are subject to rigorous cost-benefit analysis and management effectiveness evaluations on a regular basis, if ever. Government managers also often have more difficulty firing or demoting weak performing personnel because of all too rigid civil service protections.

In most countries and jurisdictions, legislative oversight of government agencies tends to be irregular, inconsistent, and far too political. The congressional reaction to the Iraqi prisoner abuse scandal is a prime example. Even though the Congress (and the news media) had been given information for months about prisoner abuse, it was not until the pictures came out that the outcry began, and then, all too predictably, some members immediately called for the head of Mr. Rumsfeld even though all the facts were not yet known.

(Note: the infinitely worse 1968 Mai Lai massacre occurred on the Democrats' watch, and many of those calling for Mr. Rumsfeld to be fired had a different view back then -- but that is the nature of politics.)

The old Soviet Union was the ultimate in governance failure. Because of corrupted information and incentive systems coupled with suppression of bad news, by the time of the collapse, the leaders had deluded themselves into thinking they had an economy 3 times as large as the reality. It is the poster child of how not to govern.

What should be done to improve performance? Undoubtedly, anyone with a clear and continuing record of incompetence or dishonesty at any level in any organization needs to be reprimanded or dismissed and, in cases of illegal behavior, prosecuted.

Those in management who fail to give clear instructions to subordinates or who fail to carry out the instructions of senior management and the supervisory authority (whether it be a board or legislative body or committee) need to be held accountable. At the same time, it should be realized everyone occasionally makes mistakes and misjudgments, and it is impossible for senior managers in large (and even small) organizations to know what everyone in the chain of command is doing all the time. Thus, it is important oversight bodies develop multiple sources of information, and senior management maintain good information systems about the operations of organizations for which they have responsibility.

All organizations are made up of humans, and humans are fallible. Successful organizations are thus designed to catch the mistakes of fallible humans early and encourage quick corrective action. The people at the top cannot be held responsible for all the actions of their underlings, but they can be held legitimately responsible for developing proper information and corrective systems.

Richard W. Rahn is a senior fellow of the Discovery Institute and an adjunct scholar of the Cato Institute.

Copyright © 2004 News World Communications, Inc. All rights reserved.