Regulation and High Reliability Organizations

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High Reliability Organizations

- "Avoid catastrophes in high-risk, complex operating environments … consistently deliver year-in/year-out high value and high performance regardless of their operating environment."

- Key principle: Reality isn't optional.

Some examples

- Airline and airport security

- Electricity

- Telecommunications

- Finance and banking

- Direct wine shipment
  (OK, maybe not an HRO, but it's a fun and illustrative story)

Four suggestions

1. Base decisions on evidence of outcomes

2. Ensure regulatory neutrality

3. Integrate regulation with GPRA

4. Provide assistance and third party assurance that all regulatory agencies with HRO issues are doing this

1. Base decisions on evidence of outcomes

"If you don't know where you're going, any road will take you there."

-- George Harrison

- Articulate outcome with clear value to citizens

- Coherent and testable theory showing how the regulation will produce the outcomes

- Empirical evidence that supports the theory

- Awareness of perverse effects that might undermine the outcome

2. Ensure regulatory neutrality

"What do industry and labor want from the regulators? They want protection from competition, from technological change, and from losses that threaten profits and jobs. A carefully constructed regulation can accomplish all kinds of anticompetitive goals of this sort, while giving the citizenry the impression that the only goal is to serve the public interest."

-- Bruce Yandle

- Technological neutrality

- Competitive neutrality

3. Integrate regulation with GPRA

"When the money goes rolling out, you don't keep books.

You can tell you've done well by the happy and the grateful looks.

Accountants only slow things down; figures get in the way.

Never met a lady loved as much as Eva Peron!"

-- Che Guevera (from *Evita*)

Government Performance and Results Act

- Outcome-oriented performance goals linked to agency mission and strategic goals

- Outcome measures for the regulation

- Retrospective assessment to determine how much of the desired outcome the regulation caused

- Annual reporting of outcome measures

- Performance budgeting: Linkage of results with costs

4. Third party assistance and assurance

- Review by the Office of Information and Regulatory Affairs

- Government Accountability Office

- Small Business Administration Office of Advocacy

- Competition analysis: Antitrust Division and Federal Trade Commission

Regulators affecting financial system

How are these 2 columns different?

Treasury Department	Federal Reserve
Department of Housing & Urban Development	Securities and Exchange Commission
	Federal Deposit Insurance Corporation
	Commodity Futures Trading Commission
	Federal Trade Commission

Conclusions

- For High Reliability Organizations, reality isn't optional.

- Regulatory initiatives need to be evidence-based, not faith-based.

- The four suggestions offered above are means to that end.

For additional information …

Richard Williams (ed.), *21st Century Regulation: Discovering Better Solutions for Enduring Problems* (January 2009), available at http://www.mercatus.org/PublicationDetails.aspx?id=25730

Jerry Brito and Jerry Ellig, "Toward a More Perfect Union: Regulatory Analysis and Performance Management," *Florida State University Business Review* (forthcoming), available at http://www.mercatus.org/PublicationDetails.aspx?id=16218

Jamie Belcore and Jerry Ellig, "Homeland Security and Regulatory Analysis: Are We Safe Yet?," *Rutgers Law Journal* (forthcoming), available at http://www.mercatus.org/PublicationDetails.aspx?id=16072