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The Timid Corporation – Why Business is Terrified of Taking Risk

Benjamin Hunt, Wiley, UK,
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This fascinating book, endorsed on its back cover by Professor Michael Power, co-director of the Centre for the Analysis of Risk and Regulation at the London School of Economics, and himself author of a significant book exploring similar issues,[1] cannot come recommended highly enough. It should be debated by all corporate managers and their staff.

Benjamin Hunt, an independent journalist and researcher, has written, among others, for *The Wall Street Journal* and the *Financial Times*. He has a straightforward thesis derived from primary research, case studies, and interviews. This is "that risk aversion has become *institutionalized* in business" (p. 2), and further, that the source of this problem lies far closer to home than many seem prepared to recognize, as evidenced by "an unprecedented bout of *self-regulation*" (p. 4).

Thus, "risk aversion is not just a temporary mood," rather "risk aversion has become more of a permanent mindset" (p. 1), promoted, among others, by various types of consultants who see this development as "providing them with huge new revenue opportunities" (p. 30). This phenomenon was clearly in evidence subsequent to the terrible events of September 11, 2001. All manner of self-appointed risk consultants emerged seeking to provide advice, business continuity plans, and supposed "security solutions" to all forms of business, largely by encouraging them to imagine the worst and to speculate about the assumed consequences of not doing so.

Early on, Hunt relates an everyday tale of woe suffered by a legal executive attempting to attend a conference he had been invited to give a presentation at. Notwithstanding tedious concerns as to his physical security that probably arose, it is the moral or ethical dimension of the dilemmas raised by the company that are enough to make you cry. Should the firm be seen to accept free flights and accommodation? And, what about the content of the talk? What if it were misquoted, or appeared to endorse a particular technology? How might the firm's other suppliers respond? All in all, the barriers faced by this company in promoting itself to the world were almost entirely self-generated.

So how did we get from the unashamed advocates of unfettered free-market idealism, such as Friedman and Hayek, to today's climate of nervous caution, where simple choices as to who to interact with and how, have become so problematized?

Hunt begins his analysis during the 1980s, the supposed heyday of deregulation. He shows, as the journalist Simon Jenkins and others have before him,[2] that Thatcherite and Reaganite rhetoric failed to hold back a vast regulatory tide. The reason for this was that instead of being economically motivated, as regulation had been in the past, it increasingly became socially oriented. This re-regulation led to what one academic cited in the book has described as the replacement of "the informal with the formal, the flexible with the rigid, and the personal with the legalistic" (p. 15).

Despite the vulgar prejudices of the old left, business has never been merely about making money. Useful commodities have to be produced and consumed too. But more importantly, through the discipline of competition, entrepreneurs have had to innovate, thereby also providing a leadership role within society. It is this capacity to push society forward while realizing their profits that in the past provided capitalists with moral purpose and authority.

This begs the question as to how business leaders sustain themselves when returns are harder to come by, or society becomes more suspicious of change. In the early 1970s the slow-down of the postwar boom began to bite, as evidenced by the collapse of the Bretton-Woods agreement that triggered the oil crisis, and this found philosophical expression in the report *Limits to Growth* by the Club of Rome. This influential thinktank was assembled by, and largely consisted of, an increasingly disillusioned elite and their report went so far as to describe in outline form what

[1] Power, M. (1997). *The Audit Society: Rituals of Verification.* Oxford: Oxford University Press.

[2] Jenkins, S. (1995). *Accountable to None: The Tory Nationalization of Britain.* London: Hamish Hamilton.

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today has come to be known as the "precautionary principle."

More profoundly though, since the end of the Cold War, and the brief flurry of market triumphalism witnessed then, just as their ideas have had to stand the test of interrogation alone, the elite seems to have absorbed and assumed for itself a growing cultural mood of self-denial and self-doubt. This "Culture of Fear," as the sociologist Frank Furedi has coined it,[3] emphasizes risk over opportunity and leads to an intense impulse to limit the impact of change by regulating the activities both of individuals and of various groupings in society. It is this that has led, in effect, to the formal adoption of a precautionary approach, as much by the so-called hawks in the White House with respect to military matters, as by the bureaucrats in Brussels in relation to human health and the environment.

Accordingly, business has become re-presented and increasingly accepts an image of itself as reckless, abusive, and destructive. Despite lack of evidence as to widespread misdemeanors, every corporate scandal today, from Enron to Worldcom, becomes reinterpreted as a morality tale that points back to an already assumed need to constrain the corporation. Yet, as Hunt indicates, there is nothing new about "cooking the books," nor is there any real indication that such matters are any worse or more widespread today than in previous periods when fraud or insider deals have been discovered.

Regardless, society's growing fear of change and consequential aversion to risk demands disciplining assumed miscreants. Hence, lacking any broader vision for themselves today, businesses have been keen to be seen to introduce all manner of public checks and balances within their once private domains. In the name of accountability, responsibility, and transparency, corporations have institutionalized a bewildering array of codes of conduct, ethical regulations, risk management procedures, stakeholder forums, good governance systems, corporate social responsibility, and sustainable development agendas.

Whether this makes things any better remains to be determined. Indeed, Hunt points to a number of adverse consequences to such developments. On the one hand, we witness an increasingly defensive attitude toward investment and shareholders, on the other, there is a growing obsession with maintaining customer loyalty, brand names, and reputation. It is these themes that are then explored further in the book.

The rise of the risk manager, from the margins to the mainstream, may be celebrated by those who read *Risk Analysis* as at least offering some bulwark of objectivity to the subjective impressionism of those who rail against change. However, it is worth noting how easily such intentions can be distorted to reflect the more conservative mood that prevails throughout society at large. Going along with, and even pandering to, popular prejudice, rather than challenging it head-on or seeking to transcend it, betrays a growing defensiveness and further helps foment the forces of reaction.

Shareholders, too, have become preoccupied by issues of risk. This is both from the narrowly economic dimension, whereby they encourage restraint upon the ambitions of management in terms of innovation and expansion, and from a more socially oriented perspective, seeking to ensure against so-called unethical investment. In turn, managers have become preoccupied by shareholders and justify their decisions according to the increasing pressure they exert, or are held to exert.

Hunt examines this in relation to the decision by Shell not to dump the oil storage platform Brent Spar into the sea, suggesting that "Shell felt it had somehow to make amends, and clean up its act, even though it had not done anything wrong" (p. 71). In my own work I have touched on how major corporates, such as Baxter Healthcare, have had to reorient their entire outlook for just such supposedly ethical reasons.[4] Those, like Lee Raymond, ExxonMobil's chairman and chief executive, who has maintained the self-confidence and wherewithal to tell his critics, "If you don't like this corporation, take your money and get out of this stock," at his company's recent annual general meeting, are a dying breed.[5]

One of the book's strongest sections is its exploration of the concept of "brand value." Unlike the origins of branding, which stemmed from a need to differentiate between similar products, Hunt points out that today, "brands are valued because they create a comfort zone around a firm and its products" (p. 156). The aim is to lock in a relationship and establish loyalty. Thus, rather than innovating anew, shaping and developing new markets, as well as new

[3] Furedi, F. (1997). *Culture of Fear: Risk-Taking and the Morality of Low Expectations.* London: Cassell.

[4] Durodié, B. (2000). Plastic Panics: European Risk Regulation in the Aftermath of BSE. In *Rethinking Risk and the Precautionary Principle.* London: Butterworth-Heinemann.

[5] McNalty, S. (2003). Activists Hijack Exxon AGM. Financial Times, May 28

customers, firms who once had to take risks in order to establish themselves and the brands we are now familiar with have settled for a more limited approach to the future, consisting largely of brand protection and brand extension. The fact that as a consequence the pharmaceutical industry now employs "more people in marketing than in research" (p. 134) can surely only bode ill for the future.

As Hunt points out, "the irony about the new obsession with the customer is that the customer is not served very well by it." Innovation tailored to assumed needs and projected demand is often more limited in scope than that unfettered by focus-group prejudices. He continues, "consumers did not take to the radio, car, aeroplane, television, computer or mobile phone because they were branded products" (p. 234). Indeed, as he states earlier in the book, "genuine innovation often has the capacity to confuse people" (p. 149). Sadly, what is considered to be innovative today, as expressed through glib reference to the explosion of patents, tends to be on a much smaller scale than the technological developments of yesteryear.

Hunt refers to Harvard Professor Clayton Christensen, author of *The Innovators Dilemma*, who has explored this theme more systematically than most. "In his view, companies that listen to customers too closely end up stifling growth opportunities. It is precisely by listening to customers that companies find it difficult to escape from stagnating markets and pursue new opportunities" (p. 150). Further, "Giving up on radical innovation in order to be reconciled with 'the new realities' has dangers in itself. It can leave firms more at the mercy of external forces and, paradoxically, leave them less able to adapt to change" (p. 171).

One outcome of these discussions is a contemporary obsession with the need to restore trust in business as much as in government and science. But, as I have argued elsewhere, the very attempt to do so in a conscious manner is unachievable.[6] Ultimately, real trust, as opposed to confidence, requires respect for the autonomy of others and taking a risk by granting them the freedom they require to explore and experiment. Hence, attempting to regulate risk precludes the establishment of trust, as well as stifling innovation. Thus it is, in respect to all of these changes, that Hunt concludes on the rather bleak note that "a society that does not try to shape its future ends up being dictated to by its own anxieties" (p. 235).

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[6] Durodie, B. (2003). Invited comments to *Riskworld Scenarios*. *Journal of Risk Research*, *6*(4-6), 597–601.