

# Risk-taking in a

We should not avoid taking risks just because the world suddenly seems more dangerous. On the contrary, says **Ralph Shrader**, we need to take them more than ever. But we must make a better job of deciding which risks to take, managing the consequences of those decisions and becoming resilient to the risks that we cannot control. That is the key to progress, to prosperity and – ultimately – to security

**L**ife is a risky business. That is a realization that has hit especially hard over the past three years. Every aspect of society has been affected. We have seen a global recession and collapse of the dot-coms, massive breaches of corporate governance in the United States and Europe, terrorist attacks on almost every continent, growing despair about the possibility for peace in the Middle East and strained relationships between traditional allies as well as adversaries.

These events and situations have made us worried about – and wary of – the tremendous risks our companies and nations face and the high-stakes decisions we, as leaders, must make.

We have all experienced an exceptional level of risk in what is still a very young 21st century. Risk itself, however, is not bad. Quite the contrary, risk is essential to growth and success – for individuals, for organizations and for the human race. The key is to take risks responsibly and intentionally, not heedlessly and by chance. Risk-taking and risk-management are inseparable. Because, as leaders, we cannot avoid risk, we must do a better job of deciding which risks to take and of managing the consequences of our decisions.

However, in this era of irresponsibility and terrorism, corporate and national leaders are increasingly reluctant to take important, responsible risks.

We are seeing this reluctance everywhere. Companies hesitate to make capital investments or add to their workforce. Leaders hold their breath in fear of war and terrorism and their political consequences. Even venture capitalists – whose job it is to place bets – seem loath to do so.

This reluctance to take risk on the part of our leaders could have greater negative consequences for our overall economic and social well-being than losses from corporate wrongdoing or even the direct effects of terrorist attacks.

Imagine where the world would be without adventurous people willing to risk doing something different or inventing something better. In a more personal vein, imagine where our own careers – and our companies would be – if we were not willing to take risks.

Peter Bernstein, in his great book *Against the Gods: The Amazing Story of Risk*, argues that: "the revolutionary idea that defines the boundary between modern times and the past is the mastery of risk – the notion that the future is more than a whim of the gods and that men and women are not passive before nature."

Bernstein goes on to link directly the concept of risk to democratic capitalism when he writes: "The capacity to manage risk, and with it the appetite to take risk and make forward-looking choices, are the key elements that drive the economic system forward."

Customers, employees and citizens are counting on people in positions of power to provide strong and honest leadership in an environment of great scrutiny. They are counting on us to lead them back to prosperity in a time of recession and uncertainty.

And they are counting on us to lead them to safety in a world that is increasingly dangerous.

The expectations we face are enormous, and in many ways they're daunting enough to make us want to run the other way. But none of us got here by taking the easy way out, by shying away from risks and challenges.

Being in a position to make a difference and win is what leaders are all about. And we can all relate to the idea that being in a high-pressure situation where we hold the key to winning or losing is exciting and important.

## Responsible risk-taking

In the face of so much pressure, so much scrutiny and so many threats – in this post-Enron, post-9/11, post-Saddam-regime world – how do we take bold, but prudent, risks? How do we ensure that we take risks by intent, rather than by chance?

There are two dimensions to the answer to these questions. The first is based on individual responsibility for making sound and ethical decisions that consider the interests of all stakeholders.

The second involves an institutional responsibility for building resilient companies and nations modelled on a solid understanding and management of risk.

Let's look at the first dimension – an individual responsibility for prudent risk-taking, which cascades down to every employee in a company and every citizen in a country.

In news stories around the world, we have seen examples of otherwise smart, successful

# tentative world

executives who have taken shockingly irresponsible and unethical risks. What has happened at these companies goes beyond any enlightened definition of risk. It goes beyond choosing among legitimate business options. And it goes beyond any normal fear of consequences or punishment.

I believe these leaders were under extraordinary pressure from the expectation of "hyper-growth" that took hold in the late 1990s. Whatever the pressure or motivation – whether compounded by fear, greed, ego, or stupidity – to me it's clear that, in every case, they divorced risk-taking from responsibility.

Today's world needs a model for risk-taking that is guided by a deep sense of responsibility for all stakeholders. This model isn't new. Rather it embodies some age-old wisdom – namely that prudent risk-taking is directly tied to the responsibility for making a deliberate choice and owning the consequences of that choice.

Many of the executives being led away in handcuffs failed to make a deliberate choice and succumbed to intense pressure from investors to deliver ever-higher earnings.

I would venture to guess that the reported improprieties happened incrementally. As the pressure kept up, more accounting tricks were needed to deliver the numbers shareholders were demanding.

Those involved – from the chief executives and chief financial officers, to their lawyers and outside advisors – abdicated responsibility to weigh the pros and cons and make a deliberate choice.

Many of those involved in the scandals failed to take responsibility for the consequences and failed to consider the impact on the many who might be affected.

When times are booming, it is easy to ignore stakeholders because, quite frankly, they tend to be quiet in good times. If the Dow, FTSE, DAX and Nikkei were breaking new ground upwards, we would not see headlines, indictments and outrage directed against the top executives.

Instead, employees and shareholders might well be praising their leaders who were making them rich and assuming an attitude of "I'm getting mine, they can have theirs."

However, when the bubble burst, it exposed reckless gambles that had been masquerading as bold risks. And it incited the anger of

employees and stockholders who saw their life savings and job security vaporize.

What lessons can we learn from these scandals? First and foremost, we must remember that we have a choice and that we are responsible for the consequences of that choice. Risk is not the whim of the gods; it is a responsibility largely in our own hands.

There are five steps to responsible risk-taking:

- » examine your motives thoroughly and honestly;
- » identify all the stakeholders who depend on you and will be affected by the risks and choices you take;
- » think through what you, and they, stand to gain;
- » think through what you, and they, stand to lose; and then
- » consider the odds.

With respect to the fifth step, it is important to stress that the odds are irrelevant if a choice is legally or ethically wrong. The risk in this case, by definition, is irresponsible.

However, if the choice is not between right and wrong but between go and no-go, then careful analysis of the probability of gain and the severity of loss – including real attention to the human cost – is key.

The second dimension of risk-taking is our institutional responsibility to understand those risks that surround us (risks not of our choosing) and to build resilience into our companies and nations so they can withstand these risks.

At Booz Allen Hamilton, we have worked extensively on the subject of enterprise resilience, and we have found that the openness and complexity of today's extended enterprise bring dramatic risks. These risks spring from the dependence and interdependence of suppliers and partners as well as from the global financial, information and trade infrastructure.

Harvard Business School professor Rosabeth Moss Kanter says: "The companies that are the most radical, breakthrough, and transformational... also have a very large number of constant incremental innovations, because they go together... they're part of a culture that keeps moving all the time."

A culture that keeps moving implies continual risk-taking, and that's precisely what leads to resilience – the capacity to adapt to continual, discontinuous change. Resilience is about

adaptive capability – the courage to take risks and make changes.

A full understanding of the risk environment enables leaders to plan and respond. We cannot control the external environment, but we can better understand the risks that are out there and subsequently design our companies to be more resilient.

## Bold leadership and risk evaluation

In summary, leaders need to take more risks – bold, yet sound, risks. Doing so is the only way for us to lead our companies to success, the global economy out of recession, and the world to a place of increased security and prosperity.

The keys to bold, but sound, risk-taking are: to ensure that the risks we take are deliberate, ethical and considerate of all stakeholders; to understand the risks that surround us (in other words, those not of our choosing); and to build resilient institutions that can withstand these risks.

Leaders in business and government must lead by ethical example and take ownership to drive the turnaround that will make this century an era of responsibility, prosperity and security.

We cannot do this by retreating from or hesitating to take risks. There is no question that obstacles and risks are rampant in this so far less-than-prosperous and less-than-secure century. However, risks must be taken because the greatest hazard in life, and in business, is to risk nothing. **GA**



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