



BUSINESS LAW & ETHICS CORNER

# Risky business: How social psychology can help improve corporate risk management

Joshua R. Bruce<sup>1</sup>

*Duke University, Durham, NC, U.S.A.*

## KEYWORDS

Risk management;  
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**Abstract** Drawing on research in management theory, risk analysis, and the social sciences, this installment of Business Law & Ethics Corner promotes diversity of thought in corporate governance as not only beneficial to business growth and creativity, but also imperative to managing risk successfully. The article begins with a review of four major worldviews and the risk preferences of each. Next, it examines psychological processes that guide human decision making and greatly influence risk perception. The article then applies these worldviews and psychological phenomena to the case of risk management. It offers a critique of current risk management practices, drawing on evidence from the 2007–2008 financial crisis. The article concludes by promoting increased diversity of worldviews in corporate governance as a way to prevent the same risk blindness that led to the Great Recession.

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## 1. We don't all think alike

As stated by prominent psychologist [Richard Shweder \(2000, p. 219\)](#): “The knowable world is incomplete if seen from any one point of view.” Accepting this principle, it follows that groups of people who all think alike view the world incompletely and thus make decisions that do not consider the full range of possibilities. This realization—along with corresponding recognition of the benefits of diverse perspectives among decision makers—has

prompted corporations like IBM to promote increased management diversity ([Thomas, 2004](#)), and Deloitte to label ‘diversity of thought’ one of the next major opportunities for organizational advancement ([Diaz-Uda, Medina, & Schill, 2013](#)).

Drawing on research in management theory, risk analysis, and the social sciences, this article promotes diversity of thought in corporate governance as not only beneficial to business growth and creativity, but also imperative to managing risk successfully. Herein, I outline a body of research that highlights four primary ways of viewing the world and the risks within. While the focus is largely on the individuals who hold them, these worldviews form the dominant ideologies that guide organizational structure and decision-making strategies. By

*E-mail address:* [joshua.bruce@duke.edu](mailto:joshua.bruce@duke.edu)

<sup>1</sup> Joshua Bruce is a Ph.D. candidate in Sociology at Duke University.

identifying an organization's dominant worldview and implementing strategies to challenge it—especially in the area of risk management—firms, states, NGOs, and other groups can mitigate the hazard of viewing the world incompletely and falling prey to unrecognized risks.

## 2. Individual worldviews and organizational structures

To understand how worldviews guide human behavior, social scientists have long sought to develop all-encompassing models of human thought and action. This article draws from a long intellectual history that began with cultural theory in the 1970s. From cultural theory, public management experts developed the field of new public management (NPM), which has been employed to varying degrees in governments around the world for several decades now (Horton, 2006). NPM posits that there are specific models for organizing an institution, the people within it, and its interaction with other institutions and individuals. While NPM has been applied primarily to government entities, its theoretical bases and empirical findings hold vital information for all institutions, especially those concerned with managing risk. Additional findings from social and cultural psychology have recently been employed to refine cultural theory/NPM further, resulting in what I call the 'unified model of morality' (Bruce, 2013).

### 2.1. Organizational and individual worldviews: The unified model of morality

The overarching framework of the unified model of morality comes from cultural theory, which was developed chiefly by anthropologist Mary Douglas and political scientist Aaron Wildavsky (Thompson, Ellis, & Wildavsky, 1990; Wildavsky, 1987). Douglas and Wildavsky identified two concomitant, universal forces of social life: Grid and Group. *Grid* represents the degree to which different roles between individuals correspond to choice in how people interact. It measures the importance of individual identity in determining what a person is free to do. The more strongly Grid-oriented a social environment is, the more individuals' potential actions are limited by their personal identity. In contrast, low-Grid social contexts place less emphasis on what individuals may do according to how they are identified. The military, the Catholic Church, and hierarchically stratified corporations—each with clearly defined chains of command—are high-Grid environments: actions are prescribed or precluded based on individual status.

*Group* represents the degree to which group membership defines and construes how individuals behave. Group measures both how strongly an individual associates with the organization or collective, and how strongly the organization or collective exerts influence over the individual. This influence may affect how the individual defines him- or herself and dictate much of that person's life. Monks, whose entire existence revolves around and occurs within particular religious collectives, lead high-Group lives. Employees who feel no attachment to their workplace often have low-Group professional lives.

Grid and Group are arranged as two axes, creating a two-dimensional chart with four quadrants reflecting four defined worldviews (see Figure 1). Each worldview provides specific accounts of how the world ought to be ordered and how people should relate to one another, including organizational structures of businesses and proper relations between firms, employees, clients, and others. The worldviews are based on specific constellations of group- and/or individual-focused moral concerns drawn largely from social psychology's moral foundations theory (Bruce, 2013; Haidt, Graham, & Joseph, 2009). It is especially important to this inquiry that each worldview also includes specific beliefs about risk—described as 'myths of nature'—and how best to manage them (Dake, 1992; Thompson et al., 1990; Wildavsky & Dake, 1990). The four worldviews that occupy the two axes are considered next.

#### 2.1.1. Egalitarianism

*Egalitarianism* is typified by group solidarity coupled with high interpersonal equality among group members. Group membership plays a large role for egalitarians in understanding who they are and how to act toward fellow group members and non-members. Inequality between group members is actively diminished, even at the cost of individual freedom. Egalitarians are concerned with individual-focused moral issues, such as fairness and personal harm, as well as group-focused moral issues, such as loyalty and sacrifice. Egalitarians view the world as fragile (Nature Ephemeral) and actively support intervention to conserve natural resources and mitigate man-made sources of risk. They reject efficient market hypotheses, citing the impossibility of putting an economic price on things like the Chesapeake Bay or child welfare (Douglas & Wildavsky, 1983).

#### 2.1.2. Hierarchism

Like egalitarianism, *hierarchism* is defined by strong group adhesion; uniquely, however, it features clear status hierarchy. All members are expected to contribute to the group, but are not equal in terms of

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