

# Risk & Regulation

Magazine of the ESRC Centre for Analysis of Risk and Regulation

No.6 Autumn 2003

## **Seeds of discontent**

Public perceptions of GM

### **also**

Insurance at risk

Catastrophes and  
pharmaceutical regulation

The strange death of  
self-regulation

Planning in the US Air Force

# Contents

## 3 Editorial: Regulatory Reflections

Educational institutions are increasingly subject to 'academic risk'. CARR Co-Directors, **Bridget Hutter** and **Michael Power** reflect on the difficulties universities face in responding to government policy.

## 4 Recognising and Managing Insurance Industry Risk

In our guest column, **Alan Punter** examines the causes and consequences of recent instabilities in the non-life insurance industry.

## 5 CARR News

All the latest news plus expert contributions from CARR members.

## 6 Seeds of Discontent

Agricultural biotechnology continues to trouble the Government. **George Gaskell** examines the risks of ignoring and of consulting the public.

## 7 Professionals, Politicians and the Strange Death of Self-Regulation

**Robert Kaye** argues that under pressure from both government and the public, professional bodies are having to abandon genteel self-regulation in favour of rigorous regulatory control over their members.

## 8 Competing for the Future: Managing Risks in the US Air Force

How are normative arguments about strategic risk management translated into organisational practice? **Michael Barzelay** examines planning in the US air force.

## 9 Challenging Insurability

Increased flood risks in Europe prove to be extremely costly for insurance. Raising the general issue of flood insurability **Michael Huber** investigates some national differences in insurability and looks at the regulatory consequences.

## 10 Catastrophes, regulation and interest accommodation: market entry regulation for pharmaceuticals in the EU

**Jürgen Feick** examines market entry regulation for pharmaceuticals within the EU and concludes that it still fails to satisfy the Single Market goal.

## 12 Strategic Decision Making in Large Complex Organisations

In our new series on the interface between academic theory and business practice, **Charles Baden-Fuller** examines the efforts of British Petroleum plc (BP) to stay ahead in a hyper-competitive environment.

## 14 CARR Conferences

CARR sponsors risk and regulation conferences throughout the UK.

## 15 CARR Network

CARR's outreach activities across the UK and worldwide.

## 16 CARR Seminars

Reports from CARR's regular seminar series.

## 17 CARR Books

An extensive range of risk and regulation books by CARR members.

## 18 CARR in Print

New books and papers by CARR members.

## 19 CARR People

CARR staff and their expertise.

## Risk&Regulation: CARR Review No 6 Autumn 2003

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# Regulatory reflections

Social scientists need look no further than their own organisations for evidence of the rapid growth of risk and regulation issues in modern societies. For at least the last ten years, UK universities have been subject to continuous change in their regulatory environments, most recently as the management of 'academic risk' has come to the fore and risk committees have been formed. Indeed, the biggest risk facing many universities is their helplessness in the face of shifting government policy. Despite this, academics sometimes imagine that they are separate from the organisational worlds they study, as if their local world really is somehow 'outside' that of their intellectual endeavours. This may involve a splitting of their professional and personal selves, with a corresponding loss of what some sociologists call reflexivity. And so we have the sometimes curious phenomena of democratic theorists ruling departments with an iron hand, of researchers on health and safety regulation inhabiting offices that constitute a fire hazard, and so on.

The institutionalised difference between academic observing and non-academic doing, either as a mental or as a social division of labour, is also sometimes responsible for an aloofness from research subjects. The tendency for academics to emphasise observing over doing can lead to wildly unrealistic expectations of what organisations can deliver. Members of CARR recently had two reminders about the local institutional context in which our research efforts operate, one relating to the educational regulatory environment and the other to a more general regulatory environment. First, we were treated to an informal talk by an LSE assistant registrar on the recent history of regulatory initiatives in higher education, encompassing the story of the quality assurance evolution in higher education and its associated institutional changes. This account provided us with a rich insight into the world of the individual manager who must find organisational solutions to often bizarre and changing external demands, with limited resources and with limited time.

Like all employees, universities and their staff are also subject to, and protected by, a plethora of general employment, health and safety, fire and financial regulations. This was brought home when CARR held its staff training day in July. LSE Human Resources Division led a discussion on the LSE's 'Diversity Toolkit', an initiative created in response to a changing legislative environment. The toolkit is essentially an information booklet with a related self-test device intended to raise awareness of diversity

issues within the university. From CARR's point of view, the toolkit is a specific organisational coping device in the tradition of soft regulation. It involves walking a tightrope: satisfying regulatory compliance pressures while working with a sometimes highly resistant culture. The very existence of the toolkit itself constitutes a form of legal compliance, and its voluntary nature at the local level seeks a persuasive rather than a mandatory base. Like many regulatory efforts the toolkit endeavours to be inclusive, reaching out to all parts of the School, reminding all staff of their responsibilities.

The 'social scientific' discussion of the toolkit focused on possible side effects, not least that it might contribute to a compensation culture and increase risk aversion in an organisation that, overburdened with external pressures, is already excessively risk averse. But the pragmatic modesty of the LSE initiative also shows how organisational agents try to do things that work, and try to appeal to many different constituencies at once. We may bemoan the constant management of appearances in which all organisations are engaged, but we should also recognise the necessary ingenuity of organisational participants in creating those appearances.

These two events suggest that academics need not look far to see the need for greater respect for the compromises of practice, the complexities of compliance and the ambivalence of organisational agents who take decisions under less than perfect conditions. This is not to say we should abandon the critical detachment which is our comparative advantage, but rather that there is no merit in raising this beyond a methodological principle. These two cases also suggest a new direction for some of CARR's energy: 'inreach' for want of a better term. Having positioned ourselves as a practice-facing unit, which engages with risk and regulation practitioners, we can also nurture this principle in our own organisation.

**Bridget Hutter** and **Michael Power**  
CARR Co-Directors



# Recognising and managing insurance industry risk



**Alan Punter**

Alan Punter is Chief Executive Officer of Aon Capital Markets, Aon Limited's investment banking unit. After 12 years lecturing on statistics, Dr Punter entered insurance broking, where he now has 18 years' experience specialising in the analytical and alternative risk financing aspects of insurance and reinsurance.

For some decades, the non-life insurance industry has demonstrated highly cyclical behaviour and an increasingly volatile performance. This is particularly problematic for an industry whose core competence is risk. Instead of delivering stability to policyholders (and investors), the industry has lurched through periods of varying availability of cover, and even greater variability of pricing.

At times, so-called 'hard' market conditions prevail: the capacity to write policyholders' risk becomes harder to find, and, more visibly, premium rates increase. At other times, the market 'softens' as capacity increases and premium rates fall. Previous hard markets in the (a) mid 1970s, (b) mid 1980s and (c) early to mid 1990s were caused by abnormally high losses that resulted from, respectively, (a) US product liability and medical malpractice claims, (b) US commercial liability claims, and (c) the property losses from hurricane Andrew and the Northridge earthquake.

Unfortunately for insurers and their shareholders, the soft markets usually last much longer than the hard markets. For instance, towards the end of the last soft market, premium rates were so low that most insurance and reinsurance companies were losing money on their core business of underwriting property and casualty risk. One indicator of an insurance operation's profitability is its combined ratio, which is the combination of costs (incurred losses plus operating expenses) as a percentage of premiums. An insurance or reinsurance with a combined ratio of over 100 per cent is, at a simple level, losing money because losses and expenses are exceeding premiums. The combined ratio of the US property and casualty industry in 2000 was over 110 per cent, and then rose above 115 per cent in 2001 (in part due to the World Trade Centre losses). Combined ratios in 2001 for reinsurers were even worse: for US reinsurers it was 142 per cent, for Lloyd's 140 per cent, and for European reinsurers

129 per cent. Clearly such combined ratios are not sustainable, since under such conditions reinsurers pay out between \$1.29 and \$1.42 in losses and expenses for each \$1 they receive in premium.

The insurance industry has survived combined ratios of above 100 per cent for many years, due to one reason alone – investment income. Insurance is one of the few industries where revenues are received before most of the associated costs are incurred, so most insurance and reinsurance companies should have a positive cash flow. Significant investment income is earned from outstanding loss reserves on old business and from the favourable timing difference between premiums and losses on current business. Investment income has for many years turned negative underwriting results into overall operating profits, particularly during the bull stockmarket of the late 1990s.

The current hard market conditions had different causes from the previous hard markets of the 1970s, 1980s and 1990s. It was caused primarily, not by insurance losses, but by the 2001 stockmarket collapse which took away all the investment income that had hitherto supported unprofitable underwriting. The continued bear stockmarket, exacerbated by abnormal insurance losses such as the World Trade Centre event and by growing professional liability losses, have together extended the hard market through most of 2003 – an unusually long period for a hard market.

The net amount of capital lost to the global insurance industry is summarised below:

The lesson to be learnt here is that insurance and reinsurance companies have been running risks on both sides of their balance sheets, but did not adequately recognise the asset risk that some were running with significant proportions of their investments in equities. The lesson was learnt in the US following the stockmarket crash in October 1987 and US insurance companies have since maintained a much lower exposure to equities than other insurance companies, particularly in Europe.

One consequence of recent events is that – despite more than two years of hard market conditions and the continuing underwriting profits of most insurance and reinsurance companies – many have had their credit ratings cut by several notches over the past year or so, mainly because of the loss of capital from investment write-downs, and continuing uncertainty over past liabilities.

However, we must not forget that the credit rating agencies are not the regulators, although it sometimes seems de facto that they are, given their power to destroy the commercial viability of an insurance company by lowering its rating below an 'A' level. Historically, the insurance regulatory regime has been based primarily on premium volume, not on underwriting exposure, nor on investment exposure. Recent experience only adds grist to the mill for a more risk-based approach to insurance company solvency regulation, one that can recognise and take into account all the risks that are inherent in an insurance operation: underwriting risk, reserve risk, investment risk, and operational risk.

		US\$
<b>Global capital at 1/1/2000</b>	→	<b>882 bn</b>
less	WTC	<b>45</b>
less	Investment losses 2000/01/02	<b>115</b>
less	Withdrawals of capacity	<b>20</b>
less	Underfunding of liabilities	<b>102</b>
plus	New capital raised	<b>35</b>
<b>Global capital at 31/12/2002</b>	→	<b>635 bn</b>

Source: HSBC Global Insurance Q3 2003

## Consultations with CARR

Various national and international agencies have consulted with CARR over recent months, including the Financial Services Authority's Regulatory Strategy and Risk Division, and DEMOS, the independent think-tank that promotes better public education in politics, economics, the environment, and public policy. From abroad, Statskonsult, the Norwegian Directorate for Communication and Public Management met with CARR members to discuss regulatory policies and the organisation of regulatory agencies.

## The Judiciary on Trial

In October, **Tim Besley** appeared as a 'witness' on the Radio 4 programme *The Commission* which debated how the judiciary should be selected. The evidence which Tim Besley presented on the programme is drawn from a paper of his which may be viewed at <http://econ.lse.ac.uk/staff/tbesley/papers/courts.pdf>.

## Civil Service Competency



**Christopher Hood** and **Martin Lodge** were invited by Rieti, the research organisation of the METI, the Japanese economics ministry, to a conference on civil service competency. They presented their research on civil service competency based on the British Department of Trade and Industry and the German Economics ministry. Hood and Lodge's approach to this research has been adopted in similar work on the Japanese ministry, conducted by Professor Hideaki Shiroyama of the University of Tokyo. During their stay, Christopher Hood also gave a seminar on 'Policy Review and Evaluation in the UK', and two further seminars on risk and regulation.



## CARR 'Away Day'

CARR's annual staff training day was held at Devonport House in Greenwich in July. A practitioner's perspective on regulation was provided by **Clive Briault** (Director, Prudential Standards Division, Financial Services Authority), and **Ian Darker** (Employee Relations Manager, LSE) and **Chris Connelly** (Staff Development Unit, LSE) led discussions on diversity and staff development.

## Staff News

We welcome **Amy Eldon** who joins CARR as Administrative Assistant and **Louise Newton-Clare** who returns as Centre Manager (Finance and Special Projects). Louise will be working alongside **Anna Pili** who stays with CARR as Centre Manager (Administration, Events and Communications). Welcome also to **Javier Lezaun** who joins us as ESRC Research Officer, and **Clive Jones** who will be a research assistant. We also congratulate **Yuval Millo** on his appointment as ESRC Research Officer and on winning the K William Kapp Prize, awarded annually for the best article on a theme broadly in accord with the European Association for Evolutionary Political Economy (EAEPA) Theoretical Perspectives.

We say goodbye to **Filippa Corneliusen** who has taken up a one-year visiting fellowship at the Centre for the Study of Law and Society, University of California, Berkeley, before joining LSE's newly established BIOS centre. Goodbye also to **Stephen Tully** who returns to the Law Department, LSE.

We extend our gratitude and appreciation to **Henry Rothstein** for his hard work on Risk&Regulation over the last two years. The magazine and readership has flourished under his editorship. We welcome the new editor, **Joan O'Mahony**.

### Have you moved or changed jobs recently?

Please keep us informed of any changes in your contact details so you can continue receiving Risk&Regulation.

Email: [risk@lse.ac.uk](mailto:risk@lse.ac.uk) or Tel: 020 7955 6577



## Innovation, Social Risk and Political Responsibility

**Piero Bassetti**, a distinguished academic politician and researcher, delivered a public lecture and discussion seminar in May on the social and policy implications of innovation in science, technology and business. Mr Bassetti began by examining the concept of innovation, namely 'the realisation of the improbable', and looked at a number of issues that complicate innovative political or business decisions. Special attention was paid to the fact that risk and uncertainty give rise to different difficulties in decision-making processes. Two examples were explored: the decisions taken by the Allianz insurance company after the attack on the World Trade Centre, and the impact that the introduction of genetically modified foods has had on policy-making and governance in northern Italy. Subsequent discussions focused on the relationship between scientists, technologists, and business people, and the responsibilities they face in implementing significant innovations. Reflecting the interdisciplinary content of the subject, the academic events were co-sponsored by CARR, the LSE's Department of Information Systems and the LSE Cities Programme.



# Seeds of discontent

Agricultural biotechnology continues to trouble the Government. **George Gaskell** examines the risks of ignoring and of consulting the public.

**A**gricultural biotechnology continues to trouble the Government. Confronted by the continued moratorium on the commercialisation of genetically modified (GM) crops, threats by the US to take Europe to the World Trade Organisation, an EU directive that recommended public consultation, and disagreement in the Cabinet, the UK Government set up a series of independent reviews of GM agriculture. Perhaps it was a move to buy time, but for the supporters of GM the detailed reviews of the economics, science, and field trials were something of a curate's egg – good in parts. A fourth review, *GM Nation?* was intended to ascertain what the public think about GM. While it identified various currents of public opinion, it could not determine what percentage of the public holds them because the 37,000 participants were a volunteer and not a representative sample of the population. A celebrated debacle of volunteer polling occurred during the 1936 US presidential election. From a poll of 2.4 million readers, the *Literary Digest* wrongly predicted a win for Landon, while Gallop, using a systematic sample, got it right; Roosevelt won by a landslide.

The design of *GM Nation?* precludes any reliable generalisations about public opinion in Britain. By comparison with other research, it attracted people who were more informed and more negative to GM. Regardless of these methodological issues, *The Guardian* headlined the report as '5 to 1 Against GM Crops In Biggest Ever Public Survey', and this is now the received wisdom. Those (politicians) who open the Pandora's box of public consultation run the risk of uncomfortable outcomes!

It is interesting how much the *GM Nation?* report echoes past debates. From the outset, biotechnology has been controversial. The scientific community implemented a moratorium on research in 1974, pending clarification of potential health and safety issues. It was short-lived, and soon the technology's potential economic benefits moved to centre stage. However, a European survey in 1978 showed that the public was troubled by the very idea of gene technology. In 1994, at a Consensus



Conference on Plant Biotechnology, labelled the 'gene jury' by *The Economist*, 16 lay members of the public set their own agenda, quizzed experts and prepared a report. For the jury, the issues to be clarified included the potential benefits and risks, ethical and environmental implications, patenting, the Third World, regulation and product labelling. In 1996, survey research showed, once again, that the public was troubled by GM agriculture. But the promoters of biotechnology were in overdrive with techno-hype. The new life sciences and their applications in health and agriculture were progress writ large; only Luddite anti-technologists could think otherwise. Ignoring the public was to cost the industry dearly.

The 'watershed years' of agricultural biotechnology started in 1996 with a shipment of GM soya from the US and culminated in 1999 in the de facto European moratorium on the commercialisation of GM crops. With the BSE/CJD crisis and other health and food scares around Europe, the emerging crisis was reinforced by critical scientists, non-governmental organisations, and an increasingly sceptical press.

As biotechnology diversified into the bio-medical and agri-food applications, public perceptions increasingly diverged. Where the public perceived clear benefits, as in the case of most medical biotechnologies, they discounted the risks. However, in the case of GM crops and foods, which even by the admission of industry offered no direct benefits to consumers, opposition mounted.

1999 witnessed a definite political response: the introduction of the de facto moratorium on GM crops in Europe, a new era of open governance in

Britain, and a revised, more stringent, European Directive on GM crops. These measures were an acknowledgement that in science and technology policy the public cannot be ignored.

A recent Eurobarometer survey in 2002 shows the UK public to have become more optimistic about biotechnology and less opposed to GM crops and foods. Perhaps this marks a genuine shift in opinion, but it is likely that the moratorium combined with stringent new regulations on GM simply took the heat out of the controversy.

In the end though, perhaps the issue is not so much about the science, but rather about the type of society that new developments in science and technology make possible. Few would argue that if something is technically feasible it should go ahead regardless. Some applications of biotechnology, for example cloning humans, are almost universally ruled out of court. On other applications there is less certainty. And here the conflicts that emerge are about the fundamental questions: what sort of society (agriculture, food, and environment) is desirable and how can new technology help to achieve such goals? These are questions about social values; science alone cannot answer them. Hence, any platform of public debate is to be applauded and in time no doubt, appropriate procedures will be developed. Of course, the risk for the promoters of some new technologies is that the hurdle of public opinion may be too high. But if they wish to avoid the risk of reliving the troubled and costly history of GM crops and foods, is there any other option?

George Gaskell is a CARR Research Associate and Director of the Methodology Institute, LSE.

# Professionals, politicians and the strange death of self-regulation

**Robert Kaye** argues that under pressure from both government and the public, professional bodies are having to abandon genteel self-regulation in favour of rigorous regulatory control over their members.

Self-regulation has long been seen as one of the defining characteristics of a profession. For the vast majority of professional people, this has meant little more than undertaking an accredited course of qualification, paying an annual retention fee, and hoping to avoid investigation for misconduct. Now, however, professional regulation, is undergoing a revolutionary transformation, with practitioners required to account for themselves regularly in order to retain their registered status.

This expansion in professional regulation has been most keenly felt by healthcare professionals, particularly following the Bristol Royal Infirmary scandal and Harold Shipman's crimes. State regulation of healthcare continues to increase dramatically, with the creation of a unified Commission for Healthcare Audit and Improvement, and the introduction of statutory appraisal for doctors in the NHS. Allied to this, is the General Medical Council's own introduction of five-yearly revalidation, requiring all doctors to justify their clinical practice periodically in order to retain their licence to practice.

A similar audit phenomenon is evident in the rise of Continuing Professional Development (CPD), which over the next eighteen months will become compulsory for all solicitors, barristers, doctors, and dentists. This, combined with the increasing recourse by clients to complaints systems (four per cent of doctors are the subject of a complaint to the GMC every year) means that professional regulation is swiftly becoming a routine, pervasive, ongoing element of professional life.

As professional regulation becomes ever more pervasive, the extent of professional autonomy diminishes. While the rhetoric of self-regulation

continues to be employed, it masks a fundamental diminution in the role played by members of the professions in regulating themselves. Ostensibly self-regulating bodies now include ever-growing numbers of lay members. The new General Teaching Council for England (GTC), for instance, describes itself as a self-regulatory body, even though one-third of its council are lay representatives. (As a possible indication of future developments, the GTC has avoided the 'great and the good' approach of similar bodies in favour of a formal stakeholder model, with appointees representing organisations from Universities UK and the CBI to the Equal Opportunities Commission and the Church of England.)

Under prompting from the Government, the General Medical Council has moved to a similar blend of lay and practitioner members, with Government reticence about professional self-regulation clearly evident in its language: 'Self-regulation', it argues, 'has been a cornerstone of the NHS since its inception. The Government remains committed to professionally led regulation.' Yet, despite the impression of continuity, the statement exposes a subtle sleight of hand, a shift from self-regulation to professionally led regulation.

In addition, the traditional professional bodies have been downgraded by the insertion of a new mezzanine tier of sectoral state regulatory bodies, to regulate the regulators. The Bristol scandal prompted the creation of a new Council for the Regulation of Health Care Professionals, to which the twelve professional organisations involved in healthcare are now subject. The Accountancy Foundation – another stakeholder-based body – has been slotted above the industry's six main

professional bodies, although its powers are now being transferred to the Financial Reporting Council. Meanwhile, poor performance by the Law Society's Office for the Supervision of Solicitors led the incoming Lord Chancellor, Lord Falconer, to upgrade the Legal Services Ombudsman to a Legal Services Commissioner, with new powers to set requirements and targets for the professional associations – a move, perhaps, from 'enforced self-regulation' to actively enforced self-regulation.

Yet if politicians and the public alike have shown a lack of faith in professional self-regulation, they diverge on the question of how, and by whom, the political profession itself should be regulated. Despite a series of high-profile failures and the collapse of public trust in politicians, political faith in self-regulation inside Westminster and Whitehall remains undiminished. MPs and Ministers have struggled hard to maintain control over their own affairs.

Last year the Wicks Committee on Standards in Public Life recommended a series of measures designed to strengthen the role of the Parliamentary Commissioner for Standards, after a well publicised breakdown in relations between MPs and the previous Commissioner. In effect, Wicks sought to bypass the self-regulatory components in serious cases. Rejecting these recommendations, however, the House of Commons' Committee on Standards and Privileges insisted instead on retaining its right to overturn its Commissioner's findings. Wicks followed this up earlier this year with a recommendation that the Prime Minister appoint a panel of 'three wise men' who could be called upon to investigate allegations of misconduct against ministers. This in turn was rejected by the PM, who argued that he needs the flexibility to respond to circumstances, even when this leads to a situation – as occurred during last year's 'Cheriegate' – where Downing Street announces with a straight face that the Prime Minister, after a thorough examination, has cleared himself of all allegations made against him.

Therein lies the biggest contradiction. Professions such as medicine and teaching consistently top league tables in public trust, yet they are not necessarily trusted to regulate themselves. Politicians, by contrast, consistently rank with journalists and estate agents at the bottom end of such tables. It is therefore highly unlikely that the public would trust the capacity of politicians to self-regulate better than the more trustworthy professions. In response, perhaps politicians should submit themselves to the same sort of independent scrutiny that they expect of others.

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Robert Kaye is ESRC Research Officer at CARR.



# Competing for the future: **managing risks in the US Air Force**

How are normative arguments about strategic risk management translated into organisational practice? **Michael Barzelay** examines planning in the US air force.

EPY/PA PHOTOS

Influential tracts on strategic management implore executives to 'compete for the future.' Executives are told to visualise slowly-arising hazards and to mitigate them through short-run efforts, such as cultivating corporate capabilities. In short, the advice is to manage strategic risks.

The argument in favour of managing strategic risks is essentially a normative one: it does not describe what most executives actually do. For this normative idea to serve in practice, organisational leaders need insights into the realities of strategic risk management. Those realities can be revealed by sensitively applying organisational decision making theories to experiences where leadership groups have accepted the responsibility of managing long-term, strategic risks. One such experience lies in the United States Air Force in the post-Cold War period. This experience is the basis of the recently published book entitled, *Preparing for the Future: Strategic Planning in the US Air Force*.

During the Cold War, long-range planning in the Air Force focused on designing hypothetical (and unaffordable) military force structures that would effectively resist a Soviet invasion of Western Europe and a North Korean invasion of South Korea. With the end of the Cold War, attention focused on reducing force structure, placing less emphasis on the nuclear mission, and becoming an expeditionary rather than forward-based garrison force. Having turned this corner, the Air Force's leadership began to think about its future contribution to the achievement of national security goals on a time-scale of 25-30 years. Senior leaders collectively tackled this question during the 1996-97 period by devising and operating a novel process of strategic visioning and long-range planning. The immediate product included a strategic vision prefiguring a transition to the nation's Space and Air Force and delineating a half-dozen core competences, such as precision engagement and information

superiority. This effort set the Air Force on a long-term path of innovating its managerial practices for strategy development and implementation, which has in turn enabled changes in spending priorities, technological directions, and organisational culture. Indeed, the content of the vision itself has changed, after periodic efforts to reassess and revisit it.

The Air Force has developed, in effect, a distinctive approach to managing strategic risks, one facet of which relates specifically to strategic visioning. Under the Air Force's approach, strategic visioning efforts were guided by three principles: 'backcasting from the future', 'collective buy-in', and policy management. The backcasting principle was meant to undercut planning routines that concentrated on predicting the long-term ramifications of medium-term plans. Instead, planning efforts were directed at reducing the risk of a future mismatch between the Air Force's capabilities and the policy environment. The collective buy-in principle was intended to invest the strategic vision and long-range plan with the collective authority of the senior leadership cadre. Collective buy-in was equally intended to ensure that the process produced understanding and commitment on the part of the service's future top leaders, all of whom were already playing important roles. The political management principle was geared to the fact that the Air Force's long-run future depended hugely on the policy-making community's beliefs and attitudes on national security and defence issues. The Air Force sought to convey a compelling story about its contribution to national security over the long-run. As can be seen, the guiding ideas of strategic visioning touched on organisational and political dynamics, as well as on the framing of analytical tasks appropriate to strategic risk management.

The Air Force has applied these principles skilfully in designing and operating its strategic

visioning practices, beginning with the process led by Chief of Staff Ronald Fogleman in 1996-97. To illustrate, the Fogleman-led process was timed to feed directly into an anticipated strategic defence review, mandated by Congress and conducted by the Department of Defense. The process included a year long preparatory effort by a long-range planning Board of Directors which has three star generals in key line and staff positions, was chaired by the vice chief, and supported by an ad hoc staff group attached to the chief's office. Preparation efforts became intensive as the culminating event of the process drew near. This was an unprecedented five-day senior leadership conference, devoted to resolving 16 major long-range planning issues and agreeing on the big issue of whether the institution was going to acknowledge and expand its role beyond the atmosphere, ie, in the domain of 'military space.'

The study provides an explanation of how Fogleman's general principles of strategic visioning were designed and improvised into a workable method for interactive thinking and negotiation among busy, high status individuals within the organisation. This explanation – which is highly sensitive to context factors – provides insights into the practicalities of translating normative arguments about strategic risk management into innovative organisational practices that are potentially effective. In this way, the book pursues CARR's research agenda on organisations and risk, with specific application to public management.

Michael Barzelay is a CARR Research Associate and Reader in Public Management. *Preparing for the Future: Strategic Planning in the US Air Force*. By Michael Barzelay and Colin Campbell, Washington, DC: Brookings Institution Press, 2003. To order a copy: [www.brookings.edu/press/books/preparingforthefuture.htm](http://www.brookings.edu/press/books/preparingforthefuture.htm)



# Challenging insurability

Increased flood risks in Europe prove to be extremely costly for insurance. **Michael Huber** investigates some national differences in flood insurability and looks at the regulatory consequences.

**W**hy is the insurance industry willing to insure some risks and unwilling to insure others? Why, for example, did the industry insure only fractions of nuclear technology, and more recently refuse to insure genetically modified (GM) crops, while it accommodates the costlier and more harmful risks of storms, floods, and earthquakes? Behind the insuring of hazards there is a complex and sometimes unpredictable process of identifying those events the industry can deal with and those where an insurance approach is bound to fail. Some of this may be explained by economic factors. The insurance sector is under severe pressure: in particular, firms have suffered greatly from the downturn in stock markets. Political and public anxieties over 'new risks', such as terrorism, biotechnology, or climate change, all place additional pressure on the industry. But decisions about what to insure and what not to insure are not solely based on economic factors, but also on political considerations and public pressure.

Insurance of risks associated with climatic change is a good example of the vulnerabilities of the state and the insurance industry. The high price of intervention impedes any immediate action, yet the hazards will not just go away. As the risks of climate change increase in size and intensity, the willingness to act, or react, decreases in the same degree. In 1990, the cost of damages caused by a hurricane in the USA were estimated to be below \$1 billion; ten years later, estimates of \$100 billion seem too cautious. Only if the costs of impacts clearly outweigh the costs of interventions – together with the costs to government of making insurance firms move – can the inactivity in this policy field be overcome.

The pressures of dramatically increasing costs and uncertainties about new forms of risk have had a decisive impact on current

insurance activities. Ulrich Beck claims in his *World Risk Society* that these new forms are increasingly difficult to predict and to control; we thus live in a world of more and more dangers, and fewer and fewer insurable risks. This observation assumes, however, no change in the norms and institutional arrangements of risk-assessment in the insurance industry. An alternative claim is equally plausible; that insurance adapts to the new situation, modifying the conditions of insurability and ensuring continuity.

In any event, the continued willingness to insure general risks seems to contradict Beck's analysis. For example, there are problems with measuring weather-related risks such as storms and floods: data relevant to insurance is often missing, and it is difficult to determine with any precision the frequency and scale of such events. Improving the technical basis is welcome and necessary, but the safest response to such risks involves using the state as insurer of last resort. Currently, this political involvement takes the form of regulation: defining and clarifying the responsibilities and limitations of insurance.

While some may be happy with the state's shifting of responsibility to the insurance industry, others would argue that the state should take a more active role in the coverage against hazards. This role would involve not only shared financial responsibility, but also negotiations about the fundamental conditions of insurability. In Germany and Austria, for example, state-run flood administration is currently being transformed into a public-private partnership. But even if such partnerships are a promising solution to insurability constraints, they are not without problems. For example, the English flood insurance regime is one of the few private insurance regimes in the world; traditionally the industry is fully responsible for compensation, while the state's role is confined to flood prevention. But chronic and destructive flooding, particularly the



floods of 1998 and 2000 challenged all this.

Increasingly dissatisfied with state regulatory efforts, the industry threatened to substantially reduce its coverage of flood risk. And more radically, it introduced new building codes and development guidelines as a means of pressuring the state to invest more in flood protection, thus altering the traditional division of responsibilities between state and industry. Now, state and industry actively compete with each other for some regulatory tasks.

As with floods, the need for a political response goes beyond national borders. The challenges of insurability might be met to some extent by the growth in international government, by the internationalisation of financial activities, by regulatory competition, and by public-private partnerships. Yet, how exactly these different aspects contribute, or could contribute, to stabilising risks is still unclear. Moreover, attempts to establish the adequacy of these 'solutions' remain inhibited by difficulties of establishing a common understanding of insurability. Certainly, a broader social science perspective on the insurance system and on the role of insurance firms is needed to contribute to a better understanding of the sector, its main actors and its future development.

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Michael Huber is AON Senior Research Fellow at CARR.

# Catastrophes, regulation and interest accommodation

**Jürgen Feick** examines market entry regulation for pharmaceuticals within the EU and concludes that it still fails to satisfy the Single Market goal.

## From industrial self-regulation to accident-induced governmental regulation

The pharmaceutical industry was first subjected to more or less stringent pre-marketing controls in the 20th century. Around the turn of the century industrial mass production of pharmaceutical specialties had largely overtaken the tradition of individual preparations by local pharmacists. This development, along with the growth of international trade, dramatically increased and spread the risks associated with the consumption of pharmaceutical products. Governments, however, were reluctant to intervene, despite the early warnings from physicians, and the demands of health insurers and public health care providers, who disliked spending their members' money or public budgets for possibly ineffective or even outright dangerous drugs. But, except for a few countries like the USA, Sweden, or Norway, national discussions before World War II were regularly stalled by the argument that strict pre-marketing controls would burden companies with additional costs and endanger the growth and international competitiveness of an innovative industry. There were strong lobbies against effective governmental intervention in the pharmaceutical industry in all industrialised countries. And in these early decades it was not too difficult to convince politicians that industrial self-regulation would assure product quality most adequately, most efficiently, and with the least disruption to the industry. This position made sense insofar as it was the pharmaceutical industry itself which possessed the scientific and technological

means to test and control the assurance of product standards. This informational asymmetry between governmental regulators and pharmaceutical industry is still effective today, although to a much lesser degree.

Motives such as consumer protection against fraud, cost control in health care or rationalisation measures in war-time economies may be cited for compelling governments to introduce systematic pre-marketing controls. But the single most important factor for governmental intervention obliging pharmaceutical manufacturers to obtain approval has been drug accidents, some verging on the catastrophic. Public outcries in national and, later on, international arenas have pushed politicians to set up regulatory regimes whose political function is to remove the possibility of blame from political decision-makers through preventive measures and the delegation of control tasks to specialised regulatory authorities. The Thalidomide catastrophe, surfacing in 1961, was undoubtedly the most dramatic, most internationally publicised and most politically consequential drug accident; it had a strong impact on practically the whole industrialised world. In the USA, the drug had not been approved due to an already existing safety control system and to the courageous resistance of Dr Frances Kelsey of the Food and Drug Administration against internal and outside political pressure to licence the drug. Yet even there, fetuses were damaged and crippled children were born to mothers who had taken the sedative during pregnancy; they had either acquired the drug outside the USA or received the medicine from their family doctors as part of a testing/pre-marketing campaign. An estimated 10,000 handicapped children were born worldwide, mainly in Europe, except for France which had not yet approved the drug due to bureaucratic delays. This major catastrophe was publicly understood as proof that industrial self-

regulation had failed; a situation that could not be handled by merely symbolic policies.

## National responses and the European Community

In the US the Thalidomide catastrophe saved a pharmaceutical regulation bill that was close to failure in the US Congress. The bill ultimately introduced the strictest market entry regulation so far, based on proofs of pharmaceutical quality, toxicological safety and therapeutic efficacy (the Kefauver-Harris Amendments of 1962). It became the regulatory model for policy formation in the European countries. While American policy-making and implementation profited from the dynamics of the 'new social regulation', in many European countries industry lobbying first tried to preserve as much industry self-regulation as possible.

The upcoming wave of new national regulation was a challenge for the still young European Community. Despite lively communication and 'learning' between national governments concerning this new regulatory task, differing measures in the member states threatened to increase non-tariff barriers to trade, instead of lowering them as stipulated in the EEC treaty. Therefore, the EC-Commission prepared policy directives, the first coming into effect in 1965, in order to harmonise national legislation. Its intention was to arrive at functionally equivalent national policies and implementation practices that would encourage mutual recognition of national regulatory decisions. But this mode of European market integration by and large either failed or did not live up to expectations. European harmonisation became increasingly dense and detailed, measures of information, communication, and cooperation between national authorities were introduced, and semi-formalised procedures supported by a European evaluation committee (CPMP) were supposed to foster regulatory consensus-building between national agencies. Nonetheless, national regulatory decision-making did not converge sufficiently to create a single market for pharmaceuticals.

**Table 1: No single market for medicines  
Mutual availability of active ingredients (Country 1 > Country 2 in %)**

		COUNTRY 2							
		AUT	B	DK	F *	GER	NL	S	UK
COUNTRY 1	AUT	–	59	49	43	81	57	48	54
	B	72	–	55	52	79	66	52	60
	DK	81	73	–	60	84	76	73	71
	F *	74	69	58	–	75	68	58	63
	GER	68	54	43	42	–	50	42	49
	NL	80	76	65	56	84	–	61	69
	S	79	71	74	59	83	72	–	70
	UK	68	62	55	60	73	62	53	–

Selected countries; active ingredients categorized according to ATC-Code.

Source: EURO-Medicines Database; Folino-Gallo, P. et al., 2001, Availability of medicines in the European Union, in: European Journal of Pharmacology, 57: 443

\* Source: EURO-Medicines Database, www.euromedicines.org (date: 23.11.2001)

**Incrementalism and a module of structural change**

Until the early 1990s, the development of pharmaceutical regulation within the EC had been one of incremental institutional evolution. The single incremental steps may be regarded as attempts to correct failures on the road to mutual recognition. They were largely without success, since final regulatory decisions remained national and the European implementation input was non-binding. A fundamental structural change was introduced in 1995 with the regulatory module of the Centralised Procedure establishing an original European regulatory infrastructure, with the European Agency for the Evaluation of Medicinal Products as its focal institution, and a decision-making process within which marketing authorisations are issued by the EC-Commission and are valid in all member states. Furthermore, a semi-Europeanised approval procedure came into force in 1998, the Decentralised or Mutual Recognition Procedure, containing the very rarely utilised provision for a binding European arbitration stage should mutual recognition fail.

**A 'policy-patchwork' accommodating a variety of interests**

This leaves us with a 'policy-patchwork' (Héritier) of three different marketing authorisation procedures in the European Community, all for the same regulatory task, and all based on a maximally harmonised legal framework. These three procedures discriminate between types of medicine, distinguished essentially by their degree of innovativeness and the number of markets targeted by the pharmaceutical entrepreneur. In order of degree of Europeanisation the three procedures are:

1. the Centralised Procedure, obligatory for all bio-hightech medicines, optional for all otherwise innovative medicines, leading to a single EC-wide valid marketing authorisation;

2. the Decentralised or Mutual Recognition Procedure, based on coordinated national decisions and applicable whenever a medicinal product shall be marketed in more than one member state and if (1) is not applied;

3. purely national procedures for marketing applications, targeted at only one member state's market, provided (1) does not apply.

This complex procedural configuration reflects a large variety of economic, political, administrative and therapeutic interests. In fact, their accommodation within a differentiated regulatory landscape has been a precondition for the acceptability of the most Europeanising implementation framework, the Centralised Procedure. The latter satisfies the interests of the innovative, internationally oriented pharmaceutical industry by opening up a large market with one, even more efficiently organised, procedure. This part of the industry, as well as national governments and the Commission, views it as a measure to reestablish and enhance the innovativeness and competitiveness of the European pharmaceutical industry and Europe as an industrial site. The Commission gains implementation competences at the expense of national authorities, but these authorities may content themselves with extensive participation rights in the procedure. The two other procedures are in the interest of pharmaceutical companies whose product range, regulatory capabilities, or territorial marketing approach are tuned to national or regional markets and to traditional regulatory liaisons. National governments appreciate the contribution of these firms to GDP and high-qualification jobs, and national authorities' regulatory



capacity and autonomy is guaranteed by the continuation of these nationally based procedures. The diversity of

procedures leading to the output of a variety of medicines, some with a rather national focus, also serves the heterogeneous therapeutical interests of doctors and patients. One is tempted to speak of an 'institutional isomorphy' (DiMaggio/Powell) between interest and regulatory structure. But the original European goal, that of creating a single market for pharmaceuticals, is only achieved for the most innovative medicines. As long as the mutual recognition of national regulatory decisions is not automatic, and as long as the Centralised Procedure is not obligatory for all applications, there will be no EC-wide access to all medicines available within the EC (see table 1).

**The limits of 'private interest government' and the quest for transparency**

This overall analysis does not mean that all interests are served equally well. Since the strengthening of market entry control for pharmaceuticals in the second half of the twentieth century, an unresolved dispute has been underway between those who claim that tight regulation might impede medical innovation and economic growth and those who make the criticism that patients might be less well protected than commercial interests. Critics would also argue that even though these new regulations have not been established on behalf of large parts of industry, and even against their resistance, their further development and, especially, their implementation have become increasingly biased towards industrial interests; this is mainly due to changes in administrative orientation and behaviour. Nevertheless, there are clear limits to what has been called 'private interest government' (Bernstein). After the catastrophe of the 1960s, public awareness is too great to allow major regulatory problems to pass unnoticed. Politicians fear that they might lose support and votes, and companies that their commercial image could be damaged and that they might face liability claims. For this mechanism of public control to function properly, transparency is a necessity. Given the complexity of this highly technical product, full transparency of application data and procedures is demanded by external expert 'watchdogs' and 'whistle blowers'. There are objections in the name of commercial secrets and, furthermore, warnings that this would strengthen an innovation-averse, precautionary attitude, because of a potentially over-anxious public. If so, all parties would have to prove their case in public; the argument is that an open society can not tolerate secrecy simply because matters become complicated. Otherwise, the establishment of technocratic power structures and the misuse of appeals to complexity for the protection of partial interests seem inevitable.

Jürgen Feick was a CARR Visiting Fellow and is a Senior Research Fellow at the Max Planck Institute for the Study of Societies.

# Strategic decision making in large complex organisations

In our new series on the interface between academic theory and business practice, **Charles Baden-Fuller** examines the efforts of British Petroleum plc (BP) to stay ahead in a hyper-competitive environment.

**A** lively joint meeting was held between British Petroleum plc (BP) and CARR on 13 May 2003 to discuss strategic decision making in large complex organisations. This article explores the main intellectual themes that were raised at the meeting, and assesses their implications for the risk and regulation agenda.

## The theoretical ideas

Complex organisations face the 'Red Queen effect' (a reference to Lewis Carroll's *Alice Through The Looking Glass*): they have to run fast to stand still. To become successful, or to stay successful, they have to run even faster. Many industries feature this kind of hyper-competition. In hyper-competitive environments, there is a degree of similarity between the players. The experience of Dutch financial services is that most firms follow each other and that they do this to avoid the risk of being left out. Yet dangers still remain because blind copying does not eliminate risk. So what can organisations such as BP do? How do they run faster?

The insights of strategic management suggest that the process of strategy – the means by which strategy is developed – is as important as strategy itself. Good processes are harder to copy than good strategies; hence good processes may be the source of advantage. Good processes are also an opportunity to avoid risks of failure. The key processes in any large organisation are: co-ordinating, planning and decision making. These should be seen as 'co-evolutionary', that is, as dynamic interactions between top-management, middle-management, and the environment.

## The conversations

BP recognises the Red Queen effect. In contrast to 20-30 years ago, today the oil industry faces hyper-competition. Across the value-chain, the performance of the three super majors – BP, Shell, and Exxon – have converged in the last decade. In this environment, BP undergoes constant change to ensure that it is always moving forward. The dimensions of change are many-fold. They include changes in structures, in the measurement of performance, in systems used to fine tune the

running of the company, and in the people who participate in decision making. The forces for change at BP are both external and internal: the pressures of stock markets and rivals, and pressures from those who work in the corporation who desire to do better and to avoid failure.

One particular dimension of change and differentiation that is considered highly important is the arrival and influence of John Browne as the Chief Executive Officer (CEO) at BP, and the series of mergers and acquisitions that have followed. Another dimension is the emphasis on environmental issues and BP's determination to be progressive. But there are other factors that create path dependency, stability, and occasionally resistance to change. These include BP's history, especially that of its emphasis on oil exploration.

Planning processes in BP are well developed, as a result of the pressures arising from the hyper-competition, and of BP's experience of facing severe financial difficulties in the early 1990s. There are both top-down processes and bottom-up processes. These planning processes do not just involve the divisions and the operating units, but they also engage with interests such as the board and key investors. The discussion at the CARR/BP meeting suggested that planning is highly regarded and has proved to be flexible.

BP's longer-term strategy process is less formalised than its planning process. While there are formal strategy reviews with senior executives, many strategic issues are managed on a more ad hoc basis, involving both informal and formal processes. When challenged, those in the organisation argue that major ideas and initiatives such as mergers that appear to be spontaneous can be traced back to the outcome of planning processes. They can (at least retrospectively) be rationalised and justified into a common framework. It was also argued that planning and strategy processes interacted dynamically.

Performance measurement is a key dimension of BP's planning process. Indeed, the observers argued that this is, perhaps, the most critical feature of BP that provides the real glue to the seemingly disparate set of businesses. But, BP shows no sense of complacency; it has changed its measures over the

years, and there is still evolution and lively debate on the subject. This debate extends to asking methodological and philosophical questions of what should be measured (processes or outcomes) and of how measurement is best executed.

BP's performance measurements are linked to pay and reward, thus providing incentives for maintaining results. But to see it only in these terms is to miss the point. BP closely links performance measurement to resource allocation processes and planning. How resources are allocated is based on both formal prospective systems (plans and proposals) and retrospective systems of assessment of past performance. Planning, proposing, and assessment occur within the system in a complex and sophisticated manner, linking performance measurement to strategising and strategy debates.

## Comments and reflections

An unsaid feature of the meeting was that a majority of the people in staff functions at Head Office are there on temporary secondment from the line. This is deliberate. It serves to ensure the secure connection between the line and the centre. More formally, the idea is that the centre will not manage day-to-day operations, but only guide them via planning and performance measurements. To further reinforce this separation, the location of Head Office has been moved recently to a relatively small building in the West End of London. There is a sense of this being a think-tank or centre of ideas.

Second, the central concern of the BP executives is that of communication and coordination. Whereas management and economic theory sometimes assume that hierarchical organisations have systems that facilitate communication, in BP the debate is around the difficulties of doing just this. Many professional planners assume that organisations debate intensely about what to do next, but BP seems to be equally concerned with how to do the next things well. It also believes that this will provide a secure way of thinking about the future.

BP has experienced many mergers and acquisitions recently, and some have been quite significant. This has required the welding of differing cultures into a single enterprise. Although BP has insisted that the acquired companies take on BP systems, several acquisitions have been undertaken to change and sharpen further the BP culture and instil new ideas. These mergers have created constructive tensions. Now, planning and performance measurement rely on language. In BP much time and effort is spent defining ideas, clarifying them, and testing them among the



constituencies and stakeholders. Some of the centrally-driven initiatives are quite small, some are much bigger. The perception is that to change things from above, the language has to be chosen carefully. This organisation may have strong top-management, but it is clearly aware of the need to communicate and coordinate if it is to remain effective.

#### Discussion

One of the roles of CARR is to promote a sophisticated attitude to risk. Risk has many dimensions, especially in large complex organisations. As a result of the meeting, it seems that further discussions and research can be undertaken on how complex organisations such as BP deal with risk, on what we can learn from their experience, and on what we can suggest to them for the future. For example, BP is heavily dependent on

coordination at all levels to avoid risks. Do the current planning and control systems adequately cope with these risks? The organisation is also under pressure to engage in constant change. Does this pressure to improve performance and to innovate result in the organisation exposing itself, and others, to higher risks along certain dimensions, while it is, at the same time, reducing risks along other dimensions? Although the company takes great pains to identify its many stakeholders (including shareholders, employees, customers, and the environment), the meeting agreed that there appears to be a genuine search for new ideas and new techniques that can resolve as yet hidden tensions.

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Charles Baden-Fuller was a CARR Visiting Fellow and is Professor of Strategy and Editor of Long Range Planning at Cass Business School, City University.

## NGOs, Democratisation, and the Regulatory State

Bridget Hutter, Joan O'Mahony and Stephen Tully

In April and September, CARR hosted a two-stage conference with the European Policy Forum (EPF), the European Economic and Social Committee, and the Future Governance Programme of the Economic and Social Research Council (ESRC), on the role and regulation of civil society in national and European governance. The conference began in London with participants responding to a paper by Frank Vibert, director of EPF. Vibert cautiously recognised the benefits of the growing public role of non-governmental organisations (NGOs), but criticised the conventional notion that these organisations are necessarily 'schools for democracy'. He went on to outline proposals for their internal regulation and external accountability. Most respondents to Vibert's paper agreed that NGOs may not actually meet democratic criteria in their own activities. Thus NGOs become not just a regulatory force in their own right but also potential regulatory subjects. The debate turned to regulatory tools that might protect the potentially beneficial initiatives of formally independent civic groups, and that have the capacity to preserve the innovative and flexible character of the NGO sector.

The debate continued in Brussels where the European Commission's current implementation of

new standards for the consultation of civil society organisations provided the backdrop to an exciting exchange of views on the nature and conditions of a European public sphere, and on the representation and regulation of NGOs at the European level. Contributions from a number of civic groups, including Amnesty, Solidar, and the Permanent Forum of Civil Society provided a more empirical, and somewhat optimistic, counterweight to Beate Kohle Koch's and Claudio Raedelli's theoretical work on the limitations of current European democratic systems. Kohle Koch and Raedelli's concern was with the isolation of European political spaces from a European wide political debate and the failure of European citizens to identify themselves as European political actors with the capacity and will to affect outputs. Some NGO speakers urged stronger recognition for NGOs in the proposals from the Convention now being considered by the Inter-Governmental Conference. Yet, the NGOs present spoke in broadly positive terms of the pattern of exchange between the Commission and interest groups. What was also apparent was that NGOs were now accepting the need to take on board the debate on governance and were aware that with NGO influence went NGO accountability. The question for them was the framework.



The meetings benefited from a regulator's perspective provided by Rosie Chapman and Nancy North of the UK Charity Commission. Both speakers pointed to the voluntary efforts of UK charities to improve transparency and accountability, but also argued the need for some international standards for NGOs, such as the international accountancy standards currently being developed for commercial entities and the public sector; as yet, there is no equivalent for the civic organisation. John Roberts outlined the relevance of the debate on the higher standards of corporate governance in the business and its application to debates about higher standards of NGO governance.

The September meeting closed with a contribution by David O'Sullivan, Secretary-General, General Secretariat, European Commission. Mr O'Sullivan cautioned against the dangers of funding a Brussels-based system of NGOs out of kilter with national-based civic groups, and opposed suggestions for an NGO accreditation system which he argued the Commission was unable to develop.

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Papers are soon to be published.  
Contact [risk@lse.ac.uk](mailto:risk@lse.ac.uk)

## CARR sponsors risk and regulation conferences at LSE and at universities throughout the UK

### CONFERENCE NEWS

#### Risk Regulation, Accountability and Development

University of Manchester  
26-27 June 2003

What regulatory solutions can be found in the regulatory arrangements of developing nations? How can governments in developing countries strike a balance between the need to take account of existing institutions and arrangements and the danger of becoming hidebound by inappropriate or inefficient political structures? A joint workshop organised by CARR, the Centre for Regulation and Competition (University of Manchester) and Aston Business School, attempted to bring together cross-disciplinary perspectives on risk regulation – financial, social and economic – with special reference to the developing world. As part of the ESRC's Social Science Week, a public session was held in which panellists from the development studies community responded to the points made in earlier sessions on governance; accounting; and economic and social regulation.

Using examples from Australia, John Braithwaite (Australian National University) highlighted the empirical case for 'responsive regulation' or 'meta-risk management'. Trevor Hopper (University of Manchester) presented research undertaken with Shazad Uddin (Queen's University Belfast) on privatisation in Bangladesh, and the case of Jamaican telecommunications was highlighted in two papers, by Martin Lodge (CARR/LSE) and Lindsay Stirton (JEA), and by the Jamaican Cabinet Secretary, Carlton Davis. In other panels, John Stern (London Business School) argued that the high fixed and level costs involved in utilities regulation are regressive for developing countries and Christopher May (University of the West of England) suggested that intellectual property meant balancing public access to innovation with the private rewards necessary to allow it to flourish.



#### Risk, Regulation and Good Governance

Queen's University Belfast  
9-10 September 2003

This joint two-day workshop focused on public and private governance, in particular on the nature of political and corporate ethics as well as on instruments and technologies of regulating governance. The workshop brought together academics and practitioners from across the UK. Recurring themes were the setting of standards and the status they should enjoy. A further theme was the contested nature of the appropriate means and organisation for enforcement. The first day was devoted to themes of public and private governance, ranging from debates over corporate citizenship to the nature and constitution of ethical principles in public life. The debate centred on how to establish codes that are substantive enough to alter behaviour, yet are not overly prescriptive. The second day turned to technologies of regulation, such as the rise of audit within government and the informatisation of public services. From an international perspective, there was no universal 'audit explosion', although audit has been increasingly used within the devolved regions of the UK. Similarly, informatisation has challenged the capacity of governments to act as 'intelligent customers'. Finally, the discussion turned to standard-setting in multi-level governance, highlighting issues motivating government action in such contexts across a variety of domains.



**Above:** John Dowdall, Auditor General, Northern Ireland. **Top left:** Professor Neil Collins, University College Cork. **Bottom left:** Professor Bridget Hutter, CARR and Professor Elizabeth Meehan, Queen's University Belfast

**More information on CARR events can be found on CARR's website, [www.lse.ac.uk/Depts/carr](http://www.lse.ac.uk/Depts/carr)**

## CARR continues building networks across the UK and worldwide

### Visitors

**The Visitors Programme continues to enrich CARR's intellectual life. CARR has recently been privileged to welcome four leading scholars and practitioners.**

**Astrid Epp** is a doctoral fellow at the Institute for Science and Technology Studies (IWT) at the Universität Bielefeld. She is currently researching the conflict over the application of genetic engineering in food production. More specifically she is investigating if, and to what extent, legal regulations have had an impact on the Genetically Modified Organism conflict. This includes a comparison between Germany – as a typical European country in this field – and the United States.

**Herbert Kalthoff** currently holds a research position at the European University Viadrina Frankfurt (Oder), Germany. His research focus is on financial and banking knowledge, especially on the performativity of technological devices and the interactive accomplishment of risk management. His empirical work is based on ethnographic fieldwork in international banks. He has published several articles and co-edited a book on risk management, risk calculation and the external growth strategies of banks.

**Myriam Senn** is Senior Officer at the supervisory authority of financial markets in Berne, Switzerland. Dr Senn has developed expertise in financial services, company and public law. Her main areas of interest are public and international economic law, corporate law and the study of regulatory techniques with emphasis on the role of self-regulation. She has published on topics related to financial services, public and international law.

**Raymund Werle** is Principal Research Associate with the Max Planck Institute for the Study of Societies at Cologne, Germany. His research is focused on the interaction of institutional and technological innovations, especially in the information and telecommunications technology industry. It includes the development of telecommunications and data networks, the Internet in particular, and their structural and societal consequences. He has published in the area of science and technology studies, development and governance of large technical systems, organisations and processes of technical standardisation but also in the sociology of law and the legal profession and research methodology.

### Research Round Tables

During the summer, CARR hosted various round table discussion seminars by visiting scholars and practitioners. Professor Hedeaki Shiroyama (University of Tokyo, Japan) visited to discuss research conducted by the Research Institute of Science and Technology for Society, addressing particular concerns regarding the interaction of science, technology and society, especially in the light of crises and catastrophes in a number of policy domains. Enrique Rueda-Sabater spent time with us to discuss development effectiveness and the World Bank's poverty reduction mission. He reported on the Integrated Risk Management Framework and its need to be both comprehensive and able to promote deliberate risk-taking, not risk avoidance. Finally, Professor Thomas Bernauer (Swiss Federal Institute of Technology Zurich) spoke to us about international trade conflict and biotech food regulation. He explored the distributional implications of regulatory polarisation, concentrating on export revenues and broader effects on economic welfare.

**Further details of CARR's Visiting Fellowship Scheme and Outreach Programme can be found on the CARR website: [www.lse.ac.uk/Depts/carr](http://www.lse.ac.uk/Depts/carr)**

Full abstracts and details of forthcoming seminars can be found on the CARR website: [www.lse.ac.uk/Depts/carr](http://www.lse.ac.uk/Depts/carr)

## Asymmetrical Actors and Intentional Risk

Professor Frank Furedi  
University of Kent at Canterbury  
6 May 2003

Differential cultural attitudes towards risk-taking have a crucial bearing on the impact of asymmetrical threat. It is not simply the case that asymmetric actors regard risk-taking from the vantage point of an opportunity, the very risk-averse culture of their target society may encourage them to exploit this difference in attitudes. Officials concerned with reassuring the public may well become distracted from the task of preparing society to deal with asymmetric threat. In some cases, official reassurance can amplify the public's sense of insecurity, and in others, governmental warning can serve to intensify public fears.

## Risk regulation and interest accommodation in European pharmaceuticals' licensing

Dr Jürgen Feick  
Max Planck Institute for the Study of Societies  
20 May 2003

(see pages 10 – 11)

## Misfortune, Insurance, and the Liberal State: the perplexities of fairness

Professor Eugene Bardach  
University of California, Berkeley  
27 May 2003

The modern liberal state compensates citizens for a wide variety of misfortunes. These range from being the victim of an earthquake to having a new highway disrupt your neighbourhood. Adopting a policy designer's perspective, Professor Bardach applied this to one particular misfortune: being the victim of a terrorist attack. He explored the dimension of fairness and looked at how it prescribed proportionality to moral deservedness. No proportionality theory can remain perfectly intact in a world of coalition-formation, pluralistic bargaining and rent-seeking. Thus, when policy designers decide what is morally fair, they must also consider what is sustainable politically and under realistic conditions of implementation.

## Regulation and Human Genomics

Dr Oliver James  
University of Exeter  
10 June 2003

This seminar assessed the framework for providing UK Government with advice about human genomics, particularly advice about regulation. With a range of bodies involved in this activity, the seminar focused on one: the Human Genetics Commission (HGC) which was established as the Government's advisory body on the impact of developments in human genomics on people and healthcare. The HGC contains a number of innovations in response to controversy about advisory systems, particularly in the light of controversy over food safety. The seminar focused on these innovations in the HGC's current work producing advice about the regulation of human reproductive genomics.

## Containing negative integration? The European politics of 'services publics'

Professor Adrienne Héritier  
European University Institute  
1 July 2003

## Materiality and Performativity of Economic Calculation

Dr Herbert Kalthoff  
European University Viadrina  
7 October 2003

Calculation plays a major role within both the assessment of risk and the context of practices of economic self-representation. Two different layers of calculation exist: the role of technological instruments (eg, computer networks and software) and the role of representation devices, ie, writing (eg, formulas and models). Economic sociology, therefore, combines the analysis of technology with the analysis of operative writing. Dr Kalthoff referred to the later work of Martin Heidegger and his philosophy of technology (the Gestell [enframing]), raising the question of how economic sociology has to conceive the activities of framing which constitute calculation and which are performed by different agencies and practices.

## Governance without Governments? The Case of the Internet

Dr Raymund Werle  
Max Planck Institute for the Study of Societies  
28 October 2003

The Internet evolved in a niche in which it was promoted and only loosely controlled by the (US) government. It has developed into a global network that challenges the traditional nation-based governance institutions. But the popular notion that governments have lost control over the network is misleading. Based on a typological distinction concerning the scope and nature of control (coordination and regulation) the role of governments is analysed. With the central focus on basic operational and infrastructural functions it is argued that the un-centralised Internet is governed by a patchwork of organisations and institutions in which hierarchical, network and market modes of control appear to be balanced. This balance can be disturbed by too much, as well as too little, government intervention.

### FORTHCOMING LUNCHTIME SEMINARS

#### Regulation of the NHS in England

Professor Gwyn Bevan  
LSE  
11 November 2003

#### Beyond National Styles of Regulation – Genetically Modified Food in Germany and in the US

Astrid Epp  
Bielefeld University  
25 November 2003

#### Decentralisation of European Economic Law. Two Models: Competition Law and Financial Services Law

Dr Myriam Senn  
Swiss Federal Banking Commission  
9 December 2003

ALL WELCOME

Seminars start at 1pm, Room H615, Connaught House, LSE



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Michael Barzelay and Colin Campbell



**Business and Politics in Europe, 1900-1970: essays in honour of Alice Teichova**  
Terry Gourvish, ed



**Biotechnology 1996-2000: the years of controversy**  
George Gaskell and Martin Bauer  
London: Science Museum Press and Michigan State University Press 2001



**Telecoms Regulation: culture, chaos and interdependence inside the regulatory process**  
Clare Hall, Colin Scott and Christopher Hood  
Routledge 1999



**From Control to Drift: the dynamics of corporate information infrastructures**  
Claudio Ciborra and associates  
Oxford University Press 2001



**The Politics of Telecommunications**  
Mark Thatcher  
Oxford University Press 1999  
*'an excellent comparative study, rich in empirical findings, given analytical focus by an explicit theoretical framework.'*  
*Government and Opposition*

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Martin Lodge  
Greenwood Press 2002



**Rational Analysis for a Problematic World Revisited: problem structuring methods for complexity, uncertainty and conflict (2nd ed.)**  
Jonathan Rosenhead and John Mingers (eds.)  
Wiley 2001



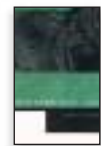
**The Audit Society: rituals of verification**  
Michael Power  
Oxford University Press 1999  
*'A book like this – so rich in ideas, observations and interpretations – has to be taken seriously.'*  
*European Accounting Review*



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Terence Gourvish  
Oxford University Press 2002



**The Government of Risk: understanding risk regulation regimes**  
Christopher Hood, Henry Rothstein and Robert Baldwin  
Oxford University Press 2001  
*'...a significant contribution to the existing literature on risk regulation.'*  
*West European Politics*



**A Reader in Environmental Law**  
Bridget Hutter (Ed.)  
Oxford University Press 1999  
*'a timely and useful bringing together of major socio-legal statements on the law.'*  
*Environmental Law Review*



**The Labyrinths of Information – Challenging the Wisdom of Systems**  
Claudio Ciborra,  
Oxford University Press 2002  
*'a series of highly literate jewel-like essays that are intellectually fascinating but could also change the life of any practitioner.'*  
Shoshana Zuboff, Harvard Business School



**Regulation and Risk: occupational health and safety on the railways**  
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Oxford University Press 2001  
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*Public Law*



**Understanding Regulation**  
Robert Baldwin and Martin Cave  
Oxford University Press 1999  
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*New Law Journal*



**Environmental Policy in Europe: assessing the costs of compliance**  
Andrew Gouldson and Evan Williams (Eds)  
*European Environment* 12 (5) 2002



**Cranston's Consumers and the Law (3rd ed.)**  
Colin Scott and Julia Black  
Butterworths 2000



**Rules and Regulators**  
Julia Black  
Oxford University Press 1999  
*'a refreshing book that addresses the question of 'self-regulation' in a new way.'*  
*Modern Law Review*



**The Politics of Delegation: non-majoritarian institutions in Europe**  
Mark Thatcher and Alec Stone Sweet (Eds)  
*West European Politics* 25 (1) 2002



**Regulation Inside Government: wastewatchers, quality police and sleaze-busters**  
Christopher Hood, Colin Scott, Oliver James, George Jones and Tony Travers  
Oxford University Press 1999

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**Risk Management and Business Regulation**  
Bridget Hutter and Michael Power

**Selected Recent Publications**

**Competency and Bureaucracy: Diffusion, Application and Appropriate Response?**

Martin Lodge and Christopher Hood  
*West European Politics* 26 (3) 2003: 131-152.

**Halving Global Poverty**

Tim Besley and Robin Burgess  
*Journal of Economic Perspectives*, Fall 2003.

**Paradoxes for the Business Leader**

Bridget Hutter  
*European Business Forum*, 13, Spring 2003: 9-12.

**Risk Management and the Responsible Organization**

Michael Power  
In R Ericson (ed.) *Risk and Morality*, Toronto, Toronto University Press 2003.

**Administrative Patterns and National Politics**

Martin Lodge  
In GB Peters and J Pierre (eds.) *Handbook of Public Administration*, London, Sage 2003.

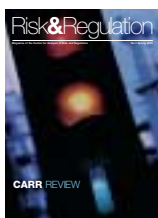
**Centralized versus Decentralized Provision of Local Public Goods: a political economy analysis**

Tim Besley and Stephen Coate  
*Journal of Public Economics*, 87 (11-12) 2003.

**Organizational Variety in Regulatory Governance: an agenda for comparative investigation of the OECD countries**

Colin Scott  
*Public Organization Review*, 3, 2003: 301-316.

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