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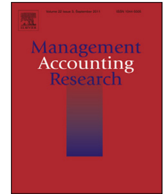

The dispositif of risk management: Reconstructing risk management after the financial crisis

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ABSTRACT

Despite its dubious role during the global financial crisis of 2008, risk management has continued its expansion. This paper addresses the question why risk management, in the face of its evident failure to manage risks during the crisis, has retained its importance even today. We build on the existing critical literature on risk management (Power, 2007) and advance it by introducing a more rigorous consideration of power. We refer to the notion of the "permanent state of exception" as conceptualized by the Italian social theorist Giorgio Agamben (1998, 2005) in order to argue that risk is a powerful social category as it reflects a potential exception, challenging norms as well as normalizing forms of control. We conclude that a dispositif of risk management, an assemblage of institutions, regulations and models, lies at the heart of risk management. This dispositif provides elites engaged in risk management with an argument that allows them – in exceptional situations – to take extraordinary measures which cannot be rescinded after the initial state of exception has ended. The logic of the state of exception can be used as a discursive resource and adds to, but also gradually replaces, other forms of management control. Our study contributes to management control theory by focusing on post-disciplinary forms of control and provides a novel focus on how elites use management control systems for their own interests.

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> The Gesellschaft für deutsche Sprache (Association for the German Language) voted the term "*alternativlos*" (roughly translated: alternativeless[2]) to be the non-word (*Unwort*) of the year 2010. In its press release the association explained that the word "counterfactually suggests that in a decision making process a priori no other alternatives are available." The word was nominated for its frequent use by German Chancellor Angela Merkel and other German politicians when referring to numerous topics such as the war in Afghanistan, the reduction of state spending on social services, but particularly decisions taken during the financial crisis, e.g. the bail-out of banks. (Gesellschaft für deutsche Sprache, 2010)

1. Introduction

No other term has received such a significant echo in the media during the global financial crisis of 2008 than that of risk management (Lewis, 2008; Millo and MacKenzie, 2009; Power, 2009). In the 20 years or so prior to this event, the interest in risk and its management has steadily increased (Bhimani, 2009; Gephart et al., 2009; Scheytt et al., 2006). Standardized approaches, such as the COSO framework (COSO, 2004), ISO 31000 (ISO, 2009) or Basel II/III (Basel Committee, 2006), have globally disseminated and have further strengthened the trend. Instrumental,

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[2] All translations by the authors. Note that "alternativlos" is a neologism as the grammatically correct term would be "alternativenlos".

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as well as social discussions of risk and risk management practice, have inundated not only academic journals but also practitioner magazines, indicating that risk management has now become a ubiquitous practice (Hood et al., 2004; Power, 2004b). Empirical work has also highlighted the proliferation of risk management into different domains such as higher education (Huber, 2008; Power et al., 2009), prisons (Hood et al., 2004), hospitals (Woods, 2009), the banking industry (Gulamhussen and Guerreiro, 2009; Soin and Scheytt, 2008), law enforcement (Poletti Hughes, 2009), and auditing (Robson et al., 2007), among others.

Although doubts about the potential of risk management to actually manage relevant risks and to deal with substantial crises have been raised before (Ewald, 1991; McGoun, 1995; Power, 2007), the global financial crisis has powerfully demonstrated these shortcomings. Financial models of risk management which were used to reduce risk, legitimize leverage and create business opportunities did little to avert the crisis. Ironically, models which should transform uncertainty into calculable entities, such as the Black–Scholes model, have been blamed for triggering – or at least amplifying – the crisis (Lewis, 2008; Millo and MacKenzie, 2009). During the crisis it turned out that the last consequence of modern risk management is a “risk management of nothing” (Power, 2009), a failure of mechanisms actually aimed at preventing the worst consequences of risks. Also, in the aftermath of the crisis, risk management practices have been subject to sharp criticisms (Lewis, 2008; Millo and MacKenzie, 2009; Sorkin, 2010). In both the media and academic discussions it is regularly argued that the models of economic risk management, developed since the 1980s, have not only failed to protect the economic world against risks but have been one of the sources of the fundamental problems that economies around the globe are facing today (cf. Kappler et al., 2010), casting serious doubts over trusted managerial ideologies. This has even affected core players of the financial industry. As depicted by Roberts and Jones (2009), Alan Greenspan, President of the US Federal Reserve Bank during the crisis, expressed in an official hearing to members of the US senate that that the economic models he believed in for about 50 years have been disproved by the financial crisis, and that even he, after heavily twisting his mind for weeks and months, does not have a clue about how to explain the behaviour of actors on financial markets. Similarly, on an organizational level, enterprise-wide risk management as well as other forms of risk management focusing on internal control mechanisms, such as the COSO framework, could not avert excessive risk taking (Perrow, 2010). On the contrary, the rhetoric of risk management lured the public into a false sense of security with regard to the actual risks being taken and enabled a redistribution of the consequences away from decision-makers, for instance by state-led bail-outs (Dobbin and Jung, 2010; Lounsbury and Hirsch, 2010a,b).

The question this paper addresses is how we can make sense of a startling observation: despite its deconstruction in practice, risk management is far from being a dead idea. Why, then, is risk management still high on the agenda of managerial and political elites in the face of its obvious deficits and failures? Why is the only apparent answer to the failure of risk management merely ‘more of the same’?[3]

Whereas the impetus for our reflections originates in the observation of the role of risk management during financial crisis, the nature of this paper is conceptual. Our inquiry will start with a critical discussion of risk management concepts, specifically the works of Power (2004b, 2007, 2009) and Power et al. (2009). We argue that extant theory must be augmented by a specific concept of power if the resilience of risk management during and after the financial crisis is to be explained. We analyze the power-related effects of risk management with reference to the theories of social scientist Giorgio Agamben (1998, 2005), whose diagnosis of a “permanent state of exception” in today’s society is based on the observation that power relations are intertwined with the retention of extraordinary measures after periods of crisis. Against this backdrop we argue that risk is a powerful social category as it reflects a potential exception, challenging norms and normalizing extreme forms of control. We conclude that a dispositif of risk management, an assemblage of institutions, regulations and models, lies at the heart of risk management, which is employed – albeit not always voluntarily – as a discursive resource: some managerial decisions are rhetorically anchored as “alternativeless” in the face of risks.[4] As managerial practice, risk management therefore has the power to augment or challenge more traditional forms of management control. Following Agamben, our discussion adds to the growing body of literature (Brivot and Gendron, 2011; Martinez, 2011) which uses Foucault’s post-disciplinary work to further problematize management control. Our study adds to theory by placing a novel focus on how elites can make use of management control systems for their self-interest.

The remaining parts of the paper are structured as follows: in the next section we will provide a review of the existing critical literature on risk management. The third section will then introduce the Agamben’s thoughts on the permanent state of exception and discuss its parallels with logics of risk and risk management. In the fourth section, we discuss the implications of the concepts that our argument is based on, and end with brief conclusions.

2. The rise of risk management

Risk management, and the discourse revolving around it, has been widely discussed in both positivist and critical research. It is seen as a backbone of ‘good’ governance in both the public and private sectors (Hood et al., 2001, 2004; Miller et al., 2008); as a cornerstone of modern management control (Bhimani, 2009; Gephart et al., 2009; Scheytt

[3] An instance for this perpetuated logic in doubt is the recently presented Basel III regulation which *de facto* merely strengthens Basel II’s approach to risk management.

[4] In a recently published paper Power (in press) has developed the concept of the apparatus of fraud risk. Both his concept of apparatus and our concept of dispositif are interpretations of the same works by Foucault. However, while Power outlines the specific apparatus of fraud risk with its actors and institutions, we discuss the power relations inherent to the rationale of the more general dispositif of risk management.

et al., 2006); and as both a source of and possible solution to recent financial turbulence (Millo and MacKenzie, 2009; Power, 2009). Risk management is regularly heralded as being more important than ever before (Lam, 2006; Woods, 2009). Indeed, the expansion of risk management over the last 20 years has been impressive. Emerging from a fairly limited use in banks and other financial institutions, risk management today has permeated many parts of different types of organizations. This is especially so when called Enterprise-wide Risk Management (ERM), financial regulation (the Basel treaties, Sarbanes Oxley), international standards with quasi-juristic validity for internal control (the COSO framework or Turnbull report), or public governance (usually called "risk-based regulation"(Black, 2005, 2008), e.g. in British universities' or European food regulation). Following Power (2007, 2009) and Power et al. (2009), this rise of risk management is firmly rooted in the pervasive logic of reputation and precautionary risk, which appeals to contemporary images of manageability.

The global financial crisis of 2008 has, however, impaired the reputation of risk management as a suitable response to uncertainty. Some scholars have even blamed risk management for playing a decisive part in causing the crisis, as the discussion around the Black–Scholes model has shown (Lewis, 2008; Millo and MacKenzie, 2009). Still, to date risk management is widespread as method of governance and management control although the financial crisis has obviously given proof of its malfunctions (Power, 2009). Based on an extant literature on risk management we will argue in the following that the global financial crisis provides ample opportunity for understanding the rhetorical tactics informing the discourse of risk management. Our thesis is that the scholarly debate around risk management may benefit from relating it to a specific concept of power which can also contribute to the understanding of the resilience of risk management after the global financial crisis.

2.1. *The spread of risk management and its effects*

Ever since Knight (2002/1921) introduced the famous distinction between risk and uncertainty, risk management has been high on the agenda of finance practitioners and scholars (McGoun, 1995). Up until the mid-1990s normative risk management theory mostly remained confined to terminological elaborations and technical considerations based on theories of finance, occasionally drawing on behavioural insights such as those of March and Shapira (1987). Fuelled by highly publicized scandals and subsequent economic turbulence, the focus broadened to include more general questions of internal control. New risk categories were emphasized, most notably operational and reputational risks. When applied to domains outside finance departments, both in companies and in public organizations, traditional statistical-driven techniques gave way to much broader and often more fuzzy methodologies. The risk map (cf. Jordan et al., 2013) cemented its place in executive reports, and the COSO framework and its siblings provided abstract guidelines for structuring risk-based internal control.

On a more fundamental level, scholars from various disciplines have discussed the proliferation of risk as a category of thought. The sociologist Beck (1992) diagnosed society at large with a growing focus on risks. Political scientists such as Hood and colleagues have discussed the influx of risk regimes on the public sector in depth (Hood, 2002; Hood et al., 2001, 2004). With respect to the discourse of risk management, and the critical reflection of its practices, the work by Power (2004b, 2005, 2007, 2009) and Power et al. (2009) forms a central pillar of discussion. Here the historical and ideological background for the proliferation of ideas of risk management and their connection to world-level ideals of transparency and accountability is traced. In the following, we will briefly elaborate on two of the most important aspects of Power's work: first, the recent dissemination of risk management throughout various types of organizations and second, the organizational responses that risk management has prompted.

Drawing on the concept of operational risk, Power's (2005, 2007) work shows how the mechanisms of inventing and disseminating a risk category work, both historically and conceptually. Historically, a large number of actors, organizations and meta-organizations have participated in the creation of this category. From the powerful Basel Committee passing Basel II, incorporating the new category into its framework and thereby forcing the banking industry to adopt it, to consulting companies which entered the discourse and tried to turn this concept into a business opportunity (Robson et al., 2007) and for various professions, which then tried to instrumentalize the concept in their own interest, operational risk was used to gain or defend influence and control. Conceptually, operational risk, however, defies straight forward definitions and thereby opens spaces for the groups mentioned above, as well as others, to fill this void with their interpretations. Thus, on both of these dimensions – historical and conceptual, these mechanisms may apply to risk and risk management in general. The ambiguity surrounding the term risk facilitates multiple local interpretations (Bhimani, 2009, p. 3; Collier and Berry, 2002, p. 274) providing various actors with an empty canvas upon which they can pursue their interests. Hence, an industry composed of regulators, consultants, academics and managers more or less intentionally collaborate to institutionalize risk management as 'good' practice.

Second, Power casts a critical eye over the organizational responses that the expansion of risk management has evoked and links them to wider societal changes. These mechanisms become most clear when the notion of reputational risk is analyzed (Power, 2007; Power et al., 2009). As reputation is an effect for which the causes can be multiple and often obscure, it serves as a powerful discursive resource. Power argues that focusing on reputation actually implies focusing on blame (cf. Hood, 2002). In principle, any individual or organizational activity (or non-activity, respectively) can potentially impair an organization's reputation. This logic both enables and forces management to invade into areas to which it traditionally was alien. For instance, university (risk) management has further expanded into academic concerns through reactions to rankings (Espeland and Sauder, 2007; C. Huber,

2008; M. Huber, 2009; Power et al., 2009; Sauder and Espeland, 2009). Similarly, Corporate Social Responsibility has become decoupled from purely ecological and ethical concerns and become a tool of stakeholder management (Banerjee, 2008; Power, 2007, p. 130–139). In Power's terms, the rationale does not essentially rest on whether (risk) management can fulfil its functionalistic promise of securing such goals – for which evidence is weak (Pfeffer, 1997; Power, 1997, 2004a). Rather, the focus is on conforming to expectations and avoiding potential blame by drawing on standardized, legalistic versions of risk management. The organizational myopia and defensiveness of such an attitude perversely entraps organizations to ignore weak signals which point towards risks, especially if the latter do not fit the narrow logic of auditability. *In extremis*, this leads, in Power's words, to the "risk management of nothing" (2009) as, in the standardized world of risk management, crucial risks are not managed at all. Here again, the global financial crisis can deliver many examples of this perverting effect.

Employing a slightly different vocabulary than Power, international studies scholars Aradau and Van Munster (2007, 2008) have drawn on similar mechanisms when discussing the dispositif of *precautionary* risk. As political scientists they employ different examples to Power, most notably the US-led war on terror. Still, the basic rationale is the same: in the name of a potential risk (in this case terror), a certain form of governmentality (here new-right politics instead of neo-liberal management[5]) is expanding into areas it has not inhabited before. The pervasive logic of risk is, again, inescapable and triggering a specific set of responses, while at the same time eliminating all others.

Scholars of management accounting have also come to the conclusion that the discourse of risk management is on the rise. Soin and Scheytt (2008) provide evidence for the spread of risk-based approaches in the financial services sector and argue that risk management has successfully challenged more traditional management control systems for organizational attention.[6] Similar developments can be found in other countries such as Germany, of which Dobler (2005) reports a growing focus on risk in both codes of corporate governance and accounting standards. Against the backdrop of Power's theses the sources of this dissemination can be traced back to the discourse of heralding and institutionally legitimizing risk management as well as in the pervasiveness of the logic of precautionary risk.

2.2. *Precautionary risk and the global financial crisis*

In summary, extant theory provides significant explanatory power with respect to the ever growing depth and breadth of the risk management discourse. However, the major part of this body of literature draws on observations made prior to the financial crisis. For example, it is only in Power (2009) that he explicitly addresses the events of 2007–2009 and paints a much darker picture of the usefulness of existing risk management methodologies. Thus, while there seems to be an implicit agreement that something has changed in the discourse around risk management, to date it remains largely obscure what precisely has changed. Critical approaches, we argue therefore in the following, can strongly benefit from an analysis of why risk management is still going strong even after the financial crisis.

Identifying the causes and mechanisms leading to the global financial crisis of 2008 is a daunting task which is beyond this paper. One of the first comprehensive attempts to shed light on the crisis from a sociological point of view is the collection of papers delivered by Lounsbury and Hirsch (2010a,b). Perrow (2010), for example, provides an interesting assessment of some of the explanations for the crisis. He argues that the crisis can neither be understood as a normal accident (Perrow, 1984) – since the reasons do not lie in the financial system as such – nor can the crisis be simply reduced to neo-institutional explanations which focus on ideologies, worldviews and cognitive frames. Rather, he sees financial elites, well aware of the dangers of their behaviour, at the heart of the crisis (for a similar argument cf. Roberts (2009)). This is where risk management enters the frame. Excessive risk-taking has frequently been found to have played a pivotal role in the crisis (cf. Dobbin and Jung, 2010), and risk management is seen as playing a complex role in backing the financial elites taking such risks, for example by camouflaging the magnitude of the risks taken or even by stimulating the risk appetite in the first place through the performative role of risk management theories (MacKenzie, 2006a,b, 2009). Another phenomenon which demonstrates the power risk management gives to financial elites is regulatory arbitrage in which risks are transferred from one jurisdiction to another in order to exploit the spaces between national regulations. In this sense risk management maybe more powerful than national law (Calomiris and Mason, 2004).

2.3. *Risk management and power*

As stated above, although there is an increasing body of literature stating that risk management is incapable of doing what it is designed to do: managing risks (Millo and MacKenzie, 2009; Power, 2009), it is, however, hard to find evidence that, after the crisis, risk management has lost its popularity among political and economic elites. Given that the argument is correct that elites played a decisive role in the history of the financial crisis, we suggest examining the role elites played in the seemingly paradoxical retention of risk management in the face of its evident failure.

We argue that the key for making sense of the paradox can be revealed by focusing on the notion of power underlying the risk management discourse. This echoes Hopwood's (2009) as well as others' (for example, Power, 2009; Roberts, 2009) call that the financial crisis forces academia to further develop accounting research, both by updating the risk management literature and, in particular, by reflecting upon the power effects which became evident

[5] That new right rationales wed well with neo-liberal ones has been discussed before (O'Malley, 1999).

[6] We will reflect upon this aspect again at the end of the next section.

during and after this period. It is the latter call that the following aims to contribute to.

3. Risk and power: the state of exception

Arguably, power is one of the most influential social phenomena (Clegg, 1989). Theories of power have been a central concern, for example in organization studies, for a long time (Alvesson and Deetz, 2006; Clegg, 1975, 1979; Clegg et al., 2006; Knights and Roberts, 1982; Lukes, 1974/2005; Munro, 2000). The space is not given here to discuss organizational concepts of power in-depth. However, one constant factor in such theories is that the sources of power are located mainly in the way in which actors shape risk management systems as a response to diverse types of risks. It is discussed how individuals, professions and/or institutions instrumentalize risk management systems in order to establish and maintain power structures and/or to pursue their self-interest. *Risk management* is therefore understood as a powerful practice; but the *origins of risk* often remain unquestioned in relation to power issues. Power's work, for example, does address questions of power, albeit on a more institutional level, and loosely relates to governmentality studies (Miller and Rose, 2008, 2010). Other recent studies, although more organizationally focused (Arena et al., 2010; Mikes, 2009, 2011; Woods, 2009), have also discussed questions of power rather indirectly.

The retained prominence during and after the financial crisis, however, indicates that risk brings with it another and more comprehensive quality in relation to power. This quality, we argue, can be found in the power to determine, rather than to manage, risks. In the following, we therefore draw the attention of risk management and accounting scholars to a theory of power by which the reflection of power issues in social theories of risk management can be augmented: Giorgio Agamben's work on the permanent state of exception. Agamben focuses on how relations of power (the sovereign act of declaring a state of exception) become institutionalized and retained (the permanent state of exception) even when the initial impetus (the crisis which initially was the exception) is long gone. In order to develop this thought, we will first elaborate on Giorgio Agamben's theory of the permanent state of exception. We will then go on to discuss how the concept of risk management, as opposed to other forms of management control practices, focuses on exceptions rather than norms, thus being similar to the state of exception. We conclude by arguing that the permanent state of exception reflects the mechanisms underlying contemporary risk management concepts and the causes for its retention.

3.1. Giorgio Agamben: the permanent state of exception

The Italian philosopher Giorgio Agamben rose to international prominence in 1998 when the English translation of *Homo Sacer* (1998), the first volume of his still on-going magnum opus, was published. The follow-up volume, *State of Exception* (2005), strengthened his recognition by social scientists (Banerjee, 2006; Calarco and DeCaroli, 2007; Dean, 2010b; Lemke, 2011; Prozorov, 2007; Sørensen et al., 2012; Tedmanson, 2008; Ten Bos, 2005). Agamben builds on Foucault's work on governmentality and biopolitics (Foucault, 1998, 2008, 2009; Munro, 2011). For this purpose Agamben offers detailed genealogies drawing on various sources such as ancient Roman law (1998), political sciences (2005), Christian theology (Agamben, 2011a, 2011b, 2011c, 2012), linguistics (2011c) and the accounts of Primo Levi, survivor of the holocaust (2002). In this section we depict some basic aspects of his work and then relate them to our concept of risk and risk management.

Agamben starts his inquiry into governmentality and biopolitics with an obscure figure of ancient Roman law: the *homo sacer* (Agamben, 1998). Conceived as a punishment, human beings declared to be such *homines sacri* were excluded from law. They could be killed with impunity but could at the same time not be sacrificed to any god. The latter is important because it, too, serves the exclusion of the homo sacer from law, as at the time 'normal' death penalties had a sacred and purifying function (p. 87ff). Forbidding purification through ritualized death intended to exclude the punished person from law itself. For Agamben this temporal abrogation of law is crucial as it constructs an individual as standing, at the same time, both inside and outside the law. The curious mechanism which the law of *homo sacer* creates is a situation in which the antagonisms of law and anomy, the suspension of social order, are secretly intertwined and become mutually dependent. In order to fulfil the law, i.e. to exclude somebody from the law totally, the anomy, the not-law, needs to be incorporated into the law. Law and anomy are then "simultaneously antagonistic and functionally connected" (Stavrakakis, 2010, p. 90).

For our purposes, Agamben's theory is most viable when it comes to the various manifestations of the recursive relationship between the rule and exception. For instance, he demonstrates biopolitics when discussing how the decision of what constitutes 'bare life' is used to exclude parts of a population. The most dramatic example for this being the eugenic attempts of managing the *Volkskörper* (body of people) by the Nazis for which less anti-Semitic versions can also be found in other countries such as the UK and the USA at the start of the twentieth century (Rose, 2007, p. 24). His most horrific example is that of the *Muselmann* (Muslim) in Auschwitz, human beings physically and mentally so close to death that the line separating life and death becomes blurred (Agamben, 2002; Quattrone, 2006).

Despite the ethical gravity of these instances, the mechanism at work which links law and anomy beyond demarcation becomes clearest in his work on the *State of Exception* (2005) which starts off with a reference to a specific argument in the work of Carl Schmitt. In 1922 Carl Schmitt, a German political philosopher and glowing national socialist, defined the sovereign as "he who decides on the state of exception" (Agamben, 2005, p. 1). Taking this as a starting point, Agamben aims to conceptualize a theory of the state of exception which he sees as missing in political theory. At the heart of the Schmitt/Agamben-thesis is a complex idea: by defining (explicitly) an exception, the sovereign (implicitly) defines the norm and the line of demarcation separating both. That is, a norm is set when an exception is defined, even if this norm is not explicated.

Excluding a *homo sacer* from the law does, indirectly, determine what is subject to the law (in this case all human beings which are not *homines sacri*). So, in this respect, instituting the figure of the *homo sacer* determines that human life, as such, is part of the law – in Agamben's eyes the first biopolitical intervention.

Agamben goes on to show that this mechanism has vital consequences for a legal system in the case of the state of exception. By defining something which lies outside itself, the legal system aims to go beyond what it actually can be. When a (democratic) government suspends the basis of its own legitimation, the rule of law, by declaring the state of exception, fundamental questions are raised. What gives any democratic government the right to act this way, if not the law? And even more threatening for the legal order: how can the proclamation of the state of exception be decided upon, if the law, per definition, is not applicable? Agamben carefully documents how various forms of states of exception are incorporated in modern states' constitutions. For Agamben, this is a danger to any democratic legal order because the existence of a sovereign, who decides upon the state of exception on his/her/their own discretion and can thereby suspend the rule of law, is a mechanism of fascist dictatorship. Provokingly, he exposes how these principles move democracies dangerously close to dictatorial orders and merely sees a difference in degree in both forms of government.[7]

For our argument with respect to risk management, the emphasis lies on the *permanent* state of exception, as we will elaborate further in the next section. For now, it is important to understand that Agamben sees the permanent state of exception in situations where the state of exception has become the norm and the rule by exception is not perceived as exceptional anymore. But rather than calling this "a new status quo" or the like, Agamben scandalizes the consequences of such normalization by calling it the *permanent state of exception*. The recent reactions to the so-called Euro-Crisis of 2010–12 provide an enlightening example for a prolongation of a state of exception. The founding treaties of the European Union strictly forbid member countries to be liable for other countries' debts i.e. they forbid bail-outs. In 2011 the situation of Greece was declared an exception. But this state of exception became normalized with the creation of the European Financial Stability Facility (EFSF) which promised potential bail-outs to other economically weak countries. The exception has shifted towards a new status quo which defines the economic realities of the European Union differently from its original legal basis, thereby factually challenging it. In this sense, the EFSF is an example of a permanent state of exception.

While this argument has in general been acknowledged for capturing important mechanisms of modern government (Dean, 2010a), Agamben drew heavy criticism for the "excessive dramatization" (Lemke, 2011, p. 56) of his argument by choosing alarmist examples (Ten Bos, 2005; Werber, 2002). Critics argue that comparisons between contemporary governments and the Nazi regime and its concentration camps are at best overly dramatizing and at worst misleading. We do not agree with this criticism. Following Dean (2010b) we understand the mechanisms at the heart of Agamben's exceptionalism as "a 'diagram' of power" (p. 465). Taking Agamben's phrasing of "the state of exception as a *paradigm* of government" seriously, we see many instances of exceptionalism in many aspects of contemporary governmentality both on the large scale Agamben describes and in much more mundane practices inside organizations, without mistaking every organization for a concentration camp. This resonates with the growing body of literature which aims to learn from the study of total institutions (Clegg, 2006; Goffman, 1961) or genocide (Stokes and Gabriel, 2010) even though these do not reflect day-to-day organizational life. Hence, we follow in our interpretation Ortmann (2003) who translates Agamben's discussion of rule and exception in legal history into contemporary rule-based organizing in general. Applying Agamben's thesis to issues of management in and between organizations, one can envision the realm of management control as being based on a plethora of rules with the ends of "governing" an organization.

3.2. The exception and the norm

We will now discuss how risks relate to exceptions, how risk management as 'managing state(s) of exception' thereby augments traditional forms of normalizing control. To start with, it is important to point out that most traditional forms of management control focus on producing and regulating normality, for example in individual behaviour or in operations. Employing foucauldian insights, Miller and O'Leary (1987), drawing on the example of standard costing, explain how archetypical the normalizing logic is for most mainstream control techniques in the last century, and also show how disciplinary power is at the heart of this form of rule – a theme well known to accounting scholars by now (Cameron, 2010; Jeacle, 2003; Ogden, 1997).

In contrast, risk management stands out among other contemporary management control concepts for its focus on exceptions. Essentially, risks are something which is alien to the norm. That is to say, risks in organizational life are mostly perceived as coming from outside the normal processes of organizing, possibly endangering the norm. Also, a risk can, per se, not be real – the moment it becomes real it is transformed from risk into damage. Thus, risk is fundamentally about the potentiality of what is outside the norm, be it the fear of blame, the dreading of machine failure or the anticipated possibility of declining stock prices. In short: risk is, at its heart, an exception and not the norm.

We argue that the exceptionality of risk adds a further dimension to the normalizing and disciplinary forms of power inherent in traditional management control systems. Risk management opens up a loophole for the fears, panics and anticipations of actors inside and outside of organizations. It gives them some power to augment, extend, or displace normalizing control practices. As Foucault himself notes, different forms of power often co-exist

[7] Remember that Henry Paulson, US secretary of the treasury 2006–2009, suggested enacting martial law during the hot phase of the financial crisis.

(Foucault, 2009). Therefore, our argument is not that disciplinary regimes of power (or more advanced forms of power, as Brivot and Gendron (2011) discuss) are abandoned entirely, but rather that risk as exception delivers a specific power dimension, once actors have perceived its potential.

The crucial difference between these forms of control practices is that risk management, as it is focused on a state of exception, includes a specific relation of power as described by Agamben. As it is impossible to determine by law when the law is suspended, some aspects of risk management are beyond meaningful standardization and normalization. For instance, it is impossible to fully reduce the identification of risks (exceptions) to an algorithm owing to the infinite number of risks (exceptions) imaginable. Risk management, understood as handling states of exception, thus shows us that an element of arbitrariness is always part of the power relation it inscribes into social reality. This element of arbitrariness can be used consciously (or unconsciously) and strategically to extent the power of elites. This is most visible in the latest developments around the Euro crisis. In many states, governments complain that parliamentary procedures are too cumbersome to fight the crisis. Abandonment of parliamentary rights is argued to be a possible solution to that problem. For example, the former Italian prime minister Mario Monti recently argued in an interview with the German news journal *Spiegel* that the solution of the crisis could benefit from 'stronger' governments: "If governments allow themselves to be completely bound by the decisions of their parliaments, without keeping some space to negotiate, then a break-up of Europe is more likely than further integration" (Monti, 2012; own translation).

Agamben's work offers the possibility of making sense of the ostensibly contradictory relationship between the normalization of risk management itself and the element of arbitrariness introduced by the impossibility of fully normalizing risk. Risk management theory usually states that the measures used to tame uncertainty by risk management are often standardized and do have normalizing effects. Scholars of governmentality such as Ewald (1991) have emphasized the normalizing effects of risk management, resting on the basis of calculations of probability. As Hacking (1990) and later De Goede (2005) have shown, statistical methods and procedures have been developed with great effort to render uncertainty calculable. However, this is only half the story. The logic of organizing risk management (Power et al., 2009) crucially rests on exceptions. As in principle any risk is thinkable, any precautionary measure is, at least within socially agreed and institutionalized limits, justifiable. This is a powerful argument for introducing various forms of exceptions into organizational routines and can be used by elites to extend their range of power. These exceptions rarely have to be taken back as it is seldom that a risk simply ceases to 'exist', given its socially constructed nature (cf. Hilgartner, 1992). Crucially, these mechanisms offer legitimacy to a new array of intervention in all aspects of organizations including areas to "which organizations are traditionally insensitive" (Power, 2007, p. 198). So here we see the complex double movement of risk and exception: on the one hand risk management provides the justification for many, sometimes arbitrary, forms of intervention. On the other hand, these interventions, when framed as risk management are increasingly standardized to conform to a larger governmentality and trust in numbers (Porter, 1995) and, this normalization, as we can once again learn from the financial crisis, can be the key to even more exceptionality.

To make sense of this double movement of exception and standardization, we need to understand risk management as *permanent* state of exception. The interventions made in the name of risk have ceased to be exceptions and correspond to certain standardized responses which could now be called the new status quo. However, we suggest calling it a permanent state of exception in order to show that something has changed along the way. Crucially, the power relations between those controlling risks and the rest of the organization have shifted. In summary, even though the obvious standardization in responses to uncertainty, the exceptional element inherent to risk management means that power relations are changed even when this is not explicitly discussed or reflected upon. This allows us to consider the resilience of risk management in the face of its evident failure as a process of the power relations it has helped to institutionalize the permanent state of exception. We elaborate on this point, its explanatory value with regards to the retention of risk management and its significance for extant literature in the following section.

4. Discussion: the dispositif of risk management

We have now come to a point in our argument in which we have all the ingredients at hand to answer the questions which drove our inquiry from the start: why, in the face of its obvious deficits and failures, is risk management still high on the agenda of managers and politicians? Why is the only apparent answer to the shortcomings of risk management seemingly, more of the same? To structure our answer to these observations we will proceed in two steps. First, we will discuss how the concept of risk as state of exception leads to what we call the *dispositif* of risk management and show the consequences of this concept for the logic of organizing around risks. Second, we will discuss the aspects of power in relation to risk management by focusing on the role of elites in relation to risk and risk management.

4.1. Suspension in the name of risk

We argued that risk management constitutes a permanent state of exception as risk is always a potential manifestation of an exception. This concept corresponds to approaches to management accounting control that are focused on power (Brivot and Gendron, 2011; Martinez, 2011; Miller and O'Leary, 1987). These approaches demonstrate that management control practices are not only mere technical 'instruments' to observe the effects of managerial decision making, but intervene in the organizational realm in a specific way, namely as a dispositif, an assemblage of discourses, institutions, regulations etc. (Agamben, 2009; Deleuze, 1992), by which power relations are established and maintained in subtle ways. Similar to these

approaches risk management can be called a dispositif. We must, however, pay attention to one important difference to other forms of management control. The dispositif of risk management allows to handle a paradox: to introduce the exception (rather than a standard) as principle into the very logics of organizing.

In order to understand this dispositif of risk management we return to our initial discussion of the existing critical literature on risk management. As Power (2004b, 2007, 2009) and Power et al. (2009) have shown, uncertainties are transformed into risks through a standardized set of procedures and are then addressed with standardized measures. Consequently, risk management implies two developments: its own expansion and, second, a set of procedures which conform to certain images of manageability, and subsequently transparency, accountability and auditability. Concerning its expansion, the precautionary logic of risk management implies that eventually all facets of organizational life can be subject to it. Indeed, the impressive rise of operational risk (Power, 2005, 2007), clearly shows this expansion. In other words: any organizational activity can in principle be subjected to risk management and there is evidence for such an imperialistic trend. Regarding the procedures or risk management, all these different domains are deemed in need of management through similar techniques and instruments. As Power shows, the responses to uncertainty become standardized, irrespective of their idiosyncrasy. What is more crucial than any technical specificity is that world level values of transparency and accountability are addressed and myths and images of functionality and manageability are upheld.

We argue that these thoughts, as convincing as they are, can be augmented when they are related to the concept of a dispositif of risk management. The concept of the permanent state of exception refers to the mechanism of power which describes how rule and exception, law and anomy, become intertwined and mutually constitutive. Transferring this mechanism to the world of management, we need to ask to which law (or rule) risk management is anomy to. Power's works already point us towards what is suspended by the rule of risk management: every form of management which is not inherently linked to world-level values of transparency, accountability and manageability. Given Power's arguments that these values reflect myths and moral judgements rather than functional solutions to inevitable problems, the significance of this trend can be estimated.

What remains unexpressed in Power's argument is, however, that the definition of an exception simultaneously defines what is "normal" and the border which separates norm and exception. Thereby, (re)defining organizational activities as risky and endorsing standardized practices as sustainable responses to these risks shifts these activities, no matter how un-business-like they originally were, into the realm of suspicion. The idiosyncratic characteristics of these activities are not important for this logic; rather, what is important is whether or not the activities conform to the values of transparency, accountability and manageability. In other words: if an activity cannot be auditable and has not rendered itself amenable to managerial intervention, it is excluded from what is legitimate, or even thinkable. Through this complex mechanism, risk management, if understood this way, serves the exclusion of all that is not conforming to a narrow and myopic logic of managerial intervention. Risk management becomes totalitarian, although flawed in its methodology and alien in its functional mechanism to other management control practices. For, as Agamben agrees with Schmitt, the sovereign is the one who decides on the state of exception, so the power constellation shifts drastically towards those who have the power to utilize risk management. Herein we find the organizational nature of the dispositif of risk management.

4.2. *The panicking sovereign*

If taken at face value, our adaption of the Schmitt/Agamben thesis would imply that the managers of risk could reign at free will as sovereigns. If risk management is defined as a permanent state of exception, then the sovereign of an organization is the one who controls the risk management discourse. And indeed, the advocates of risk management have gained influence in organizations as Power (2007, p. 82ff) has shown with respect to the growing number of Chief Risk Officers in corporations. However, it would be an oversimplification to argue that risk management is a dispositif that could be used as a totalitarian instrument of power by organizational or political elites in a completely undistorted manner and of their own will. Three aspects contradict this: the concept of the dispositif itself, the nature of contemporary risk management and the dynamics around the power of elites.

First, Agamben's concept of the dispositif withstands any personalization, even if the dispositif is assigned to a sovereign in his wording. Foucault defines a dispositif as "a thoroughly heterogeneous set consisting of discourses, institutions, architectural forms, regulatory decisions, laws, administrative measures, scientific statements, philosophical, moral, and philanthropic propositions – in short, the said as much as the unsaid . . . I mean a kind of a formation . . . the nature of an apparatus [original: dispositif] is essentially strategic, which means that we are speaking about a certain manipulation of relations of forces. . ." (Foucault quoted in Agamben, 2009, p. 2). Although power here is not understood as a position by an individual à la Max Weber, it serves a strategic purpose, but not by a single actor ruling at will.

Second, as depicted above, the dispositif of risk management as a management technique is firmly placed in the realm of the values of transparency, accountability and certain images of manageability. As risk management is recursively constituting the technical-moral project it is based on, it can only take specific forms dictated by such a project. As deviance from these ruling principles would undermine the power basis provided by the dispositif, it is impossible to address risks in any other way than as prescribed by logics of accountability, blame avoidance and more generally the dispositif of risk management. Risk management regimes therefore give only ostensible freedom to those trying to utilize them, as they have to conform

to the same notion of auditability and the same images of manageability.

Third, political and managerial elites which could be said to have strong influence on, and interest in, risk management do not conform to the notion of an absolute autarkic sovereign. As the relatively new discussion around "elite panic" (Clarke and Chess, 2008; Solnit, 2010; Tierney, 2008) has brought to light, elites do not only fight panic in the face of fundamental threats, but can also cause panic or even can themselves fall into panic. This became particularly discernible during the financial crisis, in which several occurrences evoked panic and the subsequent standardized reactions amplified both the economic downturn and the related panic (Lewis, 2008; Millo and MacKenzie, 2009). Particularly at the beginning of the crisis in 2007–8, political and managerial elites were at some points disturbed, if not panicking, caused by the events and their expected consequences.[8] Similarly, in the world of management, institutional pressures originating from crises and economic downturns can lead elites to act in panic. Hence, when extraordinary measures are taken, this is not necessarily an act of free sovereign will.

Seen through the lens of organizational theory this allows us to identify a complex (im) balance of power when it comes to risk management practices. On the one hand, elites can gain power because they can draw on a range of responses which are legitimate due to the permanent state of exception. Controlling these responses is a mechanism of power because it enables the suspension of alternative logics of action that do not conform to values of transparency, accountability and certain images of manageability. On the other hand, the dispositif of risk management does not easily give power to individuals – that would imply ignoring the complexity of power in Agamben's thinking. Still, power relations are deeply changed by the dispositif. For instance, the set of institutions, regulations, laws and financial models allows corporate actors to take more risks as they know responsibilities will be diverted to somebody else: as the bail-outs of banks have shown, even financial losses become re-distributed. Equally, only few decision-makers face legal consequences over the harm their speculation inflicted on the public. In effect, once elites have learned to control their own panic and learn 'to play the game', they are able to restrict the freedom of others. Behind the discursive curtain woven from the assertions of (a) state(s) of exception, elites therefore can exploit the technocratic rhetoric of risk management to deflect attention from essentially political issues and finally profit from taking such risks.

5. Conclusions

This paper is aimed at contributing to the critical debate on risk and risk management. It responds to calls for an elaborated analysis of the problematic role of risk management systems causing, or at least amplifying, the shocks in the global economy that we today call the global financial and economic crisis. By referring to, and further elaborating, the existing literature on the organizational nature of risk and risk management we argued that the notion of power as it underlies extant literature needs to be revised. We based our argument on what Giorgio Agamben has called a "permanent state of exception" (1998, 2005) and have argued that a *dispositif of risk management* – which reproduces larger societal values and determines organizational responses to the rise of risk management – shapes organizational (im) balances of power. As the dispositif of risk management offers elites the opportunity to turn the exception into an enduring standard, they can therefore 'play' with fear and anxiety which, in turn, can result in even more calls for risk management. By this, risk management, which is rhetorically held to tame exceptional states, can thus be used as a powerful resource to augment, undermine or even replace more traditional forms of management control with their emphasis on the 'normal'. The contemporary state of global financial control provides numerous examples for this threefold effect: first, risk management *augments* traditional forms of control for instance by introducing austerity budgets. Second, it *undermines* it as we see in the example of the ignorance towards to the original prohibition of taking responsibility of other states' deficits in early EU treaties. Lastly, traditional forms of control are *replaced* when we look at the increasing focus on risk-based regulation in UK financial services (Black, 2005). This, we argue, is why risk management still retains its momentum. It is only when the underlying values of accountability and transparency are fundamentally challenged that the powerful role of risk management is truly questioned, and thereby ways of addressing uncertainty in organizations beyond paranoia and defensiveness can be identified.

Similarly to Power (2009), we do not propose that all practices of risk management are dysfunctional and that paranoia – on behalf of the elites and the non-elites – is the only outcome of its firm rooting in notions of accountability and auditability. But as always, the locus of where these questions are answered is practice – the practices of risk management and the practice of risk managers. When faced with the socio-dynamics of risk management portrayed above, practitioners will need to understand the pressures they face and the perverse outcomes succumbing to these pressures might have.

Reconstructing a more responsive approach to uncertainties will need to go beyond the myopic gaze of standardized approaches (Power, 2009). To do so, three issues would have to be simultaneously addressed. First, the standardized procedures of risk management would need to be questioned and augmented or replaced with more anticipatory, fine-tuned activities which focus on the reception of weak signals (Weick and Sutcliffe, 2007), rather than being obsessed with the avoidance of blame. Second, the effects of restricting actions to conform to moral-technical projects of transparency, accountability and manageability need to be reflected. These values form a strong apparatus of governmentality whose questioning is pivotal to any alternate practice. We share Power's

[8] For example, Henry Paulson, US secretary of the treasury 2006–2009 and the former CEO of Goldman Sachs was heard vomiting in his office when he got the latest information about the situation of Lehman Bros. in September 2008 (cf. Sorkin, 2010, p. 298).

concern that purely focusing on issues of transparency and accountability may crowd-out values such as ethics and responsibility (2007, p. 199). If risk management, as we argue in this paper, fundamentally shifts power relations, it is crucial that the use of this power takes into account not only technical and reputational concerns but also ethical ones. Such a shift in focus might in all likelihood then in turn affect power relations. Third, practitioners would have to micro-politically fight for their degrees of freedom from the dispositif of risk management, either as elites or non-elites, in order to be able to creatively tackle uncertainties.

We admit that these normative statements can be understood as idealistic, if not naïve. However, the focus remains with more empirically focused research projects to deepen the analysis of the reasons for the continuing prominence of risk management during and after the financial crisis. Our central argument was to introduce an alternative conceptualization of the relation between risk management and power into the debate. Which course of action is deemed appropriate must finally be determined by experts facing various challenges – debates which themselves are influenced by the permanent struggles for power.

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