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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with an argument that allows them – in exceptional situations – to take extraordinary measures which cannot be rescinded after the initial state of exception has ended.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.

> 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.