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The risk management of nothing ☆

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A B S T R A C T

This essay challenges core elements of enterprise risk management (ERM) and suggests that an impoverished conception of 'risk appetite' is part of the 'intellectual failure' at the heart of the financial crisis. Regulators, senior management and boards must understand risk appetite more as the consequence of a dynamic organizational process involving values as much as metrics. In addition, ERM has operated as a boundary preserving model of risk management subject to the 'logic of the audit trail', rather than a boundary challenging practice which confronts and addresses the complex realities of interconnectedness. The security provided by ERM is at best limited to certain states of the world and at worst it is illusory – the risk management of nothing. In contrast, Business continuity management (BCM) may provide clues about how risk management might be reconstructed.

Introduction

It is far easier to blame individuals than entire systems of thought; senior executives of failed organizations can be asked to apologise in public, but the architecture of concepts and assumptions within which they operate is less visible and accountable. Yet if the roots of this financial crisis do indeed lie in a 'wide ranging intellectual failure' (Turner, 2009: p. 5), it is necessary to shift the focus of blame and analysis from the usual human suspects, notwithstanding what might be thought of them as individuals, and consider much harder questions of knowledge. In this essay, I focus on the near theological belief in enterprise risk management (ERM) and suggest that it is deeply implicated in a widespread failure of managerial and regulatory intelligence, despite the fact that many good and capable people are involved in its operationalisation. Indeed, policy makers need to understand the limitations of ERM as a platform for institutional re-building.

ERM is not a single thing, conceptually or practically. At the level of design ERM is a label for a system of concepts which have grown in organizational significance since the mid-1990s, arguably the period of 'incubation' (Turner, 1976) for the present crisis. The basic conception, as revealed in a vast body of guidance, is simple and superficially uncontentious: risk management and mitigation processes should be explicitly related to organizational and sub-organizational objectives. Prescriptively, organizations should seek to identify all material risks to their objectives and sub-objectives, design controls and mitigations which produce a residual risk consistent with a target risk appetite, and monitor this entire process, making feedback adjustments as necessary. The model is that of a thermostat which adjusts to changes in environment subject to pre-given target temperature. From this somewhat mechanical point of view, problems with ERM are typically attributed by surveys of practice to implementation deficits and operational frictions – 'if only we could do it properly' – rather than the design philosophy itself.

While ERM has numerous sources feeding the same basic idea, the COSO (2004) version has become a world-level template for best practice over a short period of time (Power, 2007). COSO stands for the Committee of Sponsoring Organizations of the Treadway Commission, an 'organizing organization' (Ahrne & Brunsson, 2006) or coalition of the main accounting and finance trade

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associations in the United States and formed in the light of concerns about fraudulent financial reporting in the mid-1980s.[1] The Treadway Commission reported its findings in 1987 and COSO published guidance on internal control in 1992.[2] This guidance provides the antecedent conceptual building blocks for the 2004 framework for enterprise risk management, hence a direct line of influence on ERM can be traced to an accounting conception of internal control, itself a product of broader engineering conceptions of control theory. So the ERM model is strongly, if not exclusively, influenced by accounting and auditing norms of control, with an emphasis on process description and evidence.

The programmatic aspiration of ERM is twofold. First, like any managerial innovation, it promises that mistakes of the past will be mitigated, if not avoided, by a more rational and synthetic conception of risk management capable of a 'canopy-like' view of the organization (Drori, 2006). For example, ERM is closely associated with a conception of *integrated* risk management at the firm level, an integration which promises more efficient use of scarce capital, the ability to charge business units according to the amount of capital they place at risk, and more coherent insurance strategies which recognise the natural diversification benefits at work in any large organization. Second, ERM also embodies an aspiration for *enterprising* risk management, namely a conception of risk management which is positive, entrepreneurial and explicitly in the service of wealth creation: 'risks are no longer the dark side of opportunities, they are also market opportunities' (Beck, 1992: 46). From this it is easy to articulate a win–win logic of ERM; good risk management is good business.

Yet, for all the self-evidence of its conceptual elements and its core aspirations, I argue below that ERM is flawed at the level of design in three fundamental ways that deserve attention. First, I suggest that the 'enterprise-wide' view and the related notion of a singular organizational *risk appetite* are highly problematic. Indeed, the design and focus of ERM necessarily impoverishes a conception of risk appetite as organizational process. Second, the sources of this impoverishment lie in the deep complicity of ERM in the expanded significance of a 'logic of auditability'. The proliferation of detailed process-based rules for risk management is normally assumed to be a defect of implementation, yet accounting ideals of internal control are embedded in the design itself, resulting in a style of risk management practice with wide and seductively *expansive* reach – the risk management of everything (Power, 2004). Third, the resulting *expensive* narratives of risk accountability have proven to be incapable of articulating and comprehending critical risks, particularly those associated with interconnectedness. ERM operates with a limited conception of embeddedness, although developments in business continuity management suggest a way beyond ERM, and its accounting knowledge base, which take interconnectedness as a given.

[1] The sponsors of COSO include: The American Institute of Certified Public Accountants; The Institute of Internal Auditors; the Financial Executives International, the Institute of Management Accountants and the American Accounting Association.

[2] For a critical evaluation of COSO see Briloff (2001).

Risk enterprising and appetising

The very idea of risk 'appetite', which is at the heart of risk management practice, is closely bound up with the neoliberal postulation of organizations as 'enterprising' selves. Whereas a longstanding public sector tradition in health and safety has operated with the notion of risk 'tolerance', the category of 'risk appetite' has a less precautionary connotation and is aligned with that of the enterprising actor. This is consistent with Meyer (2002) and others who have drawn attention to the 'explosion of organizing and organizations' which characterises recent times, and to the emergence of a distinctive organizational actorhood which is confident, self-knowing and autonomous. Contemporary conceptions of risk appetite reflect this world-level conception and articulate organizations as legitimate risk-takers on behalf of society. From this point of view, the 'enterprise' concept infuses the 'organization-wide' character of enterprise risk management (ERM) with an entrepreneurial, risk-taking normativity, which requires that organizations and individuals know their appetite for risk (O'Malley, 2004).

The ambition to represent an organization as an integrated whole is something which ERM shares with financial accounting. Such ambitions are widespread in public policy and regulation. Scott (1998) and others suggest that all such programmatic dreams are doomed to failure; not least because their 'thin simplifications' are inadequate to reproduce domain-specific complexity. 'Seeing like a state' requires many things to be ignored, but these overlooked 'frictions' eventually re-impose themselves and take revenge on policy makers. Similarly ERM is a policy blueprint for seeing 'like' an ideal-typical organization. Developing the capacity to 'visualise' the whole of an organization via risk maps as a unitary and intentionalistic actor conveys a form of statehood on organizations. Through ERM they are required to act on, and govern, themselves.

While the enterprise-wide view, as articulated in standards and guidelines for ERM, expresses and symbolises the firm as an intelligent and intentional actor, it does so in a reductive manner consistent with a cybernetic or machine like representation of action. Such representations of control and what it is to be in control have invited critical analysis (e.g. Robinson, 2007). At the heart of the machine idea the category of 'risk appetite' names the value inputs which, in theory, prescribe triggers, limits and tolerances for feedback and control purposes. For example, official standards like those of COSO define risk appetite as the *amount* of risk an *entity* is *willing* to bear, an amount which can be rationally determined by senior management of an organization.

Although, COSO (2004) envisages the possibility of 'qualitative' understandings of risk appetite, the dominant conception is that of a quantitative benchmark such as a target level of financial capital to be maintained. In theory, capital is a buffer of high quality and liquid assets held as a kind of self-insurance against shocks and adverse events. While capital is at the heart of prudential regulatory philosophies, the actual level may exceed regulatory requirements to reflect a desired credit rating. However, even allowing for issues of definition and measurement, this

concept of capital embodies, and conceals, at least two kinds of preference – those of society, as expressed by the law and enforced by a financial regulator, and those of the entity itself in its economic pursuits. In turn, this suggests that the very concept of risk appetite necessarily implicates the question of 'whose appetite counts?'

This question about risk appetite is hardly very new. It was vigorously debated in the context of health and safety regulation in the 1970s and 1980s (Mayo & Hollander, 1991) where the relationship between risk analysis and risk management was at issue. Proponents of a sharp distinction between analysis and management argued that the former is essentially 'scientific' and neutral while the latter is value laden, embodying ideas of risk tolerance and acceptability as inputs into the management process. This sharp duality was challenged by the view that values pervade so-called scientific analysis itself because risks are selected and framed (March & Shapira, 1987; Silbergeld, 1991). Furthermore, the values which enter the risk analysis and management process may and should be contested by different groups. Several authors argued strongly against the authority of experts in matters of public risk tolerance (e.g. Wynne, 1996).

It is interesting that, unlike environmental regulation, financial regulation has been relatively immune to debates of this kind. Such a debate would surely have problematized the predominantly technical articulation of risk appetite by COSO and others, especially for socially significant organizations like banks. The conception of 'appetite' as a singular input into ERM reflects the 'thermostatic' conception of risk management noted above. In stark contrast, Hood (1996) imagines a model of institutionalized conflict between different 'appetites', for example laterally between sales and control functions, or hierarchically between senior management and traders. Even control functions can vary internally their values and 'calculative culture' (Mikes, 2009; Power, 2007). Hood argues that such a conflictual and pluralistic model is more descriptive of how organizations actually work, and makes lower demands on organizational and political rationality to produce a single 'appetite' by explicitly recognising and institutionalising processes by which different appetites and values can be mediated. The process of synthesis is undoubtedly a significant senior management challenge.

These ideas are promising for progressing the broad concerns about governance failure as a cause of the financial crisis. The governance failure is in fact a knowledge failure. Conceptualising risk *appetising* as a process might better direct risk management attention to where it has likely been lacking, namely to the multiplicity of interactions which shape *operational and ethical boundaries* at the level of organizational practice. COSO-style ERM principles effectively limit the concept of risk appetite within a capital measurement discourse. Framing risk appetite as the process through which ethics and incentives are formed and reformed would not exclude this technical conception, but would bring it closer to the insights of several decades of organization theory. While the shape of this risk appetising process needs more specification, as a starting point it is more aligned with contemporary concerns about governance and may give these concerns more traction.

How has the ERM conception of risk management gained such a strong institutional foothold? The answer is complex but would point to cultural and epistemological processes of financialization which have shaped the increasingly reductive manner in which organizations are conceptualised, known, managed and regulated (Froud, Haslam, Johal, & Williams, 2000; Whitley, 1986). Yet while it is tempting to criticise financial economics and the overconfidence in tools, such as value-at- risk modelling, it may be that the accounting and auditing knowledge base which has been diffused by COSO has been much more significant in limiting a more intelligent conceptualisation of risk appetite as a process. COSO (2004) says very little about risk appetite relative to its emphasis on the elements of internal control and governance. It is a design which strongly reproduces the accountants' conception of what matters.

In summary: the concept of 'risk appetite' has been promoted as part of the widespread diffusion of ERM, yet understanding of the concept and its implications is weak relative to the more bureaucratic elements of the framework. COSO and similar risk management texts presume that risk appetite can be unambiguously known and understood by organizations and the individuals within them. Yet, such a presumption flies in the face of behavioural studies which suggest that decisions in the face of risk are subject to framing and biases (e.g. March & Shapira, 1987). Add to this an extension of Arrow's famous theorem which suggests that preferences cannot be consistently aggregated and it is clear that organizations, as much as societies, are constituted by *varieties* of risk appetites which change over time and according to context. COSO-style 'risk appetite' is at best an approximate description of the mix of attitudes and values about operational and ethical conduct which pervade organizational life. At worst it is fundamentally misleading. As policy makers search the rubble for new ideas, they could do worse than correct the COSO emphasis on control elements and conceptualise *risk appetising* as an organizational process. Such a reformulation would suggest, rather obviously with the benefit of hindsight, that the actions of different members of an organization may reveal different attitudes to risk. This would not make risk management easy, but it would have a much better chance to represent and focus on issues about governance quality which now preoccupy regulators. Without this focus the formalities of risk appetite as expressed in a corporate policy document provide only symbolic security. However, a huge barrier to a richer and more meaningful ecology of values within the risk management process is the smothering normativity of the accounting and auditing logic, which I now consider.

Making easy things auditable

The promise of 'rational' organizational and, by implication, societal safety in ERM as developed during the 1990s was celebrated as a correction to risk myopia – the so-called silo mentality – and was to promote more efficient use of capital in financial and non-financial institutions alike (COSO, 2004). Yet, as noted above, COSO-based ERM

is fundamentally an accounting-driven blueprint which emphasises a controls-based approach to risk management. This design emphasis means that efforts at implementation will have an inherent tendency to elaborate detailed controls with corresponding documents trails. Perhaps the most extreme example of this phenomenon has been the experience of the Sarbanes-Oxley legislation since it was passed in 2002. Demands under section 404 for evidence of effective controls over financial statements were amplified by a combination of auditors and management. Despite efforts to rewrite audit guidance, an 'audit trail' logic continues to organize practice to a considerable degree despite very extensive public criticism. Indeed, 'box-checking' may be widely derided, but as a legitimised evidence base for the supposed effectiveness of control and risk management activities, it remains durable.

The power of this logic of auditability in shaping thinking raises an immediate policy issue about the epistemological balance within risk management practice. Put somewhat stereotypically, the financial crisis suggests an urgent need to shift cognitive and economic resources from 'rule-based compliance' towards the 'critical imagination of alternative futures'.

Rule-based compliance lays down regulations to be met, and requires extensive evidence, audit trails and box 'checking'. All this demands considerable work and there is daily pressure on operational staff to process regulatory requirements. Yet, despite the workload volume pressure, this is also a cognitively comfortable world which focuses inwards on routine systems and controls. The auditability of this controls architecture can be theorized as a defence against anxiety and enables organizational agents to feel that their work conforms to legitimised principles (McGivern & Ferlie, 2007). This world of precise rules is expensive and potentially distracting, and intrinsic motivation may be polluted by extrinsic rules (Frey & Jegen, 2001), but its underlying logic is also psychologically and institutionally attractive, and persists because it offers a regulated transparency to the risk management process. While many risk and compliance people at the operational level prefer this less ambiguous and more rule-based world, it is also a rather dangerous generalised and standardized orientation for organizations, regulatory bodies and societies (e.g. Hall & Johnson, 2009).

In contrast, the 'critical imagination of alternative futures' is loosely related to what financial regulators call stress-testing, but as an ideal-typical risk management style we might characterise it as a less comfortable arena for organizational agents which is explicitly directed at creating ambiguity and challenge to core elements of business models. Because such core elements often form an organizational belief system (Simons, 1999), the imagination of alternative futures is likely to involve the production of discomfort, as compared with formal 'comfort' of auditing (Pentland, 1993). The approach can take the form of scenario analysis in which participants from different disciplines in an organization can collectively track the trajectory of potential decisions and events. The process begins as an 'encounter' with risk and leads to the confrontation of limitation and ambiguity (e.g. Stulz, 2009). Such stress-testing ought in fact to produce stress and anxiety of a different kind, arising not from a concern for legitimacy but from the nature of knowledge and uncertainty itself.

The difference between these two orientations is, as noted, stereotypical, and there is quite a bit of middle ground. But the difference is instructive nevertheless. Within a rule-based, compliance model of risk management, many small actions are needed to fix things and to give risk managers a sense of doing something. There is no shortage of work and overload is the norm. By contrast, stress-testing produces uncertainty and alternative futures become an invitation to deliberation, rather than the creation of an 'auditable' fact (Holt, 2004). Yet such an orientation as a local, interactive process with its own decision making 'style' (Hopwood, 1974) is also likely to be transformed by centralised demands for proof. This potential transformation and capture by a logic of practice which prioritises the 'audit trail' is a critical challenge to contemporary financial regulators, who are themselves under the spell of the ERM blueprint because it allows them to supervise organizational conformity to it. The challenge is to expand processes which support interaction and dialogue and de-emphasise due process – both within risk management practice and between regulator and regulated. The normative policy need is to nurture regulatory and managerial capacity to develop and sustain a rich and varied risk management ecology which is not biased to a logic of audit and its demands for evidence, and which can tolerate a mix of decision styles and strategies.

The wrong kind of embeddedness?

The need to embed 'risk management and internal control systems within business processes' (FRC, 2005: 3) has become an unquestioned ERM imperative yet there is very little elaboration of what that might involve. Regulators look for the inclusion of risk in job descriptions and for business heads to be designated as 'risk owners'. There is also now an advisory consensus that risk should be a critical optic in shaping budgeting, planning and strategy processes. Yet the continuing existence of large risk management bureaucracies in organizations suggests that embeddedness is both complex and elusive. Like risk appetite, the accountants' concept of embeddedness as articulated in the Turnbull report is articulated at the level of principle, leaving organizations to figure things out for themselves.

The Turnbull norm of embeddedness is essentially entity-based, bearing little or no relation to conceptions of the embeddedness of the firm in wider social networks as developed within economic sociology (Fligstein & Dauter, 2007). Yet the financial crisis is largely the result of a failure to represent and understand entity interconnectedness in this wider sense of embeddedness.

It may seem unfair to criticise ERM for failing to do something for which it was never designed in the first place, but there is a 'conceptual complicity' in its design, namely a deep-seated commitment to the discrete 'entityhood' of enterprise, which is part of the problem. The entity assumption is hardly new; arguably it pervades

managerial and regulatory knowledge and is supported in both law (corporate personality) and accounting (the entity concept). And despite the evidence of decades on networks and strategic alliances, it is a fiction or illusion which may be funcationally necessary for capitalism. Yet, ERM also marks out another very important vector of entityhood, namely that of the individual *client* as recipient of advisory services. It is difficult, though not impossible for fields or even societies to be marked as clients, but it is predominantly at the enterprise level where ERM finds its strongest conditions of applicability.

Prima facie it makes sense to leave the more systemic view of interconnectivity to a body designed for that specific purpose, such as macro-prudential management of the banking system by a regulator. However, since all authorities have been surprised by this financial crisis, the relationship between enterprise level risk management and macro-prudential management deserves to be revisited. This is not simply an issue for financial institutions; two decades of environmental auditing at the enterprise level appear, superficially at least, to be entirely unconnected with the steady advance of climate change. The critical point is that risk management designs like ERM are fundamentally unable to process and represent internally *systemic* risk issues, since this would require an imagination of externalities well beyond their design parameters. One possible reason for this inability may lie in the economics of professional work in the accounting-centred advice industry. Large professional service firms tend to operate with standardized and abstract elements applicable to a mass of different 'entities'. For rank and file accountants to operationalise such frameworks cost effectively, they must of necessity be weak on the kind of causal analysis necessary for an understanding of interconnectedness.

In this way, questions of the knowledge base of ERM connect to the wider political economy of professional advisory firms – the very firms who will be enlisted and will offer themselves in reforming risk management practice. ERM systems cannot represent embeddedness in the sense of interconnectedness; its proponents seem only to demand an intensification of embedding at the individual entity level. Yet, this latter kind of embedding of a compliance driven risk management, epitomised by the Sarbanes-Oxley legislation, is arguably a disaster in itself, by tying up resources and, much worse, cognition and attention in 'auditized' representations of business processes.

All is not lost. At the margins of the ERM consensus, there are interesting developments which may productively challenge 'entityhood'. Business continuity management (BCM) has been a rapidly developing and hybrid field in recent years. Not only is it an increasingly prominent part of the changing risk management agenda, it is also a practice area where interconnectivity risks are central. BCM has originated *outside* of the accounting field of knowledge and potentially adds greater depth to the 'going concern' assumption. BCM involves hybrid specialists in IT and emergency management among others, and has moved up the agenda of financial regulators because of their interest in systemic risk (FSA 2006). BCM is also much more explicit about its own epistemological challenge: it only has real value-at the level of *collective* action. BCM is sensitive to the need to get beyond prescriptions for single organizations acting in isolation from one another; the integrity of any individual company BCM is necessarily a function of the BCM of its key commercial partners – not only suppliers but also competitors. Indeed, continuity of critical supply chains, including energy, is both a key business issue and also a powerful normalising metaphor for this new angle of approach to risk management (Knowledge@Wharton, 2009).

BCM is fundamentally unlike discrete risk management practices such as ERM in its self understanding. It is premised on the necessity of representing the interconnected nature of commercial life, as revealed in outsourcing arrangements and other strategic alliances. When it comes to BCM, one might say, perhaps obviously, that 'no enterprise is an island'. However, as appealing as these ideas may be, there remain considerable institutional barriers to collective action of this kind: 'getting organizations to recognize these interdependencies and achieving the commitment required to actively manage resilience issues which require collective rather than individual ownership remains a significant challenge' (Joint Forum, 2006: 8). The risk with BCM, as with all safety measures and security checking, is that underinvestment in part of an interconnected system undermines efforts elsewhere and creates only illusions of security. This is the classic moral hazard problem for risk management of the 'commons' (Kunreuther & Heal, 2005).

In conclusion, I suggest normatively that BCM and its non-accounting expertise base may provide a more succesful knowledge platform for rethinking risk management. BCM may not have the surface coherence or legitimacy of ERM frameworks but it operates with a notion of *embeddedness* as interconnectedness, which is both closer to the insights of economic sociologists *and* aligned with the interests of macro-prudential regulators. So in the quirky and evolving world of BCM practice there is a nascent recognition that security is only possible as a collective activity. While this is far from being unproblematic, it contrasts with ERM, where we now know that security is at best limited to certain states of the world and at worst is illusory. Indeed, ERM may be framed by the wrong experts pursuing the wrong kind of embeddedness for inward looking clients. Despite and because of its staggeringly successful diffusion, it ends up as the costly risk management of nothing.

Conclusions

Beck (1992: 69) tells us that society has become a laboratory (p. 69), although today it is the financial, rather than the scientific, engineers who have been experimenting.[3] He suggests that in a risk society there are no longer any experts as our faith in a central steering mechanism for societies is challenged by the evident and public 'perplexity of authorities' (1992: 40). In 2009, this perplexity is very likely to lead to demands for more and better risk

[3] Of course, financial 'engineering' has been a lucrative career destination for science and engineering graduates.

management, yet we should be very cautious about how the risk management reform agenda is progressed. ERM may be more symptom of where we have been rather than the cure for the future.

I have suggested that a thin conception of 'risk appetite' predominantly focused on capital rather than human behaviour is an important source of 'intellectual failure' within the ERM model which should be addressed by regulators, senior management and boards. The latter are beginning to break free from regarding appetite solely as a 'thing' to be measured and to recognise it as a dynamic construction involving values and the situational experience of a multitude of organizational agents. Rather than vague demands for improved 'risk culture' and governance in financial institutions, it could be useful to focus on 'risk appetite' as a process for representing and intervening in the complex ecology of operational values and shifting ethical limits. This will give rise to a less comfortable and less comfort-producing risk management practice. We now know, at some cost, that the production of psychological and bureaucratic safety via an elaborate infrastructure of audit trails is of limited value in intelligently challenging business models. Risk management practices of this kind only work in an orderly world of medium frequency, medium impact mishaps.

The ERM approach has served an advisory world well by establishing a conceptual foothold for accounting knowledge in strategising discourses. Yet, within ERM frameworks the objectives of a business which are 'at risk' are more or less an exogenous input into the model with the consequence that it is hard to enlist such a framework in challenging the objectives themselves. For example, ERM is unlikely to supply the basis for addressing the dynamics of what Hirschhorn (1999) calls 'primary risk', namely where organizations experience ambiguity, drift or transformation in their core objectives, and hence business models, as seems to have happened to a number of banks. Despite calls to be outward looking, ERM has operated as a boundary preserving model of risk management, rather than a boundary challenging practice which confronts and addresses the complex realities of interconnectedness.

We cannot know for sure whether changing the risk management narrative in these directions could have avoided or mitigated the crisis, but we can be sure that existing risk management designs have let us down, and many people knew this. Critics of Basel 2 and Sarbanes-Oxley prior to 2007 were plentiful. So the question must be asked: why could these not-so-weak signals be ignored? One depressing answer is that the growth of risk management from the mid-1990s onwards – the risk management of nearly everything – was less about managing risk as it is formally understood and more about creating organizational rhythms of accountability, and auditable representations of due process. We have fallen prey to a legitimacy-driven style of risk management which has been extensively institutionalised and globalised, and important issues of 'risk appetite' have become lost in the procedural detail of organization-specific internal control, compliance and accounting systems.

No individual person, or group of persons, calling themselves accountants is responsible and blameworthy, despite political efforts to make heads of professional service firms feel very uncomfortable. The problem goes much deeper: no less than an accounting style of knowing and a logic of auditability are responsible for restricting the development of a risk management which might have done a better job. But there is plenty of blame to go around when it comes to knowledge. The social sciences have colluded, directly and indirectly, with the failings of this accounting style of knowing in general and ERM in particular. Financial economics has constructed a dominant conception of risk appetite via the register of economic capital metrics, and business schools have produced case studies and surveys which celebrate the implementation progress of ERM and castigate the stragglers. Yet ERM designs have also been conceptually cut off from other currents of the social sciences and older analyses and debates about 'reliability seeking' organizations' which might be relevant to the banking sector (LaPorte & Consolini, 1991). Worse still perhaps, the field of economic sociology has been unable or unwilling to translate its insights in a manner which might inform and influence policy. We now all know what economic sociologists and anthropologists have taken as a given for many decades: large financial institutions are embedded in society, and always have been. Only the 'legalistic illusion' of separate entityhood backed the neoliberal belief in the coordinating priority of the market has led us to think of them as autonomous islands. Their embeddedness in all our lives is now formally registered in varieties of state ownership and guarantee, but many scholars knew that such guarantees and backing were always implicitly the case.

In short, the 'intellectual failure' of this financial crisis may be much closer to the home of *Accounting, Organizations and Society* readers than we might care to imagine.

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