



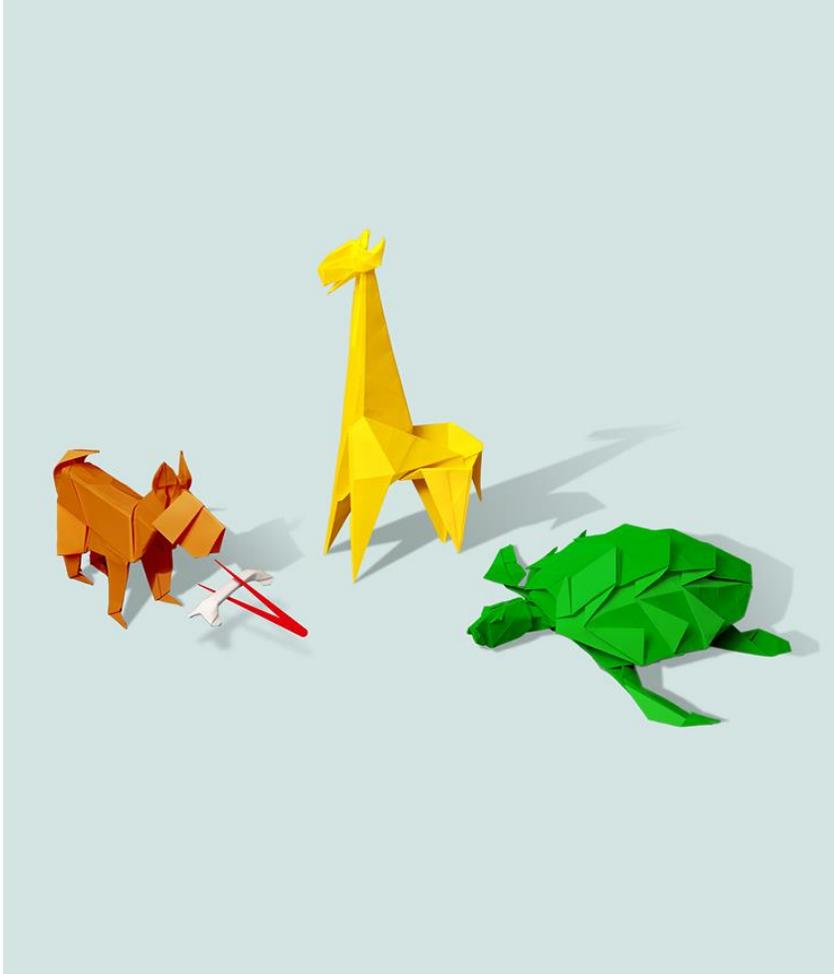
Models, Morals and Management in a Wall Street Trading Room

22 September 2020

Daniel Beunza

John Mongelard

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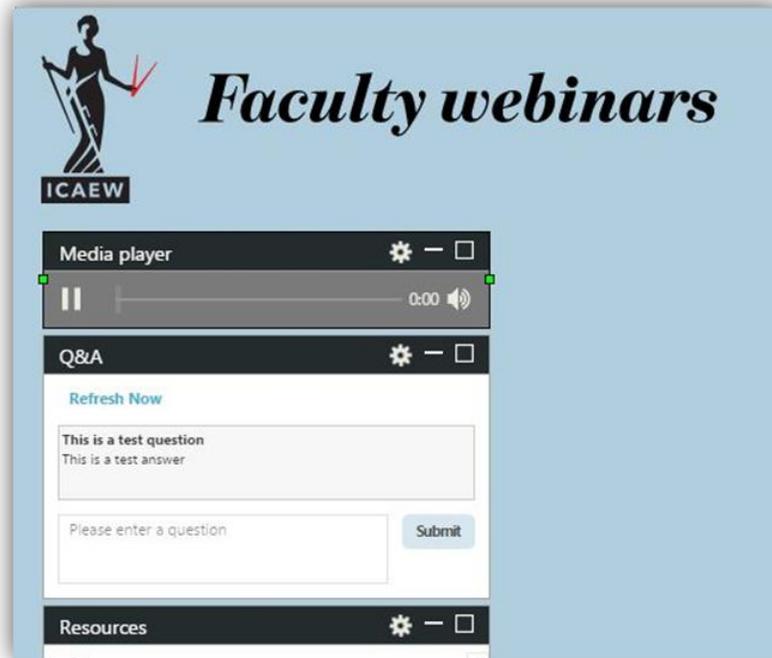


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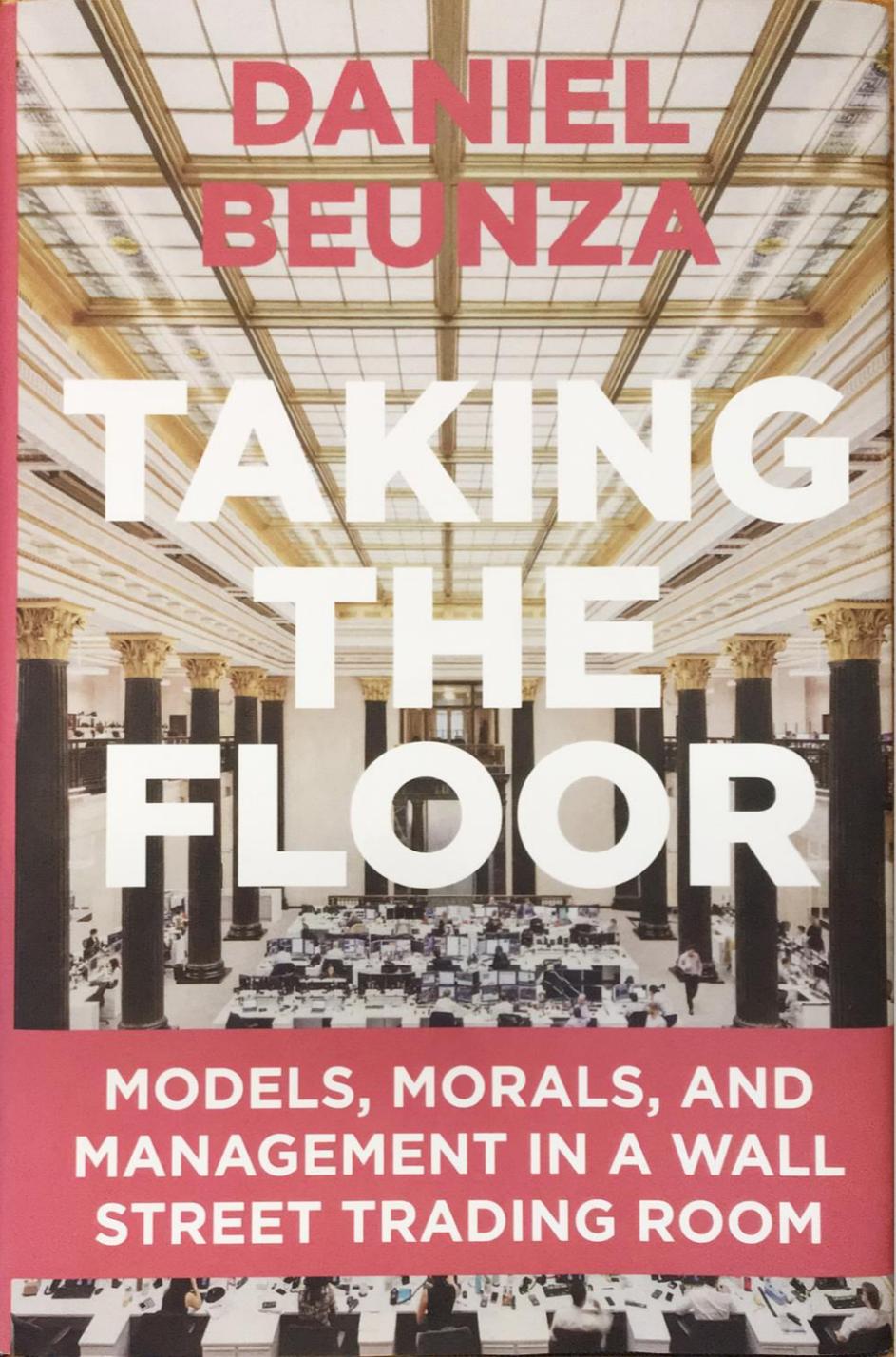


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Daniel Beunza
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LIVE
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FINANCIAL REGULATIONS

WILLIAM DUDLEY
Federal Reserve Bank of New York
President & CEO

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Bank culture

- William Dudley, NY Fed, 2014:
 - “Culture is what people do when no one’s looking.”
- UK Salz Review:
 - “Bankers were engulfed in a culture of ‘edginess’ and a ‘winning at all costs’ attitude.”
- UK Banking Standards Board:
 - “To promote high standards of behaviour and competence.”



Understanding morality in markets mediated by models

- **Cultural approach (Zelizer, 1979):** thanks to framing and categorization, life insurance went from morally “repugnant” to a “sacred” obligation to protect one’s family.
- **Material approach (Callon 1998):** economic action shaped by material tools and the economic models that inspire them.

Interplay models-morals remains unexplored.



October 2007

“Wall Street banks are badly managed. Too large, too complex.”

“Mark my words: when the next crisis comes, not one but two of the large banks will disappear”

Bob's trading room was not representative, but illustrative

1999-2003

First study



November 1999

“If the boss does not give the trader the same bonus as others, the trader will go, ‘I heard Joe at a party, he got five hundred thousand. What, don’t you like me?’”

“Say someone lost money and is due no bonus, but you give them forty thousand. What happens? He’s insulted. He quits.”

Organizational justice

Perceptions of injustice impact job attitudes and behaviors at work (Greenberg, 1987)

2008-2015
Ethnographic
revisit

- Co-head and a few others were late. “I had everyone come in the room, and then I locked the door.
 - “Bob, can we come in?”
 - “No, none of you can come in. You’ll have to spend time with me alone. That’s your punishment.”
- “The reputation that I developed, which I allowed to persist, was that I would burn down my own house before I would compromise with my principles or my rules”

From market incentives to organizational norms

1987-1995
Oral history

1987-1995 Premier Financial

- “Equity derivatives, commodity derivatives, credit derivatives ... the absolute globalization of the business.”

Introduction of control models

- Premier quantified the cost of risk
- Bank introduced Value at Risk to help Bob manage risks in the derivatives book
 - “So, you may think you're taking too much interest rate risk but maybe proprietary trading has the opposite [view]. ‘So, Bob, what's your problem? Step on the gas.’”

Economization (Caliskan and Callon 2008)

The assembly and qualification of actions, devices and analytical/ practical descriptions as ‘economic’ by social scientists and market actors

- But... the model was imperfect
 - “Traders absolutely hated it. They spent all day examining the risk management system, finding its intellectual deficiencies to humiliate them and to drive around the barrier.”

Moral disengagement (Bandura 1996)

A perception of unfairness can lead to the detachment of immoral behaviors from self-condemnation or other negative emotions

How to prevent disengagement?

At Bob's trading room:

- No lucrative over-the-counter derivatives
- Risk management model data ignored
- No “subjective” bonuses
- Middle managers strictly enforced norms

Proximate control

- Material and discursive mechanisms that reinforce organizational norms and relations, preserving a sense of justice and sustaining self-condemnation when norms are breached

Thank you for your attention
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- Upcoming Event
 - Financial Services Faculty: Climate Change Conference
 - Friday 6 November 2020 (09:00 - 12:00) / Virtual event via Zoom

- 2020/2021 Schedule
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