

Behavioural patterns in rogue trading: Analysing the cases of Nick Leeson, Jérôme Kerviel and Kweku Adoboli — Part 1

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Authors: Rafeld, Hagen; Fritz-Morgenthal, Sebastian; Posch, Peter N.

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Abstract

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When analysing great financial disasters of our time, rogue trading and related protagonists come into play immediately. Rogue trading is a reoccurring phenomenon, gaining immense public attention due to the perceived mismatch between large-scale organisations on the one hand and individual employees bringing these organisations into enormous trouble on the other. It furthermore links to the understanding of fraudsters like rogue traders, embedded in (un)ethical organisational corporate corpuses. This paper employs Tittle's control balance theory (CBT) to explain rogue trading as a special form/subset of white-collar and corporate crime. We use CBT to analyse the anatomy—including modus operandi, risk management failures and control weaknesses, as well as early warning signals—of three major rogue trading losses from recent investment banking history, that is Nicholas ('Nick') Leeson at Barings Bank, Jérôme Kerviel at Société Générale and Kweku Adoboli at UBS, totalling an accumulated loss exceeding US\$10.5bn. We draw conclusions regarding the explanatory power of CBT in light of rogue trading, as well as behaviour risk management and control in order to prevent rogue trading, and outline future areas of research.

Keywords: behaviour risk management, control balance, deviance, rogue trading, unauthorised trading

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