

The Bank Manager's Dilemma Teaching Notes

What Are the Relevant Facts?

1. It is Sara's job to increase the volume of business within her office, and she has shown significant initiative in accomplishing this objective.
2. The bank misplaced a \$20,000 return-item cash letter on Silver Valley's account and did not debit this account in a timely manner.
3. Sara has been explicitly instructed to violate the bank's deposit-item collection schedule and debit Silver Valley's account for the return-item cash letter.
4. The mortgage loan approval for Silver Valley's president is contingent upon the firm's deposit relationship with Sara's office.
5. Debiting Silver Valley's deposit account for the return items at this late date will lead the firm to terminate all loan and deposit business with Sara's office.
6. Sara has been warned not to discuss this violation of the bank's deposit collection policy with other senior officers of the bank.

What Are the Ethical Issues?

1. How can Sara protect the welfare of her customer and still remain loyal to her boss?
2. How can Sara abide by the bank's deposit collection policy and obey her boss's instructions?
3. With whom can Sara discuss her dilemma, when she has been explicitly warned not to discuss the problem with other bank managers?
4. If Sara does decide to turn to other bank officers for advice, whom should she trust?

Who Are the Primary Stakeholders?

- Sara
- Sara's boss
- Sara's customer, Silver Valley Estates
- Other deposit customers who maintain accounts at Sara's bank
- The deposit operations clerk who accidentally misplaced the return-item cash letter
- The bank's auditors who located the missing cash letter
- The bank's senior managers
- The bank's shareholders

What Are the Possible Alternatives?

1. Sara could debit Silver Valley's account, return the NSF checks, and sacrifice all deposit and loan relationships with the firm.
2. Sara could refuse to follow her boss's instructions and risk the consequences that accompany insubordinate actions.
3. Sara could inform the audit department, the chairman of the mortgage loan credit committee, and/or other senior officers within the bank of the potential violation of the bank's collection policy.
4. Sara could seek to convince her boss that losing the deposit and loan business of Silver Valley Estates is not in the best interest of the bank by preparing a cost-benefit analysis that shows (1) the profitability of Silver Valley's account relationships with the bank and (2) how long it will take to recover the \$20,000 bad check loss based on this relationship profitability.
5. Sara could explain her dilemma to Silver Valley's president and recommend that he contact her boss and/or other senior officers within the bank to resolve the apparent violation of the bank's collection policy.

What Are the Ethics of the Alternatives?

- Questioning the class based on a "utilitarian" perspective (i.e., costs and benefits):
 1. Which possible alternative provides the greatest benefit to the greatest number of people? (Be sure to point out how other deposit customers at the bank might be affected by the bank's apparent willingness to selectively ignore its deposit collections policy.)
 2. How can costs be measured in this case? Should the cost measure include the cost of business opportunities forgone due to Silver Valley's termination of all account relationships with the bank? Should this cost measure include the lost time that Sara invested in soliciting business from Silver Valley? How far should the bank go (in terms of absorbing costs) to preserve good relationships with its customers? Should the bank consider the lost morale of its junior

officers as a cost? If so, how can we measure this cost?

3. Do the benefits associated with maintaining and enhancing good customer relations offset the costs associated with these activities? How can this cost/benefit relationship be quantified? Is it more appropriate to measure customer profitability by examining individual accounts in isolation, or by viewing the aggregate customer relationship with the bank (i.e., “relationship” banking)?
- Questioning the class based on a “rights” perspective:
 1. What does each stakeholder have the right to expect in this case? In particular, does Sara have a right to expect her boss to behave in a particular manner?
 2. Are the rights of some stakeholders more important than the rights of others? If so, whose rights are most important in this case, and whose rights are least important? Why?
 3. Which alternative course of action violates the rights of the greatest number of stakeholders in the case? Which course of action compromises the rights of the fewest number of stakeholders?
 - Questioning the class based on a “justice” perspective:
 1. Which alternative course of action distributes the benefits and burdens most fairly among the stakeholders? Which course of action results in the most inequitable distribution of benefits and burdens?
 2. What are the benefits and burdens associated with insubordination, in the event that Sara

challenges the decision of her boss? Does Sara share equally in the benefits and burdens associated with this course of action, or does she bear a disproportionate burden in exchange for some of the benefits?

What Are the Practical Constraints?

1. Silver Valley Estates could take legal action against the bank for violating its written policy regarding deposit collections.
2. As a junior officer of the bank, Sara cannot afford the risk of engaging in a political struggle with her boss. If she acquires the reputation of being an insubordinate employee at this stage of her career, advancement within the bank’s management hierarchy will be impossible.
3. As a branch manager of the bank, Sara’s credibility with her customers is essential to her ability to bring new customers into the bank. If she is unable to keep promises and honor commitments to her customers, she will soon have very few customers.

What Actions Should Be Taken?

1. What course of action should Sara take?
2. Which alternative would you choose if you were in her position? Why would you make that particular choice?
3. Are there any additional facts you would like to know about the case before you make a particular decision? If so, what are these facts, and why are they important to your decision process?
4. Which ethical theories (utilitarian, rights, justice) make the most sense to you as they relate to this situation? Why?