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During the spring of 1989, I faced an ethical dilemma which forced me to choose between my moral duty to respect my best friend’s right to confidentiality and my obligation to my employer. I was working in investment banking at the time at Bullard & Bartell (B&B). The loyalty and commitment that investment bankers, particularly analysts, feel toward their employers is difficult for many to understand. At B&B, a medium-sized firm with about 150 investment bankers in New York, we understood that our loyalty to our career and to our employer was, with few exceptions, our first priority. There exists almost a cult mentality in these organizations, and those who stay accept that one’s loyalty to the firm, in many instances, takes precedence over one’s health, family and friends. It was this loyalty that made my dilemma so difficult.

While working at B&B, I was living with my best friend Lori, who was an analyst in the capital finance group at Universal Bank, a large commercial bank with more than $20 billion in assets. Lori was one of four Universal bankers who were working on the leveraged buyout of Suntech Corporation, which was in the frozen foods business. B&B was orchestrating the Suntech leveraged buyout. In addition to providing the short-term financing for the transaction through a bridge loan, B&B had arranged to purchase 65% of the Suntech stock and hold it on a long-term basis. Universal, the agent bank on the deal, structured and underwrote the loan for the senior debt. Not only did I know the entire B&B team working on the deal, but the vice president, Steven—the second in command on the team—was my advisor and friend.

I had always felt strongly that my personal life was my business and that when I walked into my apartment at night I took my B&B hat off. Although we couldn’t discuss the specifics of our business transactions, Lori and I often discussed issues that we faced at work and solicited advice from one another. As analysts, we had both been advised of our duty to respect the confidentiality of the information to which we would be privy. For example, I knew that she was working on “ igloo” with the B&B team; eventually, I became aware that “ igloo” was the code name for Suntech. For a long time, however, I hadn’t known the identity of “ igloo” nor would I ask. I respected the confidential nature of the business. Neither one of us was offended by the other using the code name for a company; it wasn’t that we didn’t trust each other, but rather that we respected our duties to preserve confidentiality.

One Friday evening, I came home very late from work and Lori was still awake and obviously upset. She told me that she couldn’t talk to me about her problem. I found this very hard to believe because we had always told each other everything. Eventually Lori said that she really Research Assistant Jerry Useem prepared this case under the supervision of Professor Joseph Badaracco as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. This case is based on a paper written by a recent MBA graduate of the Harvard Business School, and has been partially disguised. Copyright © 1993 by the President and Fellows of Harvard College. To order copies or request permission to reproduce materials, call 1-800-545-7685, write Harvard Business School Publishing, Boston, MA 02163, or go to http://www. hbsp. harvard. edu. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Harvard Business School. 1

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needed to talk to me about her problem but explained that it might put me in a difficult situation. She asked me to promise that I would keep what she was about to tell me in confidence; I agreed, assuming that it must be a personal problem. She told me that she had lost her job that day because Universal was dissolving its capital finance group. My first concern was for Lori and the fact that she would be unemployed within a couple of weeks. We spent a great deal of time discussing her options in a difficult economic environment; many people in the financial community were losing their jobs and having a very difficult time finding new opportunities. Later, I asked about Suntech, and we discussed the potentially disastrous ramifications that Universal’s decision would have upon this deal. We both knew that a last-minute pull-out by one of the major players in a leveraged buyout could put a deal in serious jeopardy. Little problems can prevent a deal from happening on Wall Street, and this was a big problem.

In dissolving its capital finance group, Universal would be selling off its entire loan portfolio to other banks. Because the Suntech deal had not been completed, however, Universal was going to back out of the Suntech loan agreement altogether, and B&B would have to find a new agent bank. Universal’s sudden withdrawal left B&B in an extremely precarious position. Although the tender offer had already been made, the deal would not be complete until a sufficient number of Suntech stockholders sold their shares. In the meantime, B&B had put $112 million on the line in bridge financing until the stock purchase could be refinanced with high yield bonds. Most problematic was the fact that Bill, the senior banker from Universal on the deal, was out of the country, and his team intended to wait until he returned to New York to inform the B&B deal team of the situation. He would be back on Monday at the earliest.

My primary concern was that the news of the event would be leaked to the press over the weekend before the B&B team had a chance to reassure the high yield market, and that the uncertainty concerning the agent bank would scare away potential investors. If B&B could not raise money immediately on the high yield market, several bad scenarios could ensue. In the worst case, the bonds would not be sold and the deal would fall apart. A delay in selling the bonds was a more likely scenario, but this possibility would have serious consequences as well. B&B would have to maintain its bridge loan during this period, thereby tying up almost all of the bank’s lending money and preventing it from transacting other deals. In either case, the cost to B&B’s reputation would be severe: if the market found out about Universal’s withdrawal from this high-profile deal before B&B did, the people on the B&B team would look foolish. Individual careers and the firm as a whole might be damaged badly.

The success of the high-yield bond issue was not my only concern. The less time B&B had to line up a new agent bank, the greater the likelihood the new agent bank would take advantage of Suntech’s compromised position to tighten the terms of the loan agreement in a way that would be detrimental to Suntech. The Suntech management had haggled for months with Universal to obtain the loan terms it needed to pursue its high-growth strategy. Now, because it desperately needed an agent bank to finance the leveraged buyout, Suntech might be forced into hastily accepting terms that would impede this strategy. In addition, higher uncertainty (and therefore higher risk) surrounding the deal might require Suntech to borrow at higher interest rates. The increased interest payments could create liquidity problems within the company which in turn would make a high-growth strategy difficult. If Suntech could not grow as quickly as it had planned, B&B’s 65% equity in the company would be worth less.

The main issue was that if the B&B team could have the next few days to line up a wellrespected agent bank and prepare responses to the market’s concern, both the deal and B&B’s reputation could be saved. I wanted to tell Steven the next day out of a sense of loyalty to the firm and to him; however, I had given my word to Lori that I would not repeat what she had told me. As my official “ mentor” at the firm, Steven had become a good friend. He and Lori had also gotten to know each other well while working together on the Suntech deal. In contrast to some of 2

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the other bankers who seemed to be obsessed with living out the image of the cold, ‘ 80s investment banker, Steven was a genuinely nice, normal person who showed more of a human side than most. For example, every evening at six o’clock, B&B would bring food into the office so that people could take a short break. As we congregated in the hall to eat cookies and chat, Steven sometimes would notice that I looked like I was under a lot of stress and would invite me into his office to sit down and talk. We would discuss the pressure and deadlines that I was facing, but we also would talk about other matters such as our families, or where I wanted to go to business school. Often, Steven would tell me to leave the investment banking business before I burned out. He was glad that his sister, who was about my age, had quit investment banking after working on Wall Street for a year. Steven himself was in his early thirties, and he explained that people who stayed in the business as long as he did reached a point where it became difficult to change professions; they became “ sucked in” by the money, he said, and found that they weren’t trained to do anything else. “ Get out before it’s too late,” he would warn me.

“ You’re young, go to business school, go do something different.” The dilemma that I now faced was precisely the type of situation in which I would have asked Steven for advice. Unfortunately, going to him in this instance was obviously out of the question. How I solved the dilemma, furthermore, might have a serious impact on Steven: if the deal fell apart, Steven would probably lose part of his annual bonus and possibly have a harder time finding a job at another bank if he ever chose to leave B&B. My obligations to Lori were the other half of my dilemma. Lori and I had been best friends since my freshman year in college. She was a year older than I, but we both had been finance majors and members of the same sorority. Lori was the kind of person who would do anything for me. There were times in college when I would be worrying about an accounting exam I had the next day, and Lori would put aside her own work to stay up until one in the morning helping me understand balance sheets and income statements. Lori also had a lot to do with my plans after college. When I was looking for a job my senior year, she got me interested in B&B by putting me in touch with a friend of hers who worked there. Even before I got the job at B&B, we had been planning to live together in New York once I graduated.

Lori was not an investment banker and could not quite understand why work had come to dominate my life so completely. Lori worked hard, but she would be home by six or seven o’clock every night and did not work weekends. The mentality at B&B, on the other hand, was that you lived, ate and breathed your work. I would come home from the office after Lori was in bed and leave before she was awake; sometimes she wouldn’t see me for days at a time. Because Lori did not work in the same kind of high-pressure culture, she viewed work responsibilities differently than I. From my own perspective inside the charged environment of B&B, matters such as the Suntech deal were all-absorbing and seemed to be of astronomical importance. But from Lori’s viewpoint on the outside, my degree of devotion to B&B—not to mention the number of hours I worked—simply did not make sense. As a result, I knew it would be difficult for my roommate to grasp how important it was to me to save the Suntech deal.

I was extremely uncomfortable. I realized that compromise was essential and that there seemed to be no course of action that would leave me feeling good about myself. Clearly, from a utilitarian perspective, I should have told Steven and the B&B team. The employees of B&B, the “ owners” of its parent company, the employees of Suntech, the bondholders and equity holders would all have been much better off if this deal were completed successfully. However, I felt a personal obligation to honor my word to my best friend.

I had grown up with a very strong sense of what was right and wrong, so it had never taken me long to figure out what to do in difficult situations such as this one. It came naturally to me to do the honest thing. But for the first time, I found myself in circumstances in which the definitions of right and wrong were blurry. I had been privy to information in the past that could have benefitted others, but I had always made my decision based on the law. In this case, I didn’t have the law to 3

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guide me; I had to base my decision on my personal code of ethics. It was also the first time that I faced a dilemma with such potentially huge ramifications: if the problem were handled improperly, the deal could fall apart. If the B&B team realized that I could have helped to prevent this disaster, I could find myself in the ranks of the unemployed.

While I understood Universal’s rationale in deciding to wait for Bill to get back to the country so that he could handle the matter in person, I felt that this valuable time could truly make or break the deal. In fact, I felt that the Universal team had made an unethical decision in deciding not to disclose this valuable information immediately to B&B. I also realized that they had put their loyalty to one person (their boss) above their business obligation to B&B. Was I prepared to do the same thing?

I also wondered if I was using my obligation to Lori as a way of avoiding a very difficult situation. It certainly would have been easier to stay out of the situation entirely and pretend that I had never heard a thing; however, if the deal did not close I would have to live with the fact that I could have possibly prevented the disaster. I struggled with the situation and searched for a perspective and course of action with which I could live. I reasoned that since I had been in my apartment when I heard about the situation and had been acting in the capacity of a “ private citizen,” B&B was not entitled to the information. Somehow, though, I felt that this was a copout. Perhaps, as an analyst, I felt an unusually strong sense of commitment to my employer. I spent 90% of my waking hours at the office and had given up most of my outside interests and pleasures in life to work at this company; I was “ brought up” to believe that one’s commitment to the company came first.

The fact that I was even considering breaking my word to my best friend made me wonder if my perspective had become warped over the last couple of years. I could imagine situations in which I would definitely break my word to a friend in order to “ do the right thing,” but all of these situations involved saving other people from physical harm rather than economic harm. This situation did not seem to have a comfortable solution. I had only a few choices. Unfortunately, Lori was extremely reluctant to inform her group that she had told me about Universal’s situation and pleaded with me to keep my promise. We had always been careful in the past not to share confidential information in order to avoid situations such as this.