The demise of penn bank shows that ethics is an important business variable

Business

Week 4 Individual Paper Connie Johnson October 21, of Phoenix Question The demise of Penn Bank shows that ethics is an important business variable that can deeply impact the operations of a company. When companies act unethically they are risking the corporate image and brand value of a firm. For instance in 1998 Nike Corporation lost half its customers due to a sweetshop scandal. A book called Funny Money written by Mark Singer was dedicated to the discussion of the Penn Bank debacle. Since its inception in 1974 the managerial and ownership of Penn Bank wanted the company to grow beyond a car loan and mortgage bank provider. Jennings wanted the bank to become a major financial backer of Oklahoma’s independent oil men (Caskey, 1985). The unethical actions of the company started in the mid 1970s. Back then the company could not afford big business loans, but the firm got around it by incurring in loans agreements and then selling them forward to out of town banks hungry for a piece of the booming oil business (Caskey, 1985). By 1977 the company officially created the energy lending division. The creation of this division seemed a bit unethical to me because the bank was making bias decisions. A bank is not supposed to target any specific industry as their portfolio of financial assets should incorporate a sound diversification strategy. The corporate culture of the company was full of characters. The head of the new energy division, Bill Patterson, was one of them. His nickname was “ Monkeybrain” due to his wild antics including drinking beer from his shoe. The stakeholders of the bank should have opposed the hiring of such as character due to his unprofessional behavior. Despite some of his antics Bill was amazingly efficient at his job as he was able to established successful business relationships with some of the

biggest and most prestigious banks in the United States. An event that led was handled inappropriately by Penn Bank was the oil boom of 1979. Penn State impose reckless loan growth during this boom under the assumption that the boom would last forever which is not a smart investing strategy considering the investor is a banking institution. The bank began to give out loans to oil companies that did not have adequate liquidity based on the assumption that the industry growth would offset the risks associated with the loan. Question 2 The article Dow Corning Emergences from Bankruptcy discusses the journey of this company since it filed for Chapter 11 bankruptcy protection in 1995 (Sissel, 2004). The practices of the company in regards to its handling of legal issues might be perceived by many people as unethical. First of all the company never discontinued the sale of the implants despite the contingency legal liability the company faced. When the company faced legal pressure the firm preferred to accept defeat rather than let the legal process continue to hurt the corporate image of the company. Dow Corning settled out of court over 3, 000 lawsuits in a global settlement amount of $3. 2 billion. The strategy the firm selected helped minimize the public relations damage associated with the incident. To a certain extend the company was hiding the truth that they sold for several years defective products. Such a position seems like it might be an unethical act. The decision the company choose was a good strategic move. The legal costs associated with going to 3, 000 cases were eliminated by settling out of court. The actions of the company seem ironic considering that the sales of breast implants only represented about 1% of its revenues. The multi-billion settlement exceeds the net income the company has received from its sales

of breast implants since the creation of the product. An alternative solution that was not considered by the company which would had given moral justice to the victims of the defective breast implants was for the company to eliminate the breast implant division. The company could eliminate the risks associated with the operation by investing its money in other products and services. Another ethical consideration was the fact that the company forced the litigants to sign non-disclosure agreements and the inability to file a lawsuit against the parent company, Dow Chemical. I thought that the company covered its entire legal basis well in the settlement. The company had a fiscal obligation to protect the best interest and the corporate image of the parent company to ensure the brand value of the company is optimized.

References Caskey, J. (1985). Belly Up: The Indecent Exposure of American Banking / Funny Money. Challenge, 28(4). Sissel, K. (2004). Dow Corning Emerges from Bankruptcy. ChemicalWeek, 166(9). p8.