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The Easy Solution: A Banker's Answer

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ABSTRACT

The case deals with what happened in an international bank in Calcutta when the Assistant Manager of the branch was a person of doubtful ethical standards. This person was the main functionary to whom the credit officers reported and he tried to push through a working capital limit for a favourite customer by bending the laid down procedures. Misuse of the powers given to a senior officer is one of the worst things that can happen, and the case brings out the dangers of having such people in critical jobs. The case also brings to light the importance of the audit function and how important this function is to a bank so that it functions in accordance with strict standards which are well documented. The discussion point of the case is ethical culture in an organization and how important it is to foster this type of culture.

KEYWORDS*: whistle blowing, working capital lending, ethical banking, audit function*

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An Overview of the Bank of Taiwan

(*Note to readers - this case is based on actual events, which happened in Calcutta in an international bank in which the primary author worked for over two decades. However, the names and identities of the bank and individuals have been disguised. The description of the events in the case reflects what actually happened, though a few minor changes have been taken with the degree of emphasis relating to certain events to bring out the learning perspectives a bit more clearly).*

The Bank of Taiwan is a well-established international bank with a presence in India of over 135 years. Prior to 1980, Merchant Bank of Bombay, Imperial Bank of the United Kingdom, and Bank of Taiwan represented the Bank of Taiwan Group in India. In the early 1980s, the Bank of Taiwan took over the assets and liabilities of all these banks along with the staff of the erstwhile independent banks.

A big advantage for the Bank of Taiwan lay in the fact that it had executives working in the bank who came from all parts of the world (International Officers). They brought their unique skills to the operations and made the bank truly international. They were mainly from the United Kingdom, and all of them had obtained a bachelor's degree and cleared the London Institute of Bankers examination. Domestic operations were mainly in the hands of Regional Officers. Regional Officers were mainly confined to a particular region – e.g. Malaysia, Singapore, India etc. These Regional Officers were already mainly taken from 'outside' the bank. In short, the bank was an amalgam many types of officers, with differing backgrounds. This also included clerical staff who by sheer merit and hard work had been promoted as regional Officers. They were however, in a minority.

Structure of the Bank in India

Because of the stringent controls by the Reserve Bank of India on expansion, the operations of the bank were limited at the time of the events described in this case to the main cities – Bombay, Calcutta, Delhi, and Madras. The Area Management Office was located in Bombay and the CEO and the CEO's staff operated from this city. The CEO (currently David Selby) reported directly to one of the Group General Managers located in Taiwan; there were four Group General Managers (International) who between them controlled the global network of branches of the bank in terms of operations, profitability, strategy and risk management; they reported to the Deputy Chairman. In addition, there was a Group Staff Controller, again based in Taiwan who also reported to the Deputy Chairman. His job was to advise on the postings of the International Managers and review recommendations for their promotions or initiate the promotions himself. This was an important position and attracted a lot of respect. The last of the senior people who made up the core team in the Head Office was the Group General Manager – Audit. This position was held by David Turner whose last posting was as the CEO of India.

In India, the CEO was invariably an International Officer and the Regional Area Managers in the four cities reported directly to him. These four were Regional Managers (Indians) and the CEO was responsible for setting strategy and ensuring the growth in profitability of the four branches. He was also ultimately responsible for the lending portfolios of the four branches (in terms of quality and risk). The CEO was also personally required to complete the annual performance appraisal forms of the four Regional Managers. In short, he was the be all and end all of banking as far as the Regional Managers were concerned and they paid a lot of respect to him as he could make or mar their careers. (The reader will note that I have used the masculine gender, he or him in this case study to refer to the individuals in top management. This is because at that time all the top slots were occupied by men).

The Structure at the Branch Level –The Bank of Taiwan followed an identical structure in all the four branches in India. Each branch, consisting of around 250 to 350 staff covering all levels, was headed by a Regional Manager and below him was the Assistant Manager who reported to the Manager. The Assistant Manager was responsible for all lending decisions and was totally divorced from the operational issues in the branch. The operational issues, including dealing with the branch union was in the hands of the Accountant (the third highest ranked officer in the branch). All operational departments such as Deposit Accounts, Remittances, Trade Finance, Books (Accounting) etc. reported directly to the Accountant. The latter reported to the Manager. The Assistant Manager was helped in his work by the Credit Administration Department, consisting of four comparatively young Regional Managers. All four reported directly to the Assistant Manager. The senior-most of them had the job title of Senior Credit Manager; the others were called Credit Managers. The department also consisted of eight clerical staff, and the clerical staff members were headed by a Special Assistant (the highest clerical position in a bank). Above the Special Assistant were four Staff Officers. The Staff Officers were a kind of in-between grade between the clerical cadre and the Regional Managers. One of the Staff Officers was solely in charge of godown (warehouse) inspections where pledged goods were stored, and the other three attended to the routine work in the department.

Credit Sanctions

Procedures for Credit Sanctions –Lending portfolios in the branch were of two types – ‘A’ and ‘B’. An ‘A’ level lending meant that the amount sanctioned was fully secured, as happens with a loan against a fixed deposit. ‘B’ level lending meant that the officer handling the account had to take a call on whether or not to sanction the amount requested by the client, taking into account the value and nature of the collateral offered and the strength of the balance sheet and the reputation of the top management. It was the practice in the bank that all proposals were processed by the Credit Administration department and then put up to the Assistant Manager for his approval; or else he would recommend the proposal for the Manager’s consideration. The latter occurred when the credit amount requested was beyond the Assistant Manager’s authority. The Manager also had a credit limit up to which he could authorise the amount requested. Beyond this, the proposal had to go to the Area Management Office in Bombay and for loans beyond the CEO’s limit, the Area Management office had to obtain the sanction of the Head Office in Taiwan. After the approval was obtained, this was then communicated to the branch without delay through the Area Management Office. The bank used to say that it could obtain a Head Office level approval in 24 hours if it was urgently needed and met the bank’s stipulations in terms of collateral. This time frame of course, equally applied when approvals were not given.

The Calcutta branch had a fairly good portfolio of accounts to which it had lent funds. This lending could be in the nature of working capital financing, packing credit loans, sanctions for opening letters of credit (import), limits of issuing bank guarantees, limits for purchasing of bills (inland and foreign) and an array of other types of credit limits which were normal to any well-run company. The Calcutta branch, because of its geographical location, also had five or six tea garden accounts. These were on account of the large advances made to the tea gardens located in Assam, and other areas within Bengal, and the main security was the actual tea gardens themselves and the tea which they produced. These were hypothecated to the bank. (Pledged goods against which advances are given are kept in the custody of the bank in a god own (warehouse) under lock and key. The latter were held in the custody of the bank). Hypothecated goods are not in the custody of the bank, but periodic inspections (once a year) are made to see that they were in good order. Tea garden inspections were very popular with the officers of the department as they involved visits to an exotic location and regular visits to the Planters’ Clubs. The tea garden managers also proved to be excellent hosts and very friendly). Many well-known companies such as Glaxo, Siemens, large manufacturing companies etc. also formed part of the lending portfolio of the branch. All in all, it was a well-run branch and conducted its lending activities safely and securely and with all the required prudence expected from a bank with the reputation of the Bank of Taiwan. As a consequence, the percentage of Bad and Doubtful Debts when compared to the ‘performing accounts’ was well below the industry average. In those days the term ‘non- performing assets was not used so much and the term ‘bad and doubtful debts’ was the one in currency.

The Principal Players and Cast

The Principal Players–The Manager of the branch was Graham Mathias who had taken over a year ago from an International Officer. He was the first Indian Manager of the Calcutta branch and naturally everyone in the bank was curious as to how he would perform. Mathias was just over fifty years old and had spent his entire career in the bank. He had joined as atrainee Regional Manager and had worked mainly in the Bombay and Calcutta branches. Calcutta however, was his home base. He had also worked in the London and Taiwan offices of the bank for around three years in each country. He was an intelligent man and a tough driver of his people. It was not rare to see employees who had incurred his anger to come out of his office looking shaken and upset. His knowledge of foreign exchange operations was very good as was his knowledge of credit operations. He was a respected banker but not a person one actually liked. His attitude put people off and they were reluctant to come with him with a problem and preferred to go the Accountant or the Assistant Manager. In fact most employees tried their best to keep out of his way as much as possible.

The Assistant Manager of the branch was Narender Sharma. Sharma was a quiet person who meticulously did his job but was in awe of Mathias. This was probably because Sharma had come up from the ranks. He had joined as a clerk 25 years ago and had worked in the Calcutta branch during his entire career. By sheer hard work and intelligence he had moved up the ranks and become a Staff Officer, then became a junior Regional Manager and now occupied a senior position in one of the largest branches in India. In between he had a posting to Taiwan in the Head Office for a period of three years. People like Mathias were his idols in the bank and he considered it a privilege to work under the latter. He was very good at his work and he had never been known to have a confrontation with anyone in the bank during his entire career. This was an amazing achievement considering the aggressive culture prevailing in the bank. He was very good at analysing balance sheets and related lending matters, and could be relied upon to approve or recommend only those proposals which would pass all the scrutiny of the Reserve Bank of India's and the bank's own auditors. This was important as the comments made by the auditors were held in great respect by the bank; this was a type of culture ingrained in the bank since decades. A negative audit comment invited the ire of a number of people in the bank and an officer who had approved or recommended the advance would have a difficult time in retaining his job. It was to Sharma's credit that he had never received a negative audit comment. (The criticality of the audit is elaborated in the section below, headed 'The Importance of the Audit Function).

The Accountant of the bank was Arun Hingorani, again a promoted officer who had comeup from the ranks like Sharma. Unlike Sharma, Hingorani was a wily operator and was known to have favourites in the bank and was also not averse to cutting corners when he felt it was to his advantage to do so. Hingorani had worked only in the Calcutta office where he had joined as a clerk. He was in his mid-forties and looked forward to heading the branch and even rising higher. He had not been posted to the Head Office in Taiwan and this rankled.

In short, he was a good but untrustworthy banker; for example he had a habit of initialling an approval in pencil – and unheard of thing to do, especially in a bank. There was a story that after he had done this while approving the opening of a letter of credit, the clerk involved pasted a see through tape over the initial. Hingorani did not find this amusing and had shouted at the clerk. But the tape remained in position. He used to work long hours and had a habit of going into great detail on minor matters and wasting a lot of time. He was liked by his own coterie whom he 'looked after' but all right thinking people in the bank disliked him. He wanted to show that he was as good a banker (if not better) than the direct intakes and he spent a lot of time in criticizing the actions of the direct recruit officers who reported to him. He also had the habit of telling the Manager of mistakes committed by his juniors and this habit was the one single thing which made him most unpopular in the bank. Mathias to his credit, never acted on what was told to him by the Accountant but usually told him to sort the problem out himself. Hingorani was often heard criticizing the Manager to his cronies. This habit of his soon leaked as was but natural, and was known by most of the staff in the branch. In short, he was a carrier of tales and this is a trait which no one likes.

The Cast –The Senior Credit Manager, Biren Mukherjee was a Regional Manager with around 10 years' experience in the bank. He was a conscientious officer and did his work well and diligently. He ensured that all credit proposals were put up on time and maintained good relations with the clients he personally handled. He was never known to raise his voice and he was popular with the departmental staff. He also got along well with the Assistant Manager, who was his Reporting Officer. In fact, they were both identical in many ways as far as their personal value systems were concerned. This was important because many instances were there (in other banks) where the clients would grease the palm of the officer to whom a proposal had been put up for evaluation. This had never happened in the Bank of Taiwan.

Mukherjee had three Junior Regional Managers under him, and he was operationally responsible for the work they did. The three of the also reported direct the Assistant Manager. Taking everything into account, the department was well run under the guidance of Sharma, the Assistant Manager.

All this was to change soon.

The Importance of the Audit Function
(*Note – this section is primarily meant for those readers who need some inputs into how an Audit Department works and the importance of the audit function).*

Auditing is a means of evaluating the effectiveness of a company's internal controls. Maintaining an effective system of internal controls is vital for achieving a company's business objectives, obtaining reliable financial reporting on its operations, preventing fraud and misappropriation of its assets, and minimizing its cost of capital. Both internal and independent auditors contribute to a company's audit system in different but important ways.

The full audit which the bank was subjected to served many useful purposes. A full audit of the various functions of the bank (which included the credit audit function) could be conducted by a) the bank's Indian audit team b) the Reserve Bank of India's credit audit team, c) the bank's Head Office's audit team, and d) the bank's external audit team which was routinely done every year prior to the annual balance sheet and related statutory documents being certified by them. For the record, external auditors are certified public accountants, or CPAs, who work as independents of a business or organization, examining the financial statements prepared by the management of the business or organization. The Federal Securities and Exchange Commission, or SEC, requires companies that are publicly held to have their financial statements examined by an auditor.

The auditor ensures that all statements made in the company's financial statements are accurate and truthful. Internal auditors perform similar tasks of assuring the company's financial statements are truthful and accurate, but they are employed by the company being audited. The internal audit serves an important role for banks in fraud prevention. Recurring analysis of a bank's operations and maintaining rigorous systems of internal controls can prevent and detect various forms of fraud and other accounting irregularities. Audit professionals assist in the design and modification of internal control systems the purpose of which includes, among other things, fraud prevention. An important part of prevention can be deterrence, and if a bank is known to have an active and diligent audit system in place, by reputation alone it may prevent an employee from attempting a scheme to defraud the bank.

Of these, the bank's Head Office audit was the one of which all officers were in awe. They were also a little bit frightened of a Head Office audit as compared to the other audits. All audits are difficult to go through but the Head Office audit produced immediate repercussions if something was found to be wrong. But the Bank of Taiwan, as I indicated earlier, the Bank of Taiwan had a great respect for auditors and officers went out of the way to see that Group Head Office standing instructions were followed as meticulously as possible. These instructions in those non computerized days were in the form of a Black Book which contained detailed instructions of how virtually every important operational activity was to be done. Detailed instructions on how a credit proposal put up by a customer were also included in the Head Office standing instructions. To sum up, auditing is a systematic activity which mainly deals with the preparing the financial statements of the organization. Hence, it is considered one of the most important activities that must be carried out by all kinds of organization. The auditing increases the effectiveness of an organization by helping the management to develop their understanding about the organizational performance and structure. It informs the management about the business operations, frauds, financial records and errors which have occurred in an accounting year. The internal auditing protects the assets of the business by reducing the chances of frauds. Hence, it brings the efficiency in the organizational operations.

Apart from this, the auditing increases the financial integrity and reliability along with ensuring statutory compliance and laws. The auditing enables the organization to establish a monitoring procedure that helps the management in maintaining systematic control program. It further renders the support for identifying the redundancies in the control procedure and operations which helps the management to bring effectiveness and efficiency in their procedures.

It is to be noted that the incidents described in this case happened before the bank was computerized.

Managerial Changes and the Aftermath

It so happened that in 1992, the bank effected a series of transfers in India of its senior staff. As far as the Calcutta branch was concerned, Sharma was posted to Delhi as the Regional Manager (a promotion) and Hingorani took over as the Assistant Manager of the Calcutta Branch (also a promotion).

The new position of Assistant Manager was a welcome change for Hingorani as he viewed it as a stepping stone to becoming the Manager of the branch in due course. He felt he was on the right track and told his coterie of friends about his feelings. The fact that he had to now exclusively deal with lending related matters was also attractive. He felt that the position held potential which had so far been untapped by his predecessor. But he knew he had to play his cards carefully. He intended to launch his campaign in a couple of months' time and started thinking of how he was to do this. The prize at the end was too attractive to be lost by careless moves or hasty ones. He knew the possibilities of the position he now held and intended to exploit it fully.

He was familiar with lending procedures and soon settled into the job. Simultaneously, he also went out of his way to make friends with the four people in the Credit Administration department (headed by Biren Mukherji) who were directly under him. He did this by calling them to his office often and having long chats with them about various topics not necessarily related to lending. In between, he would introduce something about lending and ask an innocent question such as how kickbacks were the norm in many banks in the credit department and would watch their reactions carefully. Biren was outspoken in his condemnation of this practice but Hingorani could see that the others were ambivalent. This went on for a month and by the end Hingorani knew that he had three potential allies in the department. He knew he had to proceed carefully and he did this with consummate sophistication. He decided to put his plans into action once he had identified the three officers whom he could rely to act according to what he told them. He first tried this when a largish customer who was well known to him asked him for an increase in the working capital limit of the company. In fact, Hingorani had introduced the customer to the bank in the first place and made him open an account. The amount requested was above Hingorani's personal sanctioning authority (it was in fact within the purview of the CEO's office) and he did not want to go through the Manager for the approval (the latter had to recommend the proposal). This was in case the Manager refused for some reason to recommend the working capital loan. There were other reasons also behind why the Manager would in all likelihood have not recommended the loan and these are detailed in the paragraphs which follow.

Osborne and Company's main line of business was making headlights, side lights and windshields for two of the major brands in India who made trucks. These items were also exported to the Middle East and the company had a good name in the market for producing good quality goods and delivering them on time. The company had a turnover of approximately INR 800 crore and was a profitable one, that is, till recently. The problems arose when Japanese and Korean companies started making these items in India and selling them to Osborne and Company's clients at a much cheaper rate. The quality of their products were excellent and in order to gain market share, the pricing was also aggressive. Osborne and Company could not have matched the prices. As a result, for the past two years turnover and profits had shrunk alarmingly. The company was also short of funds though they were keen to expand. The request for the working capital funding had these factors behind it as a backdrop.

So Hingorani called the three officers from the department to his office and had a long chat with them. He told them about the proposal from the customer and what he intended to do. He also told them not to tell Biren about what his plans were. He told them in the strictest confidence that in case they fell in line, they would all be 'rewarded' by the customer.

'In what way will he reward us?' asked one of the officers.

Hingorani looked at him and the others. 'You will find out and the less you talk of these things the better. Do you understand what I am saying?'

'Yes sir,' chorused the three officers.

'Then meet me in my office at 5.30 pm. We should have some privacy by that time.'

'We are free now,' said the least perceptive of the three.

Hingorani looked at him without a word. The others hurried their colleague out of the office.

At 5.30 pm on the dot, the three gathered in Hingorani's office. Mathias had already left for the day. Hingorani waved them to the chairs opposite him and started speaking.

'Now, Osborne and Company which is one of our customers and a very good one, is a public limited company, and I was responsible for their opening an account with us. They have been banking with us now for over six years and we know them well. They are in a bit of trouble now for want of funds. All of you know the reasons why this has happened. You also know that they are never late in submitting their audited yearly accounts and have replied to all our queries in time and honestly. In other words, basically they are a well-run company which has got into trouble through no fault of theirs. They have also made no fuss about our inspections of the mortgaged property which we do every year. In short, you are all familiar with the company and they have now requested us to give them a working capital loan of INR 250 lakhs. The Chairman and CEO Ramesh Panjwani is an old friend of mine and I want to get his request approved. As you know, my 'B' limit is 80 lakhs. This means Osborne and Company's request comes under the CEO's sanctioning limit, and they will only do this if it carries the Manager's recommendation. Ramesh has said he will give us a first mortgage on his second home in Bombay and a second mortgage on his bungalow on Alipur Road in Calcutta. This is in addition to the other items mortgaged on pledged to us which covers his existing credit limits. These will be extended to cover the new advance. You all know what these existing limits are; now any questions up to now?'

'No sir, we are familiar with this account,' replied one of the three.

'Right, Ramesh will give us a no encumbrance certificate for his house in Bombay. Now what I want you all to do is to get the property in Bombay valued and give the certificate to me. Now, once that is done what I propose to do is this. Once the new securities are in place, I will ask Ramesh to do a few things. Now I want you to understand that what I am going to tell you from now on is totally confidential. So if anyone does not wish to get into this, now is the time to leave.' He looked around but no one said anything. They were curious and intrigued by what was to come. 'Right, then I will tell you what I have asked Ramesh to do with his company.' Hingorani paused and looked at the ceiling for half a minute to gather his thoughts. He continued after this pause.

'I have told Ramesh to split the company intofour different companies. As you all know, split-ups are mainly executed either because a company seeks to focus on different business lines in an effort to maximize efficiency and profitability, or because the government forces this action in an effort to combat monopolistic practices. The last bit of course, does not apply in this case. So far so good?' The three officers nodded.

'Now some companies undergo such splits because they are attempting to strategically revamp their operations. These companies may have a broad range of discrete business lines--each requiring its own resources, capital financing, and management personnel. For such companies, split-ups may greatly benefit shareholders, because separately managing each segment often maximizes the profits of each entity. Ideally, the combined profits of the separate entities should exceed those of the single entity from which they sprang from. I explained all this to Ramesh and he told me that he would give it some deep thought and get back in a week. Getting him to agree may not be a problem. Now, once he agrees, I plan to ask him to securitize the advance a bit more with some of his other assets and then I will move forward. I have also told him how to convince his Board of Directors and other approving bodies.'

'You mean that Osborne and Company will no longer exist?' asked one of the listeners.

'No, it will but only in name. It will now be four companies with different names. If all goes according to my plan, Ramesh will then ask for the working capital limit – the same amount – but it will be spread amongst the four different companies. His Director Finance is his close relation and so there should be no problems from him. And his board is also filled with his friends who will do as he asks and Ramesh will head all the four companies. The reason he will give to them (which is a genuine one) for splitting the company will be that he intends to pursue independent product lines for each of the four companies. These products will all be in business of producing new and additional ancillary items for trucks, in which they have the required expertise. But most importantly…..' he paused and looked enquiringly around with a slight smile.

'It will now be within your limit, sir,' said the brightest of the lot. 'You can approve the four requests and keep it within the branch.'

'Exactly. You will amongst the three of you, process the request and put it up to me for approval. And not a word to Biren or anyone else. You also know that Mathias is not too interested in lending approvals which fall within my purview. He thinks they are too small for him to go into deeply. He usually just glances through them. He cares only for the ones which are at the his or the CEO and Head Office levels; this is because the last two have to carry his recommendations. So we can keep this more or less to ourselves. I know we are skating on very thin ice and so we will have to keep going fast to see that we do not fall into the lake. But I am sure that I can rely on you, gentlemen.'

'What lake, sir?' asked one of the officers whose command of English idioms was not too good. One of his friends explained to him what Hingorani meant.

'Yes sir,' came the enthusiastic reply to Hingorani's question in a ragged chorus, shortly thereafter.

In the fullness of time, Ramesh Panjwani did all that the bank asked him to do. The reason he gave for splitting the company was that he wanted each one to focus on different product lines. This would be more efficient, he told the Board of Directors. As Hingorani had predicted, there were no major objections to the splitting of the company from the Boardand Panjwani got all the internal and external approvals reasonably fast after six months or so. Panjwani, after the approvals were in place, formally approached the bank for working capital advances to the four companies totalling INR 250 lakhs. They were put up as independent requests and a firewall of sorts was maintained between the four companies at Hingorani's insistence. This would not affect the security given to the bank for the working capital advance as the companies were legally shown to be under the same management and Ramesh Panjwani continued to be the head of the four companies. The required security was given to the bank and the title deeds of the mortgaged property now remained in the custody of the bank as was the normal practice. The advance was now a secured advance and came within Hingorani's category 'B' authorization limits. To be sure that the firewall was not accidentally breached, and problems surfaced, Hingorani asked his friend to put up the requests for the four companies with an interval of 10 days between each request. Panjwani did this and in due course the four requests for working capital were approved by Hingorani. Biren Mukherji, the Senior Credit Manager, was kept out of the picture entirely. His team had been instructed by Hingorani to do this as otherwise his carefully laid out plans would in all likelihood have backfired.

And so matters rested for the space of six months when a full Head Office audit took place in the branch without warning as was the usual practice. This was sooner than expected as they had just completed an audit eight months ago, but the timetable of audits for the year required that the Calcutta branch was subjected to a full audit within eight months of the previous one. This was essentially because whenever a senior officer took up a new position, an audit was mandatory in that branch. This would, in a systematic way expose any deficiencies committed by the person who left, and give the new incumbent clear guidance on what he had to do in the job to make it fall in line with Head Office guidelines.

Hingorani had not expected an audit so soon and was worried. True, he knew of the practice of an audit being conducted when an officer changed jobs, but as the earlier audit was done eight months previously, he thought there would be a relaxation as far as this rule was concerned. The coming of the auditors was a rude awakening for him.

A team of seven auditors led by a Deputy General Manager (Ian MacFarlane) walked in at 3.30 pm one afternoon and went straight into the office of the Manager. The head of the team had a letter from David Turner (the Group General manager Audit) authorizing the audit and requesting the branch management to give the audit team access to all information they wanted. Standard operating procedures required that the branch had no previous inkling of the visit of the auditors. They did their own hotel reservations from Head Office, and came to the branch in taxis. Mathias, after the initial pleasantries, took them to his deputy's office and introduced them to Hingorani. Unknown to anyone but the auditors, Hingorani's tendency to cut corners was known to a certain extent in the Head Office, and the auditors intended find out for themselves what the truth was during this audit.

A couple of lending experts from the team hit the Credit Administration department in half an hour of their reaching the branch. The other auditors spread out after the meeting with the Assistant Manager and occupied the sensitive desks dealing with cash, travellers cheques, securities and stamped paper. This speed was essential as it gave no time for the branch staff to get rid of any wrongdoing if such were indeed the case.

The two auditors who were auditing the Credit Administration Department requested the files of all sanctions given to customers since the new Assistant Manager had taken over. 'We will come to the others later,' they told the officers. A list was given to them by the department and Biren Mukherji told his colleagues to verify the list. They did this and found it to be correct.

Osborne and Company was being handled by the three junior officers in the department collectively. The next day, the auditors asked for the credit files of a few companies on the list;a random sample of 10 companies which they would go into thoroughly. When the list was shown to Hingorani, he was startled to see that it contained the names of the four new companies which Panjwani had created. However, there was nothing he could do about it and he handed the list back without saying anything.

The two auditors started going through the credit files of each account and simultaneously asked the four officers in the department questions if they had any doubts. The credit files contained all correspondence exchanged with the customer and copies of the last three years' audited accounts and the external auditors' comments It also contained copies of all proposals for advances received from the customer which were approved at the branch level or recommended for approval by the branch. In short, a detailed appraisal of the credit file would tell the person studying them almost everything about the customer.

Two days passed and the audit appeared to be going smoothly. Routine questions were asked and were answered evidently to the auditors' satisfaction. Routine checks were made on security pledged and these were found to be in order. On the third day, the auditors were having a quick lunch in a room adjacent to the reception hall which also served as their makeshift office. They preferred this as it was quicker than going to the dining room. They were discussing the audit when one of them who was in charge of the Credit Admisntration Department said, 'by the way I came across a funny thing. I saw two requests for working capital loans spaced 10 days apart. Same amount, same security which was adequate for both the companies, and same management – you'd have thought they would have clubbed them in one go. It would have been much easier.'

'That's strange, I too came across the same thing,' said his colleague. 'I just saw it before I came here and was going to check the matter after lunch.'

'That's four requests then.' They looked at each other. 'Let's examine the four files a bit more.'

'Yes, sounds good to me,' came the response.

They mentioned this curious matter to MacFarlane and he also agreed that the matter required a bit more investigation. 'Keep me informed of what you find,' he told his two team members. 'I have a strange and bad feeling about these advances.'

After lunch, the auditors took the four credit files into their office and started digging into the contents in detail. They soon saw that the working capital requests to the bank seemed to be deliberately staggered though the management of the companies was the same. The security offered also seemed to be the same but of sufficient value to cover the advances. What intrigued and worried them was the time lapse – 10 days – between the requests. They felt something was wrong here. They called Biren Mukherji into their office and asked for details of the advance. Mukherji told them that he was not handling these accounts and that his three junior colleagues would know more about the matter. They were sent for and came into the office looking a bit nervous. They were not asked to sit down.

'Know anything about these companies?' asked one of the auditors pointing at the names on the files.

'Yes sir' said one of them.

'Why did the requests for working capital come in with exactly a gap of ten days?'

The three officers looked at each other. "We don't know - we just assumed they were routine requests. Nothing more.'

'Did these companies have a long relationship with the branch? They must have as otherwise you would not have sanctioned the advances so quickly. Did you know the owner – this chap Ramesh Panjwani? Did you have any earlier dealings with him?'

'No sir, but he is a friend of the Assistant Manager. A close friend.'

'Should we then ask the Assistant Manager for more details?'

'Yes sir, that would be the best thing to do.' The three officers were now frightened and it showed on their faces. The auditors were quick to notice this. The three officers only wanted to be out of the office as quickly as possible.

'We then want to meet with the Credit Administration team – all four of you and the Assistant Manager in ten minutes. Ian MacFarlane will also be present. And the Manager.'

The two auditors by now knew that something was definitely not right and wanted to put the pressure on without giving the officers time to think of a way out and also consult Hingorani. In ten minutes,the four officers, Hingorani, MacFarlane, and the two credit auditors met in Mathias's office.

'Please sit down gentlemen, and what can I do for you?' asked Mathias. Mathias obviously had no idea of the problem faced by his branch from the auditors. MacFarlane had been quickly briefed by his team members before the meeting.

'Well Graham,' said MacFarlane. We seem to have an unusual set of accounts here. We have four working capital advances given to the four companies with a ten days gap in between each sanction. Same security and same management, though the value of the security is adequate.' He showed Mathias the four files. Mathias went through them and asked, 'can you please tell me a bit more about these accounts? These working capital advances you just referred to are the latest and were okayed by Hingorani. Perhaps he can help.' He looked at his Assistant Manager sharply.

'Yes, Ramesh Panjwani started four new companies and wanted our support for them. There's nothing more to these accounts. No mystery. It was just a straightforward advance.' said Hingorani.

'That's the owner of Osborne and Company, right?' asked Mathias.

'That's correct. He told me that he was setting up four new companies; he wanted to split the original company into these four. I told him to go ahead.'

'But what was the urgency to do that? Osborne was doing quite well from what you told me.' Mathias looked at the credit team. They all looked very uncomfortable and Mathias now knew something was radically wrong.

'I think it is time you came up with the truth,' he told them. 'Otherwise I will see that you are punished in a way you will not believe. Biren, what do you know about this?'

'Nothing, sir. I was kept away by the Assistant Manager from all discussions with Mr. Panjwani. But I know that Osborne and Company was not doing well for the last two years. Too much competition from Japanese and Korean companies. In fact, a friend of mine in the company told me they were very much strapped for funds at a time when they wanted to expand. I once mentioned this to the Assistant Manager but he cut me short. I did not then pursue the matter as he was very rude.'

Mathias now looked ready to explode.

'Thank you, Biren.' He looked at the other three and said, 'Out with it. We have no time to waste. And let Head Office see how the principled lending on which we pride ourselves really works.'

The junior-most of the three looked ready to cry. Mathias instinctively focused on him and just said 'Well?' He kept on staring sharply at the helpless officer.

'Sir, I will tell you all that happened. But please don't sack me as we were forced to do what we did.'

It took almost two hours for the entire shoddy story to come out. The facts were fully laid out inwith all its accompanying miserable details. Hingorani did not contribute much to the narrative except to try and defend his actions. No one believed him.

At the end Mathias asked the credit team to leave. He then turned to Hingorani. 'Well, do you have substantive to say? You have put all ethical norms to one side so that you could approve the limits yourself. This is not how I want the branch run and I plan to talk to David Turner along with Ian MacFarlane and see what he has to say. You have also set a very bad example to your department. You will be hearing from us. You can leave now.

A dejected, nervous, and subdued Hingorani left the office. He was followed by the Head Office audit team who looked angry and disgusted. They did not say anything to the Manager.

Epilogue

Retribution was swift and savage. Turner, with the Group Staff Controller's and other required approvals, got Hingorani demoted and sent him as a departmental head to the Delhi office. The three credit officers were dismissed from the bank. Mathias was told to be more vigilant in his monitoring of the credit approvals of his deputy in future. Turner also gave a piece of his mind to Mathias at the lack of supervision displayed by the latter. Mathias should have caught what the auditors did, when the approved limits can to him as was the practice. But then as we know, he was much more interested in the proposals which went up to the Area Management Office and Head Office. Mathias heard him out and had the sense not to try and defend himself. To be on the receiving end of the voice of an angry Turner was not something anyone relished. All this happened in the space of one week of the fateful meeting in Graham Mathias's office in the presence of the Head Office auditors who on their return had given a blow by blow account of all that they had uncovered in the Calcutta branch.

For the record, there were no more such incidents in the Calcutta branch.

The Easy Solution: a Banker's Answer

Teaching Note

Synopsis

The case is a narrative of an incident that happened in the Calcutta branch of an international bank and focuses on a lending decision made by the Assistant Manager who was a man of rather loose principles. The company owned by a close friend of his had approached the bank for a working capital loan. The company was not doing too well at the time (though it was a reputed company) because of market pressures. The amount asked for was outside the Assistant Manager's authority and he, in order to bring it within his authority, asked the company to split itself into four companies and all four companies were then to apply for the loan. This would the amount within the Assistant Manager's sanctioning authority. This was done, but a Head Office audit team arrived shortly thereafter and found out how the advances were made. The case goes on to describe the consequences. The discussion point of the case is ethical culture in an organization and how important it is to foster this type of culture.

Courses and Levels

(Note – in the banking context, especially in the coterie of international banks, to demote an officer or sack him from his job is very rare. It is a severe indictment of the person and in all likelihood, he will not be employed by an international bank again. The stigma will remain with him for all times.)

(Details of website references are included in the text itself. Journal/ book references are given at the end)

The case is meant to be taken up ideally at the post graduate level, in a class for MBA or post graduate students in management, specifically for students specializing in the area of business ethics and decision making. The focus of the case is therefore on the importance of these facets in the life of an organization. This should be done by extrapolating details of what happened in the case. The instructor should therefore highlight what are the learning trajectories from the case for the students, and then lead the discussions after these are laid out clearly. Needless to say, the case is a complex one and the instructor should ensure that the themes identified above are the focus of the discussions. As was indicated, this case is based on real events. The incidents narrated are conducive to draw out relevant inferences in these areas. Ideally the students analysing this case should have a minimum of three years of work experience in order to fully understand its multi layered nuances and make the discussions fruitful.

Learning Objectives

This case will help students to improve their understanding of several important issues which surface in an organization, with specific reference to:

- Reacting to the challenges employees can face when a moral issue confronts them out of the blue.
- How to react when a superior officer asks the junior to bend laid down procedures.
- Analyzing when matters should be escalated by the junior officer and taken up to the head of the branch or higher.
- Evaluating the dangers which can boomerang on an officer if tempted by illegal considerations to do something incorrect.
- Emphasizing the importance of never operating 'outside' standing instructions laid down by the branch and the Head Office.
- Understanding the importance of never hiding anything from the auditors but to be fully open to their enquiries.

Conceptual Perspectives

We will in this section look at the concepts of whistle blowing, working capital loans, ethical banking, and the audit function. Let us examine whistle blowing first. Deeper questions and theories of whistle blowing and why people choose to do so can be studied through an ethical approach. Delmos (2015) and Alford (2001) indicated that 'whistle blowing is a topic of on-going ethical debate. Leading arguments in the ideological camp that whistle blowing is ethical maintain that whistle blowing is a form of civil disobedience, and aims to protect the public from government wrongdoing.' In the opposite camp, some see whistle blowing as unethical for breaching confidentiality, especially in industries that handle sensitive client or patient information (Firtko and Jackson 2005). Legal protection can also be granted to protect whistle blowers, but that protection is subject to many stipulations. Hundreds of laws grant protection to whistle blowers, but stipulations can easily cloud that protection and leave whistle blowers vulnerable to retaliation and legal trouble. However, the decision and action has become far more complicated with recent advancements in technology and communication.

Looking at working capital loans, we see that this type of loan is a loan that is taken to finance a company's everyday operations. These loans are not used to buy long-term assets or investments and are, instead, used to provide the working capital that covers a company's short-term operational needs. Businesses use working capital loans to cover things like payroll, rent and debt payments. They are also often used by cyclical businesses during the off-season — the debt of which is paid down during the busy season. This is a flexible loan option for small businesses that need cash quickly to cover immediate expenses. However, working capital loans should not be treated as a long-term funding.

option for something like a business expansion. (https://www.uschamber.com/co/run/business-financing/working-capital-loan).

Ethical banking involves consciousness of how banking practices affect society and the environment. Financial institutions that emphasize ethical practices seek profit like any other financial institution. However, they strive to generate earnings without sacrificing principles or causing harm. Jennings (2013) said that 'mainstream financial banks have had varying relationships with corporate social responsibility and ethical investment. However, a clearer movement has emerged since the 1990s.' With changing social demands, and as more is known about the effects that banks can have through their lending policies, banks have begun to feel pressure from the general public, NGOs, governments, regulatory bodies and others to consider their social and environmental impact.

Finally, we will look at the audit function. An accounting and/ or internal audit does not only examine whether a company's financial statements are accurate, but it also tests that the company's systems are operating as they should. The systems an auditor examines include the company's internal controls, or the measures taken to reduce or eliminate accounting errors or fraud. Wood (2009, 2013) indicated that 'the scope of internal auditing within an organization is broad and may involve topics such as an organization's governance, risk management and management controls over: efficiency/effectiveness of operations (including safeguarding of assets), the reliability of financial and management reporting, and compliance with laws and regulations. Internal auditing may also involve conducting proactive fraud audits to identify potentially fraudulent acts; participating in fraud investigations under the direction of fraud investigation professionals, and conducting post investigation fraud audits to identify control breakdowns and establish financial loss.'

Internal auditors are not responsible for the execution of company activities; they advise management and the Board of Directors (or similar oversight body) regarding how to better execute their responsibilities. As a result of their broad scope of involvement, internal auditors may have a variety of higher educational and professional backgrounds.

Teaching Plan

The case is best used in a class of around two and half hours duration. The case provides scope for the discussion of multiple topics with the focus being on the areas identified in the key words. This is a very complex case and it will be ideal if the instructor is a person well versed in organizational politics. A banking background will be of immense benefit in leading the discussions when personal experiences and relevant experiences of others in banking organizations can be woven into the discussions by the instructor.

The case should be distributed well in advance – (at least three to four days), and the instructor should ask the students to come prepared to specifically answer the following and related questions (which will and should arise during the discussions):

1. What were the issues with the way the Assistant Manager made use of junior officers?
2. What are your views on the role played by the Manager, Graham Mathias in the incidents narrated in the case?
3. What are your views on the reactions by Head Office and specifically of the Group General Manager – Audit, David Turner?
4. Was Hingorani justified in any way by the way he tried to help his friend Ramesh Panjwani? Technically, did Hingorani do anything wrong?
5. If Hingorani had gone to the Manager and told him what he intended to do, how do you think the latter would have reacted, keeping in mind that the bank would earn a good income from the accounts?

The instructor should begin the class asking a general question as to whether anyone has experienced such an event or something akin to it (this is where the work experience of the students becomes important). He or she can ask the class to list the main sequence of events that have taken place. Ideally, the instructor should write the sequence of events on the board. The instructor can then start the discussion by going through the questions listed. The direction of the discussion could be towards getting the class to identify what the Assistant Manager had in mind as his ultimate objective and whether he was 'uncaring' about the repercussions if what he did ever came to light. This part of the discussion at one level is intended to focus on the overall approach and norms which the bank expected from its senior officers. A discussion at another level would revolve around the dangers of having unethical people in positions of authority. The instructor can ask some leading questions based on those listed above to get the discussions started. She should emphasize where the two levels come together and what kind of an impact an ideal 'come together' would have made on the events. For example, would the branch's own audit have been able to ferret out what the Assistant Manager did? Or, would the external auditors have been able to do so during their end of the year audit? Could and would Biren Mukherji have tipped anyone off to what had happened, including telling the Manager? In other words, act as a whistle blower.

Preferably after the initial questions are asked, the class should be asked to form groups of four to five individuals and discuss the case in detail and identify the main issues which the incidents raise. This should be for at least one hour. They should then make presentations which should include the issues identified as well as the possible ways the situation could have been handled if an audit had not taken place at a fortuitous moment. Would Mathias on his own ever have found out about what his deputy did? Or was he too much up in the clouds to worry bother about the approvals his deputy gave? Would the fact that Hingorani's predecessor would never have done such a thing have lulled Mathias into a false sense of security? But then, should not a banker of his experience have known that attitudes and values of ethical behave of people vary? The instructor should also ask the students to consider the matter from the Manager's and the Assistant manager's perspectives in detail in their analysis and recommendations.

Alternatively, the instructor can make the entire class discussion driven, with him or her acting as the facilitator. If this is the approach followed, then it is important that the instructor ensures the discussions are kept on track and not allowed to wander. If so, the recommended balance for analyses is as follows:

1. Introduction to the case – 30 minutes
2. Discussion of banking conditions, tradition, ethics, discipline etc. – 20 minutes
3. Mistakes made during the course of the events described – 45 minutes
4. Possible alternatives which could have been considered so that a 'situation' was not precipitated – 45 minutes
5. Wrap Up – 10 minutes

Discussion Questions and Answers

1. What are your views on the role of the Audit Department in an organization?

This department ranks amongst the most important in an organization. It should be staffed by people who are intelligent, impartial and with a keen eye for detail. They should also have the ability to sniff out when things are not alright though they may have a veneer of being above board. Ideally the head if the Audit Department in a branch should report to the Head of Audit in the region. The latter should report to the Head of Audit in the Head Office or someone just below. This will prevent anyone in a branch/ area trying to put pressure on the auditor to soften audit remarks or try and get her to expunge them, especially if the auditor is a fried of the Manager or the CEO. The latter comes into the picture because ultimately the CEO is responsible for the proper running of a branch under his purview.

In these days, when banks and other organizations are highly computerized, a thorough knowledge of computerized systems and how they can be manipulated is an essential equipment for an auditor. But as we have seen in the case study, a 'nose' for sniffing out incorrect actions is critical in an auditor. Impartiality and the ability to take a principled view of matters are the important qualities of an Audit Department which is running well.

2. Should Mathias have been more severely punished for his negligence? Or was the tongue lashing by David Turner enough?

Turner was a tough and committed individual and what he told the Manager was appropriate in the case described. However, it is also possible that another person in Turner's place would have taken a different view of what happened and seen to it that the Manager of the Calcutta was punished severely. The latter after all, carried the ultimate responsibility for what went on in his branch. However, this depends a lot on the personalities involved and no specific answer can be given. However, a talking to by Turner was something everyone dreaded in the bank, and most employees (had they known about the call) in the bank would agree that Mathias got what he deserved. As the CEO of India, David Turner was a terror and his reputation was enough to subdue even the most stubborn employee.

3. Should the Senior Credit Manager Biren Mukherji have acted as a whistle blower when he was kept away from the discussions relating to Osborne and Company?

This is a tricky question because the bank did not have a traditional of escalating matters. By custom, matters were resolved between two officers between themselves if there was a difference of opinion. As for whistle blowing, such a thing had never happened in the bank which prided itself on the principled banking it undertook on a continuous basis. This is because a whistle blower is a person who exposes secretive information or activity within a private or public organization that is deemed illegal, unethical, or not correct; these were alien to the bank.

The information of alleged wrongdoing can be classified in many ways: violation of company policy/rules, law, regulation, or threat to public interest/national security, as well as fraud, and corruption. Those who become whistle blowers can choose to bring information or allegations to surface either internally or externally. Internally, a whistle blower can bring her accusations to the attention of other people within the accused organization such as an immediate supervisor. Externally, a whistle blower can bring allegations to light by contacting a third party outside of an accused organization such as the media, government, law enforcement, or those who are concerned. We cannot see Mukherji in this role and at the most he would have taken it up with Hingorani when sufficiently provoked. He would also have in mind that whistle blowers take the risk of facing stiff reprisal and retaliation from those who are accused or alleged of wrongdoing. And Mukherji was by nature a peaceable person.

4. Should Mathias have been more vigilant when a new Assistant Manager came on the scene?

This is the most unfortunate thing which Mathias did; he would have been aware of Hingorani's tendency to cut corners and now suddenly he was in a job which he could exploit for his own profit. The habit of Mathias which he had developed when Sharma was his deputy was not to give too much attention to the proposals approved by the latter. Unfortunately, he allowed this habit to continue even when Hingorani was his Assistant Manager. Hingorani knew of this habit and took full advantage of the weakness. Because he was unprincipled. If you do not have principles, which is what unprincipled really means, then you do not have scruples or morals. And Hingorani did not have either of these 'qualities'. So in the end, Mathias should also take the blame for what happened. Fortunately, he got away with earning the displeasure of Head Office which was also automatically translated into a serious bad mark against him.

5. Were the punishments meted out by Turner and his colleagues appropriate?

The punishments meted out to Hingorani and the three junior officers in the Credit Administration department were fully justified. (The appropriateness of what happened to Mathias has been covered in the previous answer). The concept of retributive justice also comes into the picture. Retributive justice is a theory of punishment that when an offender breaks the law, justice requires that he suffers in return. It also requires that the response to a crime is proportional to the offence. Prevention of future crimes (deterrence) or rehabilitation of the offender are other purposes of the punishment. Retribution is different from revenge because retributive justice is directed only at wrongs, and employs procedural standards. By demoting Hingorani a powerful message was sent throughout the bank that transgressions of the type he indulged in will never be forgiven. All in all the punishment given to the Assistant Manager and the three officers were appropriate.

Summing Up

The crux of the case is a tricky and relates to human weaknesses. But the important question is, why did the people in positions of responsibility allow a person like Hingorani to be promoted as the Assistant Manager of the branch and invite trouble on everyone? Many organizations have a system in place for short listing and then selecting people who have high leadership potential. These individuals are often given more opportunities to prove themselves and develop their skills. But how do you know you are selecting and promoting the best people? With so much at stake, what should you definitely avoid in order to ensure strong and effective leadership? Many organizations struggle with promotions because of the highly personal nature that surrounds them. It is easy for people to try to advance their careers at the expense of others, either through monopolizing time with a manager or sabotaging others' progress.

It is important to discover self-promoters early on, as they are not conducive to a team environment and will often seek to progress before going through the proper development process. It is also important to not be blinded by an impressive degree or qualifications, while they are significant achievements they do not necessarily speak to great leadership potential. When you promote an individual who does not deserve the position, it can have a strongly negative domino effect. Those who feel they should have been promoted instead may feel insulted and look elsewhere for employment, your judgement may be questioned, productivity may drop, and as a result turnover might rise.

'Best practice dictates that the organisational leadership need to be amply convinced that the employee has what it takes to move up. This may include looking at an individual's problem-solving skills, their ability to handle conflict at the workplace and team building. Additionally, such an employee's level of thinking should cease to be about them only but should always have the big picture as an approach. Also, as leaders, you should be able to distinguish between talking too much and critical thinking in an employee and carefully consider these. Critical thinking involves analysing the level at which one works. Does the employee work smart by always considering the strategic impact of their work? The employee's level of operation should go beyond working hard to accomplish given tasks but to always think of the big picture. In most cases, leadership fails to discern between working hard and being able to think big. Mastery of your current roles does not automatically mean ability in the next role.' Calistas (2018).

The problem with the bank was that it was a bit too inward looking. For them, Hingorani was an automatic choice to fill the position of Assistant Manager. When Sharma left the branch, the bank should also have tried to see if anyone from another branch should have been brought in to fill the position. Hingorani could have been kept on 'hold' for the time being and maybe given a new assignment in a year's time. There is something invigorating in a new person from outside coming to fill a job as this person's perspectives will not have been dulled by having spent too much time in the same branch. When you bring in managers from outside, you may get new approaches to management and new ideas on work processes that help prevent the branch from getting stale and even becoming obsolete. Hingorani's tendencies to play politics would also have been known and this by itself should have prevented him being promoted as the Assistant Manager. Promoting from within can also lead to competitiveness among staff members vying for the same position. There must have been am number of officers who would have aspired to be the Assistant Manager. When one person is promoted, bad feelings can result in the people left behind. This can lead to dissatisfaction at work, poor work performance and even resentment from employees who feel slighted or overlooked. If an outsider is brought in from another bank, these feelings would have been somewhat reduced as the newcomer would have acted as a lightning rod for the ill feelings of the 'non-promoted' group.

The importance of choosing the right person for a job is highlighted by the management guru Jim Collins. Collins (2001) said that 'leaders must be rigorous in the selection process for getting new people on the bus (the organization). Invest substantial time in evaluating each candidate and make systematic use of at least three evaluation devices (e.g., interviews, references, background, testing, etc.). When in doubt, do not bring the person on the bus. Let a seat go unfilled—taking on extra work as needed—until you have found the right person. Ensure your company does an exceptional job of retaining the right people on the bus to perpetuate your good hiring decisions for a very long time. Have 100% of the key seats on the bus filled with the right people. This does not mean 100% of ALL seats have the right people, but 100% of the key seats. If you think there might be a "wrong who," first give the person the benefit of the doubt that perhaps he or she is in the wrong seat. Whenever possible, give a person the chance to prove himself or herself in a different seat, before drawing the conclusion that he or she is a wrong person on the bus. Once you fill your bus with the right people in the right seats, it becomes less a question of where you're headed—and instead, how far you can go.'

'The single most important strategic pillar of any great enterprise is people," Jim Collins once said in his Tuesday keynote session at the SHRM 2012 Annual Conference. After spending nine years studying why some companies thrive in uncertainty or even chaos, while others do not, for his latest book 'Great by Choice: Uncertainty, Chaos, and Luck—Why Some Thrive Despite Them All'. Collins concluded that 'it all begins with people.' The most important executive skills for building a great organization are 'the ability to pick the right people, to make disciplined people decisions and to make sure all key seats are filled with the right people,' Collins told attendees.

This was the most fundamental mistake made by the bank; putting the wrong man in the job. The second was that the Audit Department of the branch should have highlighted the fact that Osborne and Company was not doing well at least for the past two years. They should have told senior management that there was a problem here. Sharma may have been aware of this problem and in all likelihood would have kept a close watch on the company's financials. Unfortunately, he was not there on the scene. He may well have downgraded the account or told Mathias about the problems the company was facing.

The third problem the bank faced was in the leadership style of the Manager, Graham Mathias. First, great leadership often starts in community or in this case, the bank itself. When facing great odds or forced to deal with unusual or trying circumstances, few of us are fortified enough to act alone, without counsel or support. This is a point often hammered home by Harvard Business School professor and former Medtronic CEO Bill George. George advocated the formation of groups in an organization which are gatherings of peers and mentors with whom we can share. They can counsel us as we face difficult problems and hold us accountable for acting in accordance with our values. Others have advocated similar constructs, such as a personal board of directors. In short, no man is an island.

Because Mathias decided to adopt an aloof management style, the natural reaction of employees was not to go to him if they had a problem. His overconfident style of management also was not conducive to making people go to him. As Malcolm Gladwell said ' the biggest disease of the expert is overconfidence. There is a set of problems associated with novices, and they have to do with their not knowing enough. And there is a set of problems connected with experts, the difficulties of those who know too much, or know more than enough run into, and there the class of problem that plagues the person who is an expert is overconfidence, this very human tendency to exaggerate how much one knows, even though one knows a lot, to think that makes one infallible, and the technical word for that is miscalibration. To become miscalibrated, a gap opens up between what you know, and what you think you know. A lot of what we saw in the last financial crisis was a miscalibration problem, it was due to people in incredibly complex worlds thinking they understood every dimension of the risks they took, when in fact they had only a partial understanding of that. That miscalibration of their understanding led them to make some catastrophic errors.' (https://robinerikhamilton.com/in-conversation-with-malcolm-gladwell/).

The combination of an aloof Manager, a quiet and peaceful Senior Credit Manager, and a devious Assistant Manager was, as it turned out, a disastrous one. Add to that three impressionable and young Regional Managers, and it was a recipe for disaster. Professor Stephen Greenblatt (2007), the John Cogan University Professor of the Humanities at Harvard University, quoted the following incident in one of his articles which is apt for what happened in this case study. He had gone to attend a poetry evening at the Clinton White House and the President referred to 'Macbeth' at one point. 'After the speeches, I joined the line of people waiting to shake the President's hand. When my turn came, a strange impulse came over me. This was a moment when rumors of the Lewinsky affair were circulating, but before the whole thing had blown up into the grotesque national circus that it soon became. "Mr. President," I said, sticking out my hand, "don't you think that Macbeth is a great play about an immensely ambitious man who feels compelled to do things that he knows are politically and morally disastrous?" Clinton looked at me for a moment, still holding my hand, and said, "I think Macbeth is a great play about someone whose immense ambition has an ethically inadequate object."'

This was the problem with the Assistant Manager. His immense ambition had an ethically inadequate object. The object was to get rich quickly and never mind the ways this was done. Jebb (2010), quoted Sumantra Ghoshal and Christopher Bartlett, who had said that, 'senior managers of today's large enterprises must move beyond strategy, structure and systems to a framework built on purpose, process and people'. Behind the carefully crafted alliteration lies a call for top managers to imbue their people with a strong sense of the corporate goal, creating a climate of ambition or 'stretch'; an exhortation to directors to focus less on the company's structure than on its processes; and a plea for chief executives to foster entrepreneurial initiative, rather than compliant implementation, in their people. Not, says an intense and highly articulate Ghoshal, that companies must have either strategy or purpose, or must opt for either structure or process.

'It's not that the strategy, structure or systems are unimportant, it's not that the chief executive totally avoids these. It's just asking what the basic priority for the chief executive is. And the key role for the chief executive is the renewal process ... the core is about

creating a sense of ambition.' In practical terms, this means setting stretch performance standards, and creating a culture in which employees will be self-disciplined and confident about acting on their own initiative.'

The last sentence is important and relevant for this case study. Managers have to be self-disciplined and confident for acting on their own initiative. Unfortunately, the management environment in the Calcutta branch of the Bank of Taiwan, was not conducive for this to happen. And we saw what happened as a result of this.

To conclude this Teaching Note, I will refer to Ishak (2017) who spoke of 'innovative parenting' that is, the importance of building an innovative culture in an organization; something the bank did not have. Ishak said that, 'in my experience, innovative cultures start with a philosophy and a tone—one analogous to the classic parenting advice that children need both "roots and wings." As an innovation leader, you must ground creative people in accountability for the organization's objectives, key focus areas, core capabilities, and commitments to stakeholders. Then you give them broad discretion to conduct their work in service of those parameters. Obsessing too much about budget and deadlines will kill ideas before they get off the ground. Once your (employees) understand that they are ultimately accountable for delivering practical products and processes that can be manufactured affordably, you can trust them to not embarrass you by wasting a lot of money and effort. This trust helps forge an innovation culture.'

So, some of the lessons from this case are:

- Be rigorous in your promotion policies and the ways the person to be promoted is identified.
- Do not be afraid to dirty your hands – that is, keep track of the minutest signs that something is going wrong and star digging into the dirt.
- Treat the Audit Department as a support department to your operations. Do not get into the mind-set that they are there to 'get at' you and spoil your career.
- Choose the departmental team keeping everyone's strengths and weaknesses in mind. The weakness of one officer should be counterbalanced by the strength of another.

The Calcutta branch of the bank was not unusual in any way. It conformed to the way the bank operated in other cities and countries. Unfortunately, the problem of selecting senior officers was a weakness which it could not solve. In the final analysis, the branch (and the bank) paid for this mistake which should not have happened in the first place.

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