

The Headquarters Building Teaching Notes

What Are the Relevant Facts?

1. John has been asked to review the assumptions to improve a capital budgeting analysis.
2. The president of the bank, who is requesting the changes to the analysis, has a record as an excellent manager.
3. Exaggerated growth assumptions in the analysis will probably not be detected by the board of directors, will not lead to financial difficulties for the bank, and may even help the community.

What Are the Ethical Issues?

1. Is it ethical for John to use a growth assumption that is “clearly unattainable?”
2. Should John preserve his personal integrity at the risk of his job and/or presidential displeasure?

Who Are the Primary Stakeholders?

- John
- The president
- The board of directors
- Bank shareholders
- The local community

What Are the Possible Alternatives?

1. Refuse to do the analysis with the unrealistic assumptions.
2. Do the analysis with the unrealistic assumptions, but clearly point out the impossibility of their occurring in a way that it is not possible to miss. John might even submit an alternative analysis that he feels is correct.
3. Do the analysis with the unrealistic assumptions and make no special point about the problems with them.

What Are the Ethics of the Alternatives?

- Evaluate the alternatives from a “utilitarian” perspective by asking questions such as:
 1. What are the costs and the benefits each of the affected parties must bear if John changes the analysis? If John refuses to change the analysis? For example, will anyone be injured if the analysis is changed?

2. What benefits can the local community expect if the analysis is changed? How should these costs and benefits be measured?
3. Which alternative can be expected to provide the greatest benefits or the fewest costs for all of the parties involved?

- Evaluate the alternative from the “rights” perspective by asking questions such as:
 1. What rights and what duties do the various stakeholders have? For example, what duties does John owe to the bank's stockholders?
 2. What rights do they have?
 3. What duties does John owe to the president?
 4. Which alternative promises to best respect these rights and allow for a fulfillment of these duties?
- Evaluate the alternatives from the “justice” perspective by asking questions such as:
 1. Who bears the heaviest burden of an unrealistic analysis?
 2. Who derives the greatest benefits?
 3. Is it fair that those *who* must bear the burden are penalized, while those who benefit are rewarded?
 4. Which alternative will be most fair to all stakeholders?

What Are the Practical Constraints?

1. If any problems arise as a result of building the new headquarters, the president, not John, will be held responsible.
2. The president is likely to find a way to gain approval for the building, regardless of what John does.

What Actions Should Be Taken?

What action should John take? Why do you make this choice?

Which ethical theories influence your decision most in this situation?