

The Good Credit Reference Teaching Notes

What Are the Relevant Facts?

1. North Manufacturing has a good credit history with DCC and uses the firm as a credit reference. North currently owes DCC a million.
2. Scott Bradley, North's treasurer, has confided in Kathy Ryan, a credit officer at DCC, that he believes North is in imminent danger of failing.
3. Scott also tells Kathy that if Basic Products will give them credit for a large order, DCC's million-dollar credit will be paid before North files for bankruptcy.
4. Basic Product's credit manager, Mike Walulan, calls Kathy to ask about DCC's credit experience with North. After Kathy provides the "prompt payment history," Mike has a misleading impression of North's credit quality.
5. Kathy could probably cause Mike to have greater concern without compromising company credit information policy.
6. If Basic Products does not provide credit to North, Kathy's salary and position may suffer. She may even lose her job.

What Are the Ethical Issues?

1. If Kathy attempts to alter Mike's initial reaction to North's prompt payment history, will she betray Scott Bradley's confidence?
2. If Kathy only provides the prompt payment history to Mike, without any signal of potential danger, will she have been honest?
3. In warning Mike about the situation at North, would Kathy breach a duty to the employees and stockholders of her company, DCC?
4. What duty (if any) does Kathy have to North Manufacturing and Basic Products?

Who Are the Primary Stakeholders?

- Kathy
- Ryan
- Scott Bradley
- Mike Walman
- DCC stockholders and employees
- Basic Products
- North Manufacturing

What Are the Possible Alternatives?

1. Kathy could finish the conversation with Mike without any further reference to North's credit standing.
2. Kathy could attempt to alert Mike by suggesting he research North's credit performance elsewhere as well.
3. Kathy could clearly warn Mike about the difficulties North may pose in the near future.

What Are the Ethics of the Alternatives?

- Utilitarian Perspective Issues. For each alternative, have students consider the costs and benefits for the various stakeholders.
 1. Which alternative would provide the greatest net benefit? For example, if Kathy finishes her conversation with Mike without further discussing the North credits, what are the benefits to North, DCC, and Basic? What are the costs, and who bears them?
 2. How would costs and benefits be measured? How would the benefit of being honest or the cost of revealing confidential information be valued?
- Rights Perspective Issues. Probe Kathy's duties to the various stakeholders with questions such as:
 1. Does Scott Bradley have a right to expect that Kathy will treat his revelation as private information? If so, would suggesting that Mike seek further credit data violate Scott's rights?
 2. When stockholders and employees stand to lose as a result of divulging information outside that prescribed in company policy, should they expect that Kathy will keep it private? Would merely hinting at broader problems at North infringe upon this right?
 3. Does Mike Walman have a right to expect that Kathy will provide accurate information about North's credit situation? Would simply reciting the credit history satisfy any duty to Mike, given Kathy's knowledge of North's situation?
- Justice Perspective Issues. Consider the fairness of the costs and benefits distribution among the stakeholders. Questions might include:

1. Is the distribution fair if Kathy does not attempt to signal Mike?
 2. What will be the distribution of benefits if Kathy effectively implies that North has serious problems?
 3. Who bears the costs in this case?
 4. Which of Kathy's potential actions leads to the fairest distribution of benefits and costs?
2. Kathy's friendship with Mike may be compromised if she elects not to give any signal of North's impending financial trouble.
 3. Kathy's reputation and career may suffer if North files for bankruptcy and DCC holds \$1 million in trade credits for which she is responsible.

What Are the Practical Constraints?

1. Kathy has insider information which she may be legally restricted from divulging.

What Actions Should Be Taken?

1. "Yes, I'm here," Mike answers after being on hold. What do you tell him if you are Kathy Ryan?
2. On what ethical theory is your response based?