EDUCATION & INDUSTRY FORUM ON FINANCIAL SERVICES CULTURE

EIF Case Studies

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Table of Contents

EDUCATION & INDUSTRY FORUM ON FINANCIAL SERVICES CULTURE

CASE STUDY:

Bidding in an Auction

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Part I

Investment bank Dillon & DeLong is struggling. Although it had once been among Wall Street's most prominent financial firms, its recent performance has languished as it has failed to embrace electronic trading as quickly as its competitors. Junior trader Erin had been excited when she initially accepted a summer internship with Dillon & DeLong while she was in college, but now—four years later—her enthusiasm has dwindled along with the firm's profitability.

After years of tepid results, Dillon & DeLong has just negotiated the acquisition of a proprietary energy trading unit based in Houston, Texas to try to reinvigorate its returns. The unit owns the rights to energy produced by two "green" power plants in San Jose, California, which Dillon & DeLong can sell in auctions organized by California's power authority.

Dillon & DeLong has a lot riding on this acquisition. Erin heard from her boss Cyrus, the head of the trading desk in New York, that Dillon & DeLong might be sold to a bigger investment bank if the deal does not pan out. Cyrus told Erin, "You and the rest of the junior traders will be fine if we're sold, but desk heads like me always get laid off." Erin felt badly for Cyrus—although her morale was waning, Cyrus had always been a good boss. She didn't want him to lose his job.

After acquiring the energy trading unit, Dillon & DeLong transfers responsibility for bidding in California's power auctions from Houston to Cyrus and Erin's desk at Dillon & DeLong's headquarters in New York. Cyrus asks Erin to learn all she can about how the auction process works, and to report back to him on what trading strategy the New York desk should adopt.

Erin sets up a meeting with Denise, the head trader in Houston. Denise explains that the California power authority auction invites energy producers to submit prices at which they are willing to sell their energy during each hour of the day. The lowest bid wins.

Denise tells Erin that, these days, the lowest bids tend to come from fossil fuel producers like coal plants. They produce power at about $6 per unit. Green power plants are more expensive to operate—$12 per unit on a good day. As a result, green plants rarely win auctions.

Denise explains that her previous strategy of bidding based on the San Jose plants' cost of producing power had not been profitable. Therefore, she developed a new strategy to overcome the green producers' pricing disadvantages. Denise says that she has recently been submitting prices that do not reflect the actual cost of producing power. Instead, she bids the lowest possible amount allowed by the auction system for a particular hour: $.01. That bid wins no matter what, even though the plant will operate at a loss.

According to Denise, the success of the strategy depends on a separate regulation stating that any plant winning an auction for a particular hour also receives a contract for the surrounding hours due to the fact that power plants take time to warm up and wind down. For those times, Denise submits the highest possible cost allowed by the auction system: $999. The result? The cost of producing power is still $12. For one hour, the plant operates at a loss. But for two hours, it makes a significant profit.

As Denise describes the strategy, Erin grows concerned. Is this tactic permissible? Denise assures Erin that nothing in the auction's rules prevents traders from using this strategy. Denise says, "It's an auction—the goal is to win, and I played within the rules."

Erin has to report back to Cyrus. She thinks that Denise's strategy is creative and has big profit potential. But she is concerned that it isn't within the spirit of the auction. What would happen if every power company submitted bids in a similar fashion?

On the other hand, what if Dillon & DeLong does not adopt Denise's strategy? Will the acquisition prove to be unprofitable? Will Dillon & DeLong be sold? Will Cyrus lose his job?

Discussion questions

- What does your gut tell you about what Erin should recommend? Why?

- Is Denise's strategy ethical? How do you feel about it? Why?

- Should Erin tell Cyrus that she has concerns about Denise's strategy? How should she frame those concerns? Are they about ethics? Legal risk? Reputational risk? Does it matter?

- Is it Erin's role, as a junior trader, to make this decision on behalf of Dillon & DeLong? Or is it up to more senior traders to decide what the company should or should not do?

- Is it relevant that Denise's strategy results in more green energy production?

Part II

Erin decides to tell Cyrus about her concerns with Denise's strategy. Despite his desire to generate easy profits, Cyrus agrees that the strategy sounds fishy. He asks Erin to set up another meeting with Denise to ask about other strategies Dillon & DeLong might use in the auction that are not in an ethical gray area.

On the follow-up phone call, Denise tells Erin that she did not come up with the previously described trading strategy by herself. Instead, she heard about it from other traders who sold energy from green power plants. In fact, one of those traders is now a Commissioner on the Federal Energy Regulatory Commission.

The Houston trader explains that nearly all green plants are now using this strategy—otherwise, they would almost never be able to win any auctions over fossil fuel producers. Until a few years ago, green plants won some hourly auctions—i.e., at peak demand times—by bidding at their cost of production. But Denise says that today, it is nearly impossible for a green plant to win an auction without using the strategy she described to Erin.

This explanation troubles Erin. After all, if every green plant uses the strategy, how does any one of them win? It appears that using the trading strategy is Dillon & DeLong's only option to monetize the power plants. At least, Erin cannot think of another way. Erin has to report back to Cyrus on what trading strategy to adopt. Cyrus expects an answer. His job could be riding on this. What should Erin do?

<u>Discussion questions</u>

- What does your gut tell you about the case now? Has it changed?
- What should you do when all of your competitors are doing something with which you are not comfortable? How do you compete in that market without compromising your sense of what is right?

- Should Erin consult with anyone else in the firm? How might Cyrus react?

- How do you navigate issues in which answers to the questions “can we” and “should we” may not be the same?

EDUCATION & INDUSTRY FORUM ON FINANCIAL SERVICES CULTURE

CASE STUDY:

Get It Done

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Part I

It had been a remarkable year for Mark. Since joining Big National Bank's investment banking division almost two years ago, he'd worked on some extraordinary deals and had already established a strong track record for getting things done. It was a dream job. Still, the pace had felt a bit grueling lately. The latest deal he was working on had required what felt like nonstop work on his part for the last few weeks, and he was starting to feel the fatigue. But he was first to admit that his work was also thrilling. Mark felt that he'd been particularly lucky in his landing at BigNat, having fallen into the de facto role as Taylor Smith's go-to analyst.

Taylor was one of the most successful VPs in the group, and this past year was probably one of his best. Taylor had a very solid client base, and he was increasingly getting a reputation for his creativity and innovation in deal sourcing and structuring. Mark and Taylor had certainly been riding a wave together for the past twelve months. Mark had decided that he wanted to make a push for promotion to associate next year, and was hopeful that his close work under Taylor would help get him there. And so Mark was certainly rooting for Taylor's promotion to MD this year, too; with Taylor as a MD, Mark's prospects at the bank would definitely improve.

But things got a little hairy for Mark one Monday morning in early December. Taylor had recently been tasked with managing a new transaction for a very important client: the Hydrangea Group, a large corporate conglomerate. The bank had provided underwriting and advisory services to Hydrangea many times in the past, and the firm historically had been a demanding client. This time, Hydrangea's executives had made a strategic decision to expand into the shipping sector. They found what they believed to be an attractive target to realize this vision: a small but growing shipping and freight company based in a Latin American country. The deal, however, was contingent on closing by year-end because the seller insisted on receiving the proceeds in the current fiscal year for tax purposes. Hydrangea needed to finance the acquisition and therefore needed a loan from BigNat quickly.

Taylor's team had a good meeting with Hydrangea that morning to discuss the possibility of the new transaction. If the deal was structured right and done quickly, it had the potential to be extremely lucrative for Hydrangea's investors, and that would win BigNat more of the company's business. Mark was excited. Taylor was sure to give him a piece of the credit, as usual. Mark would learn a lot on the deal, and it would shine brightly in his reviews. Everyone left that Monday morning meeting with a lot of enthusiasm and a feeling of urgency to get down to it.

But the transaction was going to be stressful. For one thing, there was the time pressure. Hydrangea had been very clear that the transaction had to happen before year-end. For another, Hydrangea wanted to use one of its foreign subsidiaries to purchase the new company (for tax and structuring reasons). This meant that, technically speaking, BigNat would be providing loan financing to a new legal entity (i.e., the Hydrangea subsidiary). But details about the entity were a little fuzzy to Mark after the meeting. This made Mark anxious about his ability to move things forward quickly, because onboarding a new client could be painful and time consuming.

Mark knew his role. Taylor was going to be focused exclusively on the credit memo, and getting that polished and through the risk and investment committees. It fell to Mark, as the analyst on the deal, to liaise with compliance to make sure the required "Know Your Client" documentation was ready to go, so that a deal could be cleared prior to its execution. Anticipating a bumpy (and possibly drawn out) process, Mark went straight to his desk after the meeting to call Jeff, the compliance VP with whom he normally worked. He walked Jeff through the information that he had, and Jeff told him that he could turn things around within ten days. "That's for you, Mark. I can't tell you how underwater we are. We're juggling a lot of issues that need compliance input, and don't have the staff."

When Mark hung up the phone, he went straight to Taylor's office to go over the timeline. As he was knocking, Mark overheard Taylor promising Luke at Hydrangea turnaround by end-of-week. Mark's stomach tightened; he knew Taylor would propose an aggressive timeline, but was surprised at how condensed this one felt. He also knew Taylor was not going to go back on his promise to the client. That was not how Taylor worked.

Mark felt stuck. He was worried about being the bearer of bad news. Shouldn't he be able to just get it done and not bother Taylor with this compliance stuff, he thought to himself? Last year, in Mark's first review at the bank, the chief piece of feedback he'd received from Taylor was that if he wanted to be promoted to Associate in two years, he needed to be able to navigate through roadblocks better. This seemed like a prime opportunity to demonstrate that he could do that. Otherwise, Mark worried that he might permanently be pegged as someone who couldn't solve problems independently.

Discussion questions

- What does your gut tell you about what Mark should do?
- How is Taylor's leadership style and behavior influencing Mark's actions?
- Is it Mark's job to solve the problem with compliance?
- What is, in fact, the real nature of Mark's problem on Monday afternoon? How do you think he felt?
- Should compliance be more customer-focused?

Part II

The next morning, Mark resolved to deal with the compliance issue on his own, or at least handle the issue as much as he could, before bugging Taylor. Even though this case was a little different, he felt he could persuade Jeff, given the urgency and the potential payoff.

“Jeff, Mark here. Thanks again for working to get this done. As it turns out, we need approval to happen in a tighter time frame—four working days, at most. Can you make this a priority?”

“Hi, Mark. I’m not sure. We’re really backed up on KYC processing at the moment, and yours is the fifth deal on my list. To be honest, I don’t think I can make that timeline happen. By the way, we need more info on the legal entity identifier for the subsidiary you mentioned on the phone yesterday. The name you gave me must be a nickname, because we aren’t able to diligence this new company.”

Mark felt exasperated. It was the opposite of how he’d hoped the conversation would go. What was Taylor going to think? He’d be frustrated that his timeline couldn’t be met, but there was no way he was going to want to pester Hydrangea for more information when time was of the essence and they’d been through the BigNat’s KYC process a dozen times before. And knowing Taylor, Mark knew he definitely was not going to want to tip the bank’s hand that the deal might be getting bogged down in compliance. Taylor trusted him. How could he get this done?

Mark thought that maybe he should just give compliance what he had on file for the last deal BigNat arranged for Hydrangea. The subsidiaries weren’t exactly the same, but they seemed closely affiliated. And even if the information wasn’t one hundred percent accurate, it could be close enough. Besides, couldn’t he just update the file later?

Mark asked a few other junior bankers what they thought. Chris, an analyst with one more year of experience than Mark, said his opinion was that Mark should definitely just fudge it. Chris reminded Mark of the last analyst under Taylor who pushed back on the timeline for an important client. Taylor flipped out and never tapped her to work with him again. Besides, it was just an administrative issue and they'd been working with Hydrangea for years.

Still not satisfied, Mark asked another associate on the floor, Laura. Laura paused. She wasn't so sure, and suggested that if Mark was really uncomfortable he should just stand up to Taylor and tell him it couldn't be done.

Discussion questions

- What should Mark do? Are there options he may not have considered?
- Which takes precedence: getting a deal done or complying with an internal due diligence rule?
- When is it acceptable to question a compliance requirement or a judgment call made by compliance staff?

Part III

On Wednesday afternoon, Mark decided to loop Taylor in. After all, it had been three days and the client was expecting to move forward by COB Friday. Maybe Taylor would understand. After all, Mark had continued to press compliance and was unable to push the deadline up.

As luck would have it (or not), just as Mark went into Taylor's office, Taylor was hanging up the phone with Luke, his main contact at Hydrangea. It had not been a good call. Luke expressed his concern that, as it was, BigNat was taking too long with approvals and they were worried about missing their end-of-year target. Luke wanted the deal approved within 24 hours, or he might have to take the business elsewhere.

Mark knew he now had to tell Taylor about the compliance issue—even though he was pretty sure how he would respond, given the tone of his call with Luke. As expected, Taylor blew up. "That's a joke. If those guys in compliance would just work past six p.m., this would never be an issue. I mean, they're not being commercial in their thinking at all."

Taylor cooled down. "I'll just call Amanda. She'll get it. She can make this a priority." Amanda was the partner on the desk. Mark knew it was a common practice in the investment banking division: when compliance was slowing things down, and the deal was big enough, a high-octane call from a partner was usually enough to push the compliance team into working harder, faster, or less thoroughly than they'd like. Taylor seemed resolved. "Leave this with me for now, Mark. And let's schedule time to discuss how I expect you to handle situations like this in the future. You have to be a lot more aggressive with these guys if you want to be commercial and make it far here. Yes, it's important to think about risk, but sometimes the compliance team is too cautious. That's when you need to step up for your client, got it?"

Mark felt uneasy, but was there anything left for him to do?

Discussion questions

- What does your gut tell you about what Mark should do? What are his options at this point? Is he obligated to do anything more? If so, why?
- Is there something Mark could have done on Monday afternoon that might have changed the way that Taylor reacted on Wednesday afternoon?
- How would you coach Mark on what to do next?
- Would Mark have felt less anxious about confronting Taylor if Taylor were a woman?

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CASE STUDY:

A Judgment Call

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Overview

You are an associate in an investment bank. You are the newest member of a fifty-person group that covers the health care industry. Your team won a competitive mandate to be lead sell-side advisor. Your client, a Fortune 500 health care company, is selling its health care payments business (the "Subsidiary") that its management team deemed to be a non-core asset. It is the group's first time leading a transaction for the client. A successful sale of the Subsidiary will likely lead to future transactions.

You were informed that you have been staffed to work on the asset sale with a few others from the group (an analyst, vice president, and managing director).

Group background

The health care group has expanded over the past two years with the goal of significantly increasing its market share, both on the buy-side and the sell-side. The team has made tremendous progress toward this goal.

Prior to joining the group, you had heard that the reputation of the team was to work its junior bankers hard, and that some senior bankers had difficult personalities. In fact, you were able to get some additional context through a "friend of a friend," Ariel, who has been an associate in the group for two years. Ariel stated unequivocally that to be successful in the group, one must stay on the good side of senior bankers.

The majority of the team is situated in an open-floor office, so you have direct access to colleagues at all levels of seniority. Despite having to work long hours, you are pleasantly surprised by how well everyone works together. The culture is one where junior bankers are encouraged to ask senior bankers questions. You have also noticed a strong camaraderie across the team from analysts to managing directors. It is not uncommon for senior members of the team to take junior colleagues out to grab a drink and socialize, especially when they have been working hard. Although it has been a relatively short period of time, you have begun to assimilate into the group culture and develop a few relationships.

Sell-side advisement

You are excited about the opportunity to work on your first deal with the team—and to work with Maria, a well-respected vice president. It is common knowledge in the group that Maria is very influential with senior bankers. During compensation discussions, she is known to be a strong advocate for juniors. Maria asks you to review the historical and projected financials for the Subsidiary. She then provides you with a model/spreadsheet that has been provided by the client. The model's financial projections will be one source that potential buyers will use to determine the value of the Subsidiary and what they might bid. The model will also drive the team's advice to the client with regard to the range of offers to expect, as well as a fair price if the investment bank is to provide a "fairness opinion" on the sale. (A fairness opinion is a report generated by an investment bank for a client's management team and board of directors that offers a view on whether the client is receiving a fair price when buying or selling an asset.)

In the course of reviewing the model's financial projections and assumptions provided by the client, you notice a hardcoded number that increases future cash flow by an additional 2.5 percent. The due diligence with the client took place prior to you joining the team, so you will not have an opportunity to ask the client about it directly. The hardcoded number does not appear to be drastically different from other numbers in the model, and the additional 2.5 percent cash flow does not seem material. Time is not on your side, and you have to complete the review of the model. You wonder if you should you bring this to Maria's attention. You eventually err on the side of caution and decide to bring it up with her.

You walk over to Maria's desk and say, "Maria, I noticed this number in the model was hardcoded and it impacts future cash flows by an additional 2.5%." Maria looks annoyed and in a condescending tone says, "That's just one of many assumptions in the analysis. The 2.5% is a far more conservative assumption than what's typically used for financial projections. Welcome to the health care industry, rookie."

On the one hand, you immediately begin to second-guess your decision to bring this to Maria's attention. On the other, your gut is still telling you that something about the analysis just does not feel right. Maria spoke with conviction, but it's difficult to evaluate whether she is correct given it's your first deal. The fact is, however, that nothing on the spreadsheet indicates that the number is only an assumption.

A few minutes later, Maria stops by your desk. "Look, it's a judgment call," she says. "It's not your job to make the judgment. We can talk about it later. But just get this done now. Please. Thank you."

You don't want to do something that ruins your prospects with either the group or the firm. You distinctly remember what Ariel said when you joined: To be successful in the group, one must stay on the good side of senior bankers. Maria has a solid reputation in the office, and the senior bankers respect her opinions. She is focused. She gets the job done. You do not want to be the person who disrupts the team's cohesiveness, camaraderie, and accomplishments.

Maria was clear that this task must be completed now. You contemplate whether you should prepare the projections as requested. Given the importance of the transaction, you don't want to create a problem if there isn't one. Nonetheless, since you joined the bank, you have been repeatedly reminded of how important honesty and accuracy are to the business through the bank's communications and training.

Discussion Questions

- Should you just let it go and complete the projections? What does your gut tell you?

- What do you feel is your responsibility in this case?

- What are some of the factors that impact your judgment?

- If you went and talked Maria a second time, what would you say to her?

- If you do not want to go to Maria, who else in the organization could you seek out?

- What are the potential positive and negative ramifications of raising your concerns and of not raising your concerns?

- How would your decision affect how you feel about yourself and how you feel about the bank?

EDUCATION & INDUSTRY FORUM ON FINANCIAL SERVICES CULTURE

CASE STUDY:

Conduct After Hours

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Part I

After many long, stressful days of hard work, the high-net-worth financial advisor team hosted a happy hour in a private room at a local cocktail lounge to celebrate the end of summer and several consecutive quarters of superior performance. Everyone needed an evening to relax. At the firm, these celebrations are an important way to recognize strong individual and team performances. By creating stronger bonds among team members, the events are a critical component of establishing a sense of belonging. The celebrations are also part of the recognition process at the firm and help to reinforce continued strong performance. This team deserved recognition given its sustained commercial success. The division's senior management attended, as well as junior and senior financial advisors. Similar to prior celebratory events, as the evening progressed, happy hour became happy hours.

Alex, recently named Best Asset Manager of the year, was one of the senior financial advisors who played an important role in the team's success, and was known in the firm as being a driver of this culture of recognition. As the evening wore on, he showed signs that he had had too much to drink. Tonight he ordered several drinks for Francis, a junior advisor who has worked at the firm for about two years. Relative to other junior analysts, Francis delivers quickly on client pitches and offers more original ideas. Therefore, Francis was often asked to work on Alex's client portfolio.

By the end of the event, only Alex, Francis, and a few other junior financial advisors remained. Among the last to leave were Rory and Devon, two junior financial advisors that joined the firm a year before Francis. The junior advisors felt privileged to be on Alex's team, given his reputation as a charismatic leader with a great track record and an expectation of loyalty from his team. Alex is also generous with praise for junior advisors, so long as they make decisions that Alex deems "smart."

On the way out, Rory noticed Alex and Francis at the bar. Rory, who also overindulged, recorded a short video of Alex swaying at the bar, and occasionally leaning close to Francis. It seemed like a funny situation—

perfect for the "blooper reel" they'd no doubt create for the year-end holiday party in a few months.

The next day, Rory looked at the video clip, and saw that Francis flinched and pulled away when Alex moved too close. Meeting Francis in the hallway, Rory asks Francis if everything was okay at the bar. Despite Francis's reassurance that there was no trouble, Rory presses the point. "I'm fine. Please drop it. Don't be weird," Francis says. Rory is not convinced. Like every employee, Rory has taken a training course in sexual harassment. It is the firm's policy that employees must report violations of the firm's zero-tolerance harassment policy. But Francis was clear: it was not Rory's business.

Discussion Questions

- What does your instinct tell you about what Rory should do? If you think he should report something, what are the issues he should report? If Alex were Francis's supervisor, would you change your answer?

- How do you decide between conflicting norms: to respect a colleague's privacy or to follow an employer's policy? For what reasons might Francis decide to remain silent even though the situation at the bar was uncomfortable?

- Who determines what constitutes sexual harassment? If those who appear to be harassed do not regard the behavior as harassment, should an observer report the conduct? What happens when "raising your hand" could cause distress for a colleague, supervisor, or for you?

- If Alex is known to let loose sometimes and encourages others to do so too, would you change your answers? If you knew that senior managers were aware of Alex's behavior, but have done nothing about it, would you change your answers?

Part II

The firm has policies that restrict the use of electronic recordings and social media, but permit it for limited business or personal use. Yet it was unclear how the policies applied to an after-work social event. Management frequently encouraged the taking of photographs and video clips to help showcase the firm's culture and camaraderie, and colleagues shared photos and comments on WhatsApp. The policy, however, also emphasized the importance of protecting the reputation of the firm and its intellectual property. It also prohibited defamatory comments in both business and personal use of social media communication. Rory wonders if his video clip should stay private—and whether he should delete it.

Rory decides not to report the conduct. But two days later, Devon pulls Rory aside on the way to a meeting. Apparently, someone else had recorded a video of Alex at the bar. There were a lot of likes, as well as some unpleasant comments. Rory is visible in the background of the video holding up his cell phone. Devon heard someone say that the video was posted to Instagram, and Human Resources would almost certainly have the video before the end of the day.

<u>Discussion Questions</u>

- What does your instinct tell you about what course of action, if any, Rory should take?
- How does social media affect an employee's duty to an employer? What are the concerns for the people in the video?
- Should Rory speak further with Francis, or Alex? If so, what should he say?
- To what extent can social media usage affect the reputation of the firm?

EDUCATION & INDUSTRY FORUM ON FINANCIAL SERVICES CULTURE

CASE STUDY:

Tech and Research

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Part I

Trevor is a newly promoted VP who just relocated from New York to Hong Kong, and he is eager to prove his value.

Recently, he began working on an exciting project. He is engaged with an assignment to help a Hong Kong-based vegan ice cream chain called I-Scream, which is seeking international investors and global expansion.

Trevor is determined to find the right data sets. He stays late each night to study the international industry, learn about I-Scream's global target market, and try to get an accurate valuation of the fast-growing chain. He knows his current model is hit or miss at best. He just doesn't have enough information. Trevor believes public comparables on mature consumer product companies are not applicable. I-Scream is private and has no public debt. There is little public information readily available for a viable comparison.

I-Scream's founder, Dr. Lee, is a highly involved client. She pushes the team to find the best approach to pitching expansion before going to investors. If she doesn't get what she wants, chances are she will simply move to another financial services provider. Trevor's firm has no established, long-term relationship with I-Scream, but a tremendous opportunity awaits—and Trevor knows this. In fact, the entire team is highly aware of the potential revenue streams Dr. Lee's current and future ventures could create, as her ambitions are widely known on the street—something Sam, head of research for the Hong Kong division, reminds the team of constantly.

Since Trevor started at the firm, he has viewed Sam as the type of leader he hopes to be one day. Having worked his way up through the ranks to division head at a relatively young age, Sam inspires his team with bold decision-making, and encourages them to think in new and innovative ways, bringing a palpable sense of excitement to their work. His boldness, however, is not completely untethered. Sam's behavior and decisions are always grounded in the motto, "Do the right thing." In fact, he even says the phrase to his team at the end of every meeting. On the desk, some on the team joke that "Do the right thing" is just a broad suggestion to push for new business, but Trevor sees it more as a statement of character.

One Friday afternoon, as the team heads out for a long weekend, Dr. Lee texts Trevor on an app called "WeChat." She writes that she has an idea to get the data they need. Before opening the message Trevor pauses. When working back in New York, he recalls being warned that almost all clients in Asian markets are used to communicating on WeChat. Trevor also knows it's against firm policy to communicate with clients outside of firm systems. That said, many still do it.

Since meeting Dr. Lee, she has been reaching out to him via WeChat despite Trevor's many requests to use the firm's email systems. Every time he suggests they move their communications to email, he's met with silence. Early on in their relationship Dr. Lee had complained about his lack of quick responses via text. It took some work to rebuild her trust, and Trevor wasn't going to make that mistake again.

Besides, if just about every client in Asia is using WeChat —and to his knowledge nobody is getting into any trouble for it—then it couldn't be that serious of an issue, could it? Now that he was back "in" with Dr. Lee, he wasn't going to risk the relationship by suggesting email correspondence again—especially not at this stage in the venture. Instead, he convinces himself that he will get her to stay within the rules once their relationship is more established.

Trevor texts her back and asks for more information about her idea. Dr. Lee suggests "scraping" data from the web to get the insights they need. Before he can think it through, he responds quickly to her text, saying, "I'm on it!"

Trevor knows this could work. If he can scrape—that is, pull the information down from live websites using software—he can gather competitor locations and pricing, and combine it with other public data such as population density and income levels to create estimates on potential sales, both globally and by region.

Back in the United States, web scraping is viewed as a gray area. Many research analysts talk about using it, but the key is knowing the limits of the practice. Trevor is seen by his team as an individual of high integrity. He values that reputation, and wouldn't risk it by scraping a site that obviously views its data as intellectual property. However, given the looming deadline, the sense of urgency in Dr. Lee's request, and his general understanding of the law, he feels he can navigate the process legally. Although it might be hard to know which company sites to exclude, he would do some research, and then take his best guess, carefully avoiding the sites he feels might be an issue. Besides, although he is new to the region, he hasn't heard of any specific international laws that govern this practice, and he has friends at competitor banks that do it all the time. He thinks to himself, "How can it be that big of a deal?"

Trevor tries to think of what Sam would do. "Do the right thing," he always says. In this case, the right thing to do is to assist the client to the best of his ability. With Sam's inspiring words in his head, Trevor feels he has implicit backing to make this decision and to be confident in doing so. Trevor recalls one of his off-shore team members, Ronnie, saying in passing that he knows how to code. Trevor calls Ronnie and asks him to help build scrapers for 8-10 websites. Ronnie seems a bit hesitant at first. He says that he hasn't done that in a while and doesn't want to do anything wrong. Trevor, however, assures him that he's "doing the right thing by putting clients first," and that this will improve the firm's relationship with Dr. Lee and lead to more business.

Ronnie proceeds and starts scraping the next day.

<u>Discussion questions</u>

- Are Trevor and Ronnie being good team players?
- Have you ever asked yourself, in effect, "What's the point of following this policy if my colleagues do not?" Are social norms supportive of ethical behavior?
- If scraping is a "gray area," is it OK to do it? What principles govern your choices when a legal standard is unclear?
- What do you do when a firm policy and client preference conflict? How can Trevor build his relationship with Dr. Lee even as she is unwilling to adhere to firm protocols around communication?

- How should you prepare for regional differences in professional culture and communication styles?

- What could Sam do to be a better role model, without having employees misunderstand how his values translate to day-to-day actions?

Part II

Two months later, as the I-Scream team meets with potential investors. Dr. Lee is pleased. The firm has enticed more than a dozen potential investing teams from around the globe—due in part to Trevor's research on the valuation of I-Scream. Dr. Lee even reaches out to Sam about Trevor's great work, and Sam sends Trevor an email thanking him.

Trevor's team is proud of him and happy to see a well-respected employee rise to the occasion at such a crucial time in his career— so much so that they plan to take him out for drinks to celebrate. That same day, Trevor gets a call from Ronnie, who seems a bit anxious. He tells Trevor there's been some unusual activity attached to one of his web scrapers, coming from a small site in India. Trevor asks what the activity might mean, and all Ronnie can tell him at this point is "there may have been an issue with the scraper being identified, but it's hard to tell." As he gets his coat, Trevor's sense of accomplishment is suddenly a bit rattled. He hides his concern during drinks after a follow-up text from Ronnie tells him "not to worry too much, it should be fine."

A few days later, Trevor reads a Twitter post from one of I-Scream's competitors, referencing their data as intellectual property. It went on to say that they are going to aggressively identify anyone who is using the data without their consent and ensure they are held accountable. Trevor immediately calls Ronnie on his private cell phone and asks if they are at risk. Ronnie confirms they did in fact use a "bot" to scrape the competitor's site and that he was actually in the process of reviewing the fine print on the site. However, without a clear understanding of the legal jargon, it's hard to know. Much of it seems ambiguous.

Trevor and Ronnie debate what to do next. Trevor asks if the firm "could take a hit if this is discovered." Ronnie replies, "Yes, absolutely…and we could even be at risk personally. But let's hope it doesn't come to that."

Trevor weighs the consequences of being identified against the chance that this is all nothing to worry about. For the first time in his career, he feels alone.

Discussion Questions

- What are the primary issues in this scenario that leave the firm, its clients and its employees open to substantial risk?

- What assumptions did Trevor make that contributed to the challenging situations in this scenario?

- What could Ronnie have done to help Trevor, while mitigating his, and the firm's, exposure to risk?

- If you were Trevor, what would you do next? What does your gut tell you?

EDUCATION & INDUSTRY FORUM ON FINANCIAL SERVICES CULTURE

CASE STUDY:

Grabbing Coffee

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Sponsored by: Federal Reserve Bank *of* New York

Part I

Trish felt her heartbeat tick-up, and this surprised her. After all, she had nerves of steel, uncanny focus, and piercing determination. She had cultivated these skills during her years as a competitive lacrosse player at boarding school, and then at Princeton, where she'd pursued a degree in operations research and financial engineering ("ORFE") and a certificate in finance. Still, despite her impressive accomplishments and common sense—Trish felt butterflies in her stomach emerging from the "E" train a few blocks away from her new job at Norland & Partners, a boutique advisory firm. Steadying herself, Trish pushed through the revolving doors and walked briskly toward the elevators reserved for employees and guests of Norland. She'd finally joined the ranks of one of Wall Street's most elite group of underwriters. These guys were known as ninjas of Wall Street, and now she was one of them.

Joining Norland was the next level for Trish, but it certainly wasn't her first Wall Street rodeo. Her last gig—at the bulge bracket investment bank, Leonard Links had prepared her for a fast-paced, forward-leaning underwriting culture like Norland's.

The head of HR was waiting for her at reception. At that moment, ambition trumped nerves, and Trish knew she would fit in. She always thrived while working with the best and the brightest. And, on a personal level, she knew she would like her colleagues. She'd already met six or seven of her teammates during her interviews. Walking to her office, Trish thought to herself, "I belong here. I'm going to love this."

And she did, for the first six months.

There were about forty-five people in the transportation and hospitality group, which she had joined. The head of the group, Jake, had been with the firm for 20 years. Jake now sat on the firm's management committee, and he ultimately managed all of the group's client relationships. Not surprisingly, he was the group's principal rainmaker. He had poached big corporate clients from other, larger institutions many times, and built a reputation for delivering even better, brighter, and faster.

About six months in, Helen stopped by Trish's office. Helen was the newest Managing Director in the group. She was also an unofficial coach for more junior women, and would often grab coffee with the women on her deal teams. Helen said she was looking at some debt issuances to a number of regional airlines. They'd been hit hard by the Covid shut-downs and needed new debt to refinance. Trish knew the drill by now. The next few weeks would be hell. A lot of research on a new market. A lot of spreadsheets. High expectations. "Are you up for it?" Helen asked. "I want my ladies with me on this deal." Trish was up for it. She thrived in these conditions.

Two days later, Trish was neck deep in her work for Helen when Jake called. "Hey, Trish. I have a pitch in a few weeks with National Airlines and I could use a hand. There's the merger of a century that might be on the horizon. Want in? We'll fly to California to present to the board in five weeks."

This was a great opportunity for Trish.

"Thanks, but I have to check with Helen," Trish said. "I'm just a couple of days into a new deal and things are crazy right now." "I'll talk to Helen. It'll be OK," said Jake. "Alright. Thank you. Thanks a lot," replied Trish.

Jake's secretary soon started sending Trish calendar invitations to join calls and prep meetings for the pitch to National Airlines. A lot of partners were involved. Norland was going all out to impress, and it was becoming "all hands-on deck." Email invitations arrived with greater frequency. Sometimes they were for meetings that began 15 minutes ago. Trish was spending less time at her desk, and more time in the conference rooms at Jake's end of the floor.

One morning, after about two weeks of Trish running point on Jake's deal, Trish's inbox dinged with a note from Helen. "See me" was in the message line. No other text. When Trish reached Helen's office, Adam, another associate and the only guy on Helen's deal team, was just leaving. Adam and Trish had worked together on Trish's first deal, and they sat a few doors apart. Months later, they still kept up with each other over coffee. As he passed Trish, Adam widened his eyes with an expression that seemed to say, "Get ready."

“Where were you?” Helen asked. “I need the projections for the three capital structure scenarios we discussed two days ago. What’s the hold up?”

“Sorry,” Trish said. “Just to refresh . . ..”

“Trish, we talked about this.”

“I know,” Trish said. “I’m sorry. I just ran from a meeting with Jake and I’m just . . . .”

“What meeting with Jake?”

“The National Air pitch,” Trish said. “He said he would talk to you.”

“News to me. Talk to Adam. He’ll catch you up. I need you on this deal.”

Trish’s next few meetings with Helen didn’t go any better. Everyone was working hard and was stressed out. “Just keep working. Just do the work and it will work out,” Trish told herself. “It’s just part of the job.”

But things shifted in the days that followed. Trish started to spend a lot of time talking to Adam instead of Helen. Adam would pop in and say, “I just talked to Helen,” and then give Trish her next assignment. The message was clear. Helen didn’t want to deal with Trish. Trish got her assignments from Adam.

Trish asked Adam to grab coffee. “I feel like Helen has shut me out,” Trish said. “I think she knows you are going all out on Jake’s deal, and she is really short-staffed,” Adam replied. “There is only so much you can do in a day. Besides, this should have been staffed differently from the start. Helen’s deal has always needed more people. But Jake is Jake. He owns the place and calls the shots. And he wants to work with you, so that’s great.”

Trish felt uneasy. She’d always had great working relationships with her coaches, professors, and prior bosses. She just couldn’t figure out how to get back on Helen’s good side. She also wondered what, if anything, Jake said to Helen. Despite his assurances, it seemed like Jake had not made Helen aware of his new demands on Trish's time. Trish thought that was pretty unprofessional—both toward Trish and toward Helen.

Discussion questions

- What does your gut tell you about how Trish should handle Jake? On the one hand, he's singled her out for a promising professional opportunity. On the other, he hasn't made it easy for her to navigate the situation with Helen.

- What does your gut tell you about how Trish should handle Helen's frostiness?

- Why would Helen place Adam between Trish and herself? What might be some potential unintended consequences? If Helen is dissatisfied with Trish's work, what should she have done?

- Should Trish ignore her feelings of exclusion? Why or why not?

Part II

Helen became even cooler toward Trish as the days went on. Work-wise, Helen stopped including Trish on calls or emails relevant to her own airline deal. Helen also started to leave Trish out from informal coffees that happened regularly but on an impromptu basis. Three times in one week, Trish realized that Helen had grabbed coffee with two other female associates—“her ladies” —only after she saw them walking together down the hall. Trish, of course, was in one of Jake’s conference rooms. What could she do? By Friday of that week, Trish—emboldened—jogged to catch up with the coffee group, awkwardly asking if she could tag along. This felt bad. Was she back in high school, trying to impress the varsity girls? She was a professional now. It seemed trivial to dwell on something like this. But, then again, if Trish wanted to be part of the team, why not show that?

Helen’s attitude really troubled Trish; she just couldn’t understand what changed.

After two more weeks of this, Adam stopped by Trish’s desk. “Helen’s deal died. We just couldn’t find a way to make it work,” Adam said. “Helen is pissed. It was her first solo deal since becoming Managing Director. She pitched the deal hard to the Management Committee and they just didn’t buy into it. They said the flex on the deal didn’t appropriately cover them for the market risk to syndicate the loan.”

Trish was relieved. “OK, Helen’s mood isn’t personal, then” she thought. “There just wasn’t any more work and things weren’t going well for her.” Trish still couldn’t figure the coffee trip digs, but figured it was just her perception. Adam didn’t get coffee either. She wanted to ignore it.

Trish threw herself into the National Air pitch after that. Trish went to California, and the pitch went beautifully. Jake was happy with Trish, and Trish felt back on professional track. Jake even told her that he wanted to get lunch and hear how things were going.

A few days after Trish returned from California, Adam stopped by her desk. “Hey, got a sec?” They walked together to the coffee bar. “I wanted to tell you that I'm leaving," Adam said. "My wife just got her residency assignment and we're moving to Boston. But I gotta tell you something before I go. I don't know how to say it, except just to say it. Helen—that deal fell through and she was not happy. She doesn't think the firm trusts her judgment. She said they would have given Ron [another MD] the green light in a second, but she has to meet a higher standard. I don't know. This is an old-fashioned place. Maybe they're not used to a woman dealmaker. But look, Helen was not happy that you were working with Jake. I have to tell you: She said you were a token hire—or, rather, that Jake took you to National Air because the firm needs to look more diverse for the big corporate boards. I'm not sure exactly what words she used. She was angry and venting. I don't even think she was mad at you. She was really mad at Jake. But . . . I don't know. I'm sorry. It was total bullshit of Helen to say that. I thought you should know. This place has problems."

"Token?" This was supposed to be a first-class firm, Trish thought. "How could Helen say that?" Trish wonders if it's time to take Jake up on his offer to lunch. Or is it time to look for a new job?

<u>Discussion questions</u>

- Does Trish have a mentor? What is Norland's responsibility to create mentoring opportunities for Trish? And what is Jake's responsibility in this regard?

- Did Adam do the right thing by speaking with Trish? What else might he have done?

- Put yourself in Adam's shoes when speaking with Helen. He is an associate. Helen is a Managing Director. What would you have done when Helen described Trish as "token" or used words to that effect? Does it make a difference what words were used?

- Put yourself in Trish's shoes. What factors should she consider as a new hire at a prestigious firm?

- Let's say Trish takes up Jake's offer for lunch and tells Jake what Adam said. What are Jake's professional and ethical responsibilities in this situation?

- What is Norland's responsibility in improving the culture for Black female employees? How might Norland include Trish in a solution?