Farrow's Bank Failure 1920

Question 1

The engine room of organizational – public, private or corporate - management comprises four moving components namely corporate culture, leadership, power, and motivation and when these components are inappropriately embraced by the CEO – a phenomenon management and academic scholars call managerial hubris – there is a potential danger of collapse. Managerial hubris originates in overconfidence of company executives. Executives who over-estimate their abilities and influence so much that they do not respond to advice or criticism of colleagues and junior employees (Hollow, 2014).

Farrow Bank (collapsed in 1920) was under the management of Thomas Farrow. Farrow embraced a negative corporate culture of centralization of duties. As a company executive, Farrow refused to co-operate with employees and did not want to be transparent with his decisions and the consequences of his decisions and actions. For many years, Farrow was concealing trading losses through the over-valuation of assets, filing false balance sheets and tax returns and the concealment of the harms inflicted to stakeholders by his management conspiracies. His excessive confidence and the view of his position as a platform of ego fulfilment and of the oppression of the people entrusted with his management and security. This sort of corporate culture, leadership, power and motivation got Farrow Bank on its knees. Leadership was centralized, power was abused (defrauding the British government and corporate shareholders and other stakeholders) and his motivation was to fulfil his ego and make illegal money (Hollow, 2014).

Question 2

Managerial hubris is directly related to ethics. It is unethical for the manager to make critical decisions knowing very well that the organization is actually running for the better of collective will and prosperity and that any illegal business behavior will result in punitive outcomes for all stakeholders. The failure to follow ethics by the management exposes the company to astronomical losses. There is legal proceedings, heavy financial penalties, imprisonment of executives, loss of investor confidence, decreased company value as a result of public and investor panic, and more dangerously complete organizational collapse. In service of his personal ego and agenda, Thomas Farrow broke government and corporate policies, which are serious ethical issues and exposed Farrow Bank, one of the most powerful financial institutions in England at the time, to bankruptcy and eventual closure (Hollow, 2014).

Managerial hubris compelled Thomas Farrow to make decisions that were neither ethical nor legal. Being egocentric, arrogant, and a non-listening leader loss Farrow social and organizational capital. Employees began to feel unwanted, unappreciated and most terribly inadequate. In truth there is no employee treated like a puppet by their boss will see motivation working for the organization. This is the royal mistake Thomas Farrow made that resulted in a royal punishment, company meltdown. The overall impact on the business environment is the loss of reputation, prosperity, and of course decreased trust placed upon business executives, professionals on whom millions of people depend. It is an ethically compromised business environment that no one would desire to be part of (Hollow, 2014).

Question 3

From the evaluation of Thomas Farrow's family background and his upbringing, it is overt that the burning desire to succeed in life was imminent. That animal ambition like a professional boxer who hawked buns during childhood and now wants to make a name in terms of fortune and fame is at least as much what Thomas Farrow had. His forgettable middle-class family and upbringing made him believe that being a businessman in the future is all what counted to his fortune and luckily, it did (Hollow, 2014).

That hunger for success coerced Thomas Farrow to use every resource at his disposal to make Farrow Bank a giant institution. This is what we call pressures associated with success. To make mergers happen, Thomas would provide misappropriated balance sheets to conceal trading losses, forward incorrect tax returns and over-shoot the value of the company. And considering that Thomas was originally very much against corporate fraud and his opinions were publicly comprehended; but decided later that fraudulent activities could be a Hail Mary for Farrow Bank just shows how desperate to succeed Thomas was. Perhaps he was a dishonest ambassador of anti-fraud who took advantage of people's trust in him and that is why he remained undetected for such a long time. It can thus be deduced that he was self-pressured to see prosperity by all means, and he was tempted into premediated scandal (Hollow, 2014).

Question 4

Yes, managerial hubris would have been decreased if Thomas Farrow followed a business culture that embraced professional ethics. A business culture is ethical if there is effective communication, mutual respect and the desire to listen to advice and criticism of colleagues and other influential staff members. Making dangerous decisions without the consent of stakeholders knowing well that such decisions have the potential to impose insecurities on others is unethical. Business ethics demand transparency and accountability; something Thomas Farrow did not have (Hollow, 2014).

Managerial hubris goes against anything that concerns business culture and ethics. Corporate governance is more than meets the eye. It is a heavy load on the shoulder of the CEO and the expectations of employees, clients, shareholders and government. The government of Great Britain outlined clear policies to be followed by any financial institution but Thomas chose to break them. In addition, intra-organizational policies were also violated all in the name of glorifying self-centeredness and personal ego. Filing false tax returns is unethical and so is the presentation of falsified balance sheets and the over-valuation of assets that poses great losses in merger ventures. In conclusion, Thomas Farrow was a great executive who later through compromise decided to abandon business ethics (Hollow, 2014).

References

Hollow, M. (2014). The 1920 Farrow's Bank Failure: A Case of Managerial Hubris? Journal Of Management History, 20(2), 164-178