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[LHC Course]
[Date]
Final Take-Home Paper

Part A: Recommendations for the Board

The ongoing government shutdown represents an immediate challenge for JPMorgan Chase, both as a business concern and as an ethical issue. With over 800,000 employees furloughed, many of our own customers will struggle to make ends meet. Until the shutdown ends, these workers will not receive government paychecks, despite existing financial commitments and family needs. JPMC therefore faces difficult decisions in the short term: however it responds, it will not get a second chance.

At first glance, this situation may not seem like an ethical issue. JPMC has no legal obligation to assist furloughed employees, and it has every right to collect payments and perform its ordinary banking functions. Discussions of business ethics often revolve around individualized concerns like conflicts of interest and personal integrity. However, this memo makes the case for applying ethics at the scale of an organization like JPMC. The Board of Directors need not embrace a comprehensive “theory” of corporate governance to recognize the merits of reaching out to suffering employees during the shutdown.

This memo includes two provisional recommendations to implement as soon as possible. As the budget discussions (or lack thereof) continue in Washington, the facts on the ground may change, thus affecting the salience of my recommendations. JPMC must remain aware of the circumstances and adapt accordingly. The recommendations assume that the government will eventually reopen, though the specific timing remains uncertain. Historical precedent indicates that any budget deal will include back-pay for furloughed employees, but the company should not treat this outcome as a certainty. In the meantime, JPMorgan Chase should:

- Provide complimentary budget consulting at local branches for furloughed workers.
- Offer short-term, low-interest loans for affected families to pay their outstanding bills.

Local Budget Consulting

If federal employees cannot rely on their own government during the shutdown, JPMC should step in to represent a voice of moderation and reliability. Providing face-to-face budget planning services at Chase branches will increase workers' ability to cope with unexpected financial distress while strengthening the bond between the bank and its customers.

Even if JPMC only offers this service in the near term, the benefits extend well beyond the political status quo. First, all stakeholders benefit from increased financial literacy. When customers know how to live within their means and manage adversity, they enjoy better loan rates and overall financial stability. Banks with savvy customers do not have to worry as much about defaults, credit risks, and other emergencies. The costs of implementing this program pale in comparison to the potential benefits for both parties.

Complimentary budget planning services may impose some labor costs on branches, but this situation presents an opportunity to experiment on a limited scale. JPMC can offer the service exclusively to furloughed government employees as a sort of pilot program. If the program succeeds, then corporate management can use it as a template for future initiatives. If it fails or costs too much, any damage will be limited and short-term. The initiative represents a pragmatic way to help the communities surrounding Chase branches without simply throwing money at the problem.

Most importantly, participating customers will enjoy the benefits of preventing future personal crises. If they learn to budget effectively and save for situations like this, they will not

have to struggle as much in future shutdowns. In my [LHC Course] case study group, we realized that prevention functions better than almost any crisis response. In the context of NCAA scholarship regulations on student athletes, we found it wiser to clarify expectations and offer limited concessions than ramp up enforcement of an untenable policy. Likewise, JPMC would be better off guiding families through a difficult situation than punishing them when they fall short on bill payments.

Short-Term Loans

JPMC's Code of Conduct establishes some admirable ethical principles for the business, but in order to follow through on its commitment to "Give back to our communities," Chase banks should offer low-cost loans so furloughed employees can pay essential bills during the shutdown. These loans should be specific to the individual and as close to interest-free as possible. Since government employees will still have jobs after the shutdown, the risk of default is minimal. Even without post-shutdown "back-pay" from the government (a historically unprecedented outcome), all of the loan recipients will eventually have a regular income stream with which to repay the bank.

Critics of this proposal may cite the example of Aaron Feuerstein's response to the Malden Mills fire. Proponents of Milton Friedman's "shareholder primacy" posit that charitable causes violate the trust placed in corporate management by the investors who own the business itself. Friedman's followers would likely contend that Feuerstein jeopardized the business by giving employees paychecks during the factory reconstruction process; the CEO had no obligation to pay idle workers and should have focused on cutting costs, not creating them. However, the flexible loan idea does not entail doling out cash out of some misguided corporate philosophy. Customers would have to repay the money in full. This proposal simply aligns

banking practice with the norms that JPMC already endorses publically. In order to create trust in the brand, the Code of Conduct says to “walk the walk and deliver on the promise.”

Moreover, ethical action does not require rigid commitment to a new theory of corporate responsibility. The community impact alone makes a compelling case for financial assistance in this instance. If JPMC can keep employees like [Employee] (profiled in the Los Angeles Times article) from declaring bankruptcy without imposing any enormous costs, it should do so. While not necessarily a lucrative idea, loans could forestall costly bankruptcy proceedings and foster long-term trust in the company’s brand. Without a grave business downside, the ethical benefits of supporting the community outweigh the cost of the investment. After all, Milton Friedman’s theory is just that: a theory of proper corporate governance, not a legal mandate for the bank.

Conclusion

As the Board of Directors considers these proposals, I would caution against searching for some unified theory of business ethics to evaluate JPMC’s responsibilities. The bank has no enforceable obligation here, but it does have the opportunity to positively impact some of its most vulnerable customers. The real-world consequences of this decision matter more than what an economist like Milton Friedman deems the proper role of business.

If JPMC offers budget consulting services and loans to furloughed employees, it will prevent costly financial emergencies and strengthen clients’ trust in the company. These positive externalities outweigh any business downsides; since the risks of a limited initiative like this are so low, any unintended consequences can be contained. Doing business ethically and adhering to the Code of Conduct means more than upholding workplace integrity. Rooting out corruption and respecting fellow employees might make for good ethics at the personal level, but in order to make an impact as an organization, the Board of Directors must respond to the shutdown crisis.

The measures recommended in this memo represent opportunities to apply business ethics in practice, not just on paper.

Part B: Customer Opinion

As an independent Chase customer, I support the memo's recommendations. My only disagreements have to do with my expectations for how the bank would implement the reforms in practice. Pat's request for a memo clarifies that the recommendations should not be a public relations gimmick, but I would expect the company to package these reforms, however meaningful, in some sort of marketing scheme.

Marketing corporate generosity is understandable for any firm that seeks to promote its brand, but I worry that JPMC might use its example here to deflect criticism of other practices. For instance, reaching out to furloughed employees does nothing for private sector, working-class families locked into unfair mortgages or loans. Helping a sub-sector of the population might not hurt those other families directly, but it does give the company tools to frame those practices in a positive light. Unintended consequences like this make me leery of any "corporate social responsibility" initiative, though I admit this attitude stems from some degree of personal cynicism about major corporations, especially in the financial services industry.

Using outreach in the shutdown as part of a public relations strategy also makes me doubt the company's rationale for not doing other charitable programs. For instance, Chase has probably dismissed versions of these reforms due to the cost involved, yet they have no qualms spending money to advertise any reforms they do implement. Doing the right thing for the wrong reasons can still have a positive impact, but it brings up some frustrating questions about the company's justifications in other areas.