The Client Who Fell Through the Cracks (A)¹

Juan, the client portfolio manager and Susan’s boss, flashed a sardonic grin, shook his head and directed her out of his office with explicit instructions to revise the numbers. Susan was flabbergasted; all of the performance figures had come from the electronic systems scrupulously maintained by the company’s analysis team and were in line with the portfolio's underlying investments. However, she quickly realized that the issue lay not with the figures and charts but rather with the investment decisions that had yielded such poor results. And that was one tale that her portfolio manager at Company XYZ did not want told.

Specifically, Susan was urged to find a “better” blended benchmark to replace the original, and to do so in time for the client meeting that afternoon. The original benchmark was based on the appropriate market indices that best reflected the portfolio's asset mix, but which unfortunately outperformed the portfolio since inception. Consequently, Susan was not so subtly advised that accuracy was to be superseded by a desire to conceal this knowledge from the client.

The principal of this portfolio was one of the bank’s smallest clients in terms of net worth and had remained on their platform only as a personal favor to a senior banker. He had decided only two years ago to invest the bulk of his wealth with the bank. An eighty-five year old man who admitted that luck had been on his side, the client had acquired a small fortune by creating a franchise of clothing shops, specializing in low-priced fashion-forward clothing throughout Mexico. He was happily enjoying retirement and hoping to grow and eventually disperse his self-made wealth to his nine grandchildren.

It was not surprising that the portfolio's performance woes had gone unnoticed by both the portfolio manager and client. After all, the portfolio manager was new and there had been enormous turnover on Susan’s team in the past eighteen months and a subsequent focus on their largest accounts. Everyone had been operating in fire drill mode, trying to keep the existing base of clients and acquire new ones to

¹This case was inspired by interviews and observations of actual experiences but names and other situational details have been changed for confidentiality and teaching purposes.

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replace the few clients that had left during the turmoil. A small portfolio not at risk for defection would have been at the bottom of the group’s priority list. For the client’s part, his lack of financial expertise was the reason he turned to this firm in the first place; he gathered his information almost exclusively from their scheduled meetings.

Susan was dismayed. Whether the client was worth billions or pennies, this fudging of data and exploitation of a client's ignorance in such matters did not sit well with her. Sent back to her desk and with the client meeting looming, Susan pondered how she could protect her firm’s (and the portfolio manager’s) reputation while still doing the right thing for the client. It made her sick to her stomach to think of deceiving an elderly man, one who would no doubt have put his full faith in XYZ based on their global brand. Still, as a new team member, she worried that she didn’t have the credibility or the relationships to raise the issue without personal cost, having only joined the team two months before.

Now she was faced with a difficult challenge and very little time to come up with a strategy.