Thomas Farrow Case Study

Name

Institution

Professor

Course

Date

Managerial hubris is the belief as alleged by managers that they can oversee over another organization's assets more adequately compared to the current management of the firm. It is often characterized by arrogance and overconfidence among the managers. Managers who possess such traits are considered as liabilities and may make wrong decisions that negatively affect the firm involved. Managers and heads of companies who are overcome by managerial hubris are deemed to be challenging to work with since they don’t consider opinions from other colleagues in the firm. Therefore, this might cause the collapse of the firm involved due to insubordination among the employees.

Many factors contribute to managerial hubris. This is evident in the case of Thomas Farrow and the collapse of the Farrow’s bank. In the year 1920, Thomas is associated with the failure of Farrow’s bank because of inflicting managerial hubris in the firm. Thomas’ level of managerial hubris was mainly affected by the corporate culture of the bank, leadership, power, and motivation. Laxity was noted among the institution’s board of directors and especially executive staff, that is, Crotch and Hart, who depicted great neglect in the daily activities of the bank (Hollow, 2014). In addition to this, Thomas was always concerned about his image and did not provide the leadership that was required by following the rules and regulations of the banking sector. He always covered his losses by faking balance sheets and did not admit any wrongdoing even after being convicted (Hollow, 2014).

The power that Thomas held also played a role in his narcissistic and ego-centric behaviors because he had too much power vested on him. Also, the registering of the financial institution under the Friendly Societies Act enacted, in the year 1904, which meant that the bank could not go through thorough auditing enhanced Thomas’ power because the systems that were put in place at that time to control such irregularities did not efficiently carry out their mandate. (Hollow, 2014). Farrow is also seen as a greedy person whose motivation to be at the center of everything led him to plunge into insatiability. He was always motivated by his great appetite for money which later turned to managerial hubris (Hollow, 2014)

Managerial hubris as described may affect the ethical thinking of an individual. It makes one think of themselves as the overall person that they don’t require to listen to any other person while making decisions. However, in making corporate decisions, consultation is essential as it broadens once scoop of the problem at hand and therefore the decisions made are guaranteed to be sound and in favor of everyone involved. As noted in the case of Farrow’s bank where the power to make decisions lied with only the staff at senior management levels, the bank later collapsed with managerial hubris being one of the leading reasons of its collapse. If Farrow’s bank was not inflicted with managerial hubris from its senior management staff and board of directors, the impact on the business could have been different because sound decisions could have been made as a result of extensive consultations among all the stakeholders as the saying goes, do not mix business with pleasure.

Was there any kind of pressure felt by Thomas Farrow during decision making? The answer is no because Thomas solely relied on his mind while making decisions concerning the bank. He did not listen to other employees because of the ego-centric personality that made him think that his choices were right and hence he did not need to listen to other people, a trait associated with managerial hubris. Also, there was no external pressure from watchdog institutions since the financial institution was listed under the FSA Act of 1904 which meant that Thomas could do whatever he wanted with all the access and clearances he had at his disposal, without the fear of being questioned by these institutions (Hollow 2014). All these meant that the decisions made at Farrow’s bank were unethical and negatively impacted the business leading to its collapse.

The impact of decreased managerial hubris in Farrow’s bank would have meant that the bank could have flourished. The ethical structure of banks is necessary so as to keep them running smoothly; for example, many banks were bailed out during President Obama’s administration (Collins, 2015). After these bailouts, laws were put into place in order to prevent any collapse or bailouts in the future. These bailouts strengthened America’s economy despite the criticism received earlier by the administration. The mandate of the United States Federal Reserve is to watch over the banks so that they do not engage in unethical malpractices, thereby ensuring profitability of the banking sector improving the country’s economy in general.

In a nutshell, the question of managerial hubris and its impact on business environments is answered satisfactorily by relating it to the case of Thomas Farrow and how his managerial hubris led to the collapse of the bank. Lessons were also drawn from this story and its relationship to today’s business setting.

References

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Hollow, M. (2014). The 1920 Farrows Bank failure: A case of managerial hubris? *Journal of Management History,20*(2), 164-178. doi:10.1108/jmh-11-2012-0071