

**“The Causes of Organizational Wrongdoing”  
(MGP 291)**

**Course Outline  
Summer Intersession 2013  
Professor Donald Palmer  
(May 29, 2012)**

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| <p><b><u>Please Note:</u></b> Class will not be held on Tuesday, August 13 and the 10<sup>th</sup> session of the course will be held on Thursday, August 29<sup>th</sup> -- the day reserved by the registrar for the final exam.</p> |
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**Introduction**

*The Causes of Organizational Wrongdoing* examines the reasons why people engage in unethical, socially irresponsible, and illegal behavior in organizations. The course is predicated on two assessments. First, I believe that most managers (and management students) share the same basic desire to manage in ethical, socially responsible, and legal ways and the same basic ideas about the difference between right and wrong. Second, I believe that unethical, socially irresponsible, and illegal behavior is pervasive, rather than rare in organizations. Thus, I think it is as important to ask why so many managers behave badly in organizations, even though the vast majority of managers are good people. My hope is that if we can develop a good answer to this question, we can reduce the chance that we, those we manage, and those who manage us will engage in wrongful behavior in the organizations to which we belong.

I have assigned two books for the course. The first, *Normal Organizational Wrongdoing*, was written by me and was published by Oxford University Press in 2012. The second, *Blind Spots*, was written by Max Bazerman and Ann Tenbrunsel and was published by Princeton University Press in 2011. These books will be made available to you in the usual way.

We will spend most of our time trying to apply the material from the readings and my lectures to case material and your own personal experience. The case material will consist of book chapters, newspaper articles, videos, and movies. Because the course will require students to engage in a substantial amount of independent thinking and class participation, I strongly suspect that only the most motivated students will enjoy and benefit from this class. If you are looking for a class in which you can sit in your seat and absorb material presented in the readings and the lectures, *which I think is an entirely reasonable desire*, this probably is not the course for you.

**Course Goals and Pedagogical Approach**

I have designed *The Causes of Organizational Wrongdoing* primarily to accomplish one goal: to increase student awareness of the many factors that can cause them, their peers, their subordinates, and their superiors to engage in wrongdoing. I think the best way to accomplish this goal is to expose students to theory about the causes of wrongdoing and cases depicting wrongdoing in advance of class and to then engage in active discussion of the theory and cases in class. I do not

think this goal can be achieved effectively by taking exams or writing papers on the subject. The work load for the course and the structure of performance evaluations follows from my main goal and my pedagogical approach.

## **Work Load**

Students will be asked to do a substantial amount of reading before each class session, likely more reading than students have been asked to do in advance in other courses they have taken at the GSM. The reading will be particularly heavy in the first session of the course, because in this session I will be both laying the foundation for the material covered throughout the course and introducing material that builds on that foundation. I will begin each class with a brief lecture intended to refresh students' memories of the reading and to highlight the most important parts of the reading. These lectures, most definitely, will not cover everything I expect students to get out of the reading. The balance of class will be focused on discussing the reading (e.g., clarifying and raising questions about it) and then analyzing the cases. For this reason, I strongly discourage students from waiting until the night before class to read the material assigned for class.

## **Performance Evaluations**

As indicated above, I will expect students to do a substantial amount of reading in advance of each class session and I will expect students to pay close attention to and contribute to class discussion. To increase the likelihood that students will meet these expectations, I will administer a quiz at the beginning of each class that requires students to answer questions about the reading. I also will administer a quiz at the end of each class that requires students to answer questions about the class discussion. I will design these quizzes to distinguish between students who are doing the reading in advance of class and are paying attention in class from those who are not doing the reading in advance of class and who are not paying attention in class. I will not design the quizzes to distinguish between students on the basis of their fine-grained understanding of the reading or discussion. As indicated above, there will be no midterm or final exam in this course. There also will be no final paper. I will, though, factor in a student's participation in class discussion when determining his/her final grade.

## **What This Means for Students Thinking about Taking the Course**

To simplify, students will be asked to devote a lot of time and energy to preparing for and participating in each class session. They will not be asked to engage in activities that are removed from the class sessions, such as studying for exams and writing papers. The upside of this format is that students have no responsibilities other than preparing for and participating in class. When the last class ends, the course ends. The downside of this format is that students do not have the luxury of neglecting the course in one or two weeks and then catching up in a following week. Students should be mindful of both the upside and downside of this format when deciding whether to enroll in the course.

## Course Schedule

### Session 1 (Thursday, July 25)      Introduction and Rational Choice

**Summary:** In this class session we will consider the several reasons why it is important to understand the causes of wrongdoing in organizations (*NOW*, Chapter 1). We will also consider several possible definitions of organizational wrongdoing and settle on one that we will use as a basis of our discussions in the rest of the course (*NOW*, Chapter 3). Then we will consider two overall frameworks within which one can formulate explanations of wrongdoing; one that views wrongdoing as an abnormal phenomenon and one that views it as a normal one (*NOW*, Chapter 2). Finally, we will examine the first of seven explanations of wrongdoing that we will consider in the course, known as the rational choice explanation (*NOW*, Chapter 4). Our in-class case discussion will focus on discerning how rational choice factors might have been at work in two instances of organizational wrongdoing: 1) the use of banned performance enhancing substances by a professional bike racer (described in the excerpt from David Millar's memoir *Racing through the Dark*) and 2) the perpetration of accounting and financial fraud at the Italian firm Parmalat (described in "How it all went sour"). Students will also complete a questionnaire that we will use next week to explore the third explanation of organizational wrongdoing.

**Readings:** *NOW*, "Chapter 2: Two Perspectives on Organizational Wrongdoing."

"Chapter 4: A Rational Choice."

"Chapter 1: Introduction." (Optional)

"Chapter 3: Definitions, Theoretical Development, and Method." (Optional)

**Cases:** David Millar, *Racing Through the Dark*, pp. 147-155

Gumbel, Peter, "How it all went sour," Time Magazine, November 21, 2004. Available at: <http://www.time.com/time/magazine/article/0,9171,785318,00.html>

**In-Class:** Ethical Decision-making Survey

**Summary:** In this class session we will examine the second account of organizational wrongdoing that we will consider in the course, known as the cultural explanation (*NOW*, Chapter 5). We will consider the two main ways in which an organization's culture can facilitate wrongdoing; endorsement and the stipulation of extenuating circumstances. We will also consider how cultures originate and how managers and employees (i.e., organizational participants) come to embrace them. Our in-class case discussion will focus on discerning how cultural factors might have facilitated the development and proliferation of the "bounty system" in professional football, in which players and coaches provided monetary rewards to teammates for injuring opposing players. Please read the four *Sports Illustrated* articles and the Chicago Tribune article in preparation for this discussion. We will view two supplemental video-taped interviews in class to supplement our discussion of wrongdoing in professional sports. We will also read a short editorial written by a former employee of Goldman Sachs in class, the purpose of which will be to consider how cultural elements that facilitate wrongdoing might be at work in a more traditional work setting.

**Readings:** *NOW*, "Chapter 5: Culture."

**Cases:** King, Peter "Way Out of Bounds," *Sports Illustrated*, March 12, 2012.

Trotter, Jim "The Conscience of the Locker Room," *Sports Illustrated*, March 12, 2012.

Layden, Tim "Intimidation Rules," *Sports Illustrated*, March 12, 2012.

Lawrence, Andrew "The Commissioner Cracks Down," *Sports Illustrated*, March 12, 2012.

Bowen, Matt "Bounties Part of Game across the NFL," *Chicago Tribune*, March 2, 2012."

**In Class:** "Antonio Pearce," ESPN Sports

"David Millar," *Sports Monthly*, BBC SPORT

Smith, Greg, "Why I am Leaving Goldman Sachs," *The New York Times*, March 14, 2012.

### Session 3 (Thursday, August 1)

### Decision Making: Part 1

**Summary:** In this class session we will begin our examination of the third explanation of organizational wrongdoing that we will consider in the course, known as the behavioral decision making explanation. I will provide an overview of the mainstream theory and research in this area, which for the most part assumes that human beings are rational. Then we will consider recent developments in this line of inquiry, which explores the way in which human beings are boundedly rational (*Blind Spots*, Chapters 3-6). In our case discussion we will view and ponder two video clips that illustrate the limits of human rationality. Then we will consider the article on negative MRI results, which suggests that physicians who own imaging facilities are subject to unconscious conflicts of interest. Finally, we will examine your responses to the decision making survey completed in the first week of the course.

**Readings:** *Blind Spots* “Chapter 3: When We Act against Our Own Ethical Values.”

“Chapter 4: Why You Aren’t as Ethical as You Think You Are.”

“Chapter 5: When We Ignore Unethical Behavior.”

“Chapter 6: Placing False Hope in the ‘Ethical Organization.’”

**Case:** Shute, Nancy, “MRIs More Likely To Be Negative When The Doctor Profits,” *NPR*, December 1, 2011. (<http://www.npr.org/blogs/health/2011/12/01/143004226/mris-more-likely-to-be-negative-when-the-doctor-profits>).

**In-Class:** Card Trick Video Clip.

Student Experiment Video Clip

Feedback on Ethical Decision-making Questionnaire

## Session 4 (Tuesday, August 6)

## Decision Making: Part 2

**Summary:** In this class session we will complete our examination of the behavioral decision making explanation of organizational wrongdoing. I will suggest two ways in which we can build on recent developments in the behavioral decision making approach; taking into account two factors that exacerbate the problem of bounded rationality: variability in the complexity of decision contexts and the temporal unfolding of decisions. In our case discussion we will consider two other instances of wrongdoing in which behavioral decision processes appear to have facilitated wrongdoing, both involving Enron Corporation. The first focuses on Enron's main accounting firm, Arthur Anderson (described in "Ties to Enron blinded Anderson"). The second focuses on one of Enron's principal investment bankers, Merrill Lynch (described in "Deals and Consequences" and the excerpt from *Conspiracy of Fools*).

**Readings:** NOW, "Chapter 6: Ethical Decision-Making." (Optional)

**Cases:** Alexander, Burns, Manor, McRoberts, and Torriero, "Ties to Enron blinded Anderson" *Chicago Tribune*, September 3.

Thomas, Landon, (2005), "Deals and Consequences," *The New York Times*, November 20.

Eichenwald, Kurt, (2005), *Conspiracy of Fools*, pp. 293-4, 295-6, 298, 347, 353-4.

**Summary:** In this class session we will examine the fourth of seven explanations of organizational wrongdoing considered in the course. We will examine the two basic building blocks of administrative structures: obtrusive and unobtrusive controls. Obtrusive controls consist of explicit guidelines, such as the division of labor, rules, and standard operating procedures. These guidelines tell managers and employees what they should do when they confront specific situations at work. Unobtrusive controls consist of implicit guidelines, such as informational channels, technologies, and schemas and scripts. These guidelines tell managers and employees how to figure out what to do when explicit guidelines cannot tell them what to do when they confront specific situations at work. In our case discussion we will consider two recent highly publicized instances of organizational wrongdoing might have been facilitated by administrative structures: a breach of client confidentiality at Bloomberg and an apparent bias in the treatment of non-profit organizations at the IRS.

**Readings:** *NOW*, “Chapter 7: Administrative Systems.”

**Cases:** Staff reports, “Bloomberg LP at center of storm over snooping,” *CNBC.com*, May 13, 2013. Available at: <http://www.nbcnews.com/business/bloomberg-lp-center-storm-over-snooping-wall-street-1C9898087#>

Harris, Paul, “Bloomberg hit by a new scandal as trading emails are shared online,” *The Guardian*, May 14, 2013. Available at: <http://www.guardian.co.uk/media/2013/may/14/bloomberg-scandal-trading-emails-shared-online>

Confessore, Nicholas, David Kocieniewski, and Michael Luo, “Confusion and staff troubles rife at IRS office in Ohio,” *The New York Times*, May 18, 2013. Available at: [http://www.nytimes.com/2013/05/19/us/politics/at-irs-unprepared-office-seemed-unclear-about-the-rules.html?pagewanted=all&\\_r=0](http://www.nytimes.com/2013/05/19/us/politics/at-irs-unprepared-office-seemed-unclear-about-the-rules.html?pagewanted=all&_r=0)

Gardella, Rich and Lisa Myers, “Ex-Cincy IRS official doubts agency’s explanation for Tea Party scandal,” *NBC News*, May 21, 2013.

**Summary:** In this class session we will begin our examination of the fifth explanation of organizational wrongdoing. We will examine how situational social influence processes condition the effects of some of the previously considered facilitators of organizational wrongdoing, such as rational choice and culture processes. We will also consider how situational social influence processes can directly facilitate organizational wrongdoing. I think it is necessary to closely examine actual instances in which situational social influence processes facilitate wrongdoing to obtain a good idea of how these processes operate. For this reason, we will spend most of the class period discussing case material. You should read the assigned pages of Chapter 8 of *NOW* carefully before coming to class. I will not spend much time reviewing the material on these pages in class. In class, we will discuss two sworn statements given by professional cyclists who confessed to using banned performance enhancing substances and practices in their careers, focusing primarily on how situational social influence factors might have caused them to begin and then escalate their use of these substances and practices. We will also view and then discuss selected scenes from the movie *Eight Men Out*, focusing primarily on how situational social influence processes might have caused members of the 1919 Chicago White Sox baseball team to “throw” that year’s World Series Championship.

**Readings:** *NOW*, “Chapter 8: Situational Social Influence,” pp. 145 – 161.

**Cases:** “Affidavit of David Zabriskie,” *USADA Reasoned Decision on Lance Armstrong*. Available at:  
<http://d3epuodzu3wuis.cloudfront.net/Zabriskie+David+Affidavit.pdf>

“Affidavit of Christian Vande Velde,” *USADA Reasoned Decision on Lance Armstrong*. Available at:  
<http://d3epuodzu3wuis.cloudfront.net/Vande+Velde+Christian+Affidavit.pdf>

**In-Class:** *Eight Men Out*, selected scenes

\* Please note that we will not be meeting on Tuesday, August 13.



**Summary:** In this class session we will complete our examination of the fifth explanation of organizational wrongdoing. We will examine how a powerful and complex form of situational social influence, escalating commitment to a course of action, can facilitate organizational wrongdoing (covered in the assigned pages of *NOW*, Chapter 8). In my extensive reading of actual instances of organizational wrongdoing, I have been impressed by the large percentage of cases in which commitment appeared to be involved. Further, in my examination of types of situational social influence, I have been impressed with the uniquely multifaceted dynamics of commitment processes. In class we will briefly discuss how escalating commitment might have influenced the founder and CEO of India's largest computer services company, Satyam, to engage in an audacious fraud (referred to at the time as "India's Enron"). Then we will view and discuss scenes from the movie *Quiz Show*, focusing on how commitment processes might have lead a promising (and prominent) young college professor to participate in a tawdry television game show fraud.

**Readings:** *NOW*, "Chapter 8: Situational Social Influence," pp. 162-175.

**Case:** Timmons, Heather and Bettina Wassener, "Satyam chief admits huge fraud," *The New York Times*, January 7, 2009. Available at:  
[http://www.nytimes.com/2009/01/08/business/worldbusiness/08satyam.html?\\_r=0](http://www.nytimes.com/2009/01/08/business/worldbusiness/08satyam.html?_r=0)

**In-Class:** *Quiz Show*, selected scenes

**Summary:** In this class session we will examine the sixth of the seven explanations of organizational wrongdoing considered in the course (covered in the assigned pages of *NOW*, Chapter 9). We will familiarize ourselves with the two main forms of power in organizations: formal and informal power. Formal power is based on the chain of command, with those at the top of the organizational hierarchy having power over those on the bottom. Informal power is based on resource dependence relationships, with those in control of scarce and important resources having power over those who depend on them for those resources. We will then examine how being subject to both forms of power can cause people to engage in wrongdoing, even when people are disinclined to engage in the wrongdoing. In our case discussion we will consider how formal and informal power facilitated two instances of fraudulent accounting practices; the first at WorldCom and the second at Arthur Anderson.

**Readings:** *NOW* Chapter 9: “Power Structures,” pp. 176 – 190.

**Cases:** Pulliam, Susan, “Ordered to commit fraud, a staffer balked, then caved,” *The Wall Street Journal*, June 23, 2003.

Alexander, Burns, Manor, McRoberts, and Torriero, “The Fall of Anderson” *Chicago Tribune*, September 1.

Alexander, Burns, Manor, McRoberts, and Torriero, “Civil War Splits Anderson” *Chicago Tribune*, September 2.

## Session 9 (Tuesday, August 27)      Accidents

**Summary:** In this class session we will examine the last explanation of organizational wrongdoing considered in the course. When things go wrong in life, the phrase “mistakes happen” (or more prosaically, “s\*!t happens”) is often offered as a reasonable explanation. When things go wrong in organizations, including when wrongdoing occurs, a similar phrase can often suffice. To rephrase this in a way that is more appropriate for our course, it is sometimes the case that mistakes constitute or lead to wrongdoing. Ships run aground, airplanes crash, chemical plants release toxic gasses, and financial systems experience crises. And when this occurs, human hardship often follows. We will consider the multiple causes of accidents in organizations; distinguishing between preventable and inevitable causes. We will also consider the complex relationship between accidents and wrongdoing. In our case discussion we will investigate two accidents, the Big Branch Mine collapse and the JPMorgan Chase “London Whale” trading fiasco. Our objective will be to determine to the best we can the extent to which the causes in each case could be considered preventable or inevitable.

**Readings:** *NOW* “Chapter 10: “Accidental Wrongdoing.”

**Cases:** Berkes, Howard, “Report Blasts Massey for ‘Deviance’ in Safety Culture,” *NPR*, May 19, 2011.

Brown, Jeffrey and Berkes, Howard, “Upper Big Branch Miners’ Families Encouraged by Prosecutor’s Moves,” *PBS NewsHour*, February 23, 2012.

Protess, B., Sorkin, A. R., Scott, M. and Popper, N., “In JPMorgan Chase trading bet, its confidence yields to loss,” *the New York Times, Business Day, Deal book*, May 11, 2012

Russell, Karl and Pecanha, Sergio, “At JPMorgan, a complex strategy that backfired,” *The New York Times*, Friday, May 11, 2012.

Henry, David and Miedema, Douwe, “JPMorgan \$2 billion loss hits shares, dents image,” *Reuters*, Friday, May 11, 2012.

Schoen, John, W., “JPMorgan’s blunder amplifies calls for tighter regulation,” *MSNBC*, Friday, May 11, 2012.

## **Session 10 (Thursday, August 29) Wrap-up**

**Summary:** In this class session we will consider the practical implications of the seven explanations of wrongdoing covered in the course. We will use the Martha McCaskey case to motivate this discussion.

**Readings:** *NOW* “Chapter 12: “Conclusion.”

*Blind Spots*, “Chapter 8: Narrowing the Gap.”

**Cases:** “Martha McCaskey,” HBS Case 9-403-114.