

The Causes of Organizational Wrongdoing
(MGP 291)
June 7, 2022

Professor Donald Palmer

Course Overview

Introduction

The Causes of Organizational Wrongdoing examines the reasons why people perpetrate and participate in unethical, socially irresponsible, and illegal behavior in organizations; although for practical reasons that I will articulate in the first session of the course we will concentrate primarily on behaviors that result in legal convictions, civil suits, industry and professional sanctions, and major media scandals. 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 of which we are members.

I have assigned two books for the course. The first, *Normal Organizational Wrongdoing*, was written by me and was published in paperback by Oxford University Press in 2013. The second, *Blind Spots*, was written by Max Bazerman and Ann Tenbrunsel and was published by Princeton University Press in 2011. **This summer, because we are meeting every week and thus course preparation time is highly constrained, I am designating the readings from *Normal Organizational Wrongdoing* optional.**

We will spend most of our time trying to apply the material from the readings and my pre-recorded 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.

Linked items below are available online or through the UC Davis library. If noted, some links will need to be accessed from on campus or by using the [library VPN](#). A few readings are available through Study.net and Harvard Business Publishing.

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 workload for the course and the structure of performance evaluations follows from my main goal and my pedagogical approach.

Workload

Students will be asked to view roughly 60 minutes of pre-recorded lecture and do a substantial amount of reading before each class session. Class will consist of a very brief lecture intended to refresh students' memories of the pre-recorded lectures, a longer discussion of student questions submitted in advance and raised in class about that material, and a lengthy extensive discussion of the assigned case material (and occasionally videos viewed in class). Thus, if you are looking for a course in which you can come to class unprepared with the intention of "catching up" with the material later, *which I think is an entirely reasonable desire*, this is not the course for you.

Performance Evaluations

As indicated above, I will expect students to view roughly 60 minutes of pre-recorded lectures and do a substantial amount of reading in advance of each class session and I will expect students to pay attention and contribute to class discussion. To increase the likelihood that students will meet these expectations, I will administer a quiz at the end of each of the 10 class sessions. I will design these quizzes to distinguish between students who are viewing the pre-recorded lectures doing the reading in advance of class and are paying attention in class from those who are not viewing the pre-recorded lectures, doing the reading, and 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 of *The Causes of Organizational Wrongdoing*. 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.

Code of Academic Conduct and Verification of Participation

Students enrolled in *Causes of Organizational Wrongdoing* (and all other GSM courses) are required to adhere in all respects to the UC Davis Code of Academic Conduct. Thus, they would do well to peruse this code of conduct, which can be found here: <http://sja.ucdavis.edu/files/cac.pdf>. Students enrolled in *Causes of Organizational Wrongdoing* (and all other GSM courses) also are required to verify that they have begun the course, which they can do by visiting this website: <https://participate.ucdavis.edu>.

Course Schedule

Session 1 (Friday, June 18): Introduction and Rational Choice

Summary

In this class session we will consider three introductory matters: the several reasons why it is important to understand the causes of wrongdoing in organizations, the several possible definitions of organizational wrongdoing and the 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. Then, we will examine the first of six explanations of wrongdoing that we will consider in the course, known as the rational choice explanation. In class we will consider how rational choice factors might have been at work in two instances of organizational wrongdoing: 1) fraudulent sales practices at Wells Fargo and accounting and other fraud at a small US mortgage brokerage. I have included as optional reading the first three chapters of *NOW*, which cover the introductory matters discussed above, and the fourth chapter of the book which covers the first of six explanations of organizational wrongdoing in greater detail.

Readings

Palmer, Donald, "The Normality of Organizational Wrongdoing," *The European Financial Review*, June-July 2012. [Study.net]

Reckard, Scott, E. "Wells Fargo's pressure-cooker sales culture comes at a cost," *The Los Angeles Times*, December 21, 2013. Available at: <https://search.proquest.com/docview/1470239966?accountid=14505>. [Needs VPN]

Arnold, Chris, "Former Wells Fargo Employees Describe Toxic Sales Culture, Even at HQ," *National Public Radio*, October 4, 2016. Available at: <http://www.npr.org/2016/10/04/496508361/former-wells-fargo-employees-describe-toxic-sales-culture-even-at-hq>

Pre-work (60 minutes)

1. View three pre-recorded lecture videos.
2. Submit questions you have about the *European Financial Review* essay and/or the pre-recorded lecture videos via the ungraded survey titled "Session 1 student questions to Professor Palmer."
3. Complete Student Bio.

In Class (90 minutes):

1. Q&A on the *European Financial Review* essay and the pre-recorded lecture videos.
2. Brief lecture on Strain Theory.
3. Discussion of the Wells Fargo articles.
4. Viewing and Discussion of *House of Cards*, Helios Digital Learning (video).
5. Quiz.

Optional Reading

NOW, Chapters 1, 2, 3, & 4.

Session 2 (Friday, June 25) Culture

Summary

In this class session we will delve into the second account of organizational wrongdoing that we will consider in the course; the cultural explanation. 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 organizational participants (i.e., managers and employees) come to embrace them. We will then use our understanding of culture to analyze 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. We will also view and discuss an interview with the former professional cyclist David Millar, which will allow us to consider how organizational participants can be socialized into engaging in wrongdoing.

Readings

King, Peter "Way Out of Bounds," *Sports Illustrated*, March 12, 2012. Available at: <https://vault.si.com/vault/2012/03/12/way-out-of-bounds>

Trotter, Jim "The Conscience of the Locker Room," *Sports Illustrated*, March 12, 2012. Available at: <https://vault.si.com/vault/2012/03/12/the-conscience-of-the-locker-room>

Layden, Tim "Intimidation Rules," *Sports Illustrated*, March 12, 2012. Available at: <https://vault.si.com/vault/2012/03/12/intimidation-rules>

Lawrence, Andrew "The Commissioner Cracks Down," *Sports Illustrated*, March 12, 2012. Available at: <https://vault.si.com/vault/2012/03/12/the-commissioner-cracks-down>

Bowen, Matt "Bounties Part of Game across the NFL," *Chicago Tribune*, March 2, 2012." Available at: <https://www.proquest.com/newspapers/bounties-just-part-game/docview/926053194/se-2?accountid=14505> [Needs VPN]

Pre-work (60 minutes)

1. View three pre-recorded lecture videos.
2. Submit questions you have about the pre-recorded lecture videos via the ungraded survey.
3. View the ESPN interview with Antonio Pierce, located in "Session 2 Case Videos."

In Class (90 minutes):

1. Q&A on the pre-recorded lecture videos.
2. Discussion of the articles and Antonio Pierce video on the NFL bounty scandal.
3. Brief lecture on Socialization Theory.
4. Viewing and Discussion of the BBC interview of David Millar.
5. Quiz.

Optional Reading:

NOW, Chapter 5: Culture.

Session 3 (Friday, July 9) Power Structures

Summary

In this class session we will examine the third explanation of organizational wrongdoing considered in the course; the power structure explanation. Specifically, we will familiarize ourselves with the two main forms of power in organizations: formal and informal power. Formal power is rooted in 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 both facilitate right-doing in organizations and cause people to engage in wrongful courses of action, even when people are disinclined to do so. In class we will consider how formal and informal power facilitated sexual assault and harassment at the Weinstein Company, the exposure of which jump-started the #MeToo social movement. We also will view and discuss an interview with an accountant who was ordered to commit fraud, but who found a way to circumvent those orders (*Whistling While You Work*). FYI: interested students will not find it difficult to locate articles on sexual assault and harassment perpetrated by others in organizational contexts (e.g., Roger Ailes, Matt Lauer, and Charlie Rose). Further, while every instance of misconduct has unique features, I suspect that students who track down reportage on these other instances of sexual misconduct will find that power structures played a role in their misconduct as they did in Weinstein's.

Readings

Twohey, Megan, Jodi Kantor, Susan Dominus, Jim Rutenberg, and Steve Eder, "Feeding the Complicity Machine" *The New York Times*, December 6, 2007. Available at: <https://www.nytimes.com/interactive/2017/12/05/us/harvey-weinstein-complicity.html>

Pre-work (60 minutes)

1. View two pre-recorded lecture videos.
2. View the Milgram "Obedience to Authority" experiment video.
3. Submit questions you have about the pre-recorded lecture videos via the ungraded survey.

In Class (90 minutes):

1. Q&A on the pre-recorded lecture videos.
2. Brief lecture on the relationship between formal and informal power, the relationships between informal power and rational choice, and how "power corrupts" those who possess it.
3. Discussion of the Harvey Weinstein article.
4. Viewing and discussion of *Whistling While You Work* video (Helios Digital Learning).
5. Quiz.

Optional Reading:

NOW Chapter 9: Power Structures, pp. 176 – 190.

Session 4 (Friday, July 16) Administrative Structures

Summary

In this class session we will examine the fourth explanation of organizational wrongdoing considered in the course; the administrative structure explanation. Specifically, 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 one recent highly publicized instance of organizational wrongdoing that might have been facilitated by administrative structures: the faulty ignition switch scandal at General Motors. I have also included as optional reading two news articles on another recent incident of organizational misconduct that might have been precipitated by administrative systems: the breach of client confidentiality at Bloomberg News.

Readings

Valukas, Anton R. "Report to Board of Directors of General Motors Company Regarding Ignition Switch Recalls, May 29, 2014," Jenner & Block, pages 1-11, 63-75, and 84-94. Available on CANVAS. (For those interested in reading the entire Valukas report, it is available at: <https://s3.documentcloud.org/documents/1183508/g-m-internal-investigation-report.pdf>.)

Pre-work (60 minutes)

1. View two pre-recorded lecture videos.
2. Submit questions you have about the pre-recorded lecture videos.

In Class (90 minutes):

1. Q&A on the pre-recorded lecture videos.
2. Discussion of the Valukas Report case materials.
3. Quiz

Optional Reading

NOW, Chapter 7: Administrative Systems.

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>.

Session 5 (Friday, July 23) Situational Social Influence: Part 1

Summary

In this class session we will begin our examination of the fifth explanation of organizational wrongdoing; the situational social influence explanation. Specifically, 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. 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

“Affidavit of David Zabriskie,” *USADA Reasoned Decision on Lance Armstrong*. Available at: <https://www.usada.org/wp-content/uploads/Zabriskie-David-Affidavit.pdf>

“Affidavit of Christian Vande Velde,” *USADA Reasoned Decision on Lance Armstrong*. Available at: <https://www.usada.org/wp-content/uploads/Vande-Velde-Christian-Affidavit.pdf>

Pre-work (60 minutes)

1. View two pre-recorded lecture videos.
2. Submit questions you have about the pre-recorded lecture videos.

In Class (90 minutes):

1. Q&A on the pre-recorded lecture videos.
2. Viewing and Discussion of several scenes from the movie *Eight Men Out*.
3. Discussion of the Zabriskie and Vande Velde affidavits.
4. Quiz.

Optional Reading:

NOW, Chapter 8: Situational Social Influence, pp. 145 – 161.

Session 6 (Friday, July 30) Situational Social Influence: Part 2

Summary

In this class session we will complete our examination of the fifth explanation of organizational wrongdoing. Specifically, we will examine how a potent and complex form of situational social influence, escalating commitment to a course of action, can facilitate organizational wrongdoing. In my extensive reading of actual instances of organizational wrongdoing, I have been impressed by the large percentage of cases in which commitment appears to have played a role in facilitating the misconduct. Further, in my examination of types of situational social influence, I have been impressed with the uniquely multifaceted dynamics that commitment processes exhibit. In class we will discuss how escalating commitment might have influenced an accountant to perpetrate financial fraud at WorldCom. Then we will view and discuss scenes from the movie *Quiz Show*, focusing on how commitment processes might have led a promising young college professor to participate in a tawdry television game show fraud. I have included an article on financial fraud at the Indian software services company Satyam as optional reading, to allow you to consider how commitment processes might underpin organizational misconduct similarly or differently in an international context.

Readings

Pulliam, Susan, "Ordered to commit fraud, a staffer balked, then caved," *The Wall Street Journal*, June 23, 2003. Available at" <https://search.proquest.com/docview/398881220?accountid=14505> [Needs VPN]

Pre-work (60 minutes)

1. View three pre-recorded lecture videos
2. Submit questions you have about the pre-recorded lecture videos.
3. Complete Ethical decision-making questionnaire assignment.

In Class (90 minutes):

1. Q&A on the pre-recorded lecture videos.
2. Viewing and Discussion of several scenes from the movie *Quiz Show*.
3. Discussion of the Pulliam article on the WorldCom accounting fraud.
4. Quiz.

Optional Reading

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

Timmons, Heather and Bettina Wassener, "Satyam chief admits huge fraud," *The New York Times*, January 7, 2009. Available at: <https://www.nytimes.com/2009/01/07/business/worldbusiness/07iht-ousource.1.19149056.html?searchResultPosition=19>

Summary

In this class session we will begin our examination of the sixth 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 ethical decision-making survey completed in the first week of the course.

Readings

Blind Spots (BS) Chapter 3: When We Act against Our Own Ethical Values.

BS Chapter 4: Why You Aren't as Ethical as You Think You Are.

BS Chapter 5: When We Ignore Unethical Behavior.

BS Chapter 6: Placing False Hope in the "Ethical Organization"

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>).

Pre-work (60 minutes)

1. View the two pre-recorded lecture videos.
2. Submit questions you have about the *Blind Spots* reading and/or the pre-recorded lecture videos.
3. Review the ethical decision-making questionnaire you completed in the pre-work for Session 6.

In Class (90 minutes):

1. Q&A on the *Blind Spots* reading and the pre-recorded lecture videos.
2. Discussion of the Shute article.
3. Viewing and discussion of the Card Trick and Student Experiment video clips
4. Analysis of the ethical decision-making survey results
5. Quiz

Session 8 (Friday, August 13) Decision Making: Part 2

Summary

In this class session we will complete our examination of the behavioral decision-making explanation of organizational wrongdoing. Specifically, we will examine two ways in which one 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

Alexander, Burns, Manor, McRoberts, and Torriero, "Ties to Enron blinded Anderson" *Chicago Tribune*, September 3. Available at: <https://www.proquest.com/newspapers/ties-enron-blinded-andersen-firm-couldnt-say-no/docview/419457752/se-2?accountid=14505> [Needs VPN]

Thomas, Landon, (2005), "Deals and Consequences," *The New York Times*, November 20. Available at: <https://www.nytimes.com/2005/11/20/business/yourmoney/deals-and-consequences.html>

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

Pre-work (60 minutes)

1. View two pre-recorded lecture videos.
2. View Walter Pavlo *The Moth* video.
3. Submit questions you have about the pre-recorded lecture videos and/or the Walter Pavlo video.

In Class (90 minutes):

1. Q&A on the pre-recorded lecture videos and the Walter Pavlo video.
2. Discussion of the case material about the Enron-Merrill Lynch Nigerian Barge deal.
3. Quiz

Optional Reading:

NOW, Chapter 6: Ethical Decision-Making. (pp. 96-98, 103-117)

Session 9 (Friday, August 20) The Unique Vulnerabilities of Start-Ups to Misconduct?

Summary:

In this class session we will put to use the theories covered so far in the class to examine the unique vulnerability of entrepreneurial ventures (i.e., start-ups) to misconduct. In the first assigned reading, available on CANVAS, Tim Weiss and I contend that while start-ups contribute to society in many ways (e.g., they generate jobs, meet unmet market demand, etc.), they are uniquely vulnerable to misconduct. And for this reason, we should temper our enthusiasm for entrepreneurship and entrepreneurs should be alert for red flags that might indicate trouble ahead. The film *The Inventor* documents the case in which the high-minded blood diagnostics start-up Theranos and its founder Elizabeth Holmes progressively descended into wrongdoing. The prologue of the book *Bad Blood* describes the moment when one Theranos employee came face to face with several aspects of this misconduct. In class I will assign students to one or the other of two teams that will debate the merits of the Palmer/Weiss argument.

Reading and Viewing

Palmer, Donald and Tim Weiss, 2021. "Not so fast: The unique vulnerabilities of entrepreneurial ventures to misconduct," forthcoming, *Research in the Sociology of Organizations*.

Carreyrou, John, 2019. "Prologue," *Bad Blood*, Alfred Knopf, pp. 3-8. [Study.net]

Gibney, Alex, 2019. *The Inventor: Out for Blood in Silicon Valley*. HBO.

Pre-work (60 minutes)

1. View any pre-recorded lecture videos.
2. View the movie *The Inventor* (available for rent on Amazon and YouTube)
3. Submit questions you have about any pre-recorded lecture videos.

In Class (90 minutes):

1. Q&A on the pre-recorded lecture videos.
2. Discussion of the Palmer and Weiss article on start-up misconduct.
3. Debate.
4. Quiz

Summary

In this class session we will consider the practical implications of the eight explanations of wrongdoing covered in the course. We will begin by considering the practical implications of the eight explanations at an abstract level. Then we will consider the practical implications of the eight explanations as they are manifested in the Martha McCaskey case. In our discussion of this case, we will identify how McCaskey's actions might be considered instances of wrongdoing. We will then explore the possible reasons why McCaskey engaged in those behaviors. Finally, and most importantly, we will consider the things that McCaskey might have done differently, so as to avoid engaging in those behaviors. The hope is that the material covered in this course will have provided us with resources to develop both a rich understand of how McCaskey got into ethical and legal "pickle" and how she might have avoided getting into this situation.

Readings

"Martha McCaskey," HBS Case 9-403-114. [HBS]

Pre-work (60 minutes)

1. View any pre-recorded lecture videos.
2. Submit questions you have about any pre-recorded lecture videos.

In Class (90 minutes):

1. Q&A on the pre-recorded lecture videos.
2. Discussion of the Martha McCaskey case.
3. Q&A on any matters related to the content or delivery of the course.
4. Quiz

Optional Reading

NOW Chapter 12: "Conclusion.

Blind Spots, Chapter 8: Narrowing the Gap.