ACCOUNTING ETHICS PART 2: THE CAUSES OF UNETHICAL AND ILLEGAL BEHAVIOR  
(ACC  271)

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Fall 2012  
(September 14, 2012)

Introduction

This second part of Accounting Ethics examines the reasons why people engage in unethical and even illegal behavior in organizations. This section of the course is predicated on two beliefs. First, I believe that most managers (and management students) share the same basic desire to manage in ethical and legal ways and the same basic beliefs about the difference between right and wrong. Second, I believe that unethical and even 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.

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. 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.

Goals, Pedagogical Approach, and Meeting Schedule

I have designed this part of Accounting Ethics 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. The meeting schedule reflects this pedagogical approach.

We will meet every Thursday for three hours. Each three-hour session will begin with a brief lecture intended to refresh students’ memories of the reading and to highlight the most import parts of the reading. These lectures will most definitely 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. We will also meet every other Friday for two hours. The bulk of each two-hour session will be devoted to digging into case material in greater depth, so as to increase student appreciation for the theory covered in the Thursday sessions.
**Work Load and Performance Evaluations**

Students will be asked to do a substantial amount of reading before each class session, likely more reading than students are used to doing in advance of class sessions. To increase the likelihood that students will keep up with the reading and pay close attention to and contribute to class discussion, I will administer four short quizzes at the beginning of sessions 7, 8, 9, and 10. I will design these quizzes to distinguish between students who **are** keeping up with the reading and **are** paying attention in class from those who **are not** doing the reading 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 readings or discussion. There will be no final exam or final paper on the material covered in this second part of ACC 271. I will, though, factor in a student’s participation in class discussion when determining his/her final grade.

**Required Reading**

*Normal Organizational Wrongdoing*, Donald Palmer, Oxford University Press in 2012.

Session Outline

Session 6 (Thursday, Nov. 1) Rational Choice

Summary: In this class session I will briefly explain the several reasons why it is important to understand the causes of organizational wrongdoing; by which I mean unethical, socially irresponsible, and illegal behavior. Then we will examine the first of five explanations of wrongdoing that we will consider in the course, known as the rational choice explanation. Our in-class case discussion will focus on discerning how rational choice factors might have been at work in two instances of wrongdoing. First, we will consider the 1919 Chicago White Sox players’ decision to “throw” (i.e., intentionally lose) that year’s World Series Championship. You should view the first three scenes in John Sayles’ movie *Eight Men Out* before class to prepare for this discussion. Second we will consider David Millar’s decision to use banned performance enhancing substances in professional bike racing. Please read the short interview with David Millar that appeared in BBC SPORT and the short excerpt from Millar’s book *Racing Through the Dark* to prepare for this discussion. We will view a supplemental videotaped interview with Millar in class to jump-start this second discussion.

Readings: *Normal Organizational Wrongdoing*, “Chapter 4: A Rational Choice.”


In-Class: *Eight Men Out*, Scenes 1-3

“Millar recalls EPO doping trauma,” BBC SPORT.

“David Millar.” *Sports Monthly*, BBC SPORT

“Tyler Hamilton,” *60 Minutes*, CBS News
Session 7 (Thursday, Nov. 8)  

**Culture**

**Summary:** In this class session we will examine the second explanation of organizational wrongdoing that we will consider in the course, known as 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 managers and employees 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 the US National Football League, in which players and coaches provided monetary rewards to teammates for injuring opposing players. Please read the four *Sports Illustrated* articles in preparation for this discussion. We will 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:** *Normal Organizational Wrongdoing*, “Chapter 5: Culture.”

**Cases:**


Session 8 (Thursday, Nov. 15)       Decision Making

Summary: In this class session we will examine 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 class 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 or 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.’”

In-Class: Card Trick Video Clip.

Student Experiment Video Clip


Feedback on Ethical Decision-making Questionnaire
Session 9 (Thursday, Nov. 29)  Situational Social Influence

**Summary:** In this class session we will examine the fourth explanation of organizational wrongdoing to be considered in the course. 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 examine actually 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 view scenes 4-11 of the movie *Eight Men Out* before class. We will use the scenes to consider how a variety of situational social influence processes might have influenced members of the 1919 Chicago White Sox baseball team to “throw” that year’s World Series Championship. We will view scenes from the movie *Quiz Show* in class. We will use these scenes to explore of how commitment processes can facilitate wrongdoing in organizations.

**Readings:** *Normal Organizational Wrongdoing*, “Chapter 8: Situational Social Influence.”

**In-Class:** *Eight Men Out*, Scenes 4-11

*Quiz Show*, selected scenes
Session 10 (Thursday, Dec. 6)  

**Power**

**Summary:** In this class session we will briefly examine the fifth and last explanation of organizational wrongdoing considered in the course. 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 cause people to engage in wrongdoing, even when people are disinclined to engage in the wrongdoing. In our class discussion we will consider how formal and informal power facilitated the implementation of fraudulent accounting practices at WorldCom. We also will discuss three newspaper articles about the demise of Arthur Anderson. The purpose of our discussion will be to deepen our understanding of the theories of wrongdoing considered in the second part of ACC 271 and to develop our ability to apply those theories to real life situations.

**Cases:**


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

**Optional Reading:** *Normal Organizational Wrongdoing*, Chapter 9: “Power Structures.”