

## **Chapter 2: A Look at the Sources of Ethical Problems in Business and How to Prevent Them**

### **Sample Discussion Answers**

These answers should be treated as supplemental to your own thoughts and analysis and are by no means comprehensive. Feel encouraged to include your own experiences and points of disagreement with the chapter should you find any.

#### **1. Before reading the chapter, what was your sense of why organizational ethics disasters (e.g., the financial crisis, Arthur Anderson, Worldcom) happen?**

Responses will vary depending upon the individual student.

#### **2. Which factors seem to be most important in diagnosing why bad things happen? What role does the individual, and individual conscience, play in making sure good things happen in organizations?**

Responses will vary depending upon the individual student. Note that this is a chance to get at student perceptions and experiences that may generate insights different than those highlighted in the chapter – or at least provide their own take on the forces discussed in this chapter.

#### **3. What is moral development? What are the six stages of moral development, and how are they relevant to thinking about business? (Page 38)**

A person's sense of morals does not remain static, but rather develops over time. The process of acquiring a more sophisticated understanding of morality, typically which emerges developmentally over time, is known as moral development. According to Kohlberg, moral development undergoes six stages:

##### **1. Punishment and Obedience**

*I do \_\_ because I will be rewarded if I do and punished if I don't.*

##### **2. Individual Instrument Purpose and Exchange**

*I do \_\_ because it benefits me personally.*

##### **3. Mutual Personal Expectations**

*I do \_\_ because all the cool people do it and expect me to do it too.*

##### **4. Law and Order Orientation**

*I do \_\_ because it is my duty to society.*

##### **5. Prior Rights, Social Contract, or Utility**

*I do \_\_ because it upholds the fundamental values of my society.*

##### **6. Universal Ethical Principals**

*I do \_\_ because of my commitment to universal principals that are the right of all human beings.*

For the scandals that wrecked Enron, Tyco, Worldcom and others, there is a fear that the business leaders thought too much in stage 2, whether because of perverse incentives or a lack of moral development. Ethicists could argue that getting beyond such reckless behaviors and bringing more value to society and stakeholders requires that business leaders act at a higher level of moral development.

**4. What are the core factors identified in the chapter that indicate why bad things happen in organizations? Which seem to be most important and most prevalent as you think about actual cases of wrongdoing? (Page 42)**

Authority

Distancing from Responsibility

Tunnel Vision

Rationalization

External Pressure

Communication Breakdowns

Depending on whom you ask, answers will vary as to which factors seem to be most important in influencing acts of wrongdoing.

**5. What should managers do to take these forces into account and manage differently so that these realities do not lead to ethical lapses in your organization? (Page 47)**

There is no simple solution that would eliminate the factors that tend to motivate ethical lapses in the workplace; however, these policies may help managers to combat potential ethical misconduct:

1. Introduce Ongoing Ethics Education
2. Do a Policies and Procedures Audit
3. Stick to the Fundamentals
4. Cultivate Moral Imagination
5. Use Guides to Avoid Rationalizations
6. Lead by Example
7. Make Ethics Part of the Dialogue
8. Emphasize Responsibility and Accountability Throughout the Firm
9. Foster Communication and Push Back
10. Make Sure People Know—Ethics Is Everybody's Business

# The Parable of the Sadhu

## Teaching Notes

### Synopsis

Bowen McCoy is on a climbing expedition in Nepal and he faces an unexpected decision. Part way up the mountain he encounters a stranger who is brought before him and his team from a group of climbers above him. The man is suffering from exposure to the elements, is incoherent, clearly needs help, but is unable to communicate. If he does not get help getting down the mountain he could well die. At the same time, if McCoy and his team stop to help this stranger (a “Sadhu” or holy man), they will not be able to complete their climb and miss an opportunity they flew across the globe to pursue. McCoy struggles with what to do ever so briefly before deciding to press on. Once they reach the top of the mountain, and after they come down, McCoy and his teammates wrestle with whether they made the right decision and what happened to the Sadhu.

### Objective

This case provides a rich context in which to explore why we make the decisions we do, and in particular some of the forces that lead us to make decisions we later not only regret, but may see as deeply and tragically misguided. As with the Miniscribe case, faculty should be pushing students to think about how good people and good organizations can very easily veer “off course” and end up making huge mistakes. At the same time, one can also use this case to have a genuine debate about what the right thing to do here was – stop and help or not? Though McCoy seems to clearly regret not stopping to help the Sadhu, many students may want to make the case that he did nothing wrong by not helping. You can pursue both lines of inquiry in your discussion.

### Questions for Discussion

1. Did McCoy do anything wrong? If so, what and why?
2. What can we say in McCoy’s defense? How might you construct a defense of his actions and argue he either did the right thing, or at least nothing bad?
3. If the Sadhu had been a child, or a beautiful Western woman, do you think McCoy would have gone to the top or stopped and helped? Why or why not? Should that matter?
4. How much should context matter in our analysis?
  - a. Should our standards be different at 15-20,000 feet above sea level on a mountaintop in freezing cold temperatures?
  - b. How about when other individuals and groups are present? Does that make us more or less responsible?
  - c. What needs to change to shift the dynamic and create better outcomes for all stakeholders?

5. McCoy seems to regret his decision to leave the Sadhu. It is a decision he made in just a few moments with little reflection, yet it has had a profound impact on the next 20-30 years of his life. What does this tell you about the challenge of living a good life? If moral dilemmas don't come before us and announce themselves, how can we do a better job of seeing them coming? What can be learned from moral mistakes?
6. How, if at all, does your view of other moral mistakes you read about (e.g. Enron, Bernie Madoff, the financial crisis) change in the wake of considering this case?

**Suggested Lesson Plan** (85 minutes)

1. **Question 1 (15 minutes):** this provides students a chance to dig into the evaluation of McCoy's actions. Chances are many of the students have some strong opinions about this. Take time to catalogue these, but also to push on them – why are they compelling (or not)?
2. **Question 2 (15 minutes):** here it is worth taking time thinking about the other side, specifically how we might construct a defense of McCoy's actions. It is likely there are several students who will be quite sympathetic with this view – after all, McCoy spent a lot of money to be there and helping out the Sadhu would have compromised his chance, the Sadhu may well have wanted to die, and the expectations for help on a mountainside may well be quite different.
3. **Question 3 (10 minutes):** this question relates to our moral framing and sensitivity. What would we need to change to get McCoy to make a different decision? If he would have made a different choice if the Sadhu were a child or a woman, does that mean his decision was wrong? What does this tell us about how to alter context to help people make better decisions?
4. **Question 4 (15 minutes):** explore the context in terms of how it should alter our normative judgments. Push students to think about how much we should change what we expect of people depending on the circumstances (if at all). This also provides a chance to see how they would have altered the circumstances to lead to a better result than what unfolded in the case.
5. **Question 5 (15 minutes):** this is a great moment to get students to share some of their own experiences and defining moments – times that have shaped them, for good or for bad, and what they have learned. Push especially on this idea that we often don't really understand the gravity of such moments in advance. Given their importance for the rest of our lives, what do we need to do to help make sure we don't make huge errors, either without thinking or by having a completely wrong perspective to take to the situation?

6. **Question 6 (15 minutes):** this question provides a strong context for bringing together the discussion and using it to think about the behavior of others that we read about in the popular press. What, at a distance, may seem unbelievable and crazy behavior by utterly evil people, may in fact be understandable (if misguided) decisions by decent people in difficult circumstances. Using the context of this case, and the material of the chapter, allows students a chance to draw their own insights about that – particularly for thinking about how they will change their own thinking and how they manage to limit the likelihood of such mistakes.

# **Marge Norman and MiniScribe Corporation\***

## **Teaching Notes**

### **Synopsis**

Marge Norman, a production manager at Miniscribe's Singapore production facility, has uncovered what appears to be a case of fraud at her company. She remains unsure of what to do in this situation.

MiniScribe Corporation, a disk-drive manufacturing company, became one of Wall Street's darlings in the mid-1980s, when it reported continual, increasing profits in a market that was frequently unstable. By 1990, however, the company filed for bankruptcy after it was revealed that those profits had been falsely reported. Sixteen MiniScribe executives and staff members were charged with fraud by the SEC. Later investigations found rampant fraud and shoddy account-keeping - inventory had been fabricated, intra-company shipments had been counted as sales, and scrap items and bricks were repackaged and counted as active inventory.

### **Objective**

Unlike many other cases, which ask students to recommend some kind of decision based on available information, the MiniScribe Corporation case presents students with the results of a series of completed decisions and then asks them to analyze how and why they were made. The “puzzle” in this case is why people did such bad things and it should make them wrestle with the question of how easy it is for this to happen in their organization as well as how to manage in ways that are likely to avoid these problems. What drove MiniScribe to commit such blatant acts of fraud? To what degree could the company's deceptive practices be attributed to the incentives to cheat created by Wiles' management techniques? Why didn't more employees, like Marge Norman, who knew about fraudulent practices at the company speak out more aggressively against them? The MiniScribe case can be used to get students to wrestle with the question of why decent people do ignoble things. It may be helpful to include mention of the Milgram experiments, which sheds additional light on this question.

It is critically important to set expectations if this discussion will prove useful for students. Make sure they begin with the assumption that people in the case, including Wiles, did not set out with the intent to commit fraud. They should assume that people in the case were decent people trying to turn their company around and save their jobs – good people just like them and their classmates. A common reaction, and an easy way for this to be an unproductive discussion, is to begin with the assumption that people in the case were bad and intent on doing immoral and/or illegal things; this is both factually incorrect and gets the students off the hook. Students should see this as a management challenge – getting people to behave ethically is driven not primarily by their individual conscience, but by the factors and forces operating in the organizational climate: culture, authority, peer pressures, organizational vocabulary and incentives, etc.

### **Discussion Questions**

1. Has anyone worked for a company like this? If so, what can you tell us about this experience? If not, how did you react to reading this case – did it seem surreal to you?

2. What do you think drove managers at MiniScribe to behave in such a manner? What specific factors in Wiles' approach were critical to helping them turn around a failing company? How were these same aspects of Wiles' approach related to the occurrence of fraud?
3. Why did employees go along with these fraudulent acts? What allowed decent people to make such bad decisions? What would you have done differently in their situation?
4. Did Marge Norman do anything wrong? Should she have done more – if so, what? What kind of conditions need to be present to enable people like Marge to take effective action to uncover wrongdoing in organizations?
5. What kind of actions could a company take to avoid making the same mistakes that MiniScribe made? How do we manage in order to limit the propensity for people to make unethical decisions?

**Suggested Lesson Plan** (85 minutes)

1. **Introductory Discussion (10 minutes):** In this chapter, we talked about the sources of unethical behavior and ways to prevent it. There was mention of a few notable recent scandals, such as Enron and WorldCom. Many students will probably recognize these companies as having been embroiled in unethical activity, but may not fully appreciate the nature and extent of such unethical conduct. Ask the students if they have heard about MiniScribe before and ask them if and why they think what these companies did was wrong.
2. **Question 1 (15 minutes):** Ask for a quick show of hands to see if anyone has been put into a similar situation before. If so, ask that person(s) if he or she would be willing to share his/her experience. This section can be expanded as necessary.
3. **Question 2 (15 minutes):** Any number of reasons can be cited for the ethical misconduct displayed at MiniScribe: external pressures, competition, and “good old-fashioned greed.” A more productive and relevant approach for this class may be to ask what management at MiniScribe did (or did not do) to turn the company around given its dire situation. One can make the case that Wiles' “disciplines” (5 are mentioned in the case narrative) and hard-nosed approach were key to getting the company back on its feet. At the same time, those same initiatives became twisted and were key to fostering an environment where cheating became the norm.
4. **Question 3 (15 minutes):** This provides an opportunity to push students to find ways to explain and better understand how we go from a struggling company where people want to improve performance and save their jobs to a context where systematic fraud and misconduct become the norm. There is a clear line here and students should be pushed to identify specific decisions and factors in the case that pushed people to go from being aggressive to being criminals. In retrospect, students should struggle with why people made such “irrational” decisions –

would anyone in the room knowingly commit fraud? If not, then why did these people do so?

5. Question 4 (15 minutes): This question is important in its own right and sets up discussion of Question 5. Marge is in a hard position. It is easy to criticize her and say she should have done more. At the same time, one can easily argue that given the circumstances, the culture of the company, the assurance of her boss, and her limited knowledge, that she did what any reasonable person would have done. People should be troubled by her response and wrestle with what alternatives she had (both inside the company and outside it), what responsibilities she had (and to whom), and what they might have done.
6. Question 5 (15 minutes): This question is really addressed at all levels of the company, from the lower-level workers and managers to the CEO to the shareholders and the public. It may be useful to diagram the stakeholders and ask for ways that each group can contribute to creating a culture of ethics.

---

*\* This teaching note is based on the teaching note prepared by Robert J. Sack, Professor Emeritus, Patricia Werhane, Ruffin Professor of Business Ethics, Andrew C. Wicks, Associate Professor of Business Administration, and Research Assistant Jenny Mead, Darden Graduate School of Business Administration at the University of Virginia.*