WHY DO GOOD PEOPLE DO BAD THINGS?

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“There are truly sinister businesspeople with sinister intentions, but for the most part, ethical and legal lapses are the stuff of average people who know better.”

--Della Costa
Concept of the Day:

Word of the Day:

Decision Making Errors to Be Aware Of:

1. **OBEDIENCE TO AUTHORITY**
   - Milgram study
   - Acceptability Heuristic
   - Egil “Bud” Krogh
   - Stock analysts in the dot-com boom
   - CFO fraud involvement
2. CONFORMITY BIAS

- Asch Study
- Cheating Study
- Betty Vinson & WorldCom
- KPMG: “You’re either on the team or off the team
- Petrified Forest

3. UNDUE OPTIMISM & OVERCONFIDENCE

- Divorce
- Driving/Teaching/Auditing
- Morals, too.
- Doctors & freebies
- Evolutionarily adaptive
- Enron employees were shocked, shocked
4. SELF-SERVING BIAS.

- Affects how we collect, process, and remember information
- Team credit
- Affects fairness judgments
- Managers with higher performance incentives fudge earnings more

Studies have found that the self-serving bias affects the judgments of:

- Physicians
- Attorneys
- Auditors
- Investment Bankers
- Securities Analysts
- Scientists
- Expert Witnesses
- Judges
- Stockbrokers
5. FRAMING

- Hamburgers

- How did Enron frame its goals?

- How did Arthur Andersen frame its goals?

- “Put on your management hats”—the Challenger debacle

- Audiotapes from Enron energy traders:

  Greg: “It’s all how well you can weave these lies together, Shari.
  Shari: I feel like I’m being corrupted now.
  Greg: No, this is marketing.
  Shari: OK.
6. INCREMENTALISM

- “Boiling Frog Syndrome”
- Hitler’s doctors
- Abu Ghraib
- Enron CAO Rick Causey
- GSA Scandal

7. TANGIBLE vs. ABSTRACT

- Product Engineers
- Stock Analyst
- Noreen Harrington (Goldman Sachs whistleblower)
- Auto emissions testers
8. LOSS AVERSION & ENDOWMENT EFFECT

- Losses 2X gains
- Endowment Effect
- Dave Bliss
- Martha Stewart, Frank Quattrone, AA...

“MOST HARMFUL ACTIONS ARE NOT COMMITTED BY PALPABLY EVIL ACTORS CARRYING OUT SOLITARY ACTIONS, BUT BY INDIVIDUALS ACTING WITHIN AN ORGANIZATIONAL CONTEXT.” --John Darley

“MOST UNETHICAL BEHAVIOR IS NOT DONE FOR PERSONAL GAIN, IT’S DONE TO MEET PERFORMANCE GOALS.” --David Gebler
Remember the Word of the Day!