Ethics and Organizations

Case Study 1

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In reference to the Aaron Beam and the HealthSouth Fraud case in our text Velasquez (2012), the following questions from the text and my answers to these questions are provided as requested.

1. **Which of the “obstacles to moral behavior do you see at work in Aaron Beam’s behavior and thinking? In Scrushy’s?”**

The obstacles I see in Aaron Beam’s behavior are “Rationalizing Our Actions and Displacement of Responsibility”. Rationalizing his actions is supported by comments he made in reference to the actions he had or was about to take in supporting his employer. Aaron Beam stated in Velasquez (2012), “He described the move to himself as aggressive accounting but definitely not fraudulent” (p 68). In the continual cooking of the books, each time Beam was press or directed by Scrushy to do so. Aaron Beam possibly considers that to be his get out of jail free card, by pointing the finger back at his employer, as displacement of his responsibility.

We see clearly what he was thinking in Velasquez (2012), as he “felt it was technically within the bounds of accounting rules and investors would be sophisticated enough to understand what was happening” (page 68). This would relate to “Biased Theories about Others”, as he believed this group of investors was sophisticated. You cannot help but think he also felt secretly an investor(s) would question their actions and bring them to account for their actions considering the situation he was in with his employer.

The obstacles I see in Richard Scrushy’s behavior are “Disregarding or Distorting Harm, Euphemistic Labeling, and Rationalizing Our Actions”. In reference to “Disregarding or Distorting Harm” based on the belief he was doing a good thing by providing rehabilitation therapy to patients at lower costs than regular hospitals, one could surmise he found doing
whatever it takes to succeed he would do, all on the backs of his employees, of which as CEO he could discredit at will. We could also, along these lines consider “Euphemistic Labeling” as he was not above lying as interpreted by the various financial reports produced to make the company look more profitable under the veil of only business. He himself would feel pressure in 1996 as they could not meet second quarter projections. He would once again ask Aaron Beam to cook the books, or the company would face financial ruin. Scrushy rationalizes this away by saying in Velasquez, (2012), “If they could just get through the quarter, then everything would be okay” (p 69).

We see clearly what he was thinking as up until now he felt everything was going his way; just one more time let the dice roll. This would relate to “Biased Theories about Oneself”, as he is very confident in his abilities, so what random event could he not control, after all he was the third highest paid CEO in the America; he had to be doing it right.

2. Explain how Aaron Beam might have used the “loyal agent’s argument” to defend his actions. Do you think that Aaron Beam’s situation the “loyal agent’s argument” might have been valid? Explain.

Under the “loyal agent’s argument” Aaron Beam’s defense would be that Scrushy had ordered him to manipulate the accounting records or more specifically the general ledgers. He was seen as reluctant to comply, but was pressured by Scrushy and a bit intimidated by him to the point at times of fear. I do not believe Aaron Beam could have actually used the “loyal agent’s argument”. The information shows Scrushy and Beam knew as stated in Velasquez (2012), “From the beginning Scrushy and Beam both knew the company had to appear profitable to satisfy investors and lenders and to later succeed in issuing and selling company stock to the public” (page 68). Therefore, Beam had to know Scrushy would be asking or ordering him to
make it happen. Based on Beam’s reluctances, it could be argued he knew this to be wrong but did it anyway.

3. In terms of Kohlberg’s views on moral development, at what stage of moral development would you place Aaron Beam? Explain. At what stage would you place Richard Scrushy?

In terms of Kohlberg’s views I believe Aaron Beam’s moral development would be a Level Two Stage Three. My rational for this is he knows right and wrong both conventionally and what the law says. He exhibits this by his initial reluctance to support Scruchy’s decision to manipulate the general ledgers. He also is in awe of Scruchy, and appears to want to please him as a person in authority, and shows his loyalty to after all Scruchy picked Beam to start the company with.

In terms of Kohlberg’s views I believe Richard Scruchy’s moral development would be a Level One Stage Two. My rational for this is it is all about him; he is self-centered and looks at things only from his own point of view. To support this we only have to look at his life style, he has been married three times, lives extravagantly, while charitable it appears he threw money around for self-recognition. The pleasures he gains by all of this gives him reason to assume he is right in his own mind. To support this further his own employees describe him as a dictator, cult-like figure, and a great motivator. This would indicate he was resourceful in getting what he wanted by any means necessary, much like a spoiled child.
Reference