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## Teaching note: IBM and Germany 1922–1941

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Teaching note

# IBM and Germany 1922–1941

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Admittedly, there are those among us who, if Auschwitz were re-opened, would rush to the gates in order to land a contract.

– Len Hirsch (1976)

## Why use this case?

This is a *very* engaging case that helps students learn about basic ethical distinctions. The intense involvement it creates is one reason to use it. Some instructors might worry that a historical case like this might not interest undergraduates who are unfamiliar with IBM's contribution to Nazi Germany, but we have found no lack of interest. We have taught this case many times to graduate students and undergraduates and have had no problem with student interest; they have become more emotionally involved in this case discussion than any other we have conducted in our collective 40 years of teaching. As one colleague put it, "IBM and the Holocaust are both well known to students, but probably not in the same sentence. The combination is guaranteed to spark interest and reaction from students".

In our classes, some students care about ethics, some are indifferent, and some actively dismiss ethical concerns. Although it is important to increase all students' ethical sensitivity and reasoning, one can argue that it is most important to influence the least ethical students, as they are likely to wreak the greatest havoc. This case is appropriate for them because it teaches basic concepts in a hard-hitting way.

One reason that it works so well is that Hitler fits perfectly into students' moral schemata. He is a central location indicator of evil in many of their mental maps of morality. This case illustrates several ethical ideas (that an act can be unethical but still legal, that the social responsibility of business is more than making a profit, that good ethics does not always equal good business, etc.) where one cannot refute the evil nature of the group being helped by business.

## How this case came to be written

The idea of writing this case came several years ago when Don McCormick was teaching an ethics chapter in an undergraduate Principles of Management course. He was trying to make the point that managers can act in ways that are legal but still unethical, and that sometimes ethical concerns were more important than making a profit or meeting shareholder expectations. Many



students had a hard time learning one of the most basic and important distinctions in business ethics – the difference between legal and ethical behavior. So he made up what he thought was the most clear-cut illustration of this concept possible. He asked the students to imagine they owned a German pesticide company during WWII and the government asked to buy their pesticide in order to kill people in the death camps. “Would you sell it to them?” he asked. He assumed that this example would make it absolutely clear that there are times when ethical concerns were more important than profitability.

He was wrong.

A few students said yes, they’d sell it.

“If we didn’t sell it to the Nazis, someone else would”, said one.

“It wasn’t our place to question what people did with our products”, said another.

The rest of the class turned on them – some yelling. Stunned, Don McCormick did not handle it well. He could barely believe that some of his students would actively support the holocaust by selling the gas used to kill Jews, communists, gays, lesbians, Roma, and others. The situation blew out his ability to teach competently. He wanted to say to these students, “No. You’re wrong! That’s bad!” and somehow verbally force them to recant their despicable beliefs. He resisted the impulse to do this, or to engage in any other similarly pointless and pedagogically self-destructive acts. He slowed down the debate and made room for both sides to talk. Later, he thought this might have been a fluke. Did his management classes *really* contain budding Nazi collaborators? He tried the same imaginary case with another class and it produced similar results. His experience with these incidents had two immediate outcomes. First, it made him want to say to his colleagues, “We have to do something. We don’t want to graduate students who believe that it’s OK if their business does something as evil as help with the holocaust. This is at least as important as making sure our graduates can read a financial statement.” Second, he felt compelled to write a case that got at these same powerful issues, but did so in a way that would make a better learning experience. This is what led us to write the case.

### Student learning objectives

The following objectives of the case are for students to explore:

1. the distinction between ethical behavior and legal behavior;

2. the conditions under which moral obligations are more important than financial obligations to shareholders or profit; and
3. the conditions under which an act can be unethical even if it benefits a business financially and the business is not harmed.

### Case outline/synopsis

In 1933 and 1939, IBM’s German affiliate, Deutsche Hollerith Maschinen Gesellschaft or Dehomag, obtained the German census contract, and made millions of dollars for IBM by leasing its punch card tabulation machines, which were ancestors of the computer (Black, 2001). The German government tried to prevent IBM from taking its profits out of Germany, and from IBM’s point of view, this was the main problem. Germany had created concentration camps and had severely limited the civil rights of Jews and others. Hitler publicly promised to create a master race and dominate Europe. IBM knew this, and knew that the technology would also be used to keep track of Jews, gypsies, gays, lesbians, “work-shy misfits,” Jehovah’s Witnesses, and political prisoners who were being placed in concentration camps. IBM also knew that Germany was using its punch card machines to coordinate its war effort. At the time of the end of this case, IBM’s activities were still legal under US law, and Germany had not yet started the mass executions that were to be known as the holocaust. Some US corporations stopped doing business in Germany, but not IBM; it was overwhelmingly concerned with profit and market share. The president of IBM, Thomas Watson, received a medal from Hitler in 1937. In 1940, US public opinion turned against Germany, and Watson returned the medal. Outraged by Watson’s insult to Hitler, German IBM executives and high-ranking Nazis threatened Watson’s control, but they needed punch card technology and had already invested a great deal of money in IBM’s technology. Watson was concerned about maintaining control of IBM’s German division, shielding IBM from criticism in the US, and keeping it eligible for more German government contracts. At the end of the case, Watson has to decide whether to end IBM’s relationship with the Nazis (which means losing all that it had invested and cutting off any possible future contracts), try to continue to make Dehomag work, or come up with some creative third option. (Black, 1984; Heidings, 1934; Heidinger, 1943; IBM Highlights, 1885–1969; *New York Times*, 1933; *New York*



*Times*, 1973a,b; 1940a,b,c; Rogers, 1969; USHMM (United States Holocaust Memorial Museum), 2004; Wiesenthal Center, 2004; IBM Highlights 1885–1969, no date; The History Place-Holocaust Timeline, 1997).

### **Courses for which this case would be a good fit**

This case can be used for Business Ethics courses. However, because it is useful for teaching basic ethical principles, it could also be used in the ethics sections of courses such as Principles of Management, Organization Theory, Organizational Behavior, Management Skills, or International Management. We have used it in all of these courses except International Management. This case provides an opportunity for students to realize that ethical issues are not limited to ethics courses, and will help students to learn that ethical problems can be an important part of financial, international, information technology, and many other business situations.

### **Teaching strategies**

We have taught this case 15 times, and a precursor of this case twice. We have taught it to undergraduates, graduates, and adjunct instructors. The discussions were passionate.

After the case discussion, the instructor can hand out the “Epilogue” reprinted at the end of this Teaching Note. We also recommend showing a segment of the movie *The Corporation* at the end of the class. It portrays IBM’s involvement with Nazi Germany. The movie is available on DVD and VHS. On the DVD, the section on IBM and the Nazis is Chapter 19, and is titled “Taking the Right Side”. We start the clip when Edwin Black begins speaking and end it after the section about US companies that sell to terrorist countries and other official enemies of the US. The film is available from [www.thecorporation.com](http://www.thecorporation.com) or [amazon.com](http://amazon.com). We have used it six times, and each time it had a powerful effect.

If students still doubt that this case is relevant, have them listen to Terry Gross’s interview from July 11, 2007 with journalists Douglas Farah and Stephen Braun, who have co-written a book about Russian arms dealer Victor Bout titled *Merchant of Death: Money, Guns, Planes, and the Man Who Makes War Possible* (New York: Wiley, 2007). Even though the Treasury Department banned the US Government from doing business

with Bout, he continued to receive millions in Defense Department contracts for transportation services in Iraq. You can listen to the interview at <http://www.npr.org/templates/story/story.php?storyId=11870855>.

### **Discussion questions and class Agenda**

1. What problems does IBM face?
2. Which of these problems are the most important to address? Why?
  - (Probe Question) Define “legal”. Were IBM’s activities in Germany between 1922 and 1940 legal?
  - (Probe Question) Define “ethical”. Were IBM’s activities in Germany between 1922 and 1940 ethical?
  - (Probe Question) What is the difference between legal and ethical behavior?
  - (Probe Question) Define “social responsibility”. Were IBM’s activities in Germany between 1922 and 1940 socially responsible?
3. What options does IBM have?
4. What should IBM do?
  - (Probe Question) Do companies today engage in behavior that is similar to what IBM did? What should they do?
5. Show IBM and Germany clip from “The Corporation.”
6. Read case Epilogue  
Discussion Questions, Answers, and Class Agenda.

### **Quickly review all four questions**

Before beginning a discussion of any of these questions, review all of them with the class. If you do not, they are likely to try to jump straight to their solutions, and skip the analysis that the earlier questions call for (Table 1).

### **What problems does IBM face?**

Two of this case’s learning objectives are that students learn “that some moral obligations are more important than financial obligations to shareholders” and “that an act can be wrong even if it benefits a business financially.” To achieve these objectives, the financial obligations to shareholders need to be made clear; this question does that. It helps students realize that IBM faced financial, marketing, public relations, and ethical problems.

**Table 1** Board layout (with typical content)

<i>Importance</i>	<i>Problems</i>	<i>Decision criteria</i>	<i>Alternative solutions</i>	<i>Solution(s)</i>
III	Ethical problem	<ul style="list-style-type: none"> <li>● Ethical</li> </ul>	<ul style="list-style-type: none"> <li>● Pull out of Germany</li> </ul>	
IIII	IBM's image	<ul style="list-style-type: none"> <li>● Image</li> </ul>	<ul style="list-style-type: none"> <li>● Stay in Germany</li> </ul>	
IIII	IBM loses profits from German operation	<ul style="list-style-type: none"> <li>● Financial</li> </ul>	<ul style="list-style-type: none"> <li>● Stay in Germany and use machines to provide intelligence info to the Allies</li> </ul>	

**Financial and marketing problems.** From IBM's point of view, finding a way to retain profits made in Germany and maintaining IBM's dominant position in the German market were big problems. IBM would lose its second largest market if it cut off relations with Germany. This would obviously reduce profits.

**Public relations problems.** Students often mention public image and public relations problems, saying that IBM's image would suffer if the US public knew how much it was helping Germany. IBM ran a small risk of wrecking its image as the All-American company. It successfully hid its participation in the holocaust until 2001.

**Legal problems.** Were IBM's actions legal? The case gives no indication that any of IBM's actions were illegal. It was legal to sell US technology to Germany. It was legal to pay royalties from Germany to the US via Switzerland. The United States was not at war with Germany until after Hitler declared war on the US in December 1941, which is after the time covered by the case.

**Ethical problems.** The case presents at least three ethical problems.

First, the most obvious problem is that IBM is helping a country to violate the human rights of many of its citizens and is helping to begin a process of genocide. The case suggests that the managers of IBM's German affiliate, Dehomag, were aware of Hitler's plans and may have even supported them. Dehomag machines helped run Germany's concentration camps. Dehomag directly profited from these actions.

Second, in the middle of 1940, when the case narrative ends, Hitler had invaded Czechoslovakia, Poland, the Netherlands, and Belgium. France, Britain, Canada, New Zealand, and Australia were at war with Germany. IBM helped Germany's war effort by providing and servicing punch card machines to the armaments and munitions minis-

try, the railroads that moved troops and weapons, and to Germany's armed services.

Third, a business should be honest. This is a less-serious ethical problem. IBM was being dishonest by hiding its true relationship with Dehomag from the American public.

Students may simply say that the main problem IBM faces is "the ethical issue" without explanation. If they do, press them to think more clearly about this by asking them to articulate what the ethical issue is and why IBM's actions are unethical. You might say, "But how is it unethical? Why is it unethical? What makes it unethical?"

The ethical problems are the most important – especially those having to do with human rights and support for an imperialist war. No business should actively help a nation violate the human rights of its citizens. Nor should it help a nation violate international law by conquering other nations. As the Nuremberg trials pointed out, "carrying out a war of aggression is the supreme international crime, which differs from other war crimes in that it encompasses all the evil that follows" (Chomsky quoted in Schivone, 2007). Leasing Germany punch card machines helped Germany both to violate human rights and to conquer other nations.

**Evading the issue.** Students may try to evade the moral issue by taking Watson's point of view, saying things such as, "Watson doesn't care about morality; for him the issue is profit". Since one purpose of the case is to help students learn to identify moral issues in cases, a good response to such a comment is to refocus the responsibility for moral decision making on the student by saying, "That's a good point about what Watson thinks, but what do *you* think the issues are?" The case questions are written to elicit the students' evaluation of the situation.

In the case, we deliberately mention that other US corporations conducted business with the Nazis, so that students' ethical misconceptions can be surfaced and corrected. IBM's public relations



department (Makovich, 2001), the *New York Times* (Schoenfeld, 2001), and other critics of Black's (2001) book (Dobbs, 2001; Hayls, 2001; Spencer, 2001) also pointed out that other companies did business with the Nazis. Some students may say that it was acceptable for IBM to sell to the Nazis because "everybody else did." If this happens, point out that "everybody else does it" is not a defensible excuse for engaging in unethical behavior. As The National Academies of Science (Committee on Developments in the Science of Learning, 2000) pointed out in their review of the research on teaching and learning, surfacing students' preconceptions and misconceptions so they can be challenged is one of the most effective teaching techniques.

### Which of these issues are the most important ones to address? Why?

This question asks the students to say which is more important in this situation: financial, public relations, or moral considerations. It gives them an opportunity to discuss the relative importance of each. This must be done in order for them to realize two of the case's learning objectives, namely "that some moral obligations are more important than financial obligations to shareholders" and "that an act can be wrong even if it benefits a business financially."

Although it seems obvious that the moral issue should be the most important, do not be surprised if some students argue that the financial issue is more important. For example, in one graduate management class, three students felt the ethical issue was primary, four felt the public image problem was primary, and five felt the financial issue was primary. In teaching this and similar cases, we have found that there are usually students who defend doing business with Nazi Germany. Be prepared to have some students defend IBM, and be prepared for a highly emotional discussion.

Keep the focus of the discussion on the moral issue. This question makes the students' moral reasoning visible, so it can be examined, challenged, and discussed. Students often say things such as, "If IBM doesn't provide the machines, then somebody else will. So why shouldn't they?" Use this question as an opportunity to discuss the ethical implications of such a rationalization. The questions and probes that follow will allow you to apply various ethical models to the discussion to give it more depth and academic rigor.

If all the students say that the only issue is the moral one, you can highlight the conflict between shareholder obligations and ethical obligations by playing devil's advocate and saying, "If IBM withdrew, wouldn't their withdrawal hurt shareholder value? Doesn't IBM have a legal obligation to its stockholders?" These questions will encourage students to articulate their reasons for the primacy of ethical over financial concerns.

**Probe question: define "legal." Were IBM's activities in Germany between 1922 and 1940 legal?** Princeton's wordnet defines "legal" as "established by or founded upon law or official or accepted rules" (<http://wordnet.princeton.edu/perl/webwn?s=legal>). By this definition, IBM has operated within the official and accepted rules of both the German and US governments. It has not exported profits from Germany illegally. It has used the legitimate process of royalty transfer from one division to another. It has not sold equipment to Germany that was banned by the US government, because no such ban existed in the time of the case. IBM's majority ownership of Dehomag has been hidden from view through a complex stock ownership plan that has yet to draw negative attention from the German courts, but could put IBM at risk if it were widely publicized. On the basis of the information provided in the case, the risk appears to be more from bad public relations than from negative legal action.

This case provides a good opportunity to clarify the distinction between legal and ethical behavior. If the students have not raised the issue of unethical but legal behavior, you might want to read this Martin Luther King Jr. quote from the "Letter from Birmingham Jail":

We can never forget that everything Hitler did in Germany was "legal" and everything the Hungarian freedom fighters did in Hungary was "illegal." It was "illegal" to aid and comfort a Jew in Hitler's Germany. But I am sure that if I had lived in Germany during that time I would have aided and comforted my Jewish brothers even though it was illegal. (quoted in Washington, 2001: 294–5)

**Probe question: define "ethical." Were IBM's activities in Germany between 1922 and 1940 ethical?** Four streams of ethical reasoning – utilitarianism, deontology, virtue theory (Donaldson, Werhane, and Cording, 2002), and moral relativism (Velasquez, 2002) – will be discussed in the later sections.



**Utility.** Utilitarian ethical models (Velasquez, 2002) ask what will maximize the benefits for the most people. Donaldson *et al.* (2002) distinguish utilitarianism from ethical egoism. Both focus on the consequences of one's actions. Ethical egoism examines only the consequences for the individual decision maker, whereas utilitarianism seeks to maximize the good for the larger human community.

Although selling punch card technology to the Nazis improved the financial well being of IBM's shareholders and Dehomag's employees, it aided the severe restriction of human rights for millions of people, and therefore fails the utilitarian test.

**Duty.** Kantian deontological ethical models focus on duty (Donaldson *et al.*, 2002), suggesting that people must strive to behave in ways that perpetuate the values of a well-ordered society.

One ought only to act such that the principle of one's act could become a universal law of human action in a world in which one hopes to live .... One ought to treat others as having intrinsic value in themselves, and *not* merely as means to achieve one's ends (Donaldson *et al.*, 2002, p. 7).

If we argue that IBM's duty was to provide reliable equipment to its German subsidiary regardless of how the equipment was used, and that the German government's duty was to use the technology as directed by its leaders, then IBM's behavior appears to be unblemished according to the first part of Kant's categorical imperative. If, however, we argue that IBM has a duty to see that no one is harmed by the use of its equipment, then the company has clearly failed the second part of Kant's categorical imperative. "Hitler treated one group of persons as nonpersons in order to achieve his own ends, and thus he acted contrary to the categorical imperative" (Donaldson *et al.*, 2002, p. 7).

**Virtue.** Ethical models based on virtue (Velasquez, 2002) ask whether the activities in question help individuals to develop character traits such as wisdom, generosity, and self-restraint, which make one a better member of the community (Donaldson *et al.*, 2002). From the Nazi perspective, all actions to rid themselves of the Jewish threat were virtuous because they helped Germany return to its "true self." From the perspective of the Jews, other oppressed groups, and the rest of the world, the Nazi's behavior was purely evil. In the film *Schindler's List* (Keneally, 1994), a clerk reviewed the list of Jews saved from the gas chamber by working in Schindler's factory. "The list is a pure

good," he said, meaning that it faced the evil of the Nazi genocide and turned the evil aside. IBM's actions did nothing of the sort. They aided the evil as if the technology had no moral implications. IBM's behavior suggested the attitude that "punch cards don't exterminate people ... Nazis do." The only virtue Watson appeared to embrace was that of preserving IBM's cash flow. Other virtues ranked much lower on his priority list.

**Moral relativism.** Students may raise the issue of moral relativism – arguing that everyone has different ideas of what is right or wrong so there are no ethical standards that apply to all cultures and times. Velasquez (2002) shows the indefensibility of this stance:

If ethical relativism were true, then it would make little sense to criticize the practices of other societies so long as they conformed to their own standards. For example, we could not say that the slavery of our pre-Civil War Southern societies was wrong, that the discrimination practiced in the societies of the American South before the 1950s was unjust, or that the Germans' treatment of Jews in the Nazi society of the 1930s was immoral (pp. 23–24).

**Probe question: what is the difference between legal and ethical behavior?** You can portray the difference between legal and ethical behavior by writing a quick 2 × 2 table on the board to serve as a graphic organizer for the concepts. Then ask students where IBM's actions fit.

If students say things such as, "IBM should have stopped doing business with the Nazis because it was illegal," ask the class if IBM should have continued if it had been legal. This is likely to create productive cognitive conflict in some students, as it highlights the fact that actions that are legal can still be immoral. Manual Velasquez (2002) makes a point about legal and moral behavior well (Table 2):

It is wrong ... to see law and ethics as identical. It is true that some laws require behavior that is the same as the behavior required by our moral standards .... However, law and morality do not always coincide. Some laws have nothing to do with morality because they do not involve serious matters .... Other laws may even violate our

**Table 2** Legal and ethical behavior

	<i>Ethical</i>	<i>Unethical</i>
Legal	Ethical and legal	Unethical and legal
Illegal	Illegal and ethical	Unethical and illegal



moral standards so that they are actually contrary to morality (p. 40).

**Probe question: define “social responsibility.” Were IBM’s activities in Germany between 1922 and 1940 socially responsible?**

Corporate Social Responsibility (CSR) aligns business operations with social values. CSR integrates the interests of stakeholders – all of those affected by a company’s conduct – into the company’s business policies and actions. CSR focuses on the social, environmental, and financial success of a company – the triple bottom line, with the goal being to positively impact society while achieving business success. (The Corporate Social Responsibility Newswire, 2007).

This case provides a good opportunity to show that the bottom line should not be business’ sole guiding principle, and that the ultimate social responsibility of business is to act in ways that further the common good. The case shows the bankruptcy of Friedman’s (1970) argument that the social responsibility of business is to make profits. Friedman’s rationale would support the idea that the socially responsible course of action of IBM would be to continue to make profits by selling machines to the Nazis, as long as it did not break any laws – a position morally repugnant to most people. While the members of Hitler’s “Aryan master race” believed that IBM’s technology was performing a social good by assisting them in their task of ridding Germany of “undesirables,” those suffering under Nazi oppression felt otherwise. Supporting Germany’s war effort led to the wholesale destruction of communities and the natural environment, and to suffering on a global scale. While aiding in that devastation contributed to IBM’s financial bottom line, providing equipment to the German government harmed IBM in the social and environmental categories of responsibility.

**What options does IBM have?**

One way to tell whether students have attained the case’s three objectives of learning “the distinction between ethical behavior and legal behavior ... that some moral obligations are more important than financial obligations to shareholders ..., [and] that an act can be wrong even if it benefits a business financially” is by seeing whether students craft solutions that put ethics before financial concerns. This question and the next question surface those solutions so they can be examined, discussed, and debated.

The following are some options regarding continued operations:

- IBM could continue its operations in Germany, and try to keep its profits. This option maintains the *status quo*. IBM continues to maintain its financial advantage, but loses any chance of demonstrating ethical responsibility.
- IBM could continue its operations in Germany and attempt to persuade the German government to change its policies of human rights abuse. This option begins to address IBM’s social responsibility by confronting Germany’s human rights abuses. It would likely result in the immediate resignation of Dehomag’s managing director, who was a dedicated Nazi. With his resignation, IBM’s majority ownership of Dehomag would be exposed and they would be subject to expulsion or forced takeover. This option is the equivalent of withdrawing from the market.
- IBM could continue its operations in Germany and publicly condemn the policies of the German government. The consequences of this option are the same as the previous one.
- IBM could continue its work in Germany, and approach the US government to offer to use Dehomag for espionage and/or sabotage. The US Government was neutral and did not want to antagonize Germany in the 1930s. It is unlikely that they would welcome such an offer. This option would require Dehomag employees to behave dishonestly and to be disloyal to their government. Because many of them were loyal Nazis, this option has little likelihood of implementation. Also, an actively destructive strategy would need to take into account the safety of IBM’s German employees, who did not originally join IBM to become spies or saboteurs.
- IBM could close Dehomag and cancel its license to use IBM technology. This option would improve IBM’s environmental and social bottom lines and temporarily decimate its financial bottom line.
- IBM could recall as many punch card machines as possible and attempt to destroy any remaining machines. This option is a subset of the previous option. It recognizes that withdrawing from Germany is not enough. IBM should attempt to interfere with Germany’s capacity to use its equipment. Once you have decided that IBM must withdraw, this option becomes attractive but, once again, very difficult to implement. The German government would likely confiscate the equipment before IBM could remove it.





In an interesting side note from the epilogue, many of these same machines wound up at US military bases immediately after the war, where they were immediately put to use by IBM staff who had joined the military (Black, 2002).

- IBM could apologize to the US public for helping Nazi Germany. This option requires a high level of ethical commitment from IBM, more than it has displayed in the case. As the case notes, Germany and the US were not at war. This option has no precedent in the 1930s. The case does not mention that some of the US's closest allies also had poor human rights records. For example, Great Britain was suppressing democratic movements in India and its other colonies. It invented the concept of the concentration camp during the Boer War in South Africa in the early 1900s. The United States had just finished its western expansion, with devastating results for its Native American population. Anti-immigrant feelings rose and fell. Even migrants within the US were unwelcome during the depression, as John Steinbeck illustrated in *The Grapes of Wrath*. In the 1930s, Americans were preoccupied with their own survival and not as interested in the sufferings of what seemed like a few obscure European Jews. It is not clear from the case who would call on IBM to apologize and how such a move would be implemented.

### What should IBM do?

The primary concern here should have been to stop supporting the Nazis' concentration camps and imperialist wars. At the very least, IBM should stop operating in Germany and attempt to take back its equipment.

Although IBM could have gone further and on its way out destroyed as much of its equipment as possible or changed the census data in hard-to-detect ways that diminished their usefulness (reducing Germany's ability to track Jews, moving munitions, etc.), it is difficult to envision any of Dehomag's employees making such an unpatriotic move.

**Probe question: are there companies today engaging in behavior that is similar to what IBM did? What should they do?** The aim of this question is transfer of learning. If students think that only in extreme situations such as IBM's assistance to Nazi Germany is there a "distinction between ethical behavior and legal behavior," "that some moral obligations are more important than financial obligations to

shareholders," or "that an act can be wrong even if it benefits a business financially," then the case is not an effective teaching tool. Students need to learn to apply these ideas to other, contemporary situations. This question helps them to do just that.

As a prompt, you might ask the class, "Can you think of other companies whose products are used for immoral ends today? What should they do?" Examples of these might be companies that manufacture cigarettes, land mines, or chemical biological warfare agents. Another example is Yahoo, which gave information to the Chinese government that helped it to find, arrest, and imprison a Chinese journalist. The journalist used his Yahoo email account to send information to a website in New York, "about a supposedly secret directive his newspaper had received from the state propaganda department telling it how to cover the 15th anniversary of the 1989 Tiananmen Square massacre" (Boot, 2005: D13). He received a 10-year prison sentence.

We would argue that companies are obligated to do something so that they do not help governments violate the human rights of their citizens or those under other governments. They might exert their influence on governments to stop violating human rights. This is particularly important when the company's products or services are involved in those violations, as was IBM's product. Where the government appears to be impervious to change efforts, a company may simply pull out.

The decision of which strategy to take depends, in part, on the recommendations of any movement within the country to support human rights. At one point in the movement to free South Africa from apartheid, some corporations felt they could do the most good by remaining in South Africa and trying to persuade the South African government to change. But the African National Congress and other anti-apartheid groups asked these corporations to support their movement's strategy by pulling out. The decision for corporations became more complicated because not only did they have to decide what they thought would work best, but also, when their strategy differed from those of indigenous freedom movements, whether to support the movement or go it alone with their own strategy.

**Show IBM and Germany clip from "The Corporation"**

**Read case Epilogue**



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## Epilogue

Watson agreed to add a fourth German director, a powerful Nazi party member, and the conflict about ownership diminished for a while. But then he was faced with another problem. Only this time it came not from the German government, but from the US government.

In September 1941, the Roosevelt Administration created an emergency regulation forbidding financial transactions with Nazi Germany without special Treasury Department licenses. These licenses could take months to be approved, so Watson tried to get around the regulation by sending emissaries to Europe via neutral Switzerland.



In October, 2 months before Germany declared war on the US, tensions heightened between the two countries to such an extent that Watson sent the following instructions to Dehomag, its divisions in Nazi-occupied Europe, and its divisions in Japan:

In view of world conditions we cannot participate in the affairs of our companies in various countries as we did in normal times. Therefore you are advised that you will have to make your own decisions and not call on us for any advice or assistance until further notice (quoted in Black, 2001: 288).

As Black (2001) points out, Watson's memo

did not order his subordinates to stop producing punch cards for Nazi Germany. It did not order them to cease all operations. It did not set limits on which projects they could participate in. It did not require offices in neutral countries to stop supporting Hitler's program .... It did not even demand that spare parts no longer be sent to machines in concentration camps. All that business continued (p. 289).

In coordination with its ally Japan's attack on Pearl Harbor, Germany declared war on the US in December of 1941 (Fussell, 1989). Shortly after this, the German government appointed a trustee to oversee Dehomag. Dehomag and the other IBM subsidiaries continued to supply IBM technology to Germany for the rest of World War II (Black, 2001).

William Seltzer of Fordham University (Eisenstadt, 1998) and Edwin Black (2001) argue that the

Third Reich used the punch card equipment to identify and arrest Jews in Germany, Poland and elsewhere (Black, 2001). Retired IBM Germany employee Friedrich Kisterman (1997) and others (Allen, 2002) disagree, and state that IBM's punch card machines were not used. The Yale historian Henry Ashby Turner Jr. (2001) wrote, "The Nazis unquestionably employed punch card technology in their war effort and in the logistics of the Holocaust, once death camps were established in 1942" (p. 636). Before World War II, the Third Reich used IBM and Dehomag's punch card equipment to identify and arrest Jews in Germany, Poland and elsewhere. (One of the IBM machines from the death camps was on display at the United States Holocaust Memorial Museum [United States Holocaust Memorial Museum, no date] for several years.)

Dehomag acted as a trustee for IBM during the war, and put its sizeable profits into Swiss bank accounts that IBM recovered after the conflict was over. As Germany was liberated by Allied troops, IBM quickly moved in to take custody of its equipment. Some machines were shipped directly from concentration camps to Allied data-processing centers (Black, 2001).

IBM was never prosecuted for its role in the Holocaust, and received no negative publicity about it until Edwin Black published *IBM and the Holocaust* in 2001.

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