BUSINESS ETHICS
CASE STUDY
TEACHING METHODS
Teaching Business with Ethics-Based Cases

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Be inspired. Be inspiring.

About Denis Collins, the Presenter

- Tenured Professor of Business at Edgewood College in Madison, Wisconsin,
- Teaches classes in management and business ethics
- A Sam M. Walton Free Enterprise Fellow.
- Recipient of the 2010 MBA Outstanding Faculty Award and the 2009 Estervig-Beaubien Outstanding Professor Award, School of Business, Edgewood College, for excellence in Teaching and Mentoring.
- Three times voted the outstanding MBA faculty member at the University of Wisconsin-Madison in Business Week’s survey of alumni.
- Finalist for the Academy of Management’s Distinguished Educator Award.
Teaching Methods

1. Ethical Evolution – Bernie Madoff
2. Ethical Decision-Making – Bernie Madoff
3. Role Play – BP
4. Debate – Cigarette Industry
1. Ethical Evolution – Bernie Madoff

A. Why do you think Bernie Madoff created a $50 Billion Ponzi Scheme?
   • ???
   • ???
   • ???
1. Ethical Evolution – Bernie Madoff

B. Why did Bernie Madoff create $50 Billion Ponzi Scheme? – A step-by-step progression
   – 1960, age 22, opens penny stock firm with office space in Saul Alpern’s (father-in-law) accounting office, legal brokerage business
   – Alpern helps Bernie get started with $50,000 loan to invest
   – Carl Shapiro invests $100,000 because Bernie completes trades in 3 days instead of 3 weeks
   – Alpern recruits family members, business friends, accounting clients, and acquaintances, guaranteeing 18% return on investments
   – Unlicensed with more than 15 clients, Bernie’s operating illegally as an investment adviser
   – 1963 Bernie’s mother investigated by SEC and is banned from securities industries for not filing financial reports
   – Mid-1960s, Frank Avellino, one of Alpern’s accountants, invests with Bernie for guaranteed 20% returns and recruits other clients
1. Ethical Evolution – Bernie Madoff

B. Why did Bernie Madoff create $50 Billion Ponzi Scheme? – A step-by-step progression
   – Bernie considers getting investment adviser license but fears it would uncover his previous illegal action
   – Bernie moves funds between legitimate penny stock brokerage business and illegal investment adviser business
   – Alpern hires Michael Bienes as accountant; father-in-law is Jeffrey Picower, wealthy investor, new client
   – 1970, Bernie’s brother Peter computerizes legal business; among first five brokers to join NASDAQ (automated stock quotes) in 1971
   – [Continued on next slide]
1. Ethical Evolution – Bernie Madoff

B. Why did Bernie Madoff create $50 Billion Ponzi Scheme? – A step-by-step progression
   – [Continued from previous slide]
   – 1975 hires recent high school graduate Frank DiPascali, as investment advisory assistant
   – DiPascali and Daniel Bonventre create fraudulent records to verify investment advisory trades; Ponzi scheme in full bloom
   – 1988, moves firm to prestigious Lipstick Building on Third Avenue
   – 1990/1991, Jerome O’Hara and George Perez hired to develop computer programs and maintain “House 05” (legitimate) and “House 17” (Ponzi Scheme) servers
1. Ethical Evolution – Bernie Madoff

C. Why did Bernie Madoff create a $50 Billion Ponzi Scheme?
   • ???
   • ???
   • ???
2. Ethical Decision-Making – Madoff

A. Should Mark Madoff have granted his father’s request for a one week delay before notifying government authorities about his crime?

– December 10, 2008, Bernie’s illegal investment advisory business on verge of collapse as stock market on year-long decline and clients divest

– Bernie meets with sons Mark (age 44) and Andrew (age 42), legal business partners, about sudden cash flow problem, then about Ponzi scheme collapse, everyone is broke

– Bernie requests his sons to remain quiet for one week so he can pay back some people and then he’ll turn himself in to the SEC and FBI

  #1: Respect father’s request for one week delay
  #2: Notify SEC and FBI immediately
2. Ethical Decision-Making – Madoff

*Instructions*: Answer Questions 1 through 7 to gather the information necessary for performing an ethical analysis. Based on this information, develop a decision that has the strongest ethical basis.

1) Who are all the people affected by the action? [Stakeholder Analysis]
2) Is the action beneficial to me? [Egoism]
3) Is the action supported by my social group? [Social Group Relativism]
4) Is the action supported by national laws? [Cultural Relativism]
5) Is the action for the greatest good of the greatest number of people affected by it? [Utilitarianism]
6) Does the action treat every stakeholder with respect and dignity, and is the act something that everyone should do? [Deontology]
7) Is this how a virtuous person would act? [Virtue Ethics]
2. Ethical Decision-Making – Madoff

*Instructions:* Answer Questions 1 through 7 to gather the information necessary for performing an ethical analysis. Based on this information, develop a decision that has the strongest ethical basis.

- If answers to Questions 2 through 7 are all “yes,” then do it.
- If answers to Questions 2 through 7 are all “no,” then do not do it.
- If answers to Questions 2 through 7 are mixed, then modify your decision.
  - If answers to Questions 5, 6, and 7 are “yes,” this action is the *most* ethical. You may need to modify this decision in consideration of any “no” answer to Questions 2 through 4.
  - If answers to Questions 5, 6, and 7 are “no,” this action is the *least* ethical. Modify this decision in consideration of these objections.
  - If answers to Questions 5, 6, and 7 are mixed, this action is *moderately* ethical. Modify this decision in considerations of objections raised by Questions 5, 6, or 7. You may need to further modify this decision in consideration of any “no” answer to Questions 2, 3, or 4.
2. Ethical Decision-Making – Madoff

**Step 1:** Write the decision options in the appropriate column below.

**Step 2:** Apply the seven “Applying Ethical Theories to Decision Making” questions to the decision to obtain relevant ethical information.

**Step 3:** Insert the ethical strength and weakness revealed by each of the seven ethical questions in the appropriate column below.

**Step 4:** Review the option strengths and insert in the options column what “value” supports the option (i.e., honesty, loyalty, efficiency, respect, job security, profits, etc.)

**Step 5:** Given the strengths and weaknesses, choose a decision option, explain why that option and value were chosen rather than the alternative options, and determine how to manage the weaknesses associated with the option chosen.
## 2. Ethical Decision-Making – Madoff

<table>
<thead>
<tr>
<th>Question</th>
<th>Option</th>
<th>Option Strengths</th>
<th>Option Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Who are all the people affected by the action? (stakeholder analysis)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2) What option benefits me the most? (egoism)</td>
<td></td>
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<td>3) What option does my social group support? (social group relativism)</td>
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<td>7) What option would a virtuous person do? (virtue ethics)</td>
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<th>Chosen Because?</th>
<th>Manage Weakness By?</th>
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<td>#1: Respect 1 week delay</td>
<td></td>
<td></td>
</tr>
<tr>
<td>#2: Tell SEC now</td>
<td></td>
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2. Ethical Decision-Making – Madoff

1) Who are all the people affected by the action? (stakeholder analysis)
2) What option benefits me the most? (egoism)
   #1: Respect father’s request for one week delay
   #2: Notify SEC and FBI immediately
3) What option does my social group support? (social group relativism)
   #1: Respect father’s request for one week delay
   #2: Notify SEC and FBI immediately
4) What option is legal? (cultural relativism)
   #1: Respect father’s request for one week delay
   #2: Notify SEC and FBI immediately
2. Ethical Decision-Making – Madoff

5) What option is the greatest good for the greatest number of people affected? (utilitarianism)
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   #1: Respect father’s request for one week delay
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7) What option would a virtuous person do? (virtue ethics)
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## 2. Ethical Decision-Making – Madoff

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Option and Value Chosen

Chosen Because?

Manage Weakness By?
3. Role Play – BP

If you were a judge portioning out percentage of responsibility for damages, who is responsible for what percent of the estimated $60 billion in damages from Deepwater Horizon oil well blowout:

A. BP
B. Transocean
C. Halliburton
3. Role Play – BP

**BP’s responsibilities included:**

- Geological assessment, engineering design, and regulatory approvals required for construction and operation of the well.
- Instructing Transocean employees about where and how the well should be drilled.
- Representing the company’s interests in all operations related to the well.
- Hiring contractors to provide various services.
- Inspecting and approving all work performed.
3. Role Play – BP

**BP’s actions before the explosion:**

- Used a long string casing liner (single pipe) in the well instead of more secure liner tieback casing (pipe within a pipe) to save $7 million. 75% of deepwater wells use liner tieback casing.
- Installed six centralizers to hold the well casing in place instead of 21 centralizers recommended by Halliburton.
- Reduced the mud circulation process, which was used to check for gas leaks, to only 30 minutes instead of the 6 to 12 hours required to fully circulate the mud.
- Dismissed concerns raised by Jim Harrell, Transocean’s rig manager, regarding precautions taken to ensure no gas was escaping into the well.
3. Role Play – BP

- Robert Kaluza, BP’s second in charge on the rig, accepted Transocean’s assessment of the successful negative pressure test results even though results indicated potential problems.
- Donald Vidrine, BP’s top ranking manager on the rig, demanded that a second negative pressure test be conducted because of the unacceptable results of the first test accepted by Transocean.
- Vidrine discussed the negative pressure test results with his superior at BP’s Houston office.
- Vidrine’s Houston manager assures him that the work should continue.
- Vidrine gave the go ahead to continue drilling work.
- Sent workers from Schlumberger back to shore rather than having them conduct a final cement bond test.
- During the final activities to close the well, no actions were taken when mud control events occurred indicating that gas might be entering the well.
3. Role Play – BP

Transocean’s responsibilities included:

• Leasing and maintaining the Deepwater Horizon drilling rig.
• Providing personnel to operate the drilling rig.
• Day-to-day drilling operations, safety, and well control.
3. Role Play – BP

Transocean’s actions before the explosion:

- Jim Harrell, Transocean’s rig manager, raised concerns about whether sufficient precautions had been taken to ensure no gas was escaping into the well.
- Negative pressure test results were considered successful even though results indicated potential problems.
- Employees explained that the poor negative pressure test results were due to a “bladder effect,” which was not the case.
- Failed to communicate additional caution or revised procedures for replacing drilling mud with seawater after a similar well incident occurred on another Transocean drilling rig four months before the Deepwater Horizon disaster.
- During the final activities, no actions were taken by Transocean employees when mud control events occurred indicating that gas might be entering the well.
3. Role Play – BP

*Halliburton’s responsibilities included:*

- All cement work carried out, including the cementing that was done when closing down the well.
- Providing engineering and design services, materials, testing, mixing, and pumping for cementing operations.
3. Role Play – BP

*Halliburton's actions before the explosion:*

- Halliburton raised concerns that a long string casing (single pipe) would not result in a successful cement job. Recommended $7 million expensive secure liner tieback casing (pipe within a pipe). BP chose long string casing.
- Recommended that twenty-one centralizers be installed to ensure that the well casing would be held in place. BP chose to use only six centralizers.
- During the drilling process, cement was pumped into the space between the rock wall and metal casing to safeguard against gas and oil escaping from the well. No problems were reported.
- Long string casing was cemented into place.
- Placed cement plug at the bottom of the well which was supposed to keep oil and gas from leaking. Tests indicated that no gas was leaking into the well, but it was.
- Provided engineering and design services, materials, testing, mixing, and pumping of cementing operations.
3. Role Play – BP

If you were a judge portioning out percentage of responsibility for damages, who is responsible for what percent of the estimated $60 billion in damages from Deepwater Horizon oil well blowout:

A. BP
B. Transocean
C. Halliburton
4. Debate – Cigarette Industry

A. Everyone knows that cigarettes are unhealthy. Should people who smoke win lawsuits against cigarette companies to pay for healthcare costs caused by smoking?

A. Yes
B. No
4. Debate – Cigarette Industry

Should people who smoke win lawsuits against cigarette companies to pay for healthcare costs caused by smoking?

YES

• Falls under product liability laws, use as directed causes harms
• Product is addictive, often begins teenage years
• Cigarette companies have earned large profits from selling the product
4. Debate – Cigarette Industry

Should people who smoke win lawsuits against cigarette companies to pay for healthcare costs caused by smoking?

NO

• Health risks are common knowledge
• Warning labels on products since 1966
• Warning appears in print ads since 1971
4. Debate – Cigarette Industry

Should cigarettes be banned?

5) Is a ban the greatest good for the greatest number of people affected? (utilitarianism)
   A. Yes
   B. No

6) Is a ban based on truthfulness and respect/integrity toward each stakeholder? (deontology)
   A. Yes
   B. No

7) Is a ban what a virtuous person do? (virtue ethics)
   A. Yes
   B. No
4. Debate – Cigarette Industry

Should cigarettes be banned?

A. Yes
B. No