

Empress Luxury Line Case Analysis

Business Ethics – Dr Porcena

Source: Based on Don Soeken, "On Witnessing a Fraud," Business Ethics (Summer 2004): 14; Amy Tao, "Have Cruise Lines Weathered the Storm?" BusinessWeek Online (September 11, 2003), http://www.businessweek.com/bwdaily/dnflash/sep2003/nf20030911_6693_db014.htm; and Joan Dubinsky, "A Word to the Whistle-Blower," Workforce (July 2002): 28.

From what computer technician Kevin Pfeiffer just told him, it looked to Antonio Melendez as if top management at Empress Luxury Lines finally found a way to fund the computer system upgrade he'd been requesting ever since he'd taken the job two years ago.

It all begun innocently enough, Kevin said. When he reported to the luxury cruise line's corporate headquarters, his supervisor Phil Bailey informed him that the computer system had been hit by a power surge during the fierce thunderstorms that rolled through Southern Florida the night before. "Check out the damage, and report directly back to me," Phil instructed.

When Kevin delivered what he thought would be good news – the damaged underground wires and computer circuits could be repaired to the tune of \$15,000—he couldn't understand why Phil looked so deflated. "Go out to the reception area. I've got to call Roger," Phil snapped, referring to Empress's CFO- and Antonio's boss. In a few minutes, Phil called Kevin back into the office and instructed him to dig up nearly all the underground wire and cable and then haul it all off before the insurance adjustor appeared. If Kevin carried out Phil's orders, he knew the cost would balloon astronomically to about a half a million dollars, a tidy sum that would go a long way toward covering the cost of computer system upgrade, as Phil pointed out.

Kevin took a deep breath and refused, even though as a new hire he was still a probation. When Antonio congratulated Kevin only his integrity, the technician shook his head. 'Didn't really matter,' he said. 'On my way back to my cubicle, Matt pats me on his way to do the deed.

Antonio could guess at the motivation behind the scam. During the 1990s, Empress increased its fleet of ships in response to the healthy demand for its luxury cruises during the stock market bubble. But the bubble burst, the nation was traumatized by September 11, and some of the vacationers who did venture onto cruises were felled by an outbreak of the Norwalk virus. Bookings fell off precipitously. To top it all off, the 2005 hurricanes hit, forcing Empress to write piles of refund checks for their Caribbean and Gulf cruises while coping with steep increases in fuel costs. Seriously sagging earnings explained why Antonio's requests for that system upgrade went unheeded.

He could also guess at the likely consequences if he chose to do the right thing. Since taking the job, he'd heard rumors that Empress successfully defrauded insurance companies

before he arrived. He dismissed them at the time, but now he wasn't so sure. No confidential mechanism was in place for employees to report wrong-doing internally, and no protections were available for whistle-blowers. Shaken, Antonio wasn't feeling at all confident that, even if he bypassed the CFO, he would find upper level management all that eager to thwart the scheme. He had a hunch that the person most likely to be penalized was the whistle-blower.

"I debated about just calling the insurance company," Kevin said, "but I decided to come to you first." So what should Antonio do? Should he advise Kevin to go ahead and report Empress to the insurance company? Or should he treat Kevin's communication as confidential and deal with the situation himself, in effect putting only his own job in jeopardy? And really, considering the high degree of personal risk and the low probability that the problem would actually be addressed, should he just sweep the problem under the rug?