Valeant Pharmaceuticals: A Case of Corporate Greed and Ethical Failure

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Our Agenda

- Introduction to Valeant Pharmaceuticals
- Key Facts and Decision-Making Dilemma
- Laws and Regulations Violated
- Ethical Issues and Alternative Actions
- Lessons for Businesses
- Conclusion and Recommendations

(Pixabay, n.d., *Agenda Board Chalk*)

ICN Pharmaceuticals' Origins and Transition

ICN Pharmaceuticals' Origins and Challenges

- Founded in 1960 as International Chemical and Nuclear (ICN) by Milan Panic in Los Angeles (Grove & Čupić, 2010).
- Developed Ribavirin, an antiviral drug later licensed to major pharmaceutical companies (Grove & Čupić, 2010).
- Relied heavily on acquisitions rather than internal drug development (Grove & Čupić, 2010).
- Faced multiple SEC investigations in the 1970s, 1980s, and 1990s for misleading financial statements, insider trading, and stock price manipulation (Grove & Čupić, 2010).
- In 2002, ICN Pharmaceuticals faced securities fraud charges due to allegations of fraudulent pricing schemes and misleading financial disclosures (U.S. Securities and Exchange Commission, 2002).

Transition to Valeant Pharmaceuticals

- Rebranded as Valeant Pharmaceuticals International in 2003 to distance itself from past controversies (Rundle, 2003).
- Moved headquarters to Quebec, Canada, as part of restructuring efforts (CBC News, 2017).
- Shifted focus from research and development to acquiring existing drugs and raising prices, marking a major strategic shift (Jolley, 2024).
- Experienced rapid growth, becoming the most valuable company on the Toronto Stock Exchange (TSX) in 2015 before its eventual decline (CBC News, 2017).

Valeant’s Rise, Scandal, and Rebranding

Valeant’s Aggressive Expansion Strategy (2003–2015)

- Rapid growth through acquisitions rather than internal drug development (Jolley, 2024).
- Became the most valuable company on the Toronto Stock Exchange (TSX) in 2015 before its eventual decline (CBC News, 2017).
- Relied on excessive price increases and strategic acquisitions to inflate revenue rather than investing in innovation (Jolley, 2024).

Key Events Leading to the Scandal (2015–2016)

- In 2015, short-seller Citron Research labeled Valeant’s stock as "toxic," triggering a significant decline in value (CBC News, 2017).
- Reports surfaced that Valeant secretly controlled Philidor Rx Services, a pharmacy network used to manipulate drug prices and inflate sales figures (Cohen Milstein, 2021).
- U.S. lawmakers accused Valeant of price gouging, citing that the company had raised the prices of some essential drugs by over 700%. This resulted in SEC and federal investigations into the company’s financial practices, further intensifying public scrutiny. Facing mounting pressure, CEO Michael Pearson stepped down, marking a turning point in the company’s downfall (CBC News, 2017).

The Downfall and Rebranding as Bausch Health

- After multiple legal issues and public backlash, Valeant rebranded as Bausch Health Companies Inc. in 2018 (Keller, 2018).
- The rebranding aimed to distance the company from its scandals and regain public trust (Keller, 2018).

Key Facts of the Case

Major Actions Taken by Valeant:

- Dramatically raised drug prices, with some increasing by over 700%. U.S. lawmakers criticized Valeant's pricing practices after acquiring Isuprel and Nitropress, with Isuprel rising 720% and Nitropress increasing 310% (CBC News, 2017).
- Used Philidor, a secretly controlled pharmacy network, to manipulate sales data and prevent generic competition (Cohen Milstein, 2021).
- Misled investors by concealing revenue shortfalls and engaging in unsustainable business practices (Jolley, 2024).
- Artificially boosted revenue through non-operating activities, misleading investors about the company's financial health (Jolley, 2024).
- SEC launched an investigation into Valeant's accounting practices in late 2015, leading to formal fraud charges in 2020 (Jolley, 2024).
- CEO Michael Pearson and top executives were called before Congress to testify regarding price gouging and deceptive business tactics (CBC News, 2017).

Decision-Making Dilemma

Options Available to Valeant:

- **Option 1:** Continue price hikes, deceptive accounting, and reliance on Philidor to manipulate sales (chosen option) (Jolley, 2024).
- **Option 2:** Transition to ethical pricing, transparency in financial reporting, and sustainable business practices (ethical choice).

Systemic Failures That Led to Unethical Decision-Making:

- Leadership's focus on maximizing shareholder value led to aggressive pricing and deceptive practices, ultimately undermining ethical business conduct (Jolley, 2024).
- Weak corporate governance and lack of ethical oversight enabled unchecked fraud and manipulation (Murray & Dillard, 2012).
- Pressure to meet unrealistic financial growth expectations encouraged deceitful accounting practices (Jolley, 2024).
- Stock-driven decision-making incentivized short-term gains over long-term sustainability (Jolley, 2024).

(DALL·E, 2025, *A businessman at a crossroad*)

Laws and Regulations Violated

Securities Fraud & Financial Misconduct

- Misled investors by concealing financial losses and falsely inflating revenue (Jolley, 2024).
- Violated the Securities Exchange Act of 1934, which mandates transparent financial reporting to protect investors (U.S. Securities and Exchange Commission, n.d.).
- Used deceptive accounting practices through Philidor to manipulate earnings reports and misrepresent Valeant's financial health (Cohen Milstein, 2021).

Racketeer Influenced and Corrupt Organizations Act (RICO) Violations

- Engaged in fraudulent activities through Philidor, a secret pharmacy network used to limit generic competition and inflate sales figures (Cohen Milstein, 2021).
- Paid $23 million to settle RICO charges related to the fraudulent pharmacy scheme (Cohen Milstein, 2021).

Antitrust and Pricing Violations

Legal & Financial Consequences

- $45 million in fines for improper revenue recognition and misleading financial disclosures (Jolley, 2024).
- CEO Michael Pearson forced to resign following government investigations (Jolley, 2024).
- Valeant’s stock lost 90% of its value, devastating shareholders and investors (Jolley, 2024).

Unethical Pricing & Market Manipulation

- Artificially inflated drug prices, harming patients and healthcare providers (Jolley, 2024).
- Used Philidor to prevent competition and block generic alternatives (Cohen Milstein, 2021).
- Possible violations of U.S. and Canadian competition laws, including price-fixing and anti-competitive practices (Jolley, 2024).

Ethical Violations of Valeant

Unethical Actions

Price gouging restricted access to life-saving medications, prioritizing profit over patient care (Jolley, 2024).

Deceptive investor relations eroded trust, misleading shareholders about financial stability (Jolley, 2024).

Manipulative accounting and fraudulent sales tactics contributed to systemic corporate misconduct (Jolley, 2024).

Focused on short-term profits over sustainable growth, failing to prioritize long-term stakeholder value (Crowther & Aras, 2008).

(Pixabay, n.d., *Fall Stack Ethics Moral*)

Alternative Ethical Actions

Utilitarianism:

- Valeant should have prioritized the greatest good—affordable drug pricing and ethical leadership
  - *"A morally permissible action is one that produces the greatest happiness of the greatest number; in that, reducing pain and increasing the pleasure of those affected."* (Martin et al., 2021)

Corporate Social Responsibility (CSR):

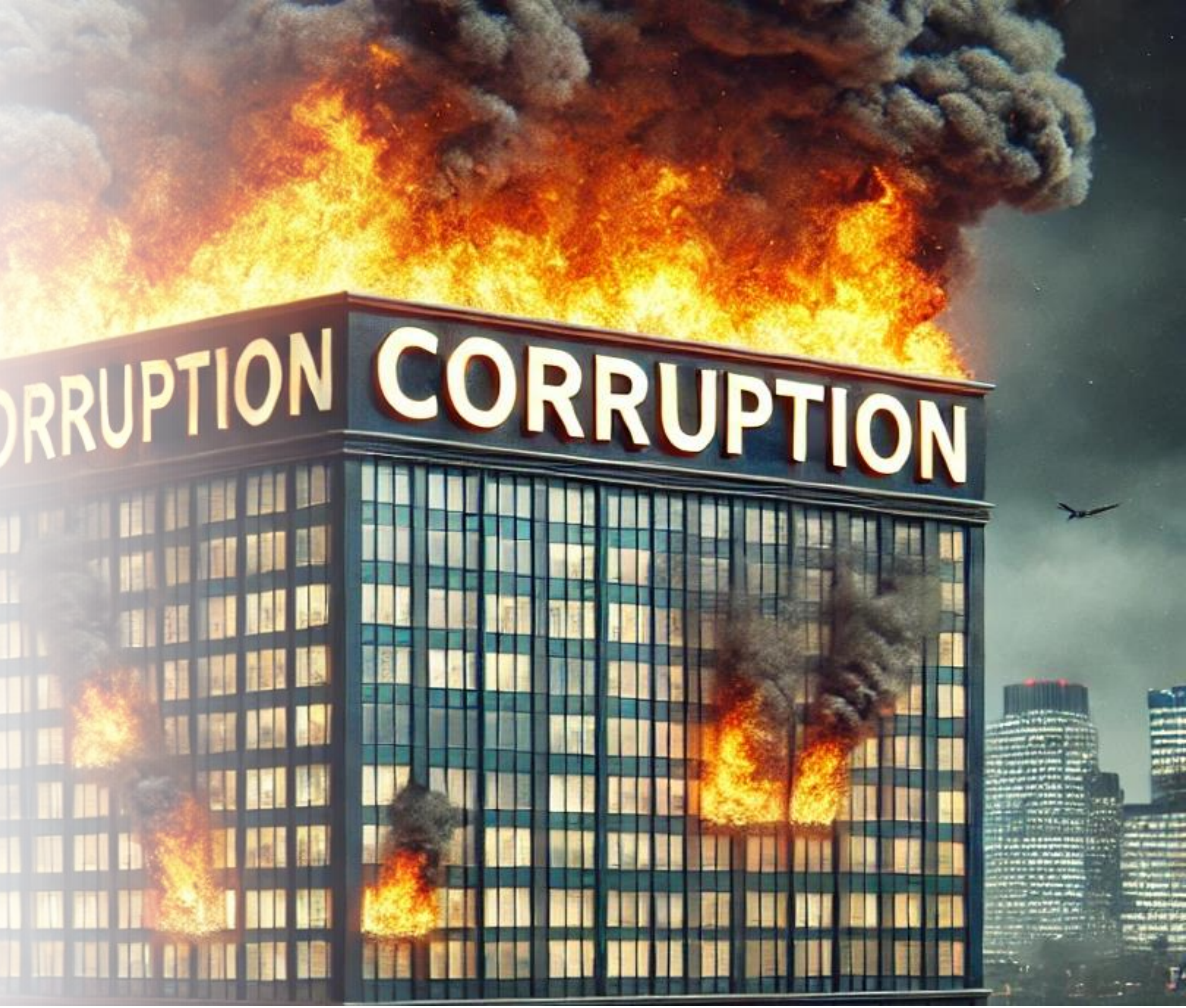
- Companies must balance profitability and public responsibility
  - *"Corporate behavior involves legal rules, ethical codes of conduct and social responsibility principles. In other words corporate behavior is based on all of these components and involves law, ethics and CSR. It is important to recognize also that this behavior must be ethical but must also be seen to be ethical – perceptions are very important."* (Crowther & Aras, 2008)

(DALL·E, 2025, *Utilitarianism and corporate social responsibility*)

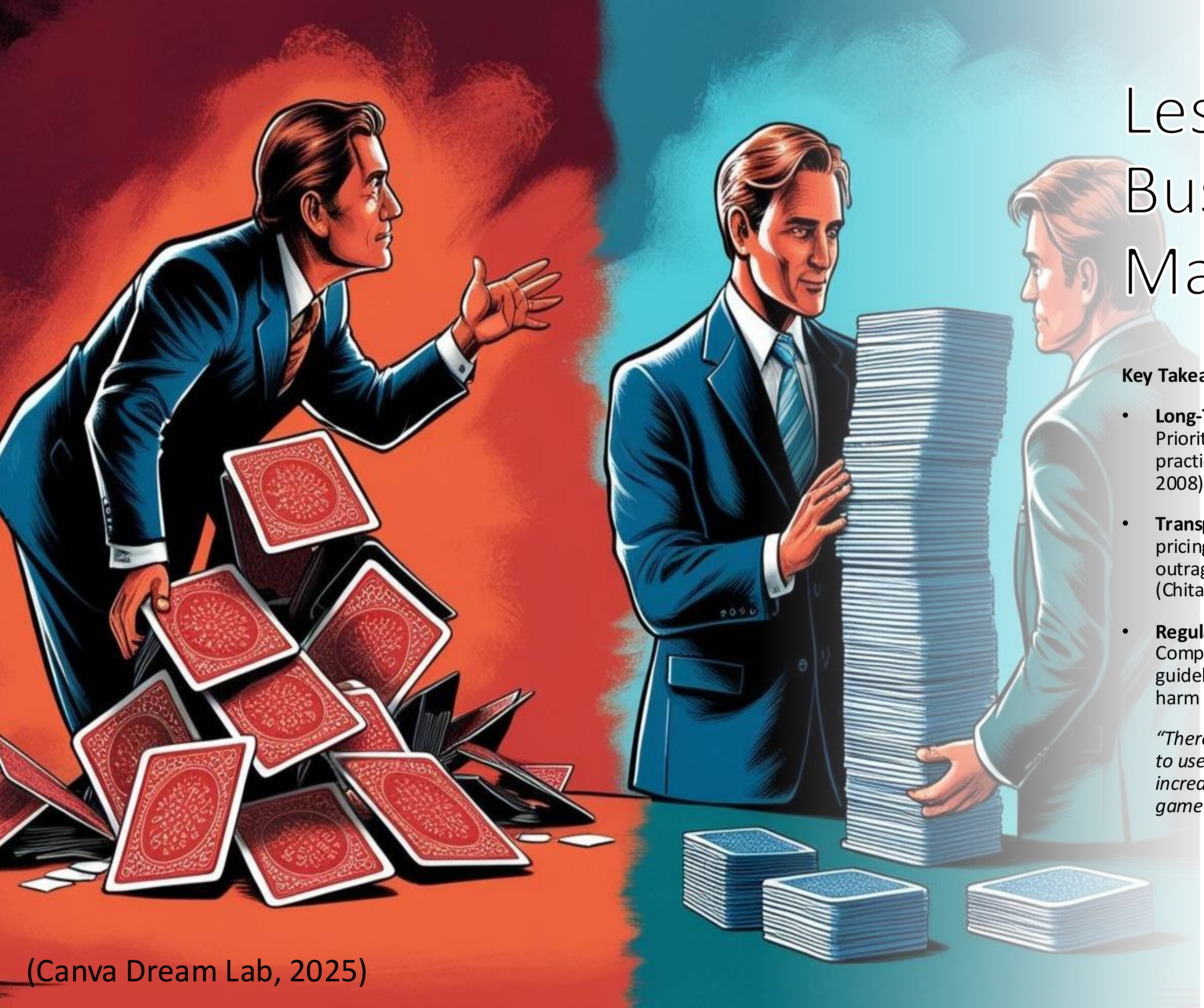
What Went Wrong?

Key Points:

- **Aggressive Price Inflation** – Valeant's reliance on acquiring drugs and drastically increasing prices led to backlash, legal scrutiny, and loss of trust (CBC News, 2017).
- **Questionable Business Model** – The company focused on short-term financial gains rather than sustainable growth, prioritizing stock performance over long-term corporate health (Jolley, 2024).
- **Ethical & Legal Violations** – Valeant used secret pharmacy networks to artificially boost sales, which led to fraud investigations and heavy financial penalties (Cohen Milstein, 2021).
- **Loss of Brand Credibility** – Overpricing essential medications damaged the company's reputation, causing investors and consumers to lose confidence (Chitakornkijsil, 2012).



(DALL·E, 2025, *Corruption – A company building engulfed in flames*)



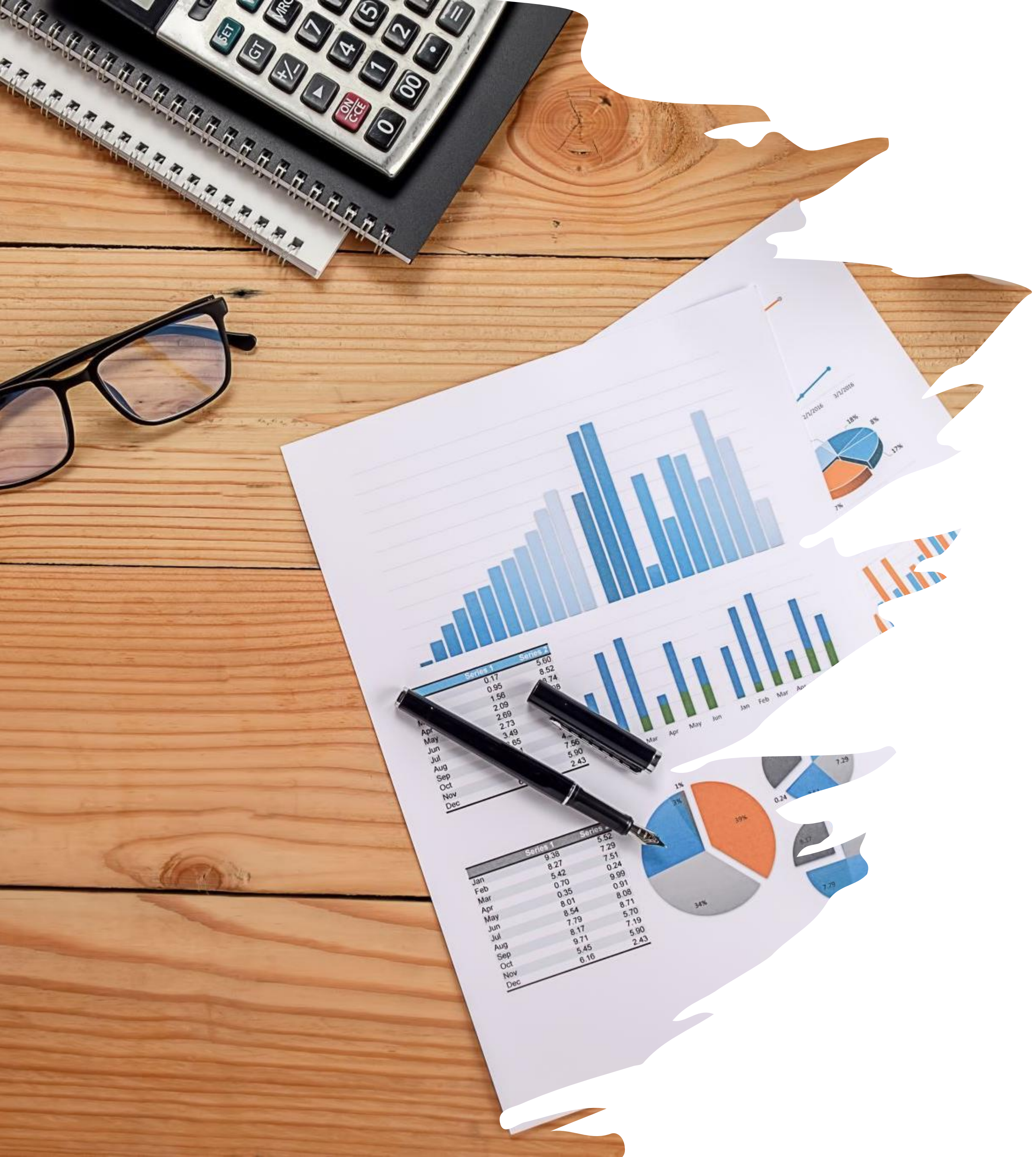
(Canva Dream Lab, 2025)

Lessons for Business Management

Key Takeaways for Businesses:

- **Long-Term Sustainability Over Short-Term Gains** – Prioritizing stock value at the expense of ethical business practices can lead to corporate collapse (Crowther & Aras, 2008).
- **Transparent & Ethical Pricing Strategies** – Unethical pricing, such as price gouging, invites legal action and public outrage, damaging a brand's long-term profitability (Chitakornkijsil, 2012).
- **Regulatory Compliance as a Core Business Strategy** – Companies must integrate compliance with ethical guidelines to avoid costly legal battles and reputational harm (Mayer et al., 2012).

"There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game" (Friedman, 1970).



Conclusion

Key Takeaways:

- **Unchecked corporate greed leads to downfall:** Valeant's case proves that short-term profit maximization at the expense of ethics and transparency results in financial ruin and legal consequences.
- **Ethical leadership is crucial:** Businesses must prioritize corporate governance, accountability, and sustainable decision-making to build long-term trust with stakeholders.
- **Regulatory oversight is necessary:** Stricter compliance mechanisms and transparent reporting standards help prevent financial fraud and deceptive business practices.

Quote for Reflection:

- *"Corporations must take a long-term perspective that considers the rights and interests of future generations. To respond to these demands in a meaningful way, the corporation must act as a responsible member of an ongoing community" (Murray & Dillard, 2012).*

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