

A Question of Ethics

Too Big to Fail?

During and after the financial crisis of 2009, we were told that certain financial institutions were “too big to fail.” Were some of these institutions run by folks who felt that they, like the company they worked for, were also too big (as in, too important) to fail?

When the first indications of trouble showed up, some of the leaders of these gigantic institutions ignored them. Worse, others doubled down. They were accustomed to their lavish offices, outrageous compensation and deferential minions to do their bidding. In their universe, they had constant feedback that they were the best and the brightest. How could they fail? In their minds, they were too big to fail.

Rather than fail, some stepped over the ethical line, like former Enron Chief Executive **Jeffrey K. Skilling** before them. Skilling was convicted in 2006 on 19 counts of conspiracy and fraud, due in part to false earnings and audit reports.

In our society, we have created a “star system.” We have media stars, movie stars, sports stars and, up until recently, business stars. We heap adulation, money and prestige upon them. They believe that the normal rules don’t apply to them. Why should they? Even when they do find themselves getting negative publicity, often it just increases their fame.

A failed marriage? No problem. Look at all of the free media coverage I will get! They will pay me more for my next movie. Why not use banned substances to increase my athletic performance? If caught, I will have set records by then and earned outrageous sums of money.

A prestigious West Coast university is accused of recruiting violations. The allegations involve compensation being given to lure the best athletes to play for that school. Did the coach



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feel that he was too important to fail? Was winning so important that the ethical behavior did not matter? As the investigation is being completed, the coach moves on to the pros.

What a message! The university’s sports program won a couple of national championships and numerous league titles. It was big in sports. Ethical violations allegedly played a part in this success. The coach is promoted. The media and the fans in the city he is going to are ecstatic. They are getting a coach who knows how to win.

At another university, three assistant college coaches were convicted of falsifying academic credits and scholarships for players, in violation of NCAA rules. There was no evidence that any of the coaches personally benefited from these actions. It was all done for the glory of being part of a successful sports operation.

Society values success so much that for some, failure is the worst tragedy that they can imagine. It is worse than an ethical failing. Failure can be good. Without failure, most of us would never have learned to walk. Failure of poorly performing institutions can make way for new and better ones.

We are so obsessed with success that we forgive our stars their ethical lapses as long as they produce. Once they stop producing, we are much more likely to turn on them. This reinforces the star’s belief that success is more important than ethical integrity. As long as I am big, ethics don’t matter.

All of these cases involve someone who was so desperate not to fail that they crossed the ethical line. When they did, they set the stage for both failure and condemnation for ethical failings. For some, prison also waited.

Failure is not the worst possible outcome. It is far better to fail and to retain one’s ethical standards than to fail because you were unethical.

Editor’s note: *The opinions expressed in this column are those of the author and do not necessarily reflect the views of the CPCU Society membership, the Society’s Ethics Committee or the author’s employer. If you have suggestions for upcoming articles or comments about the “Question of Ethics” column, please contact **William F. Traester, CPCU**, at wtraester@archinsurance.com.*

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