

Out-of-Control Executives -What Trumps Smart?

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With many apparent strengths, some of the most successful organizational leaders ultimately fail and often cause significant damage to their organizations, their families, and themselves. This paper questions what motivates executives to make bad decisions and take unethical and/or illegal actions. From studying various executive scandals, questions were developed that relate to greed, power, Narcissistic personalities, values and ethics, status differentiation and social isolation, and sex. In addition, demographics of the executives and types of scandals were analyzed. Since executive scandals impact society as well as individuals and organizations, this paper offers suggestions of ways that these executives could help others avoid unethical and illegal actions. Future considerations include the issue of time theft since executives involved in scandals spend time in unethical and illegal scenarios instead of spending time productively in ethical, legal scenarios for themselves, their families, their organizations, and society.

INTRODUCTION

Academicians, organizational leaders, students and others study successful business people, especially CEO's and other executives who are often considered to be intellectual giants and/or corporate heroes. These people are often known for their business acumen, their strategic shrewdness, and their transformational leadership. They are frequently pillars in their community, and their espoused values for their organizations mirror their reputations. Yet many of these corporate heroes eventually fail, despite their apparent strengths. Hogan and Hogan (2001) believe that "failure is more related to having undesirable qualities than lacking desirable ones" (p. 41). So the question becomes, "What trumps smart and thereby unravels executive success?" Is it greed, wrong values, power and hyper-competitiveness, narcissistic tendencies, sex or some complex combination of those and other problems? Do CEO's experience increasingly higher levels of social isolation and status differentiation that negatively impact reality for them? Research provides potential answers, but the answers may actually be symptoms of even bigger, more complex problems related to their organizations and their followers as well as the executives' own personal issues. The consequences for these failed corporate heroes are often dire, including job loss, jail and prison, loss of families, loss of reputation, and death, sometimes suicide. For

their companies, consequences are also negative, sometimes equally dire. Sometimes, the companies don't survive.

DOES GREED TRUMP SMART?

According to Bloomberg Business Week (2002), "Greed, hypercompetitiveness, isolation, and more have pushed too many top execs to cross the line without fear of consequences." The title of the article, "If only CEO Meant Chief Ethics Officer," seems to commiserate with those of us who expect ethical behavior from CEO's. The Bloomberg Business Week (2002) article goes on to say "experts in the CEO lifestyle suggest that the most obvious (cause) is greed. How else to explain why Kozlowski, Tyco's ex-CEO, allegedly tried to evade \$1 million in sales taxes on \$13 million or so in art he purchased after raking in more than \$300 million in compensation over the past three years? It's the same motive that landed Drexel Burnham's Michael Milken and his accomplice Ivan Boesky in jail in the early 1990s, thanks to junk-bond schemes that investigators say bilked investors out of more than \$1 billion" (p.1).

In the Forbes article, *Sex, Lies & Insider Trading at IBM*, (Bandler 2010) discusses the roles played by executives of various firms as well as Danielle Chiesi, their confidante. While significant amounts of money were allegedly made by executives of Galleon, New Castle, and other companies as a result of insider trading, Bandler (2010), indicated that "Moffat (heir apparent to IBM CEO Palmisano) didn't make a penny from the information he provided, nor did he trade a share of stock. And of all the buttoned-down executives at Big Blue, Moffat was the last one that old friends could imagine being caught up in a scandal, let alone a crime" (p. 69). Yet, Moffat is now a convicted felon. Fortune (Bandler, 2010) quoted Moffat as saying: "Everyone wants to make this about sex. Danielle (Chiesi) had an extensive network of business people. And she added clarity about what was going on in the business world . . . I know in my heart what this relationship was about: clarity in the business environment" (p. 80). In addition to Robert Moffat, IBM Senior Vice President, Bandler (2010) discusses several other executives (John Joyce, IBM CFO; Mark Kurland, New Castle hedge fund co-founder; Rajarajaratnam, Galleon founder; and Hector Ruiz, AMD CEO) some of whom were at various times Chiesi's boss, lover, and/or friend. For them all, Chiesi was apparently a very close confidante who helped expedite the exchange of information, and the government has charged insider trading. So what was the primary cause other than greed? Does Moffat's comment "clarity in the business environment" (Bandler, 2010, p. 80) translate power? Does this need for power relate to executive hyper-competitiveness to the extent that these "Siamese twin" drivers trump smart, or is power a separate issue that drives executive decisions and actions and overwhelms their executive intelligence?

DOES POWER TRUMP SMART?

McMurry (2000) cautions that "his (the top executive's) only hope for survival . . . is to gain and retain power by tactics that are in a large measure political and means that are, in part at least, Machiavellian. Such strategies are not always noble and high minded. But neither are they naïve. From the selfish standpoint of the beleaguered and harassed executive, they have one primary merit: they enhance his chances of survival" (p. 145). McMurry (2000) offers specific advice regarding executive personal style as follows: (1) Be cautious in taking advice; (2) Avoid close superior-subordinate relationships; (3) Maintain maneuverability; (4) Use passive resistance as needed, i.e., stall; (5) Be ruthless when expedient; (6) Don't communicate everything, especially bad news; (7) Don't depend on someone unless it is to that person's advantage to be loyal; (8) Compromise on small matters; (9) Be an actor who influences audiences emotionally as well as rationally; (10) Radiate self-confidence (i.e., Be in command); (11) Make sure outward evidence exists in terms of status, power, and material success; (12) Avoid bureaucratic rigidity to hold people's allegiance (i.e., bend the rules and make exceptions); and (13) Be receptive to different opinions (McMurray, 2000). He goes on to say that "nothing is more devastating to an executive than to lose support and backing in moments of crisis. It is for this reason that the development of continuing power is the most immediate and nagging concern of many professional

managers” (McMurray, 2000, pp. 140-141). Even McMurray’s (2000) personal style advice could influence executives to act in negative ways to gain and retain power.

Perhaps power, and the hunger for more power, has the capability to override intelligence and cause some people to make decisions and take actions that would be counterintuitive for most intelligent people. Perhaps there are power mongers who are so consumed by the need to control the destinies of people and organizations that they act on the basis of power needs instead of intellectual reasoning (Pryor, Taneja, Oyler, & Singleton, 2011).

Litzky, Eddleston and Kidder (2006) indicate that “personal aggression involves hostile or aggressive behavior. This form of deviance can harm an organization’s reputation and have serious negative consequences for the targeted individuals. Personal aggression includes various types of intimidation tactics such as sexual harassment, verbal abuse, and threats of physical harm” (p. 93). Padilla, Hogan, and Kaiser (2007) emphasize that “destructive leaders are characterized by charisma, personalized needs for power, narcissism, negative life history, and an ideology of hate” (p. 182).

DOES NARCISSISTIC PERSONALITY TRUMP SMART?

Rosenthal & Pittinsky (2006) noted that “. . . power is one of the great motivators for narcissistic leaders” (626). Humphreys, Zhao, Ingram, Gladstone and Basham (2010) stated, “We agree that reactive narcissists crave power, consistently attempt to secure more of it, and oftentimes, at great peril to themselves and their followers” (p. 127). Citing Lipman-Blumen (2005) and Whicker (1996), Sims (2009) notes that “research has suggested that some unethical corporate behavior may be tied to toxic leaders” (p.560). Sims (2009) goes on to say that “Classifications like narcissism, Machiavellianism, and psychopathy have been used to describe toxic leaders who may not have the firm’s best interest at heart (see Allio, 2007; Gable and Dangelo, 1994; Paulhus and Williams, 2002; Pech and Slade, 2007)” (p. 560). With personalized charisma, leaders are likely to also experience reactive narcissism with follower exploitation and dependency (Humphreys, et al, 2010). So the question becomes, “Are narcissistic and/or charismatic leaders more likely to engage in over-the-top, destructive behaviors that override intelligence as they make decisions and take actions?”

According to the American Psychiatric Association (2000), “Narcissism is “a pervasive pattern of grandiosity (in fantasy or behavior), need for admiration, and lack of empathy . . . present in various contexts” (<http://www.psychiatryonline.com>). Narcissism is closely related to charisma and the personalized use of power, and it involves dominance, grandiosity, arrogance, entitlement, and the selfish pursuit of pleasure. Padilla, Hogan, and Kaiser (2007) mention authors who correlate narcissism with destructive leadership (Conger, 1990; House & Howell, 1992; Maccoby, 2000; O’Connor, Mumford, Clifton, Gessner, & Connelly, 1995; Rosenthal & Pittinsky, 2006; Sankowsky, 1995). We would add Bella, Bennett, & Aquino (2011) whose article “proposes a model that seeks to explain why high status organizational members engage in unethical behavior” (p. 407). They note that “some people have a compromised level of morality and will be more likely to engage in unethical behavior” (410). Bella, et al (2011, p. 410) indicated that “some employees possess the dark triad of personality (Machiavellianism, narcissism, and psychopathy (Jakobwitz & Egan, 2006) and exhibit personality disorders (e.g., narcissistic and antisocial personality disorders) that make them more prone to exhibit antisocial behaviors (Allio, 2007; Goldman, 2006).” We would add Sims (2009) who studied “Deviance as a Retaliatory Response to Organizational Power” (p. 553).

DO WRONG VALUES (ESPOUSED VS. REAL VALUES) AND THE LACK OF ETHICS TRUMP SMART?

Organizational websites list values and operating guidelines which should represent the executives’ commitments to what they care about passionately and how they will act based upon their shared values. Yet many times, the decisions and actions of the executives do not remotely resemble their espoused values and operating guidelines. So the question becomes: “Do espoused versus real values trump smart?”

Pryor, White and Toombs (1998, 2007) indicated that “the theory of cognitive dissonance (Festinger, 1957) leads us to believe that if people act (i.e., behave, make decisions) contrary to their attitudes and values, such behavior can eventually change their beliefs and values” (p. 5.16). Is it possible that CEOs at one time actually passionately believed in the values they espoused and the commensurate operating guidelines, but as they acted counter to those beliefs, their values and operating guidelines changed to align with their actions?

DO STATUS DIFFERENTIATION AND SOCIAL ISOLATION IMPACT SMART?

Bella, Bennett, and Aquino (2011) argue that “status differentiation in organizations creates social isolation which initiates activation of high status group identity and a deactivation of moral identity” (p. 407). They go on to say that “As a result of this identity activation . . . high status individuals will be more vulnerable to engaging in unethical activities” (Bella, et al, 2011, p. 407). Differentials in such items as status, money, levels of team membership and power apparently lead to CEO social isolations and create a CEO existence vacuum with limited opportunities for impact of self by normal influences or forces. As a result, CEO decisions and actions sometimes reflect the same type of insular maladies and macabre or deviant results similar to those from genetic inbreeding. Is it reasonable then to think that status differentiation and social isolation, along with possible deviant results can trigger unethical and illegal behavior from otherwise intelligent people, especially CEOs who are perhaps most at risk?

DOES SEX TRUMP SMART?

Scandals of sexual trysts with call girls, staff members, and others have made headlines as executives of governmental units and private organizations spend their time in rendezvous that have no potential of positively impacting their personal or professional lives or their respective organizations. Berr (2010) chided CEO’s about their sexual trysts. He noted that “when it comes to the temptation of having an adulterous affair, even some of the toughest-minded bosses just can’t hold up a stop sign” (p.1). Berr (2010) goes on to say that “A married CEO engaged in a sexual affair, or even one that merely appears to be sexual, jeopardizes not just his or her marriage and job (especially if the lover was a subordinate or a supplier), but can also put the whole company at risk. Still, many corporate chiefs are willing to take the chance” (p. 1). To make his point, Berr (2010) lists nine executives who crossed what he calls the invisible line in terms of sexual misconduct. Table I was developed from the information provided by Berr (2010).

These sexual encounters are not always physical. Social networking has opened up new options for fantasy sexual encounters through Facebook, Twitter, and other social networking sites. So, supposedly intelligent people, including business executives, apparently spend large amounts of time in fantasy relationships. Is this about sex, poor judgment, or some other more sinister causes? Should these executives call their psychiatrists, read self help books, or just “get a life”? Perhaps they should focus on their jobs as executives of organizations and the numerous employees whose lives they can impact positively or negatively.

AN ANALYSIS OF EXECUTIVE DEMOGRAPHICS

An analysis of the demographics of the executives in our study who were involved in scandals revealed the following:

- They were highly educated. All had undergraduate degrees. Some had master’s degrees and doctorates. Some had been given honorary doctorates by various colleges and universities.
- Degrees were varied – Accounting, Applied Science, Business Administration, Economics, Electrical Engineering, History, Law, Management Engineering, Physical Education, Physics, Political Science, and Veterinary Medicine.

- They were seasoned executives. They had many years of increasingly higher levels of executive experience.
- They got their “upward mobility beginnings” through mentors and/or family members.
- Some of their mentors also had ethics and legality issues.
- Most were older – from 60 to 85 years of age.
- Most were married at the time, sometimes second marriage.
- Most were male.
- Most were involved in scandals where there were allegations of illegalities as well as sexual misconduct.

An analysis of the types of scandals revealed the following statistics (Total is more than 100% because some scenarios included a sexual scandal along with another type of scandal.):

- 30% were convicted of insider trading.
- 52% were sexual scandals involving affairs, mistresses, and/or sexual harassment.
- 10% were convicted of fraud.
- 10% were convicted of perjury.
- 4% were convicted of tax evasion.
- 4% were convicted of theft.
- 2% were charged with child molestation.
- 2% were convicted of operating a Ponzi scheme.

The question becomes: “What can organizational leaders and academicians learn from these and other demographics that can help prevent future unethical and/or illegal CEO decisions and behavior?”

CONCLUSIONS

The issue of over-the-top, out-of-control executives is seriously impacting society as well as individuals and organizations. Studying unethical and illegal behavior of CEOs is a bit like only looking in the rear view mirror while driving. You will know where you have been which could be very helpful. However, understanding the present, and perhaps creating a better future, is the challenge and desired result and requires looking ahead as well. At minimum, academicians, organizational leaders, psychiatrists, and others should come together in their attempts to understand, predict, and perhaps prevent some of the executive behavior that has been, and continues to be, devastating for the executives, their families, their organizations and others caught in the midst of their behavioral travesties.

With today’s technological capabilities, social networking websites, online forums, and other virtual realities, CEOs who have been involved in unethical and/or illegal scenarios could be of assistance. However, to ensure positive impact, they would first need to address for themselves the questions proposed in this article. Then they could help others avoid unethical and illegal actions. In the meantime, academicians, organizational leaders, university students and others will continue to study successful business people, especially CEO’s and aspiring CEO’s, the intellectual giants and corporate heroes, some of whom will fail because of unethical and/or illegal behavior.

FUTURE CONSIDERATIONS

When executives are involved in unethical and illegal decisions and actions, the results will typically be negative for them and their organizations. As mentioned previously, sometimes the consequences are dire. However, one thing that has not been appropriately addressed (and which we are addressing in a future article) is that the executives are engaged in time theft in addition to the other unethical and illegal decisions and actions. In other words, the time spent in the unethical and illegal scenarios could have been spent productively in ethical, legal scenarios for themselves and their organizations. Executives should

reflect on the concept of time theft as well as the potential negative consequences each time they are tempted to make the wrong choices. The time theft as well as the potential negative consequences exist for the executives, their families, and their organizations.

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TABLE I
EXECUTIVES AND SEXUAL SCANDALS

CEO	Organization	Sexual Encounters	Scenario
Jack Welch, CEO General Electric	General Electric	Suzy Wetlaufer, Editor Harvard Business Review	Collaboration on an article for HBR. Divorced Wife, Jane. Married Suzy.
Dov Charney, CEO American Apparel	American Apparel	Numerous affairs with his subordinates. Sexual harassment lawsuit was listed in HR World as one of the top 20 sexual harassment claims of all time. Bill Clinton-Monica Lewinsky case was No. 1.	Alleged routine in the work environment at American Apparel where Charney was known for his “bad boy” image.
Mark Hurd, CEO Hewlett-Packard	Fired by HP. Hired by Oracle CEO Larry Ellison as Co-President.	Allegations of sexual harassment by Jodie Fisher, Marketing Consultant for HP.	Hurd gets \$50 million HP severance. Cost to HP shareholders \$10 billion (sex scandal).
Harry Stonecipher CEO, Boeing, 2003- 2005.	Forced to resign from Boeing.	Affair with female Boeing executive, Debra Peabody	Wife of 50 years, Joan Stonecipher, filed for divorce.
John Dodds, CEO Kier Group.	Survived affair. Kier Group, UK Retired at age 64.	2007 Affair with Deena Mattar, Kier Group Finance Director.	Wife, Valerie, Divorce. Married Deena Mattar.
Mark McInnes, CEO 7 years, David Jones, Ltd., Australia	2010 - After 13 years, McInnes resigned from David Jones Ltd.	Employee sexual harassment complaint, Kristy Fraser-Kirk. \$37 million lawsuit. Fraser-Kirk settled for \$850,000.	McInnes received \$1.95 of \$6.1 million potential payout.
Charles E. Phillips, Co-President, Oracle	Phillips remained at Oracle.	8 ½ year relationship with YaVaughnie Wilkins since 2001. Wilkins showed pictures of Phillips & her on billboards & online after “breakup”.	Decided to “patch things up” with wife, Karen, which angered Wilkins.
Lord John Browne, CEO, BP	2007 Scandal made public by Chevalier ended Browne’s 40-year BP career.	Homosexual lover, Jeff Chevalier, not a BP employee. Browne wrote a book, <i>Beyond Business</i> .	Browne became a senior partner with U.S. private equity firm Riverstone.
Steven J. Heyer, CEO, Starwood Hotels and Resorts Worldwide	Starwood Hotels ousted Heyer & did not pay \$35 million severance.	2007 Allegations: Inappropriate & suggestive e-mails & text messages to female employee. Inappropriate physical encounter with a woman outside a restaurant restroom.	Became chairman and CEO of Harry & David Holdings, lead director of Lazard Ltd., and board member of Omnicare.

Source: Chart developed from Berr, J. (2010). CEO sex scandals: A rogues' gallery, *Daily Finance*. Retrieved from <http://www.dailyfinance.com/2010/11/24/ceo-sex-scandals/>.