

The Director

60 Directors Need More Competence Than Commitment

62 Snakes in Suits

A photograph of a laptop computer on a conference table in a modern office setting. The laptop screen displays the text "COMPETENT DIRECTORS WANTED" in a bold, stylized font. "COMPETENT" and "DIRECTORS" are in white, while "WANTED" is in red. The background shows a blurred office interior with large windows and modern chairs.

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Snakes in Suits

WHEN GOOD CEOs GO BAD

Psychopathic behaviour crops up in companies as well as courts – and bullies can look quite at home in suits. They're even impressive at first sight. Iain McCormick exposes the counterproductive CEO.

CAN YOU IMAGINE your CEO doing any of these things... Making a woman redundant when she's on maternity leave? Terminating a joint venture and stealing its intellectual property? Freezing out disliked senior staff? Threatening a defiant staff member with physical violence? Outright lying to the board? Distorting the accounts? Causing innocent investors to lose millions?

What should you, as a board member, do about this situation? Confront it, of course. But what typically happens in practice? Nothing. The CEO usually remains in the role, callously manipulating people and at the same time preaching the importance of integrity. Realistically, if the CEO is a competent, powerful person who can manipulate the board and has the resources to send threatening legal letters, very little happens.

In a 2009 survey by the Workplace Bullying Institute (www.workplacebullying.org), in only 1.6 percent of incidents did the bullies lose their jobs. By contrast, 31 percent of those bullied lost their jobs through layoff, termination, or by quitting. Doing nothing to the bully was the most common employer tactic – in a shocking 54 percent of cases.

“Counterproductive CEO” was the label US researchers Hannah L Jackson and Deniz S Ones, writing in *Managing Human Resources in North America*, gave to “a leader who intentionally and seriously misuses a position of authority for personal and/or organisational benefit”. Counterproductive behaviour by very senior managers is usually much more damaging than similar behaviour by more junior staff because the abuse is often more extreme and more difficult to uncover and deal with.

There are typically three types of counterproductive behaviour.

- Property deviance – where the CEO damages the organisation's assets, often destroying shareholder value for personal gain;
- Production deviance – where the leader damages the quality and quantity of work to be done; and
- Interpersonal deviance – where the CEO damages the mental or physical state of an employee. This can include sexual harassment and verbal abuse.

A useful way to understand the range of counterproductive behaviour is to start with the idea of the workplace bully and work through to the corporate psychopath. Not that all bullies are psychopaths, but nearly all psychopathic CEOs are bullies.

THREE BULLIES

In my experience there are three different types of bully:

- The Natural Leader. This is the strong man or woman who achieves great things but leaves behind them a trail of manipulation, destruction and misery. This type of CEO often fosters aggressive competition between individuals and teams in the organisation to achieve their own ends.
- The Taurus. This type of CEO is the angry, threatening bully who scares people and humiliates them into submission. The CEO often preaches the survival of the fittest and fosters a culture of exploitation and greed.
- The Caustic Critic. This is a bitter evaluator who finds fault with almost everyone and takes delight in targeting weaker individuals and systematically destroying their careers.

The psychopathic CEO is not just a bully but has a range of other traits that Giles Burch and I identified in a recent chapter of *Friends and Enemies in Organizations: A Work Psychology Perspective*. The signs of a psychopath will typically be:

- Brilliant at managing the board and creating a great impression but deeply distrusted by a range of staff, customers, joint venture partners and suppliers.
- Very articulate and consistently winning arguments, even if the truth, trust or individuals suffer.
- Highly competent in a technical or narrow business sense, but deeply concerned only about themselves.
- Always wanting a new challenge, competition and excitement, even when they are inappropriate.
- Needing to control others to maximise his or her own power.
- Well able to turn on a wide range of emotions to create conflict or disharmony if this increases their influence.
- Manipulating others without guilt or remorse.

In fastcompany.com, renowned criminal psychologist Robert Hare claims that many of the recent corporate scandals would have been prevented if CEOs were screened for psychopathic behaviour before they were hired. Hare suggests that while we carefully screen police officers, teachers and suchlike, we do not screen the people who control billions of dollars.

You'll find psychopaths in all areas of life, including in the big corner office, says Hare. They appear to be normal and are often highly successful, but they are enormously destructive. When we talk about psychopaths, we're not just talking about axe murderers, but also the sub-clinical or sub-criminal element who most people would think are normal.

It is important to see that competence and psychopathology can exist together, and the classic psychopathic CEO can be both highly competent and deeply pathologic.

A recent PricewaterhouseCoopers crime survey found that business fraud committed by senior management increased by almost 20 percent over the past year. Eric Lucas, a forensic services partner, says this is worrying, as senior managers can easily sidestep internal controls and potentially cause greater financial loss.

THE STRESS EFFECT

Psychopathic CEOs set up abusive work environments that will have a range of severe health consequences. Research by Gary and Ruth Namie and colleagues over 30 years shows that the risk of hypertension, stroke or heart attack is 30 percent higher when staff believe a workplace is unjust. Chronic workplace stress causes anxiety and clinical depression in 39 percent of workers, and post-traumatic stress disorder in 30 percent of female and 21 percent of male targets. While there are significant employee health consequences, CEO behaviour can also damage relationships with customers and suppliers, finances and a company's reputation.

With this level of dysfunction, surely the psychopathic CEO should be confronted? Well, no. Jackson and Ones don't recommend confronting the counterproductive leader with his or her behaviour, as the individual will typically take one of these tacks:

- Deny that any harm has been caused;
- Suggest that company policies or relevant laws are unjust or unnecessary;
- Argue that the act was vital to achieve the financial goals or even to the survival of the organisation;
- Suggest that their behaviour was based on the expectations and pressure of others; and
- Indicate that somebody else is doing it.

So who is to blame for the counterproductive CEO? Clearly the responsibility rests with the board. What can the board do?

1. Hold director-only board meetings when needed. Having some time for the directors to talk without the CEO there is not only best practice but essential if there is counter-

productive behaviour.

2. Know what to look for. Read as much as you can on the topic and understand that psychopaths are typically highly competent individuals who are seen as natural leaders with a forceful, aggressive personality. This illusion of capability can blind board members to the devious, callous and manipulative behaviour that is a reality of the corporate psychopath.

3. Gather independent information. Boards need to talk to customers, suppliers and joint venture partners to collect market intelligence about the CEO. The psychopathic CEO's highly effective impression-management will create an illusion of normality unless the board has independent sources of information.

4. Understand the severity of the behaviour. Counterproductive CEO behaviour can range from simple dishonesty to devastating manipulation and destruction without guilt or remorse. It's critical for the board to understand what they're dealing with. A CEO who is caught being dishonest is likely to be easy to remove, compared to a fully blown psychopath who has years of practice at manipulation and intimidation. The tactics the board uses to deal with the individual will depend on the severity of the behaviour.

5. Develop a supportive board atmosphere. Dealing with a counterproductive CEO can be very distressing for directors and can often cause anxiety and self-doubt. Directors need to support each other to overcome their concerns and deal decisively with the CEO.

6. Understand that where there is smoke there is fire. When a board finds out the CEO is behaving in a damaging way, they need to take the issue seriously, no matter how small the issue. In my experience, the misuse of power or authority by a CEO that is uncovered by a board is almost always the tip of the iceberg. If there is a thorough investigation, it will uncover a whole range of other abuse.

If this is what the board should do, what should they not do? Don't expect logic and rationality to work with a psychopathic CEO. These tactics will have no impact and they can often be turned against the unsuspecting director trying to resolve the situation. Reason will not work with the psychopathic CEO.

The board should never try to plead with the psychopathic CEO, as this approach can easily be interpreted as a sign of weakness and be exploited. Even trying to negotiate can be fruitless, because the psychopathic CEO will typically be totally unwilling to reason if the truth is uncovered.

Jack Welsh is reported as saying that there are only two questions the board should ask: ‘Do we have confidence in the CEO?’ and ‘Where is the succession plan?’ They are worth remembering. ●

Iain McCormick PhD runs www.DirectorEvaluation.com, an Auckland-based governance evaluation consultancy that offers free paper-based evaluations, a comprehensive range of web-based evaluations and full consulting-based services.