Research Report

The Dark Side of Discretion

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THE DARK SIDE OF DISCRETION
Leader Personality and Organizational Decline

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Revised and resubmitted for J. Antonakis, R. Hooijberg, J. Hunt, K. Boal, & W. Macey (Eds.)
Strategic Leadership of Organizations

May 2006

Power tends to corrupt and absolute power corrupts absolutely.
Great men are almost always bad men.

Lord Acton

Discussions of leadership typically glorify senior managers, a practice that seems increasingly suspect (Kellerman, 2005). This chapter examines the concept of discretion, defined as the degree of choice or "latitude of action" available to managers (Hambrick & Finkelstein, 1987). We propose that, although discretion is necessary for leaders to make positive contributions to their organizations, it also provides the potential for leaders to disrupt and destroy them. This dilemma has possible implications for the fate of organizations and even societies. Thus, given the tendency for academics to romanticize senior leaders, we focus on the dark side of discretion and how it links leader personality to organizational failure.

Consider Harry Stonecipher, an executive at General Electric in the 1980s, an organization that tolerated, if not actually reinforced, his intimidating management style. Although he earned a reputation for integrity by taking strong positions on ethical issues, media accounts of his career at GE, and later at Sundstrand and McDonnell Douglas, indicate that his abrasiveness earned him many enemies. (The details of this case are based on several media reports, particularly Isidore, 2005.) Stonecipher joined Boeing in 1997 when it acquired McDonnell Douglas. He retired in 2002, but as Boeing's single-largest shareholder, he remained on the board of directors. In December of 2003, amid an ethics scandal that led to the resignation of the CEO, Phil Condit, and sent two other executives to prison, he returned as CEO. Wall Street approved of his return and Boeing's stock rose by 52% during his tenure.

In the spring of 2005, Stonecipher's many detractors finally caught up with him. An anonymous letter informed the board that he was having an extramarital affair with another Boeing executive. According to the Associated Press, "The board concluded that the facts reflected poorly on Harry's judgment and would impair his ability to lead the company." Sonecipher was fired, and Boeing became the subject of yet another public scandal.

This case illustrates three points about leader personality. First, personality matters—who leaders are determines how they lead, for better or worse. Second, personality flaws shape judgment and sometimes lead to ill-advised decisions; they also prompt behaviors that create enemies, alienate coworkers, and undermine teams. Third, leader personality is most consequential at the top, where there is great freedom of choice and much is at stake.

This paper is organized as follows. First we review the literature on managerial discretion, which indicates that discretion moderates the relationship between leader personality and organizational performance. Second, we present a model for conceptualizing the links between leader personality and organizational performance. Third, we present a particular viewpoint on personality that may be useful in research concerning how leaders harm organizations. Finally, we use empirical research and examples from the business press to illustrate how dark side personality characteristics impact and possibly destroy organizations. Our argument is that, under conditions of high discretion, organizations come to resemble their leaders—warts and all.

DISCRETION

Discretion is a multifaceted variable that reflects the degree to which managers can turn their intentions into reality—what Hambrick and Finkelstein (1987) call "latitude of action." When discretion is low, managerial judgment and behavior are constrained. When discretion is high, managers are relatively free to do as they wish. Thus, discretion is a situational variable that moderates how much leaders can affect organizational processes and outcomes. Three lines of research show how discretion influences leadership.

Social Psychology of Discretion. In an influential critique of traditional personality psychology, Mischel (1968) argued that behavior is determined by situational factors rather than personality variables. He later conceded that personality may influence behavior, but only in "weak situations." According to Mischel (1977), strong situations provide clear, unambiguous cues about appropriate behavior, and that leads to less variability in how people respond. Weak situations provide only ambiguous cues for action; these conditions allow greater opportunity for personality to influence behavior.

Situation strength has been used to analyze organizational behavior (Weis & Adler, 1984). Research shows, for example, that job autonomy moderates the relationship between personality and performance (Barrick & Mount, 1993). However, the concept of situation strength has not been widely used in the study of leadership. The concept of situation strength is obviously related to discretion. Thus, situation strength should be inversely related to organizational level because, with increasing organizational status, autonomy increases and roles and performance criteria become less clearly defined (Zaccaro, 2001).

Self-serving Agents or Strategic Leaders? Mischel's ideas about situational strength are consistent with agency theory and strategic leadership theory, two management models that were developed independently of Mischel.

Agency Theory

Jensen and Meckling (1976) introduced a model for reconciling the conflicts of interest in public corporations between principals (shareholders and owners) and agents (executives). Agency theory proposes mechanisms to deter senior managers from pursuing personal gain at the expense of shareholder value. Agency theory predicts that executives prefer to drive revenues because their pay is tied to revenue and profitability primarily benefits the owners/investors; research supports this prediction (Cannella & Monroe, 1997; Gray & Cannella, 1997).

Agency theory leads to several conclusions; we will highlight two. First, certain structural mechanisms can reduce executive selfishness and promote greater manager-owner alignment. Specifically, self-interested executive behavior is inversely related to the power of boards of directors, governance structure and activity, shareholder activism, and the extent to which executive pay is tied to firm performance (Cannella & Monroe, 1997; Eisenhardt, 1989; Tosi, Katz, & Gomez-Mejia, 1997). Note that these mechanisms are designed to reduce executive discretion. Second, these controls are rarely enforced in practice. For instance, executive compensation is unrelated to firm performance across public corporations (Gomez-Mejia, 1994) and, prior to the Sarbanes-Oxley act, boards were reluctant to discipline executives. This lack of accountability partially explains the rash of executive fraud and malfeasance described in the business press in the first years of the 21st century.

Strategic Leadership Theory

In contrast with social psychology and agency theory, strategic leadership theory (SLT) assumes that executive behavior is a product of individual psychology (Hambrick & Mason, 1984). Personality, values, and beliefs shape how leaders perceive, interpret, and use information to decide what business to compete in, what goods or services to offer, how to allocate resources, and what policies to implement. SLT further maintains that these choices are consequential for organizations. But this claim appears controversial: some studies report no relationship between leadership style and organizational performance while others report a substantial relationship (see review in Day & Lord, 1988).

Hambrick and Finkelstein's (1987) analysis of leader discretion resolves this apparent contradiction. They argue that discretion determines the impact leaders have on organizations. Specifically, three general classes of factors restrict executive discretion: environmental, organizational, and individual. Environmental factors vary by industry and are considered to be the most potent (Hambrick & Abrahamson, 1995). They include product commoditization versus differentiation, monopolistic versus oligopolistic industry structure, market growth, degree of government regulation, and capital intensity. Organizational factors—age, size, culture, and control mechanisms—also impose constraints on executive choice. Finally, characteristics of leaders affect how much discretion they seek and how they use their level of discretion. Hambrick and colleagues point to locus of control and tolerance for ambiguity as important personality variables associated with a preference for greater discretion.

The empirical research on discretion in the SLT paradigm is nicely coherent (see reviews in Cannella & Monroe, 1997; Finklestein & Hambrick, 1996). This research shows that who is in charge affects organizational strategy, structure, policy, and culture. Discretion also consistently moderates the relationship between leader characteristics and organizational outcomes. When discretion is low, there is little relationship between leader characteristics and organizational performance; when discretion is high, there is a strong relationship. For example, this has been shown for tenure and strategy distinctiveness (Finklestein & Hambrick, 1990) as well as locus of control and strategy formation (Miller, Kets de Vries, & Toulouse, 1982).

The fact that discretion links individual leaders to organizational outcomes poses a dilemma: without discretion, leaders are unable to influence firm performance, but with discretion leaders can put self-interest ahead of their other responsibilities and obligations.

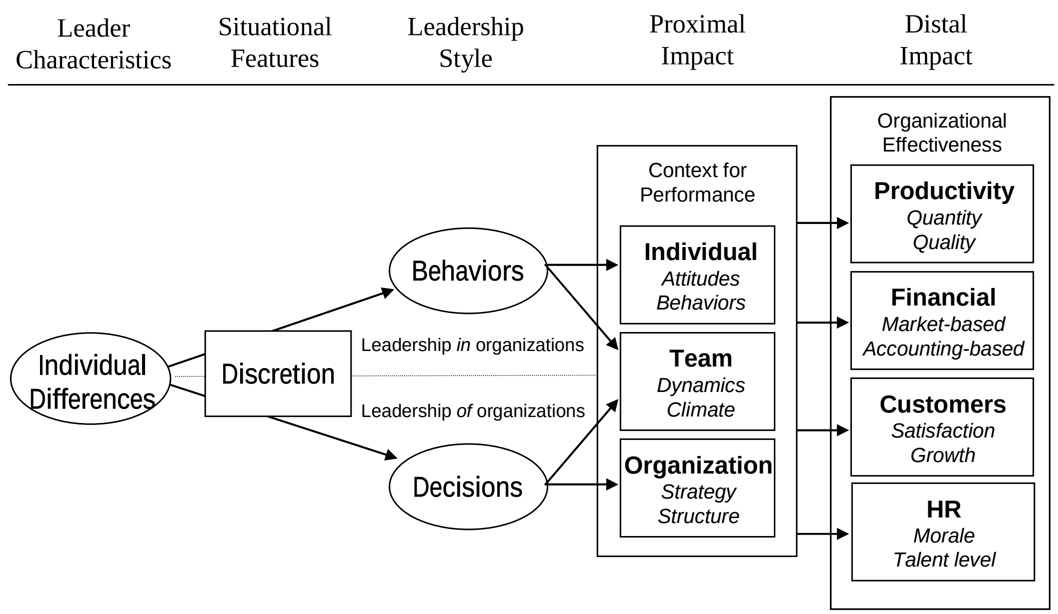
Summary. The literature on managerial discretion yields three generalizations relevant to the present discussion. First, discretion increases with hierarchical level—in any given company, executives enjoy more freedom of choice than supervisors—and senior executives have the most discretion. Second, some companies allow executives more discretion than others. In particular, discretion is highest in organizations that are younger, smaller, have weaker cultures, and limited governance or control mechanisms and in companies in the computer, engineering, telecommunications, pharmaceutical, and entertainment industries (Hambrick & Abrahamson, 1995). Finally, the prospect of retribution is the best way to prevent greedy managers from abusing their authority.

The foregoing suggests that executive personality can affect organizational performance. However, two problems in the literature obscure this point: incomplete or ad hoc definitions of personality and poor personality measurement. For example, SLT researchers routinely use demographic variables as proxy measures of personality (Cannella & Monroe, 1997). A clear definition of personality should help advance our understanding, and good measures should advance our empirical understanding, of how senior leaders affect organizational performance. Before turning to that issue, however, we need to discuss the means by which leaders affect organizational performance.

LEADERS AND ORGANIZATIONAL EFFECTIVENESS

Several studies report that who is in charge of for-profit businesses impacts firm performance (e.g., Barrick, Day, Lord, & Alexander, 1991; Barney, 1991; Day & Lord, 1988; Thomas, 1988). What is needed is a clearer account of how leaders affect organizational performance. Hogan and Kaiser (2005) propose a model for integrating the literatures on personality, leadership, and organizational effectiveness. They suggest that personality predicts leadership style, leadership style impacts employee attitudes and team functioning, and these variables then predict organizational effectiveness. Figure 1 illustrates these relationships and also incorporates the moderating role of discretion and the distinction between leadership in organizations and leadership of organizations (cf., Dubin, 1979).

Figure 1. How leaders impact organizational effectiveness.



Leadership involves persuading individuals to give up their purely selfish interests for a while and contribute to the overall performance of the organization (Hogan, Curphy, & Hogan, 1994; Hogan & Kaiser, 2005). Thus, leadership involves building and motivating a team to outperform the competition. In an organizational context, it is important to distinguish between two types of leadership influences (cf. Zaccaro & Horn, 2003). The first is the influence that leaders exert in direct social interaction; this is leadership as face-to-face social influence, leadership in an organization. The second is the indirect influence that leaders exert through their decisions about direction, organizational structure, and objectives. This is leadership of an organization, guiding collective action impersonally by setting goals, defining roles and staffing positions, allocating resources, and establishing policies. Although direct influence is an important activity for all leaders in an organization, indirect influence is a key activity for strategic senior leadership.

Leader Characteristics. Discretion moderates the effect of leader attributes. Although this applies to individual differences in cognitive ability, knowledge, skills, and experience, we believe personality is the most potent source of individual differences in leadership. We say this for three reasons. First, meta-analyses show that, when organized in terms of an adequate taxonomy (e.g., the Big Five), the validity for personality is greater than the validity of cognitive ability for predicting leadership (cf. $R = .48$ for personality [Judge, Bono, Ilies, & Gerhardt, 2004], □ = .27 for cognitive ability [Judge, Ilies, & Colbert, 2002]). Second, personality is a broader domain than cognitive ability; there is, in principle, more variance to personality. And third, other scholars also argue that personality is the primary source of differences among leaders (e.g., Hambrick & Mason, 1984; Kets de Vries & Miller, 1985).

Leadership Style. The more discretion leaders have, the more their leadership style will reflect their personalities. Leadership style can be characterized in terms of interpersonal behavior and preferred patterns of decision making. The psychological study of leadership focuses on behavior—being considerate, showing initiative, transforming followers, and other direct methods of interpersonal influence (Bass, 1990), whereas the managerial literature emphasizes decision making with regard to strategy, structure, staffing, and policy—all of which influence a workforce in indirect and impersonal ways (Finklestein & Hambrick, 1996).

The behavioral and the decision-making aspects of leadership style are complementary; they are unique direct and indirect influences. This distinction is represented in Figure 1. Above the line, leadership in organizations concerns the behaviors that directly motivate employees and galvanize teams—versus the behaviors that demoralize employees and weaken teams. Below the line, leadership of organizations involves making decisions about strategy, structure, staffing, and policy that indirectly influence employees by creating a "strong situation" in their work environment.

Impact of Leadership. Leadership style affects organizational performance directly and indirectly through its impact on the organizational unit. Put simply, leaders get things done through other people. Influencing people, teams, and organizational features is the proximal effect of leadership; like falling dominoes, the proximal effects create business results as a distal impact.

Proximal Impact: Organizational Process

Recent theoretical and empirical work suggests conceptualizing the effects of leadership at three levels of analysis (e.g., Yammarino & Dansereau, 2002): the individual employee, the team or group, and the organization itself.

Leader behaviors directly influence the attitudes (e.g., commitment, satisfaction) and behaviors (e.g., performance) of individual employees (Dansereau, Graen, & Haga, 1975). Leader behaviors also directly affect team dynamics and climate—for instance, by facilitating communication and coordination, resolving intragroup conflict, and rewarding or sanctioning certain behaviors (Peterson, Smith, Martorana, & Owens, 2003). Leader decisions also indirectly influence teams by establishing goals, by assigning people to roles, and by distributing resources (Antonakis & House, 2002). And leader decisions impact organizations by defining strategic direction, organizational structure, and formal policy (Zaccaro, 2001).

Thus, the mechanisms through which leadership style affects organizational performance operate at the individual, team, and organizational level of analysis. A leader's impact across these three levels can be seen as creating a context for performance, because the leader's role is to facilitate team performance. On the one hand, this promotes an internal focus—with an emphasis on activities within the group. On the other hand, because contexts are more or less conducive to performance, these actions affect a team's performance in competition with rivals, and that translates directly into organizational effectiveness.

Distal Impact: Organizational Effectiveness

Although psychologists have tended to ignore the topic of organizational effectiveness, it is the ultimate measure of leader effectiveness (Hogan & Kaiser, 2005). The managerial literature has taken the topic more seriously. A survey of this literature reveals four general classes of variables that constitute a "balanced scorecard" (Kaplan & Norton, 1996) and that apply to a wide range of business organizations: Productivity, finances, customer service, and human resources.

Productivity measures reflect relative efficiency in transforming inputs (capital, people, materials) into outputs (goods and services). This is the standard social psychology measure of organizational effectiveness (Katz & Kahn, 1978) and includes such indices as quantity and quality, sales per employee, and rate of innovation. There are two distinct kinds of financial measures, market-based and accounting-based. Market-based metrics (e.g., total shareholder return, price-to-earnings ratio) reflect profitability and value to shareholders whereas accounting-based measures (e.g., return on equity, assets, or sales; economic value added) are more internally focused and are easier to manipulate (Anderson & Tirrell, 2004). Customer service indices concern customer satisfaction, retention, and growth. Finally, human resource-based measures reflect how well an organization manages talent. Metrics in this group include rate of turnover and morale. Bench strength—the number and quality of future leaders—belongs here as well. An important point about customer service and human resource-based measures is that, although they are not reflected directly in the "bottom line," they are crucial to the sustainability of productivity and financial performance. That is, when production goals and financial results are achieved while alienating customers and demoralizing employees, the organization will inevitably suffer.

Taken together, these measures of business results map the domain of organizational effectiveness, the distal impact of leadership. We now turn a discussion of how leaders use their discretion to affect organizational performance.

PERSONALITY

Leadership researchers routinely talk about personality but rarely define the term. Moreover, they routinely confuse description with explanation (e.g., they argue that domineering behavior—description—is caused by a trait for dominance—explanation). Furthermore, leadership research is typically based on mini-theories of personality (e.g., locus of control) rather than more comprehensive models (e.g., psychoanalysis). We turn next to a brief overview of socio-analytic theory (Hogan, 2006)—a model of personality designed to account for occupational performance and is well-suited for leadership research.

Socio-analytic Theory. The theory attempts to integrate the best insights of sociology and psychoanalysis. According to this view, personality concerns two things: (1) Generalizations about human nature; and (2) Generalizations about individual differences—which are important and how they arise. With regard to human nature, a review of sociology, anthropology, and evolutionary psychology yields two major generalizations. First, humans evolved as group-living animals and are inherently social. Second, every group has a status hierarchy; there are people at the bottom and at the top and everyone knows who is where. This suggests that the big problems in life concern building relationships and achieving status—getting along and getting ahead. It is worth noting that effective leaders are skilled at both of these while ineffective leaders come up short in one or both (Kaplan & Kaiser, 2003; 2006).

In terms of individual differences, personality should be defined from two perspectives: (1) How people think about themselves—which is their identity; and (2) How others think about them—which is their reputation. Identity—a person's self-concept is composed of personal goals, values, and strategies for getting along and getting ahead. Reputation concerns how observers evaluate that person's efforts to get along and get ahead. Identity is the "you that you know;" reputation is the "you that we know." These are very different constructs. Freud argued that we make up our identities to justify our self-serving goals and beliefs. George H. Mead (1934) emphasized reputation—because that is the basis on which others interact with us. Although Freud was probably right about identity; nonetheless, it is important because it explains why you do what you do—even if your behavior is self-defeating.

Reputation describes what you have done or are likely to do; it determines some of the most consequential outcomes in life: promotions, mates, and allies. It is important to distinguish two aspects of reputation, "the bright side" and "the dark side." The bright side reflects peoples' social performance when they are at their—during a job interview or a first date. The Big Five is a taxonomy of the bright side; it reflects common themes observers use to describe others in the early stages of a relationship (McAdams, 1995): outgoing and assertive (extraversion); congenial and cooperative (agreeableness); reliable and rule-abiding (conscientiousness); stable and rewarding to be with (emotional stability); curious and worldly (openness).

The Dark Side. The dark side of personality refers to the impression we make when we let down our guard—when we are stressed, tired, or do not care how we are perceived. If the bright side describes the person we meet in an interview, the dark side describes the person we evaluate at the end of the year. Dark side tendencies originate in efforts to get along and get ahead and are agenda-driven (Hogan & Hogan, 2001). However, they rest on flawed assumptions (e.g., people find me irresistible), and they yield short-term benefits at the expense of long term losses (Baumeister & Scher, 1988). For example, confidence can turn into arrogance, creativity can become eccentricity, tact can become obsequiousness, and so on.

The dark side is the key to understanding managerial failure. Bentz (1985) pioneered the topic with an interview study of derailed managers at Sears; he noted that they were chose using a rigorous assessment center and were typically bright, ambitious, and self-confident; nonethess, they had "over-riding personality defects." Subsequent researchers have replicated Bentz's findings (Leslie & Van Velsor, 1996; McCall & Lombardo, 1983). Based on this "derailment literature," Hogan and Hogan (1997) proposed that the standard personality disorders, as described in the DSM-IV (American Psychiatric Association, 1994), provided a taxonomy of the most important causes of managerial failure. They further noted that these behavior patterns were extensions of the Big Five and resembled Bentz's (1985) "personality defects."

Dark side tendencies are not forms of mental illness; they are flawed interpersonal strategies that prevent managers from building a team, forming alliances, and gaining support for their vision and plans. Hogan and Hogan developed an inventory of the 11 key dimensions of the dark side; subsequent research shows that the inventory is a valid predictor of derailment (Hogan & Hogan, 2001). This taxonomy is presented in Table 1.

Table 1. Taxonomy of the Dark Side of Leader Personality

Dimension	Definition	Short-term Strengths	Long-term Weaknesses
Higher-order factor: Motivational strategy.			
Factor 1 – Intimidation: gaining security by threatening people and scaring them away.			
Excitable	Inappropriate anger, unstable and intense relationships alternating between idealization and devaluation.	Energy and enthusiasm	Others begin to avoid him/her
Cautious	Hypersensitivity to criticism or rejection.	Makes few mistakes	Indecisiveness and risk-aversion
Skeptical	Mistrustful and suspicious; others' motives are interpreted as malevolent.	Insightful about organizational politics	Mistrustful; vindictive and litigious
Reserved	Cold, detached, tough, and uncommunicative.	Tough and resolute under pressure	Uncommunicative and insensitive to morale issues
Leisurely	Stubborn, procrastinating, and passively resistant to requests for improved performance.	Charming and apparently cooperative	Passive aggressive meanness
Factor 2 – Flirtation and seduction: winning recognition with self-promotion and charm.			
Bold	Arrogant sense of entitlement; grandiose sense of competence and self-importance.	Courage, confidence, and charisma	Inability to admit mistakes or learn from experience
Mischievous	Manipulative, dissembling, impulsive, and limit testing.	Willing to take risks; charming	Lying; ignoring rules; exploiting others
Colorful	Attention seeking; self-dramatizing, and theatrical.	Entertaining, flirtatious, and engaging	Attention-seeking, overly dramatic, and distracting
Imaginative	Interesting and sometimes eccentric flights of ideas.	Visionary out-of-the-box thinking	Bad judgment leading to loss of credibility.
Factor 3 – Ingratiation: ensuring approval by being loyal and becoming indispensable.			
Diligent	Perfectionistic and hard to please.	Hard working, high standards; self-sacrificing	Over controlling, rigid, micromanaging,
Dutiful	Difficulty making independent decisions and unwillingness to disagree with superiors.	Team player; considerate; keeps boss informed	Indecisive; overly concerned about pleasing superiors

There are three points to note about these dark side characteristics. First, although high scores on the dimensions in Table 1 have negative consequences in the long run, they often have positive consequences in the short run. For example, Bold managers make unusually positive first impressions and Excitable managers convey great passion and intensity. On the other hand, low scores on these dimensions are not necessarily desirable. Low Imaginative suggests lack of vision, low Bold suggests indecisiveness, low Dutiful suggests problems with authority figures and so on. Optimal performance is associated with more moderate scores. In several executive samples, Kaplan and Kaiser (2003; 2006) have shown that very high or low levels of most performance dimensions are undesirable and that the ideal lies somewhere in between.

Second, these 11 dimensions form three higher order factors that closely resemble the three self-defeating styles that Horney (1950) identified for managing anxiety in relationships (Hogan & Hogan, 1997). According to Horney, these dysfunctional coping strategies are motivated by excessive concerns for security, recognition, and approval. Each pattern rests on a particular interpersonal strategy: gaining security by intimidating others; winning recognition through flirtation and seduction; and obtaining approval by becoming indispensable.

Our final point about the dark side characteristics is that they do not predict when a leader will self-destruct. A key lesson from the person-situation debate of the 1970s concerns the fact that it is difficult to predict behavior in a specific episode. Rather, stable individual differences emerge from cumulative performance and aggregate trends in behavior (Epstein, 1979). Thus, dark side personality factors capture the general themes regarding how a leader is likely to fail. For example, Excitable leaders fail because they are volatile and unpredictable. Bold leaders are doomed by their arrogance and inability to learn from experience. Diligent executives micromanage and then drive off talented people. Most importantly for our purposes, however, the discretion literature suggests that dark side tendencies will be most apparent in "weak situations"—senior positions where there are fewer constraints. Leaders who are aware of their dark side tendencies can develop ways to minimize their disruptive influence (Kaiser & Kaplan, in press). At the top of big organizations, however, this type of development appears to be the exception and not the rule.

DARK SIDE PERSONALITY, DISCRETION, AND ORGANIZATIONAL INEFFECTIVENESS

We close this essay with some examples of the links between the dark side of personality, bad business behavior, and organizational ineffectiveness. The examples are organized around the three higher-order dark side factors.

Factor 1: Intimidation. Leaders with these dark side characteristics are often described as aloof, inflexible, and insecure. Their problems are caused by their insensitivity to morale issues, emotional volatility, and inability to build bonds with their constituents. Failing to build a team is a key factor in derailment (Leslie & Van Velsor, 1996). These managers also make strategic decisions that ignore the human side and refuse to listen to feedback regarding their performance.

Consider the case of Philip J. Purcell, a textbook example of a Reserved personality. Purcell began his career with the McKinsey consulting group. He did some early work with Dean Witter, a retail brokerage firm. He was popular with senior management at Dean Witter and became CEO in the late 1970s. In 1997, he orchestrated a merger with Morgan Stanley, a merchant banking firm, in a move that was widely criticized on the grounds of poor culture fit. According to the New York Times (June 16th, 2005), as a CEO, Purcell was "…ruthless, autocratic, and remote. He had no tolerance for dissent or even argument. He pushed away strong executives and surrounded himself with yes men and women. He demanded loyalty to himself over the organization. He played power games…," had little contact with the rank and file, and stayed in his office to plot strategy. "He belittled the investment bankers [at Morgan Stanley]. Executives learned that it was pointless to argue with Mr. Purcell about anything—all it did was make him mad and he didn't even pretend to be listening." Disgusted Morgan Stanley executives began leaving in droves, and Purcell used their departures as a chance to give their jobs to people who were loyal to him. Former Morgan Stanley executives, infuriated by the way they had been treated, created enough shareholder agitation that the Morgan Stanley board fired Purcell the week of June 13th, 2005, but only after the stock had suffered tremendous losses and the company had lost some of the most talented investment bankers in the United States.

Michael Eisner of Disney is a combination of Excitable and Skeptical personalities. He is widely regarded as politically insightful, passionate, and aggressive. He hired new executives in a fit of enthusiasm, immediately began to distrust them, then drove them away. For example, he impulsively hired his one-time friend, Michael Ovitz, with much fanfare. He then quickly became disappointed and fired Ovitz 14 months later. Ovitz' $140 million severance package caused a revolt among shareholders who, in March of 2004, demanded Eisner's resignation.

Factor 2: Flirtation and seduction. These dark side characteristics are perhaps the most common in the executive suite. Most charismatic leaders score high on Bold, Colorful, Mischievous, and Imaginative, which is reflected in their extreme self-confidence, dramatic flair, willingness to test the limits, and expansive visionary thinking. They make a strong initial impression, especially in the hiring process. They are often chosen for leadership roles but subsequently fail due to overwhelming arrogance (Paulhus, 1998). This is the "dark side of charisma"—although charismatic leaders have great appeal and personal magnetism, it can be used for personal benefit rather than the good of the organization (Conger, 1990; Hogan, Raskin, & Fazzini, 1990). It is noteworthy that studies of CEO charisma find no direct relationship between charisma and firm performance (Tosi et al., 2004; Agle, Nagarajan, Sonnenfeld, & Srinivasan, 2006; Waldman, Ramirez, House, & Puranam, 2001). Not surprisingly, however, charisma is directly related to a CEO's level of compensation (Tosi, et al., 2004).

Kets de Vries and Miller (1985) note that narcissistic leaders present grandiose visions that initially seem bold and compelling. Ultimately these visions cause waste and distress because they defy successful implementation. Two studies of executive "hubris" and "overconfidence" demonstrate this in the case of mergers and acquisitions. Using different methodologies, both studies show that arrogant CEOs are more likely to make acquisitions, acquire firms in a different industry, and pay considerably more than market-value (Hayward & Hambrick, 1997; Malmendier & Tate, in press). Furthermore, these investments are likely to add value for acquired firms but lose money for the acquiring firms. A recent example of this is the failed merger of computer manufacturers Hewlitt-Packard and Compaq. The deal was orchestrated by Carlton S. "Carly" Fiorina, who was hired because the board thought they needed a CEO with a big ego (and rock-star status) to change the corporate culture. Her constant self-promotion and inability to attend to day-to-day operations caused a dramatic drop in HP stock value.

Factor 3: Ingratiation. This cluster of dark side characteristics—the Diligent and Dutiful personalities—is less common among executives, probably because their lack of independent thinking and initiative prevents them from rising to the top. A common theme in the derailment literature concerns relying on a particular boss for too long (McCall & Lombardo, 1983).

Diligent managers make ideal subordinates because, with their high standards and strong work ethic, they deliver results. But their perfectionism, need for control, and tendencies toward micro-management alienate their subordinates—while delighting their superiors. Diligent and Dutiful managers have a difficult time making decisions in a timely manner (Kaplan, 1999), and their strong need for consensus magnifies the problem. For example, Ken Olsen of Digital Equipment was legendary for his long strategic planning processes designed to reach complete agreement among his entire management team. Many analysts regard his consensus-driven style as the primary reason Digital Equipment was so late entering the personal computer market.

Consider also the case of Douglas Ivester, the former CEO of Coca-Cola. The board believed that Ivester would be the ideal CEO of Coca-Cola because he grew up in the company and had been both CFO and COO. But his extraordinary attention to detail, which was key to his earlier success, proved to be lethal in the CEO role. Ivester was unable to focus on the bigger picture and strategic issues, and the board was forced to request his resignation in 1999, not quite two years into the job.

CONTAINING THE DARK SIDE

We have focused on managerial derailment to highlight the down side of leader discretion. People are inherently both altruistic and selfish, tendencies that emerge at different times and in different circumstances. To say that people are inherently selfish is to suggest two things. First, left to their own discretion, people will focus on advancing their own interests rather than the interests of the larger social group. Second, all people are selfish some of the time and some people are selfish all of the time. The question then is how to contain selfishness? We see three general strategies that can be used to limit the dark side potential of executive personality. These involve selection, governance, and compensation.

The most obvious way to minimize the influence of dark side personalities is to screen them out in the selection and succession process. However, two factors make this difficult. First, dark side characteristics co-exist with well-developed social skills (Hogan & Hogan, 2001). For example, Bold managers are also self-confident and Reserved managers are cool under pressure. Thus, dark side tendencies are extremely difficult to detect in an interview; in fact, they typically come across as positive attributes in the short run (Hogan & Kaiser, 2005). Second, these tendencies are best detected with valid assessment instruments. However, executive selection rarely involves using standardized psychological assessment tools (Sessa, Kaiser, Taylor, & Campbell, 1998). Better selection decisions would involve more extensive background checks, particularly with former subordinates, and individual assessments conducted by psychologists who explicitly seek information on dark side tendencies.

There is empirical evidence indicating that governance mechanisms can better align executive action and decisions with organizational stakeholder interests (Cannella & Monroe, 1997; Eisenhardt, 1989). Boards of Directors represent a potentially powerful constraining force. However, for Boards to govern effectively, certain conditions are necessary—historically, these conditions have not been the norm (Gandossy & Sonnenfeld, 2004). They include relative Board independence, where a critical mass of members are from the outside and not chosen by the CEO; regular and active oversight by the Board in company affairs, including performance review and succession processes; and Board accountability, where the Board is responsible for executive and organizational performance and also has the authority to sanction executives. In the wake of the rash of corporate scandals since 2001, Board governance reform has been a hot topic. Time will tell how effective such reform is.

Finally, better alignment between managers and stakeholders can be achieved by performance-contingent compensation (Tosi et al., 1997). As noted earlier, executives prefer to grow revenues rather than maximize profitability, because their pay is related to revenues while shareholder value is reflected in profitability. Owners could reasonably expect better performance from their managerial agents to the extent that their incentives are congruent. For instance, tying executive compensation to profitability and decoupling it from top-line revenues seems to be a promising strategy for minimizing risky acquisitions and promoting value-added initiatives that enhance profitability. Furthermore, this seems to be an important consideration because executive compensation is typically unrelated to firm performance (Gomez-Mejia, 1994).

Of course, these solutions involve a balancing act: too much discretion and leaders tend to pursue self-interest at the expense of the organization and its stakeholders. But too little discretion and leaders may be constrained in their opportunities to contribute to organizational success. So the question becomes how much discretion is ideal for senior leaders? It probably is somewhere between Agency Theory and Strategic Leadership Theory, but surely not in the middle. The right amount is most likely closer to the former, with its emphasis on accountability and external control.

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