THE DARK SIDE OF DISCRETION

Leader Personality and Organizational Ineffectiveness

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Abstract

We review the literature to determine how discretion, defined as the freedom to make decisions, moderates the relationship between leader personality and organizational performance. Discretion regarding decision making increases with level in organizations so that top executives have the most discretion and the greatest opportunity to impact organizational performance. We describe how personality drives executive actions and decision making, which then impacts organizational performance; the more discretion a leader has, the more leeway there is for his/her personality to operate. Finally, using research and contemporary business examples, we illustrate the dynamics linking personality, discretionary freedom, and destructive leadership <u>in</u> and <u>of</u> organizations.

Introduction

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 we find suspect. This chapter examines the concept of discretion, defined as the degree of choice or "latitude of action" available to managers (Hambrick & Finkelstein, 1987). We conclude that, although discretion is necessary for leaders to have an impact, it also provides the potential for leaders to disrupt and destroy an organization.

Consider Harry Stonecipher, an executive at General Electric in the 1980s, where his intimidating management style was tolerated, if not reinforced. 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 created many enemies for him. 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 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, and, 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 in March of 2005, 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. 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 the greatest latitude for judgment and action.

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 discuss a particular personality theory that encompasses the dark side and, thus, may be useful in leadership research. Finally, we use empirical research and examples from the business press to illustrate how dark side personality characteristics have a destructive impact both <u>in</u> and <u>on</u> organizations.

We take an expressly reductionist perspective on organizational behavior: we argue that personality explains the link between leadership and organizational effectiveness. Under conditions of high discretion, organizations come to resemble their leaders—warts and all.

Discretion

Discretion is a multifaceted variable that reflects the degree of power managers have to 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.

<u>Social Psychology of Discretion</u>

Mischel (1968) argued that situational factors rather than personality determine behavior. 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, which leads to less variability in people's responses. Weak situations provide ambiguous cues for action; these conditions allow greater opportunity for individual differences to influence behavior.

Situation strength has been used to explain organizational behavior (Weis & Adler, 1984). Research shows, for example, that job autonomy moderates the personality-performance relationship (Barrick & Mount, 1993). However, the concept of situation strength has not been widely incorporated into the study of leadership. Presumably, situation strength is 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 prominent models in the management literature 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 assumes that people are basically self-interested and then tries to identify mechanisms for deterring senior managers from seeking personal gain over shareholder value. Consider, for example, the choice between increasing profit margins and growing revenues. Agency theory predicts that executives would prefer growth because their pay increases with revenues but decreases with profitability; research supports this reasoning

(Cannella & Monroe, 1997; Gray & Cannella, 1997).

Two conclusions can be drawn from research on agency theory. First, certain control mechanisms are somewhat effective at reducing selfishness and promoting greater manager-owner alignment. Specifically, self-interested 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). Performance-contingent pay, in particular, appears to be a useful source of control (Tosi, Katz, & Gomez-Mejia, 1997). 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 have had limited authority 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. Social psychology and agency theory advocate situational explanations of executive behavior. In contrast, strategic leadership theory (SLT) assumes that executive behavior is a product of individual psychological makeup (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 and organizational performance while others report a substantial relationship (see review in Day & Lord, 1988).

The solution to this muddle comes from Hambrick and Finkelstein's (1987) analysis of leader discretion. According to their theory and subsequent empirical tests, discretion determines the influence leaders have on organizational impact. Hambrick and Finkelstein (1987) described three general classes of factors that limit options and 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 refer to locus of control and tolerance for ambiguity in particular as determinants of executive discretion seeking.

The empirical research on discretion in the SLT paradigm is nicely coherent (see reviews in Cannella & Monroe, 1997; Finklestein & Hambrick, 1996). This literature 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. 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), to name two examples.

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 four generalizations. First, discretion increases with hierarchical level—in any given company, executives enjoy more freedom of choice than supervisors. Second, some companies allow 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). This covers a substantial portion of the world economy and leads to the third point; namely, senior executives enjoy a great deal of discretion. Finally, the prospect of retribution is the best way to prevent greedy managers from abusing their authority.

The foregoing suggests that executive personality should affect organizational performance. However, the literature relevant to this point is marred by two difficulties: 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 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 a direct relationship between who is in charge of for-profit businesses and 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. We recently proposed a model for integrating the literatures on personality, leadership, and organizational effectiveness (Hogan & Kaiser, 2005). We suggested that personality predicts leadership style, leadership style affects employee attitudes and team functioning, and these variables predict organizational effectiveness. Figure 1 is a schematic of this line of thinking that also incorporates the moderating role of discretion and Hunt's (1991) distinction between leadership in organizations and leadership of organizations.

Insert Figure 1 about Here

We assume that leadership is an evolved solution to the adaptive problem of collective effort. Fundamentally, leadership concerns influencing individuals to transcend their selfish short-term interests and contribute to the long-term performance of their group (Hogan, Curphy, & Hogan, 1994; Hogan & Kaiser, 2005; Van Vugt & Hogan, in press). Thus, the essence of leadership is building a team and guiding it to outperform its competitors.

Leader Characteristics

Discretion moderates the influence of leader attributes. In theory this applies to all individual differences relevant to leadership, although this chapter focuses on personality. Intellectual ability, knowledge, skills, and experience are obviously important, but we believe personality is the most influential source of individual differences in leadership. We have three reasons for saying this. First, meta-analyses show that, when organized in terms of an adequate taxonomy of personality (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], ρ = .27 for cognitive ability [Judge, Ilies, & Colbert, 2002]). Second, personality is a broader domain than cognitive ability. And third, others have also argued that personality is the primary source of differences between 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 who they are (their personalities). Leadership style can be characterized in terms of interpersonal behavior and in terms of preferred patterns of decision making. The psychological study of leadership focuses on behaviors—being considerate, showing initiative, transforming followers, exchanging transactions, and so on (Bass, 1990). The managerial literature emphasizes decision making in such domains as strategy, structure, policy, and so forth (Finklestein & Hambrick, 1996). The behavioral and the decision-making aspects of leadership style are complementary; they serve unique influence functions. Zaccaro and Horn (2003) distinguish between direct and indirect influences: direct influence is a face-to-face, interpersonal matter whereas indirect influence is a relatively impersonal process of guiding people by setting direction, allocating resources, and establishing formal policy. In keeping with Hunt's (1991) view, the former corresponds to leadership _in_ an organization; the latter, to leadership _of_ an organization.

This distinction is represented in Figure 1. Above the line, leadership _in_ organizations concern the behaviors that directly motivate employees and galvanize teams—versus the behaviors that demoralize employees and weaken teams. Below the line, leadership _of_ organizations is portrayed as making decisions about strategy, structure, and policy that indirectly influence employees by creating a "strong situation" in their work environment.

Impact of Leadership

The direct and indirect influences of leadership style impact organizational performance through their effects 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 effect leads to business results as a distal impact.

Proximal impact: organizational process. According to recent theoretical and empirical work, the effects of leadership should be conceptualized at multiple levels of analysis (e.g., Yammarino & Dansereau, 2002). Three distinct levels include the individual employee, the team or group, and the organization itself.

Leader behaviors have a direct influence on individual employee's attitudes (e.g., commitment, satisfaction) and behaviors (e.g., performance) (Dansereau, Graen, & Haga, 1975). Leader behaviors also affect team dynamics and climate—for instance, by facilitating communication and coordination, rewarding or sanctioning certain behaviors, and modeling norms and interaction patterns (Peterson, Smith, Martorana, & Owens, 2003). Leader decisions also indirectly influence teams by establishing goals, by deciding who to put in what role, and by distributing resources (Antonakis & House, 2002). Finally, leader decisions impact organizations by defining strategic direction, organizational structure, and formal policy (Zaccaro, 1991).

Thus, the mechanisms through which leadership style affects organizational effectiveness operate at the employee, team, and organizational level of analysis. Collectively, a leader's impact across these three levels can be seen as creating a context for performance, because the leader's job 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 can be more or less conducive to performance, this explains a team's performance in competition with rivals, which is directly reflected in organizational effectiveness.

Distal impact: organizational effectiveness. Although psychologists have waffled on 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 review of several studies reveals four general classes of variables that comprise a "balanced scorecard" (Kaplan & Norton, 1996) that applies to a wide range of business organizations: Productivity, finances, customer service, and human resources.

Productivity measures reflect efficiency in transforming inputs (capital, people, materials) into outputs (goods and services). This is the standard social psychology model of organizational effectiveness (Katz & Kahn, 1978). Indicators here include quantity and quality, sales per employee, and rate of innovation. Note that these measures reflect an internal perspective and overlook the fact that organizations compete against one another. Therefore, we believe a more appropriate method is to norm these variables against industry averages.

The second category of effectiveness measures concerns financial indicators. Research shows that it is important to consider two types of financial measures, market-based and accounting-based (Hirsch, 1991). Market-based measures are thought to be forward-looking because they represent perceptions of both current and potential wealth creation (Fombrun & Shanley, 1990). They reflect profitability and value to shareholders and are represented by total shareholder return (TSR), price-to-earnings ratio, and Tobin's Q ratio (market value divided by cost to replace assets). There is general agreement that market-based measures are superior to accounting data because they are less subject to manipulation (Anderson & Tirrell, 2004). Nonetheless accounting data do provide additional information relevant to organizational effectiveness (Hirschey & Wichern, 1984). Common examples include earnings per share, return on investment or assets or equity, earnings growth rates, and economic value added (EVA, operating profit less taxes and the cost of capital; Stern, Shiely, & Ross, 2001).

Customer service indices are the third category of effectiveness measures; they concern customer satisfaction, retention, and growth. Market-share is a common example of such a measure. The final category, human resource-based measures, reflects how well an organization manages talent. Indices in this group include rate of turnover, accident rates, and morale. Bench strength—the number and quality of future leaders—probably belongs here as well. Like productivity measures, customer and human resources measures should be normed to industry standards. An important point about customer 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 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 to the primary determinant of how leaders use their discretion and affect organizational performance.

Personality

It is remarkable to note how often leadership researchers talk about personality without defining the term. Moreover, these discussions routinely confuse description with explanation (e.g., domineering behavior—description—is caused by a trait for dominance—explanation). And empirical research is typically based on mini-theories of personality (e.g., trait theory) rather than more comprehensive models (e.g., psychoanalysis). We turn next to a brief overview of socio-analytic theory (Hogan 1983; 1998)—a view of personality that can inform leadership research.

Socio-analytic Theory

The theory attempts to integrate the best insights of sociology with the best insights of psychoanalysis. According to this view, personality concerns two things: (1) How we are all alike way down deep--human nature; and (2) How we are all different—which individual differences are important and how they arise. With regard to human nature, a review of sociology, anthropology, and evolutionary psychology yields two important generalizations. First, humans are social creatures; we evolved as group-living animals. Second, every group has a status hierarchy; there are people at the bottom, in the middle, and at the top, and everyone knows who is where. This suggests that the most important problems in life concern building relationships and achieving some measure of status—getting along and getting ahead. It is worth noting that effective leaders are skilled at both of these while ineffective leaders are good at one but not the other or incompetent at both (Kaplan & Kaiser, 2003).

In terms of individual differences, personality should be defined from two perspectives: (1) How people think about themselves—which is a person's identity; and (2) How others think about them—which is their reputation. Identity is a person's self-concept, the protagonist in his/her internal "novella of reality"; it is composed of personal goals, values, and strategies for getting along and getting ahead. Reputation concerns how observers evaluate his/her effectiveness at getting along and getting ahead. Identity is the "you that you know;" reputation is the "you that we know." These are very different constructs. Although you are the star in your own story, you are part of the supporting cast, or perhaps even the antagonist, in other people's stories. Freud argued that the you that you know is hardly worth knowing because you made it up to justify your self-serving goals, beliefs, and behaviors. George H. Mead (1934) suggests that it is crucial to understand your reputation—because that is the basis on which others interact with you. Although Freud was probably right about the truth-status of identity, identity is still important because it explains why you do what you do—even if your behavior is self-defeating.

Reputation is important because it describes what you do and determines some of the most consequential events 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 concerns the initial impression we make on others; it reflects our social performance when we are at our best—for example, in a job interview or on a first date. The Big Five is a taxonomy of the bright side; it reflects the common themes observers use to describe others in the early stages of a relationship

(McAdams, 1995): is the person 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)? Most of life interacting interacting with people we know; successful interaction involves knowing the worst you can expect from them.

The Dark Side

The dark side of personality concerns the impression we make when we let down our guard—when we are stressed, tired, or just don't care how we are perceived. The bright side concerns the person you meet in an interview, the dark side concerns the person you evaluate at the end of the year. There is an irony about dark side tendencies. On the one hand, they originate in strategies for getting along and getting ahead and are intended to one's agenda. On the other hand, because they rest on flawed assumptions, they are self-defeating. Self-defeating behaviors yield short-term benefits at the cost of long term losses (Baumeister & Scher, 1988). For example, confidence can turn into arrogance, creativity can become eccentricity, and tact can become obsequiousness.

This is they key to managerial failure. Bentz (1985) pioneered this topic with an interview study of derailed managers at Sears; he noted that they were typically bright, ambitious, and self-confident, but had "personality defects." Although these managers were selected through rigorous assessments, they nonetheless ended up getting fired. Subsequent researchers replicated Bentz's findings (Leslie & Van Velsor, 1996; McCall & Lombardo, 1983). After reviewing 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 patters were substantively distinct from the Big Five and resembled Bentz's (1985) "personality defects."

Personality disorders are not forms of mental illness; they are flawed interpersonal strategies that prevent managers from building a team. 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 incompetence (Hogan & Hogan, 2001). This taxonomy is presented in Table 1.

Insert Table 1 about Here

There are three points to note about these dark side characteristics. First although high scores on the 11 dimensions in Table 1 have negative consequences in the long run, they often have positive consequences in the short run. Narcissists (Bold), for example, make unusually positive first impressions. 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 an executive sample, Kaplan and Kaiser (2003) show that very low and very high levels of most performance dimensions are ineffective and that the ideal lies somewhere in between.

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

Our final point about the dark side characteristics is that they don't predict when a leader will self-destruct. Point prediction is futile. But they do capture the general themes that describe how a leader will fail. For example, Excitable leaders fail because they are emotionally volatile. Bold leaders are doomed by their arrogance and inability to learn from experience. Diligent executives micromanage and then drive off talented people. Moreover, the discretion literature suggests that these dark side tendencies will be most apparent in "weak situations", which means senior positions where there are few external controls. Leaders who become aware of their dark side tendencies can develop ways to minimize their influence (Kaplan & Kaiser, 2003). At the top of big organizations, however, money and ego militate against this.

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. It is organized around the three higher-order dark side factors.

Factor 1: Intimidation. Leaders with these dark side characteristics are often described as aloof, uncommunicative, and overbearing. Their distant leadership style can be described as disengaged or laissez faire (Kaplan & Kaiser, 2003). Their downfall is insensitivity to morale issues, emotional volatility, and failing to build bonds with their constituents. Failing to build a team is a key factor in derailment (Leslie & Van Velsor, 1996).

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. He was popular with senior management 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, stayed in his office and plotted "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' $140,000,000 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, charm, 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 their high handed arrogance (Paulhus, 1998). It is interesting to note that studies of CEO charisma show that charisma is unrelated to both accounting-based and market-based measures of firm performance, but is related to the CEO's level of compensation (Tosi, Misangyi, Fanelli, Waldman, & Yammarino, 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. Both studies, using different methodologies, 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 Hewlitt-Packard and Compaq, two computer manufacturers.

<u>Factor 3: Ingratiation</u>. 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. 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, drawn-out strategic planning processes that required 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.

Then there is the case of Douglas Ivester, the former CEO of Coca-Cola. Many believed Ivester to be the ideal candidate for 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 the key to his prior success, proved to be lethal in the CEO role. Ivester was unable to let go of the day-to-day details and focus on the bigger picture and strategic issues, forcing the board to request his resignation in 1999, not quite two years into the job.

Final Comment

We have focused on managerial derailment to highlight the dark side of leader discretion. Our analysis offers guidelines for containing the negative potential of leadership, which stems from the human tendency toward selfishness. To say people are 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?

Consider the most successful social organization to date, constitutional democracy. The framers of the U.S. constitution understood the dark side of humanity and built into their governance system a system of checks and balances designed to prevent one part of government from dominating others. Understanding the characterological sources of domination, tyranny, and selfish abuse of power puts us in a stronger position to mitigate them.

How much discretion is enough for senior leaders? It probably 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 control.

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Figure 1.

How leaders impact organizational effectiveness.

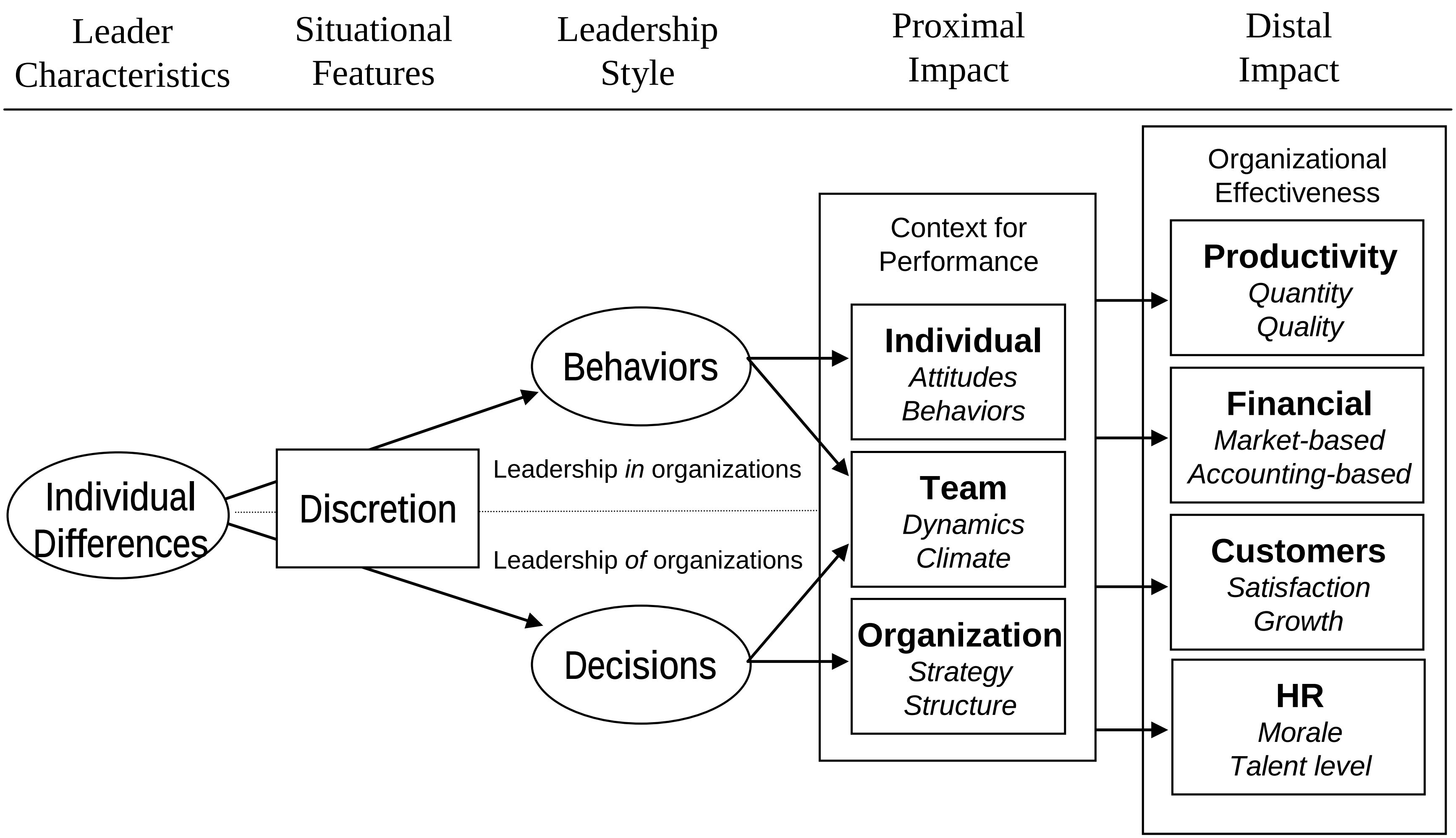

Table 1. Taxonomy of the Dark Side of Leader Personality

Higher-order factor: Motivational strategy.

Dimension	Definition	Short-term Strengths	Long-term Weaknesses
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