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## “See You in Court”: How CEO narcissism increases firms' vulnerability to lawsuits

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## ABSTRACT

Although some researchers have suggested that narcissistic CEOs may have a positive influence on organizational performance (e.g., Maccoby, 2007; Patel & Cooper, 2014), a growing body of evidence suggests that organizations led by narcissistic CEOs experience considerable downsides, including evidence of increased risk taking, overpaying for acquisitions, manipulating accounting data, and even fraud. In the current study we show that narcissistic CEO's subject their organizations to undue legal risk because they are overconfident about their ability to win and less sensitive to the costs to their organizations of such litigation. Using a sample of 32 firms, we find that those led by narcissistic CEOs are more likely to be involved in litigation and that these lawsuits are more protracted. In two follow-up experimental studies, we examine the mechanism underlying the relationship between narcissism and lawsuits and find that narcissists are less sensitive to objective assessments of risk when making decisions about whether to settle a lawsuit and less willing to take advice from experts. We discuss the implications of our research for advancing theories of narcissism and CEO influence on organizational performance.

*USA Today reported that Trump and his businesses have been the targets of at least 3500 actions in federal and state courts during the past 30 years.*<sup>1</sup>

If any single individual is to influence an organization, it is most likely to be the person in charge, or the CEO. One CEO attribute that appears to significantly influence organizational performance is the extent to which the leader is narcissistic, a collection of attributes related to overconfidence, feelings of personal superiority and entitlement, a desire for power and admiration, a willingness to manipulate others for personal gain, and hostility when challenged (e.g., Brummelman, Thomaes, & Sedikides, 2015; Campbell, Hoffman, Campbell, & Marchisio, 2011; Grijalva, Harms, Newman, Gaddis, & Fraley, 2015a). A growing number of studies have examined how a CEO's level of narcissism influences a variety of organizational outcomes (e.g., Chatterjee & Hambrick, 2011; Gerstner, Koenig, Enders, & Hambrick, 2013; Grijalva & Harms, 2014) such as firm strategy (Chatterjee & Hambrick, 2007; Zhu & Chen, 2015) and performance (e.g., Olsen, Dworkis, & Young, 2014; Patel & Cooper, 2014; Wales, Patel, & Lumpkin, 2013). But a growing body of evidence suggests that narcissistic CEOs can create serious problems for their

organizations.

These findings typically cluster in the domain of ethics, suggesting that being a narcissistic leader may increase a firm's propensity to engage in ethically tenuous activities. For example, CEO narcissism is related to higher levels of corporate tax avoidance (Olsen & Stekelberg, 2015), accounting data manipulation (Ahmed & Duellman, 2013; Judd, Olsen, & Stekelberg, 2015; Frino, Ming Ying, Mollica, & Palumbo, 2015; Hales, Hobson, & Resutek, 2012; Ham, Seybert, & Wang, 2017; Hsieh, Bedard, & Johnstone, 2014), excessive compensation (O'Reilly, Doerr, Caldwell, & Chatman, 2013) and potential fraud (Rijssenbilt & Commandeur, 2013; Schrand & Zechman, 2012). Such activities can be subtle but can also be precursors to significant declines in organizational performance and reputation (e.g., Duchon & Drake, 2008; Verschoor, 1988).

To investigate their potential negative impact, we explore whether narcissistic CEOs, by virtue of their enhanced sense of overconfidence, reduced willingness to take advice from experts, and propensity to become hostile and competitive when challenged, subject the organizations they lead to undue legal risk. Given the disruption and turmoil caused by being entangled in significant and protracted litigation (e.g., Marshall, Picou, & Schlichtmann, 2004; Trubek, Sarat,

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<sup>1</sup> Penzenstadler and Page (2016). “Trump's 3500 lawsuits unprecedented for a presidential nominee.” *USA Today*, June 2. By way of base rate comparison, the authors compared Trump to five other comparable real estate firms. Trump's organization was involved in more lawsuits than the other five combined.

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Felstiner, & Kritzer, 1983), and the propensity of narcissists to participate in processes that have clear winners and losers (Raskin, Novacek, & Hogan, 1991), it is important to understand the relationship between narcissistic leaders and their willingness to involve the organizations they lead in legal disputes. From a theoretical perspective, exploring this link allows us to gain insight into narcissists' systematic biases including overconfidence and a general disinterest in expert advice. By isolating these underlying mechanisms, our paper contributes to a more fine-grained behavioral insight into how narcissistic CEO's affect their organizations. Specifically, narcissistic leaders' stance on litigation may be particularly harmful to organizations because of their tendency to make more aggressive and riskier decisions when challenged, making their decisions about engaging in and prolonging lawsuits less rational and more costly for the organizations they lead. Second, a better understanding of narcissists' propensity to engage in litigious behavior will enable organizations and boards to more accurately calibrate the potential costs of hiring or promoting narcissistic leaders, particularly at senior levels.

Therefore, we conducted a field study (study 1) in which employees evaluated their CEO's level of narcissism, and found that CEO narcissism is related to increased levels of corporate litigation. We then conducted two experimental studies to elucidate the mechanisms underlying this relationship. In the experimental studies, we offer more insight into the findings from the field study by showing that narcissists are more likely to engage in the underlying legally questionable behaviors that may trigger a lawsuit and that narcissists' decisions about settling lawsuits are less affected by objective estimates of the financial and reputational costs of a lawsuit than are those lower in narcissism – even when participants may suffer a personal loss. Overall, these results suggest that narcissistic CEO's level of overconfidence can lead them to involve their organizations in lengthy and damaging litigation. We discuss the implications of our findings for advancing theories of narcissism and CEO influence on organizational performance.

### Narcissism and leadership

Recent research on narcissism has proceeded along two streams (e.g., Miller, Lynam, Hyatt, & Campbell, 2017; Rose, 2002; Wink, 1991). One stream has focused on what is referred to as vulnerable or clinical narcissism, which is characterized by anxiety, a fragile self-concept, and low self-esteem (e.g., Ackerman, Hands, Donnellan, Hopwood, & Witt, 2017; Rohmann, Neumann, Herner, & Bierhoff, 2012). Vulnerable narcissism, sometimes referred to as “covert,” “maladaptive,” or “pathological,” emphasizes defensive self-presentation tactics stemming from low-self-esteem and a more introverted nature (e.g., Clarke, Karlov, & Neale, 2015; Hart, Adams, Burton, & Tortoriello, 2017).

In contrast, a larger body of research, and the focus of our paper, has focused on grandiose narcissism—a more assertive and extroverted form characterized by high self-esteem and dominance. Grandiose narcissism is a well-documented, stable individual difference characterized by a sense of personal superiority and entitlement, grandiosity, overconfidence, low social empathy, a willingness to manipulate others, and hostility and aggression when challenged (e.g., Blinkhorn, Lyons, & Almond, 2016; Campbell, Reeder, Sedikides, & Elliott, 2000; Guedes, 2017; Nevicka, De Hoogh, Van Vianen, Beersma, & McIlwain, 2011; Penney & Spector, 2002). Although the construct of grandiose narcissism is multi-dimensional, there is a lack of a clear consensus among researchers about what the lower order sub-factors might be (e.g., Brown, Budzek, & Tamborski, 2010; Clarke et al., 2015; Emmons, 1987; Wright, 2016). There is, however, consensus that the construct itself can be assessed as a global measure (e.g., Ames, Rose, & Anderson, 2006; Konrath, Meier & Bushman, 2014; Raskin & Terry, 1988). Although there is some overlap between the two types of narcissism, evidence suggests that they assess distinct constructs (Hart et al., 2017; Krizan & Herlache, 2017; Maxwell, Donnellan, Hopwood, & Ackerman,

2011).

In terms of the Five Factor Model of personality, research has shown that grandiose narcissists are more extroverted and less agreeable (Brown, Budzek, and Tamborski, 2010; Brown, Sautter, Littvay, Sautter, & Bearnes, 2010; Holtzman, Vazire, & Mehl, 2010; Paulhus & Williams, 2002; Saulsman & Page, 2004; Vazire, Naumann, Rentfrow, & Gosling, 2008), more sensitive to obtaining rewards, and less sensitive to being punished (Foster, Reidy, Misra, & Goff, 2011; Foster & Trimm, 2008; Patel & Cooper, 2014; Vazire & Funder, 2006). Using large samples ( $N = 11,937$  and  $N = 4433$ ) Leckelt, et al. (2017) confirmed that two subscales of narcissism (rivalry and need for admiration) were positively associated with extroversion and negatively related to agreeableness. Consistent with Paulhus and Williams (2002), they also report that narcissism is positively associated with openness to experience.

Because the Big 5 does not easily discriminate between various antisocial tendencies, research using an alternative personality inventory, the HEXACO (Ashton & Lee, 2007), has also corroborated and refined these findings and shown that narcissism is also associated with psychopathy and Machiavellianism (Lee & Ashton, 2014). Research on the so-called Dark Triad (Machiavellianism, psychopathy, and narcissism) has linked narcissism to sexual aggression (Zeigler-Hill, Besser, Morag, & Campbell, 2016) and counter-productive work behaviors like theft and abusive behavior (e.g., Grijalva & Newman, 2015; O'Boyle, Forsyth, Banks, & McDaniel, 2012). Interestingly, Lee and Ashton (2005) find that their measure of Honest-Humility is correlated with all three measures of the dark triad and argue that this correlation cannot be explained by the FFM.

Consistent with these findings, other studies have shown that narcissists are lower in integrity than are non-narcissists, more likely to engage in unethical behavior, and have personalities similar to psychopaths (Blickle, Schlegel, Fassbender, & Klein, 2006; Brown, Sautter, et al., 2010; Mumford, Connelly, Helton, Strange & Osburn, 2001; Paulhus & Williams, 2002; Rauthmann, 2012). Narcissistic leaders have also been found to engage in more aggression and bullying toward their subordinates (Bushman & Baumeister, 1998; Michel & Bowling, 2013; Twenge & Campbell, 2003), and, as a result, subordinates are more frustrated and tense, and have lower morale (Hochwarter & Thompson, 2012).

In spite of these clear downsides, some researchers refer to narcissistic leaders as a “mixed blessing” because evidence also shows that those high on narcissism are often seen as more attractive on first impressions (Back, Schmulke, & Egloff, 2010), and are more likely to emerge as leaders (Brunell et al., 2008; Harms, Spain, & Hannah, 2011; Nevicka, Ten Velden, De Hoogh, & Van Vianen, 2011). Narcissist's behavior, combining self-confidence and extroversion, is often seen by others as prototypical of leaders. Interestingly, several studies show that although narcissists rate themselves highly as leaders, more objective ratings (e.g., from peers and supervisors) suggest that narcissism is negatively associated with actual leadership performance (e.g., Blair, Hoffman, & Helland, 2008; Judge, LePine, & Rich, 2006). For example, leader narcissism actually inhibits information exchange among group members and negatively affects group performance (Nevicka, De Hoogh, et al., 2011; Nevicka, Ten Velden, et al., 2011). Other studies note that narcissism exists on a spectrum, suggesting that the relationship between narcissism and performance is curvilinear, with healthy “middle” levels of narcissism contributing to performance (Grijalva et al., 2015a; Harms et al., 2011; Krizan & Herlache, 2017). It is at very high levels that narcissism has significant downsides. In a review of narcissism in organizational contexts, Campbell and his colleagues noted, “leadership positions are a natural venue for achieving narcissists' needs for self-enhancement and superiority” (Campbell et al., 2011, p. 273).

Narcissists have also been found to be charming, impulsive, and risk seeking (Campbell, Goodie, & Foster, 2004; Foster, Shenesey, & Goff, 2009; Vazire & Funder, 2006), as well as to show more confidence and

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