

**RSM Tenon**

# Psychopaths in the Boardroom

RSM Tenon in discussion with  
global heads of risk and audit



## Introduction

It can be difficult to distinguish between a bold, consensus-driven and charismatic leader and a grandiose, manipulative and superficially charming psychopath. We look to Board Directors to act as checks on each other, yet we can all think of recent cases where Chief Executives have been allowed to destroy shareholder value by Directors who felt unable to challenge the strategy.

Governance practices in many organisations continue to mature as risk management, compliance and assurance structures, policies and processes are embedded across business activities. However, the influence of human behaviour on the system of internal control is only starting to be the subject of greater focus despite widespread recognition of its route of influence.

Psychopathy is one area of behaviour that is starting to receive greater prominence. The participants expressed views that confirmed that psychopathic behaviour and the impact this may have on business is little understood and at present largely unaddressed:

**“Surely psychopaths are easy to spot – we all know one, don’t we?”**

**“Are not all good leaders psychopaths – how do we tell the difference?”**

**“Is it not the organisational culture itself that creates psychopathic behaviour?”**

**“Negative Board behaviour has a direct impact on business performance”**

**“From a risk perspective – it’s in the too hard tray”**

**“I’m an auditor, not a psychologist – what role can I play?”**

We sought to better understand psychopathy risk, its potential impact on business performance and the practical steps open to Heads of Risk and Audit to manage it.

## What is psychopathy?

Psychopathy is a disorder of the personality where traits in an individual can include: manipulation, grandiosity, callousness, a lack of remorse or empathy, a failure to accept responsibility, seeking stimulation, a lack of realistic goals and poor behavioural controls. Studies estimate the prevalence of psychopathy in the general population is at 1%.

However, psychopaths do not display the ‘usual’ symptoms of mental illness and often outwardly appear normal. They may even display desirable human characteristics such as charm, self-confidence, sociability and charisma. Psychopaths can operate very successfully within organisations and often go unnoticed.

## Psychopathy in business

Key attributes of good leadership are often similar to those exhibited as attributes of psychopathy (see Table 1) but it is the darker side that has the potential to influence organisational culture, governance and performance.

Psychopaths can prosper in business, seeking out fast-paced, transitional organisations that can offer high potential for power and reward, a stimulating environment and cover for their dubious actions. Several studies have found high levels of psychopathy in executives. Babiak & Hare (2006) found of 200 high profile executives, 3.5% fit the psychopathic profile – three times the rate for the general population. There is a higher than average chance that psychopaths exist in any large organisation.

This suggests that psychopathy does not hinder a business career. Indeed, the delegates questioned whether business practices in many organisations were themselves partly to blame for creating an environment in which psychopaths can flourish. Psychopaths will climb the corporate career ladder in an organisation, exploiting weaknesses, until found out and then move to climb in the next organisation.

## Mistaking psychopathy for great leadership

Holly Andrews argued that the higher psychopaths may rise in the organisation, the more psychopathic their behaviour. Given the traits below it is easy to confuse good leadership with psychopathic behaviour.

**Table 1**

Leadership trait	Psychopathic trait
Charismatic	Superficial charm
Self-confident	Grandiosity
Ability to influence	Manipulation
Persuasive	Con artist
Visionary thinking	Fabrication of intricate stories
Ability to take risks	Impulsive
Action oriented	Thrill seeking
Ability to make hard decisions	Emotional poverty

## How does psychopathy affect business?

Psychopaths do not necessarily result in failure - theoretically, an organisation could find a psychopath that it could 'harness'. However, problems occur where the organisation's interest and the psychopath's self-interest diverge. Some delegates said that even in the absence of psychopathy, bad behaviour in the boardroom can have a negative and significant impact on the success of the organisation and its system of governance. So how does such behaviour affect business? A number of key themes emerged from the debate.

### Poor decision making

Grandiosity and self-interest in psychopaths can influence the balance of judgement needed for effective key decision making. Where psychopaths operate in positions of power, a dominant CEO for example, there is a tendency to favour self-interest and ignore the consensus view of the majority. Our dominant CEO will show little remorse for their poor decision making and may fabricate the truth to ensure blame is passed on elsewhere. This can have a damaging impact on those concerned and on the organisation as a whole.

### Reckless risk taking

There is evidence that psychopaths have deficiencies in their brain function that mean they react very differently to risks. For example, in a test<sup>2</sup>, psychopaths were told that choosing a certain option would give them an electric shock but showed little or no fear response to this. They are also less able to understand the impact and consequence of wider risks outside the immediate task.

A psychopath may be more likely to take risks and less likely to manage those risks well. So, for example, if they run a subsidiary, they may unwittingly accept risks that are not aligned with the overall risk appetite of the organisation. Their self-interest and lack of loyalty can result in financial risks, reputational risks due to exposure to negative behaviours and culture and sustainability risks as talent is lost or not developed and no clear succession plan is created. Whether evidence of psychopathic behaviour or not, delegates all quoted seemingly reckless risk taking observed from the business press.

### Accountability, responsibility and ethics (culture)

We can all think of examples of leaders who have not taken responsibility for the outcomes of the decisions they took. Pursuit of profit or market share can override concerns about how the goal is achieved, so psychopaths leading parent companies may not question psychopaths leading subsidiaries about their methods, even in the face of evidence of unethical activities.

Without wishing to suggest that psychopathy is in any way involved in the recent troubles at News International, it does provide a good example of the problems that can be caused when individuals within organisations are able to act on the basis that 'the end justifies the means'. In just a few days, public pressure following media reports of endemic phone hacking activity at the News of the World led to the loss of several key individuals including the Group Chief Executive, the complete closure of the News of the World subsidiary - the UK's most popular newspaper - and the end of their planned bid for British Sky Broadcasting.

### Managing and retaining talent

Psychopathic behaviours can make it difficult for organisations to retain and develop talented individuals. Succession planning is a difficult issue for many organisations but where the key person in question is a psychopath, the problem is compounded as their self interest will make them see any potential successor as a threat to be neutralised, rather than a protégé to develop. This, together with their manipulative and impulsive traits, can make them so difficult for those lower in the hierarchy to work with that it can lead to a mass staff exodus and difficulty recruiting replacements.

### Reduced performance

Psychopaths are not loyal to their organisations, so they only work well when the interests of the business are closely aligned with their own interests. Where the two diverge, the psychopath may not work effectively or may become actively disruptive.

Organisational cultures that are strongly influenced by psychopathic behaviours can suffer from dramatically reduced performance. Managers will not be encouraged to actively supervise their teams, leading to employee dissatisfaction and lower productivity. Individuals may find it harder to form effective teams across departmental boundaries. Where ethical standards and corporate responsibility is low, employees will feel less pride in the company and may be less willing to 'go the extra mile' to achieve corporate objectives.

<sup>2</sup> Source: ROBERT D. HARE (1965) PSYCHOPATHY, FEAR AROUSAL AND ANTICIPATED PAIN. Psychological Reports: Volume 16, Issue , pp. 499-502.

## What can be done to manage the risk?

### Education and vigilance

There is clearly a need to educate Boards and Executive Management about the increased incidence of psychopaths in senior positions within businesses and the distinction between leadership and psychopathic behaviour traits. It is important that we avoid the temptation to go hunting for psychopaths - we should be mindful of events such as the Salem witch hunts and remember that humans have a remarkable capacity to find what they are looking for, regardless of whether it is actually there.

Instead, Boards and Executive Management should better understand the ways psychopaths will behave and ensure that they are vigilant in preventing individuals at any level taking undue risks or excessively affecting corporate culture. The reaction of departments within organisations to being told that they may be audited is often a telling sign of whether people within that department are behaving in a way that is consistent with psychopathic tendencies. When people kick up a fuss, it is often sensible to make the audit more thorough than would otherwise be necessary.

### Recruitment

Psychopaths may be more likely to move between firms due to their lack of loyalty and disruptive tendencies, therefore organisations should ensure their recruitment processes enable them to identify and avoid potential psychopaths. Although ratification of Board members is outside the remit of Internal Audit, it is essential that auditors are able to review and influence the process by which they are chosen.

There are some simple steps organisations can take to improve their recruitment processes. Psychopaths will be very charming, so interviewers should be encouraged to take notes and review them to look for contradictions. Panels are more difficult to influence than individuals, so at least one interview stage should involve multiple interviewers to guard against manipulation.

Many organisations employ psychometric testing as part of their candidate assessment processes for many staff and management positions but delegates observed these same tests are not often used when appointing Board or senior management roles. Some form of 'behavioural assessment' was considered by delegates as a possible mitigation.

### Appraisal

Psychopaths will often behave very differently with those they perceive as equal to or above them in the hierarchy, versus those they see as beneath them. 360 degree feedback processes will enable managers to see these two sides - but they should not be able to control who provides their feedback as they will select their 'yes men'. However, this also poses problems. To ensure that the process is fair and objective and respondents feel able to share their true views, a proportion of the people selected to give feedback about their superiors should be decided randomly, and all identities should be kept anonymous.

Evidence of personality disorders can sometimes come to light when analysing discrete projects so it can be advantageous to include end-of-project feedback in the appraisal process. For example, the way a psychopath presents themselves and their achievements to new project teams may not be supported by their actual career history; or excessive risk taking or impulsive decision making might become apparent.

### Risk and governance

The Board must ensure it has defined and communicated its risk appetite and has appropriate policies in place to ensure managers are not able to take on inappropriate risks. It should also run regular cultural audits to make it clear that challenging psychopathic behaviours at all levels is of utmost importance to the organisation's success.

This draws attention to a vulnerability to psychopaths that many companies have - psychopaths are more likely to do damage when the board does not have full oversight of all aspects of the business.

Key principles of good corporate governance include honesty, trust, integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization. In particular, senior executives should conduct themselves honestly and ethically, especially concerning actual or apparent conflicts of interest, and disclosure in financial reports. These are not compatible with psychopathic behaviours and organisations that practice good corporate governance will make themselves unwelcoming to psychopathic individuals.

## The role of the risk and IA function

Cultural audits present real issues for Heads of Audit and Risk. Some delegates asked whether it is appropriate for internal auditors to make psychological diagnoses of employees and ask managers to act on them. Others asked whether as a discipline we have the necessary skills to collate and analyse the wide breadth of corroborative evidence from various sources to identify those behaviour traits.

There was also a question around independence and conflicts of interest as they may be paid by or report into the individual they identify as a psychopath. Given what we know about their behaviours, it is unlikely that the internal auditor would be able to raise their concerns or, if they did so, that it would result in a constructive outcome. Some delegates reported that they had occasionally employed business psychologists to address these issues, but results had been mixed.

Even if internal auditors are not expected to be psychologists, they have a responsibility to keep their ears open, and report incidents that could potentially be the result of psychopathic behaviour to the responsible authority.

Identifying psychopaths and mitigating against the damage they do requires a different skill set from that normally used by auditors. It is important that people throughout organisations learn about appropriate behaviour as well as about policies and procedures and that the wider business culture is perceived to be as important a part of governance and control as formal group-wide policies and compliance with governance requirements.

### Building the psychopath-free boardroom

As the impact of personality traits on corporate governance becomes better understood, behavioural science will be as influential as performance culture. Many of the behaviours we have discussed are not confined to psychopaths and good corporate governance and risk management means being alert to the possibility of 'dark' activity from any individual.

As risk management and internal audit leaders, we have roles to play in educating the senior team and the wider organisation, and in helping to assess and improve processes around recruitment, appraisal, governance and risk awareness and management. We must be mindful of the mistakes and personality traits that can undermine the governance processes we put in place. After all, our policies and procedures are only ever as good as the people who follow them.

## About the author

Simon has over 25 years industry and consulting experience in risk management, governance and assurance.

Simon has been Head of Risk at NEST, TNT and the AA during his career and led a 'Big 4' practice where he has worked across industry to provide advice to clients that were seeking an improved return on governance and risk management investment.

He has developed and implemented risk management frameworks, methodologies and strategies and has sat on a number of client Risk Committees as an independent advisor.



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