
Taming Narcissus:

Managing Behavioural Risk in Top Business Leaders

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Introduction: Behavioural risk and the challenge for Boards

Many business leaders have strong and distinctive personalities. Their effectiveness may be based on unusual levels of self-confidence, drive and resilience. But having reached the top of the ladder – and in particular when they have achieved real success for which they are widely lauded – there is a growing risk that over time the very attributes that have been the foundations for their achievements can turn into destructive tendencies.

We can all think of examples of leaders who have become certain of their own invincibility, who have stopped listening to their colleagues or who have become overly focused on the trappings of power and high office. At its most extreme, they may even demonstrate narcissistic or delusional behaviour.

This study outlines the dangers of allowing business leaders unfettered power. It explains how over-powerful Chairmen or Chief Executives can become destructive, and recommends steps for Boards to minimise the risks for the companies they oversee.

The risk: The corrosive effects of power and success

The corrosive effects of the exercise of power on the behaviour of the powerful are well documented in political history. It is less discussed in the business world. But it is now clear that the dangers of corrosive power – recognised in politics for so long – are increasingly relevant to the Boards of leading corporations.

Allowing too much power to rest in the hands

of an individual or a small group of individuals, for too long a time, is to invite results that will range from the deeply inequitable to the downright dangerous. However good a leader's intentions may be, it is power itself that corrupts. As Thomas Jefferson put it, *"experience has shown that even under the best forms of government those entrusted with power have, in time, perverted it into tyranny"*. Edmund Burke saw a direct correlation: *"the greater the power, the more dangerous the abuse"*.

Senior business leaders have been rewarded with career success for developing certain capabilities: delivery of results, focus, drive, the ability to influence, the ability to adapt and to embrace and deliver change. Thriving in the business environment also typically requires determination, resilience, decisiveness, a great deal of self-confidence and ambition. These are all good things and the behaviours that support them are precisely those that will have propelled someone to the top of the tree. The boardroom is no place for shrinking violets or those that lack authority.

Unfortunately it is precisely those with great self-confidence who are most subject to hubris. It is the determined and decisive who will drive through bad decisions, brooking no opposition. It is those who are unafraid of risk who will take one that is too big. It is the ambitious who will not tolerate what they see as threats to their power. It is those with great influencing skills who can persuade a Board to do something foolish. It is the very clever who will not listen to home spun common sense. It is high flyers

“The greater the power, the more dangerous the abuse”
Edmund Burke

who have moved on so far so fast that they have never had to experience the legacy effects of past actions. It is the feted leader who becomes delusional and vain, believing in his own myth, believing he is really worth his remuneration package.

The risks associated with too much power are exacerbated by the environment that business leaders find themselves in. When one becomes CEO everything changes. Powers of internal and external patronage are greatly extended – not only to people but also in relation to ideas. The likely effect of this on the ego is toxic. Given these fertile conditions it only remains for the CEO to become successful for behavioural risk to be crystallised. The clearest examples of destructive behaviour in business leaders kick in after five or more years of success.

The behavioural risks associated with the assumption and exercise of power is of pivotal relevance to the modern boardroom. The CEO or Chairman of a large company is in a position of great power and great responsibility. It is clearly dangerous if they start to behave in a manner that is deluded and self-interested. A power-hungry and arrogant Chairman can destroy a Board, erode the confidence of shareholders and cause a business to lose strategic direction. A CEO suffering from delusions of grandeur, led on by advisers, feted by the media and cheered on by shareholders who confuse speculative upward momentum in a share price with long term value, can destroy the business altogether.

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The fates of companies such as Marconi, RBS, WorldCom and Enron and the strong linkages with the behaviour of their leaders are well known. They tell us that misguided and over-dominant leaders are dangerous. But there are many other less spectacular examples of the destruction of shareholder value which result from some combination of hubris and arrogance on the part of the executive team. Some involve large acquisitions or misguided expansion into new markets as leaders pursue one last defining deal (too far). Others more subtly involve the gradual hollowing out of management talent under the corrosive influence of an over dominant CEO, neglecting leadership in favour of the pursuit of status.

The challenge for Boards

Leaders whose behaviour has become distorted can do untold damage to their businesses. And yet Boards can find it hard to spot and even harder to deal with leaders, apparently at the height of their powers and often with glowing external reputations, whose influence is becoming increasingly malign.

Wisdom with the benefit of hindsight is easy, as the outcomes are known. It is a different matter to confront the issue at the point when risks begin to crystallise. It is hard to judge when those attributes that make a leader effective trip over a red line and become dangerous and destructive. The complexity lies in the fact that ‘bad’ behaviours are not diametrically opposed to ‘good’ – they exist side by side, on the same continuum. Diagnosing the issue and addressing it before it becomes a crisis is not an easy matter.

When problems emerge, it is all too easy to do too little, too late. No-one likes to disrupt the status quo. Quirks of leadership are tolerated as part of the package of success. The risks of challenging the rogue leader are clear and great, whilst the rewards are uncertain. Managing behavioural risk requires great self-awareness and self-discipline on the part of business leaders, who must remain effective while guarding against excess. But ultimately it is up to the Independent Directors, and especially the Chairman, to be alert to the

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warning signs and to deal with issues. Boards are undoubtedly increasingly professional bodies, investing detailed efforts both through their Risk Committees and as a full Board to understand and address all elements of financial, operational and reputational risk. And yet this key element of behavioural risk can easily go unaddressed. Boards all too often seem to lack the focus, the tools and the confidence to surface and address these critical but complex and sensitive human leadership issues.

Research scope and key conclusions

In this context, MWM has sought to develop a practical set of insights and advice to help Boards tackle behavioural risk with greater confidence and effectiveness. To develop these insights, we have spoken at length to over 80 seasoned Chairmen, CEOs and Board Directors to explore their own experience (successful and unsuccessful) of spotting and addressing these challenges, whilst drawing on our existing perspectives from observing Boards and leaders close-up and synthesising learnings from a range of external and academic studies. Together our interviewees brought over 2,300 years of experience from over 400 Boards from 21 countries around the world.

Every individual we spoke to in the research recognised the risks of senior business leaders 'turning rogue' and most had a number of examples from their own experience that they were prepared – off the record – to share in colourful detail. Whilst the risk is greatest with CEOs, it is not unique to them: examples were also provided of Chairmen and other top executives whose behaviour proved deeply damaging. This document highlights a number of cases already well-reported in the public domain. These are very much the tip of the iceberg, rather than exceptional situations.

Whilst some respondents mused that in recent years the risk may have receded slightly as the focus on 'celebrity CEOs' has diminished somewhat, there was universal agreement that watching out for and dealing with behavioural risk was a vital and undermanaged task for Boards.

Our research highlighted five major insights on the challenges faced:

The existence of behavioural risk is not a negative reflection per se on the individuals who rise to the top of businesses. Rather it is the flip side of the traits (drive, focus, ambition, self-confidence, persuasiveness) that have probably propelled them into such a leadership role in the first place.

The ingredients for behavioural risk exist in the Boardroom and 'C suite', and they become more prevalent as the incumbent's powers of internal and external patronage grow dramatically to embrace ideas as well as careers. They join a peer group of high status business leaders and senior professional advisers and their sense of self-worth is enhanced by the financial rewards they receive.

Risks typically grow the more successful an individual is, with advisers and colleagues increasingly taking on the roles of comrades in arms or courtiers. The individual's apparent success is reaffirmed continually in a loop of positive feedback, which is reinforced by the exclusion of dissent and dissonance.

There are recognisable warning signs to watch out for, classically including: greed in things small and big and a conflation of personal and corporate interests; an over concern with public profile and an increasing time spent on external activities and conferences; a 'hub and spoke' leadership style; over-sensitivity to Board contact with the executives in the business; looking outwards to advisers and other business leaders for validation and

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an absence of contrary voices; disdain for effective succession planning and the leakage of executive talent; and distorted thinking and decision-making.

Boards face three key barriers in dealing with the risks effectively: lack of *consciousness* or awareness of the risks, focusing too much on monitoring performance trends and being consciously or unconsciously blind to the underlying behavioural dynamics that provide a leading indicator of future success; lack of *confidence* in judging when a tipping point had been reached – as one Chairman put it, “not every headache is a brain tumour”; and lack of *courage* to tackle the problem, when external voices amongst investors and the media will often be praising the leader long after the point where he has become a destructive force and addressing the issue may lead to short-term disruption and opprobrium.

Whilst dealing with behavioural risk will never be easy, our research underlined five key practical themes on which Boards should focus to help meet these challenges:

Start on Day One - prevention is better than cure: The best defence is to prevent the behaviour of CEOs from becoming a problem in the first place. That involves having explicit conversations with new CEOs on the risks and how to mitigate them, the Chairman setting clear behavioural ground rules up front and tackling any ‘minor’ abuses clearly and early to reinforce what is expected.

Build the right Board foundations: The Boards best placed to deal with any potential problems are the ones that have the right foundations: a Chairman with the independence, skills and

character to keep the CEO in check; a group of Directors with the experience and confidence to highlight and address concerns; and healthy Board dynamics, reinforced by an open and constructive programme of Board Reviews.

Develop sharply attuned organisational antennae: The Board must be attuned to picking up signals on the underlying behavioural dynamics in the business. The Chairman, especially, but also the Independent Directors need to have frequent and direct access to the broader Executive team; they need to know the potential danger signals to be alert to. They must have the skills to spot those signals and demonstrate the judgement to assess when a tipping point may be nearing.

Put behavioural risk explicitly on the Board agenda: Behavioural risk needs to be a standard agenda item. This can be achieved through a regular rhythm of Independent Director-only meetings or discussions that cover the topic (rather than making it an ‘exceptional’ issue, discussed only in extremis). Meanwhile, annual Chairman and CEO reviews should be broad in scope – focused not just on performance outputs but also behaviours – and especially vigilant as tenure in role increases.

Never shirk effective succession planning: The Board needs to be continually focused on effective succession planning and to have a clear sense of how it would replace its Chairman or CEO. This fundamental in giving the Board the confidence to act if necessary, whilst the Chairman or CEO’s willingness to engage fully and constructively in the dialogue is one key indicator of whether or not he has ‘turned rogue’.

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1. Behavioural risk: causes, symptoms and cases

Good leaders often go bad. This simple truth was repeated to us by almost everyone we spoke to in our research, and illustrated by a range of colourful stories from their experience. This is not of course unique to the world of business; indeed, it is arguably even more true in other walks of life such as politics. And it is by no means an issue that manifests itself only in CEOs, although their unique importance and profile in the business amplifies the risks considerably. (In this document, we refer for convenience primarily to CEOs but the lessons apply equally to other senior business leaders too).

Awareness of this risk is of course the first step towards dealing with it effectively – and we all share a fascination for the most infamous cases where things went wrong; we have summarised a number in the following pages. However, our research provided important and more concrete insights about why problems often occur – on the triggers that can turn a highly successful leader into a dysfunctional one – and on the symptoms or warning signals that indicate that behaviour is getting distorted.

1.1 The causes: why do good CEOs go bad?

No-one consciously appoints a CEO whose behaviour is dysfunctional. The examples that we explored in the research were always of individuals who had notable successes in the early years of their tenure, whether in leading strategic transformation of their companies or driving a performance turnaround, for example. So what goes wrong? Five themes emerged as the main triggers for unleashing dysfunctional behaviour:

The risks are always there: By and large, CEOs are not entirely ‘normal’ people: to aspire to that role and to reach it, they are likely to have unusual levels of drive, ambition, ego and self-confidence. *“Many great leaders have a degree of charisma and genius that borders on madness”*, observed one seasoned boardroom operator; *“you have to be a little bit quirky to be a CEO...Narcissus lies in all of us”*, suggested another. Few of the people we spoke to believed that Boards were wrong to appoint such strong and spiky characters to the CEO role. But all agreed that it was important to recognise that it is the very characteristics that make CEOs

successful that can make them dysfunctional and that risks are therefore latent in many.

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Risks are exacerbated by the nature of the role: These latent tendencies are undoubtedly exacerbated by the nature of the

CEO role. In the modern ‘always-on’ culture, the position brings relentless pressures and demands which bring the risk of stress and exhaustion. As one former CEO commented, *“the intensity of the role is draining and that can distort behaviour”*. Equally, it is hard for the CEO to retain a sense of perspective. From the moment of appointment, the dynamics of relationships change and the CEO is likely to receive less honest and open feedback. Moreover, he will be surrounded by the accoutrements of office which serve to make it tougher to stay in touch with reality. One Chairman observed wryly that *“the environment encourages the CEO to assume the godlike status of high office”*. Another suggested that *“the power of high office can make a monster out of someone apparently reasonable”*.

Success has a corrosive effect: The risks of a CEO turning into an uncontrollable narcissist are dramatically increased by success. At appointment, most CEOs have a degree of uncertainty that encourages them to listen carefully to the input of others, but this can dissipate quickly if the business does well. Confidence can tip over to arrogance. *“It’s hard not to start believing your own PR and concluding that you can walk on water”*, reflected one CEO, whilst another added that *“it’s easy to believe that the success is all down to you – confusing coincidence with causation”*. Convinced of their own brilliance, CEOs can stop listening to others, develop a greater appetite for the high-risk bold moves and become increasingly intolerant of dissent. *“If you feed the beast with too much success, it can get out of control”*, concluded one Board veteran.

But fear can be equally debilitating: If extreme success is extremely dangerous, then fear can also be an important trigger for dysfunctional behaviour. *“When the stardust dims and the CEO is under real pressure, his worst characteristics may come to the fore”*, suggested one interviewee. Similarly, when CEOs (or indeed Chairmen) feel they are approaching the end of their likely tenure, then *“the fear of retirement can induce very odd behaviour”*, as one experienced Independent Director put it. The often unspoken desire to delay the moment of departure or to seek to ensure their ‘legacy’ is secured can all too easily distort both thinking and actions.

The risks increase significantly with time: Finally, it is undoubtedly true that the risks of

dysfunctional behaviour increase dramatically over time. There can be no rule on the optimal tenure for CEOs but our interviewees universally acknowledged that with time in role comes greater danger. As CEOs progressively get more out of touch with changing realities, more convinced of their own brilliance, more dominant with the business and the Board or more wedded to the power and status of the role. For most, the risks seemed to increase substantially after five or six years in position. *“Everyone’s natural tendency is to stay too long”*, mused one Chairman, whilst another concluded that *“CEOs have a shelf-life; the longer that tenure is, the more carefully the Board needs to ask questions about performance and behaviour”*.

1.2 The symptoms: what are the danger signs?

Understanding when a CEO’s behaviour has crossed the line and is creating unacceptable risks to the business is not a precise science. What is acceptable behaviour in one context might be totally unacceptable in a different one; equally, what might be an ingrained element of one CEO’s psyche and core to his effectiveness might be an indicator for another that delusional behaviour was setting in. Nevertheless, there are a number of symptoms – seven potentially ‘deadly sins’ – that should give increased cause for concern, especially when a CEO is demonstrating several of them and where clear changes in behaviour over time are visible:

Grandiosity and greed: One important warning sign is when a leader starts to become overly

concerned with the trappings of office, to lose sight of what is reasonable and to conflate business and personal interests. In many of the most celebrated cases, the CEO's descent into delusion has been accompanied by lavish Head Office redesigns, extravagant and self-serving expenditure, a growing and unreasonable concern with personal rewards and a willingness to flout general corporate policies. Tales abound of \$50,000 waste paper baskets and bespoke furniture being acquired, corporate jets being used for personal reasons when company-wide travel bans are being imposed, sponsorships reflecting the CEO's passions and not the business agenda and RemCos being berated for their unwillingness to acknowledge the CEO's true worth. As one Chairman put it, "when the CEO has lost sight of what is reasonable or has an irrational sense of entitlement and starts to believe that the rules don't apply to him, then you know you're in trouble".

Over-concern with public profile: Successful CEOs will find themselves increasingly feted and lauded externally. The media love to 'personalise' stories whilst governments, industry bodies and think tanks all clamour to associate themselves with those CEOs whose achievements seem most noteworthy. The danger is that leaders become addicted to the limelight, more focused on burnishing their own reputation than on promoting their business and more excited by the broader external platforms offered to them than by the hard graft of driving internal performance. *"Many CEOs come to crave a public profile and celebrity status; they get more concerned*

"Many CEOs come to crave a public profile and celebrity status; they get more concerned about managing their 'brand' than managing the business"

about managing their 'brand' than managing the business"; warned one Chairman. Boards should be alert therefore to CEOs with a growing penchant for self-promoting press articles, who are spending more and more time away from the day-to-day operations and who are too concerned about their own image rather than simply the business's performance.

'Hub and spoke' leadership style: Another potential concern is when the CEO adopts a strong 'hub and spoke' leadership style, rather than seeking to build his Executive Committee into a real team. The 'hub and spoke' model, in which the CEO interacts with his direct reports on an individual basis rather than collectively, serves to concentrate power, information and authority around one individual; whether done consciously or not, it prevents the emergence of strong contrary opinions, enables the CEO to 'play off' different members of his team against each other and facilitates a strong command-and-control based environment. *"It is important that the ExCo is run as a team; one-on-one, the CEO will always win"*, observed one Chief Human Resources Officer.

Over-management of the Board: On appointment, most new CEOs view the Board as an important constituency to be leveraged. Over time, however, as their confidence grows, some come to dismiss the Board as a nuisance to be managed carefully so that it doesn't get in their way. These CEOs may try to set and control the Board agenda, will carefully choreograph Board discussions, may seek to inhibit the ability of NEDs to contribute in a meaningful

way either by drowning Board members in paper or giving them too little information, too late, and will try to control any direct interaction between Board members and their Executive Team. One Chairman warned of the need to “watch out for an ingrained tendency to keep bad news from the Board and sweep things under the carpet”.

Absence of contrary voices:

Effective leaders need to retain their ability to listen objectively to a range of different inputs and opinions. A clear danger sign is therefore when the CEO displays visible intolerance for challenge – whether it comes from members of his own team or from the Board. Time and again, we heard stories of leaders who sought to bully and intimidate those who expressed contrary points of view or who were deaf to inconvenient truths. More insidiously, CEOs may surround themselves with a coterie of cheerleaders who serve to reinforce their thinking and feed their ego – whether this is an internal ‘Palace Guard’ of unquestioning and often beholden supporters or an external ‘Kitchen Cabinet’ of advisers who serve to disenfranchise the Executive Team. Such cheerleaders serve to insulate the CEO from reality and enable a culture where failures are unacknowledged or blame is laid firmly at the feet of others.

Disdain for succession planning: Narcissistic CEOs have no interest in succession planning. They give little or no thought to the inevitability that they will have to move on at some point and struggle to imagine how anyone else could ever step successfully into their shoes. They may either show a reluctance to engage in real dialogue about succession, constantly arguing

that there are no plausible internal candidates emerging, or more actively seek to undermine emerging options. One Chairman talked of the danger that “*the tree grows so big that the grass can no longer grow around it*”, whilst another described a tendency for CEOs “*to deny oxygen, airtime and freedom to the next generation*”. If a CEO is dismissive of either the need for planning or of the potential candidates themselves, or if key talent is leaving, that’s a real concern.

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Distorted thinking and decision-making:

The final ‘red flag’ – and often the consequence of many of the others – is when the CEO’s decision-making becomes impaired. Emboldened by success, they become victims of hubris and believe in their own infallibility. Professionally, they will be tempted to set ever-more stretching targets to the point where they become unrealistic – but will hear no objections to them. They may pursue big M&A deals or take the business headlong into new arenas, driven by the thrill of leaving ever-bigger footprints. Alternatively, they may stubbornly persist in following their tried and tested management ‘playbook’ even when all the evidence suggests that the changing external context demands a different approach. Personally, they may also start to behave erratically – alcohol, drugs and sex may become increasing temptations – as they feel unconstrained by conventional rules and seek a release from the pressures of their role. Such CEOs have lost a firm grip on reality and disaster lies around the corner. One Chairman recalled the classical maxim, “*those whom the gods wish to destroy, they first make mad*”.

1.3 Case studies

In our research, we heard fascinating – but ‘off-the-record’ – stories of countless leaders whose behaviour became deeply dysfunctional. Some are well-reported, many far less well known and understood. The following four examples, all based on existing published accounts, help to illustrate our ‘seven deadly sins’.

Percy Barnevik, former CEO and Chair of ABB

At one time, described by Fortune as “Europe’s answer to Jack Welch”, to many he was responsible for single-handedly transforming ABB into one of Europe’s greatest transnational corporation. Over a 5-year period, Barnevik spent more than \$5 billion on 200 deals. He was lauded for the organisational structure he designed to manage this growing empire. During his tenure as CEO revenue doubled to \$35 billion and net income grew by 70% to \$1.2 billion.

Many thought he could do no wrong and in 1996 the charismatic leader transitioned from CEO to Chair of ABB. He became increasingly focused on his own reputation and legacy; former colleagues have since recalled him as being obsessed with both making acquisitions and of being as admired as Jack Welch. He surrounded himself with a ‘Palace Guard’ of people who felt beholden to him and listened to no-one else; he demonstrated an unhealthy obsession with his own compensation, driving through a compliant Board an undisclosed tax free pension payment of \$87 million in

1997; and, increasingly convinced of his own invincibility, championed an ever-more aggressive acquisition strategy that proved increasingly flawed. Performance began to unravel and ABB’s value fell from a one-time high during Barnevik’s tenure of \$40 billion to \$3.91 billion in value in 2002, reporting a loss of \$787 million for that year. Finally, he was fired with one Board member concluding “he lost touch with reality and duped us all”.

Jeff Skilling, former CEO of Enron

Jeff Skilling, a Harvard Business School graduate and one of the youngest partners in McKinsey’s history, was the embodiment of the Enron culture of brains and arrogance. He joined as CEO of the Enron Finance Corp in 1990, rising to become COO in 1997 and CEO in 2001. His strategic vision helped to transform Enron, reshaping the forward market for natural gas by both smoothing price fluctuations and creating a secondary market. Under his leadership, Enron was named “America’s Most Innovative Company” for six consecutive years between 1996 and 2001, praised for its asset light model, its emphasis on promoting talented young managers and its aggressive performance culture.

Problems began when – convinced that he had an inherently superior model – Skilling tried to move into new markets and repeat the same approach. His obsession with meeting Wall Street expectations fostered a culture of extreme risk taking and he often praised individuals that flouted the rules as

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long as they made money. Demanding and manipulative, colleagues called him 'Darth Vader', a nickname he is said to have relished. Afraid of being 'moved on' if they missed targets, employees began to manipulate results, employing accounting loop-holes to hide billions of dollars of losses. Those who raised concerns about the truth of the reported numbers were ignored and silenced.

Whilst Skilling was a self-confessed 'control freak' with hands in nearly every pie, it is unclear how much he attended to monitoring the burgeoning risks inherent in the off-balance sheet debt, which ultimately played a key role in the firm's demise. When the bubble burst, its bankruptcy cost 50,000 jobs, \$2 billion in employee pensions and rendered a further \$60 billion in stock worthless. Skilling is serving time in prison for 19 counts of conspiracy, securities fraud, insider trading and lying to auditors.

Fred Goodwin, former CEO of RBS

Joining RBS from Clydesdale Bank in 1998, Fred Goodwin became CEO of RBS in 2001. Over an eight-year period he transformed the UK mid-market bank into the fifth largest in the world by market capitalisation, spending more than £80 billion acquiring 26 banks. With this growth came great acclaim. By 2004, he had the ear of both the Prime Minister and the Chancellor of the Exchequer and was honoured with a knighthood for his 'services to banking'.

The aggressive expansion strategy fuelled by leveraged buy-outs proved disastrous as the

RBS-led consortium's ill-fated purchase of ABN Amro in 2007 coincided with the emerging liquidity crisis. Losses began to mount. In 2008 and 2009 the bank announced both the largest rights issue and biggest loss in British corporate history of £12 billion and £24 billion, respectively. Goodwin resigned in 2008 and RBS had to be rescued by tax payers at a cost of £45 billion.

Whilst Goodwin was not alone in the downfall of RBS, he had a long reputation as a bully and a control freak, who could not tolerate dissent. But critics have also maintained that that he consistently focused on the wrong things due to an exaggerated sense of his brilliance and delusions of grandeur. He emphasised deals, profits and growth over core activities like credit and risk. Concurrently, he spent considerable energy to ensure every detail of the corporation's image gleamed from the £350 million new HQ to the precise pantone of the company's fleet of cars. At one point he is said to have even commandeered the design of the company's annual Christmas card when it wasn't 'just right'. Goodwin was stripped of knighthood in early 2012 for the perceived crime of incompetence, also agreeing to forfeit half of his annual pension payments.

Jean-Marie Messier, former CEO of Vivendi

Having transformed Vivendi from a staid French water utility into a massive media conglomerate between 1994 and 2001, Messier was once held up as the epitome of modern French business. Over that period he spent over \$100 billion in acquisitions, including the \$42 billion purchase

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of Seagram, owner of Universal Music and Universal Studios, in 2000.

Messier relished the prestige that accompanied this position, co-opting his nickname, J6M or 'Jean-Marie Messier Moi-Meme-Maitre-du-Monde' for his 2001 autobiography. He used Vivendi's money to purchase a New York apartment for personal use for \$17.5 million. Corporate funds were also spent on a palazzo in Venice and on the football club, Paris St Germain. He posed for Paris-Match, ice-skating in Manhattan, and secured €10 million in remuneration for both 2001 and 2002. His flamboyant behaviour went unchecked by Directors in thrall to him; their lack of independence was perhaps indicated

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by the fact that he sat on two Boards headed by members of his own Board. He brooked no opposition.

His flamboyant style and overweening ambition became his undoing. The acquisition-fuelled growth began to falter along with the economy but he carried on buying businesses even after the dot-com bubble burst. Critics allege that he repeatedly concealed from his Board both the complicated transactions he executed and the company's debt position. In 2001, the company reported the largest losses in French history and, in May 2002, Vivendi's bonds were downgraded to just above junk status. Amidst much public furore, the Board eventually forced him to resign.

2. The barriers: why Boards find it so hard to act

Corporate history is littered with colourful tales of once proud businesses brought to their knees by feted CEOs. Our selection of case studies, all well-known and based on published information, is merely the most public tip of a very large iceberg. In each case, the behaviour seems – with the benefit of hindsight – so unacceptable and the risks so great, that one is left wondering why Boards allowed it to go unchecked and acted too late. The reality of course is that the risks are much harder to diagnose and deal with when you're in the middle of unfolding events. Boards suffer in particular from three key barriers:

2.1 Lack of consciousness

The first barrier that Boards face is that they may be unaware of the behavioural risks that are at play. Independent Directors are chosen primarily for their business insights and understanding, rather than their emotional intelligence or psychological skills; it is only natural that they tend to focus far more on visible and concrete performance metrics when judging CEO performance than on underlying behaviour, which may be less transparent to them and where there are no objective measurement criteria that can be applied. One Chairman described the dilemma well: *“it's easier to focus on performance than behaviour; the problem is that performance is the lagging indicator and*

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behaviour the leading one”.

It can be hard to spot changes in behaviour that happen gradually over time; Directors may fall prey to the 'frog in boiling water' syndrome and so underestimate the degree of dysfunctionality that may be emerging. *“When it becomes obvious, it's too late”*, mused one Boardroom veteran. This tendency can be exacerbated by wilful blindness; as one Non-Executive Director put it, *“if you've appointed the CEO, you're committed to his success, so you tend to downplay any worrying behavioural symptoms”.*

2.2 Lack of confidence

The second barrier Boards face, even when they are aware of behavioural issues, is having the confidence to conclude that the CEO's behaviour represents a significant problem. It is impossible to predict with certainty when a tipping point has been reached. As one Chairman noted, *“this is not a science with linear outcomes, but an art where judgement on when to act is critical and difficult”.*

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Human nature, moreover, biases people to delay action. In part, this is because performance may continue to look good, even when the behaviour is starting to create real damage. One Director pointed out that *“there are no prizes for acting when performance is good; it's easy to kid yourself that the behaviour is a price worth paying”.* Equally, most people are

naturally conflict averse and the temptation is strong not to confront specific behavioural excesses. *“It’s always easy to appease and take the path of least resistance on any particular issue”*, said one interviewee, whilst another observed that *“it’s rare that there is a clear trigger point; it’s easier to let it go and hope that nothing bites you”*.

2.3 Lack of courage

The final challenge that Boards face is to demonstrate the courage to confront the issue. It is easy to underestimate how hard this is. At the point where a Board would be right to act, the CEO is being lauded and applauded in the media and by investors; performance will still be good and narcissistic CEOs are often skilled at wooing these external constituencies. As one Chairman warned, *“investors will be the last to notice or complain”*, whilst another observed that *“it’s hard to deal with this when your CEO has just been given a knighthood”*.

“Investors will be the last to notice or complain”

“Whistleblowers usually get shot; it’s a hell of a big call”

By definition, a Board that acts at the right time will have averted a disaster – but a disaster that others may never appreciate was likely to happen. Instead, the external reaction – especially if the CEO chooses not to go quietly – is likely to be bemused, confused and potentially hostile. As a result, it’s easy to duck the issue. One experienced Board member commented that *“inactivity is less likely to be criticised than activity”*. In contrast, tackling the problem head-on carries undoubted risks, such as splitting the Board, undermining the share price or creating a leadership hiatus. The consequences for those who lead the charge can be substantial. *“Whistleblowers usually get shot; it’s a hell of a big call”*, observed an Independent Director. It is critical therefore that the Board is led by a Chairman who is prepared to act without concern for the personal consequences and that it has a critical mass of independently-minded and courageous Non-Executive Directors.

3. Taming Narcissus: practical tips

We have established that the risk of CEOs falling prey to behavioural distortions is a real and common one that can have a disastrous effect on the business. Dealing with these issues is far from straightforward. So what should Boards do to help them to 'tame Narcissus'? Our research suggested five key lessons on which to focus.

3.1 Start on Day One: prevention is better than cure

The first critical lesson is that it is much more straightforward and effective to prevent behaviour from straying beyond the boundaries of acceptability than it is to deal with it once it has done so. It is therefore vital to focus on managing the risks right from the moment of appointing the CEO. This requires three key actions from the Chairman:

Understand and identify the latent risks at appointment: Few of our interviewees argued that Boards were necessarily wrong to appoint edgy, self-confident and ambitious individuals as CEO; these are often the people required to drive transformational change. However, most agreed that Boards needed to do more work at appointment to identify and understand the potential risks better so that they (and indeed the CEO) would be alert to the dangers from Day 1. One Chairman suggested that *"you need to look carefully for the areas of darkness that could surface under pressure"*.

Talk explicitly with the CEO about the dangers: The moment when CEOs are most open to advice is at the start of their tenure. Chairmen need to take the opportunity at this point to

provide input on the dangers that lie ahead and how to avoid them. Amongst the key tips to convey are:

- The need to be self-conscious about the behavioural risks that exist and the importance of recognising your own blind spots or weaknesses.
- The danger of outstaying your optimal tenure. One CEO talked of being advised by the Chairman of being conscious of the *"10-year rule"*, whilst another emphasised that *"it is much better to go when people are asking 'why are you going', rather than 'when are you going'"*.

"You always need someone who will tell you the uncomfortable truths"

- The importance, as one CEO put it, *"that you are not just surrounded by the cheering crowd"*. This is in part about building a strong team around you – and managing them as a true team. It is also though about staying grounded through friends and family who can prick any pomposity – in

the way that Roman Emperors had a slave reminding them that they were mortal or Mediaeval Kings had their fool. *"You always need someone who will tell you the uncomfortable truths"*, one former CEO commented.

- The value of gaining a different perspective on your role and relationships, in particular through sitting as an Independent Director on another Board; indeed it is striking how few of the most infamous CEOs had gained such experience.

Set and quickly reinforce clear ground rules:

The Chairman needs to establish upfront clear expectations about behavioural norms and values. *"You must have an open and frank conversation about what will be regarded*

as unacceptable”, said one. Having done so, the Chairman must set the right tone by having a zero tolerance approach to any early behavioural wrinkles. *“It’s key to challenge things early – to make the point”*, observed one experienced veteran, adding *“if you let stuff go, the barriers to action grow and grow”*.

3.2 Build the right Board foundations

The second key theme that our research emphasised is an unsurprising one, but no less important for that: Boards with the right fundamental foundations in place are much better equipped to deal with any issues that emerge:

A strong and independent Chairman: Our interviewees were unanimous that the role of the Chairman is pivotal in this. The risks of unchecked CEO behaviour have been reduced by the growing prevalence across different corporate governance regimes in recent years of stronger, genuinely independent Chairmen able to provide a real check and balance to the successful CEO. *“It is vital to have a Chairman who is willing and able to confront the CEO when necessary”*, said one Board veteran. *“The Chairman needs to be prepared to act without regard to his own position”*, emphasised another.

Independent Directors with insight and courage: The Chairman cannot act alone; at the most difficult and sensitive moments, he will require the support of his Independent Directors both to highlight issues and to build the necessary consensus to act. The Chairman needs to build around him a Board not just with the requisite business experience and

insight but also with strong and independent characters who will not take the easy path when issues emerge. *“The Board must contain IDs with the insight to identify potential problems, the confidence to raise any concerns and the courage to address them”*, concluded one Chairman.

Open and robust Board dynamics: Finally, the Board must have the right dynamics – between the Chairman and the Independent Directors, the Independent Directors and the Executives and amongst the Independent Directors themselves. Debates need to be open, honest and effective at raising and addressing the key issues; Directors must be willing to speak their minds and challenge without fear; and the tone must be constructive and collaborative at all times, with a strong sense of cabinet responsibility and an avoidance of factions. Done well, Board Reviews can explore these dynamics and serve to highlight any issues that need remedial action.

3.3 Develop sharply attuned organisational ‘antennae’

These Board foundations need to be complemented by conscious and deliberate attempts to identify as early and clearly as possible any potential behavioural issues that need to be addressed. Doing this has three core components:

Individual and collective awareness: All Board members should recognise clearly the dangers of behavioural risk, acknowledge that managing this is one of their fundamental responsibilities

**“The Chairman
needs to be
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his own position”**

and have a clear sense of the symptoms to look for. *“You have to know what the warning signs are, and you have to be obsessive in looking for them”*, suggested one Independent Director.

An engaged and connected Chairman: The Chairman needs to spend real time in the business, talking to senior executives beyond the CEO – through a mixture of both formal and informal interactions. The old-fashioned Chairman who regards his role as simply to run the Board simply will not identify problems until it is too late. The CFO and CHRO are likely to be particular sources of insight and reflection; meanwhile, embedding as standard practice that the Chairman conducts exit interviews with all senior leavers provides another avenue to hear any concerns.

Regular Independent / Executive Director interaction: It is also invaluable for the Independent Directors to forge their own links with senior executives. This not only provides them with a much richer understanding of the business but also enables them to pick up on any behavioural dynamics that may be of concern. Not all CEOs welcome such direct contact – and may seek to stage manage any interactions very carefully – but that reluctance should be overcome and is in itself a potential warning sign to explore. *“Such contact is key to gauging the mood of the organisation”*, observed one Independent Director.

3.4 Put behavioural risk explicitly on the Board agenda

In addition to those informal methods of

gathering insight, behavioural risk should become an explicit part of the Board agenda, routinely discussed both so that issues can be identified and explored before they become major issues and so that CEOs do not interpret anything sinister in such discussions, rather recognising them merely as part of good governance. *“The key is to have the mechanisms and processes that help you to look for clues”*, argued one Chairman. Two such mechanisms were highlighted:

Regular ‘Independent Director-only’ discussions on the issue: The first mechanism is regular opportunities for the Independent Directors and the Chairman to talk openly and constructively about any behavioural issues or concerns they have. There are many different approaches to doing this – ranging from dinners before every Board meeting, through brief sessions at the end of every meeting to semi-annual sessions; tastes vary and will reflect both the Chairman’s preferences and the rhythm of the Board. Such meetings will cover a wider range of topics than just behavioural ones. Nevertheless, it is vital that the Chairman and Independent Director team routinely review the topic of behavioural risk, identify any issues and agree corrective actions as required.

Rigorous and broad CEO reviews: In the same vein, it is important to have a rigorous annual approach to reviewing the CEO’s performance. Methods for doing this remain surprisingly varied and patchy. A number of the Independent Directors we spoke to seemed uncertain as to exactly how CEO reviews were conducted on their Boards, whilst in other cases there was

“The key is to have the mechanisms and processes that help you to look for clues”

a surprising reluctance to put the CEO through the same sort of rigorous review that would be expected throughout their organisations. Best practice reviews have three key elements:

- The objectives that are set and the areas that are assessed cover a range of hard performance metrics but also softer behavioural ones.
- Feedback should include 360 degree input, from subordinates as well as from the Independent Directors.
- The Chairman should share his conclusions (on both the hard and soft metrics) with the Independent Directors as well as outlining any actions agreed.

3.5 Never shirk effective succession planning

Boards must ensure that they are always confident that they have succession plans in place and they are willing and able to enact them when required. This involves three key steps:

Keeping succession firmly on the agenda at all times: Good Boards have thorough succession planning – to the CEO’s role in particular but also more for other key executive roles – at the heart of their annual agenda, even when the CEO is new in role. As one Chairman argued, *“managing succession is the most important task that a Board has; it has to be a regular discussion item”*. Such discussions are fundamental *“in reminding the CEO that he is mortal”*, as one Independent Director put it.

Insisting on having succession options: It is, of course, not sufficient to review the topic; it is critical for the Board to have a clear sense at all times of the options they have if they need

– for whatever reason – to find a new CEO. It is never acceptable for the CEO to argue that there are no credible options. The Board needs to push beyond this to ensure they have full visibility of not only the most obvious current candidates but, perhaps even more so, the rising stars in the next generation whom they should be actively nurturing. If external hiring is required to strengthen the bench, they need to ensure that this is happening successfully. *“You have to give yourself real succession options; this makes it clear to the CEO that he is not indispensable and derisks your decision to act if you need to”*, advocated one Chairman.

Being prepared to force succession when required:

Armed with a clear succession plan, Boards need to be prepared to act when the moment is right. As one Chairman observed, *“very few CEOs time their departure right; if you let them choose, it’ll usually be too late”*. As a

result, the Board may well find itself having to cajole a CEO into accepting that the time has come for a change, a process best done over a reasonable period, so that the CEO doesn’t feel like or become a martyr. *“The Chairman has to be patient, courteous, empathetic but persistent”*, argued one Board veteran. Equally, though, where there are serious behavioural concerns and the CEO is digging his heels in, the Board needs to be prepared to act more swiftly. One Chairman summed up the need, on occasion, for the Board to grasp the nettle and force the issue thus: *“you can’t judge the moment when the rogue behaviour will hurt you, so don’t take the risk; don’t spend time agonising, move quickly”*.

Conclusion

Addressing behavioural risk is not easy: the human and commercial barriers to acting are not to be underestimated. But, given the prevalence of the risk and the damage that it can cause, demonstrating the ability to manage it skillfully is perhaps the greatest challenge facing Boards today. Following our five key lessons will not ensure that every Board deals

successfully with these issues; ultimately, this boils down to questions of judgement and courage. However, it should significantly improve their odds of reducing the likelihood of encountering serious issues, of identifying problems early and of dealing with them decisively but diplomatically.

Appendix: About MWM Consulting

MWM Consulting is a leading Board advisory and search firm and acts for a number of the largest companies in the world, both in the UK and internationally. In the UK, we have supported the appointments of over 15% of the current FTSE 100 Chairmen and CEOs; a third of our work is for similar global enterprises based outside the UK and during the last two years we have worked with clients in markets across North America, Continental Europe and Asia.

This research into behavioural risk was led by three of our team:

Michael Reyner joined MWM Consulting in 2007 and leads Board and Executive search work with top international clients across a wide range of sectors. Before joining MWM, Michael was at McKinsey for 15 years where he was one of the partners leading the European Consumer practice.

Anna Cuccio joined MWM Consulting in 2013 after an earlier career both at McKinsey and, before that, at Morgan Stanley for nearly a decade in New York and London in Equity Research.

Anna Mann was one of the founders of MWM Consulting in 2002 and previously was a founder of Whitehead Mann. A psychologist by background, she has worked with Boards of leading businesses around the world for the last 30 years.

MWM Consulting

12 Charles II Street

LONDON

SW1Y 4QU

Tel: +44 (0)20 7484 1050

www.mwmconsulting.com