

Debate

Corporate Psychopaths and Misconduct

ISSUE: Do white-collar criminals tend to be corporate psychopaths?

White-collar crime is unique from other types of crime because the criminal is in a high position of authority commanding respect and trust. The white-collar criminal uses this trust to take advantage of others for his or her own financial gain. In the past few years, white-collar criminals such as Bernie Madoff have wrecked havoc on the economic system, sometimes losing their clients' entire life savings in the process. The amount of devastation for victims of white-collar fraud are often far-reaching.

This begs the question of why so many white-collar criminals end up in positions of authority. What causes executives to turn to white-collar crime? One answer proposed by academics is that corporate psychopaths are drawn to high positions within the company. Psychopathy is an antisocial personality disorder characterized by a failure to feel empathy or guilt, a disregard for laws and the rights of others, and an inability to form emotional attachments. On the other hand, psychopaths often have charming personalities and charisma. They can form long-term relationships and instill trust in others. Studies estimate that 1 percent of the general population has this disorder.

However, this is higher in the corporate world. It is estimated that the number could be as high as 3 percent—and often in positions of power. Why would a corporate psychopath be promoted to a CEO or other executive position? The major reason why corporate psychopaths appear to occupy higher ranks is because they have a desire to control others and build themselves up. In fact, they may even be attracted to certain types of business such as finance because of the high levels of rewards they can get by climbing to the top.

Additionally, many traits common to corporate psychopaths are also common to leadership. Good leaders often display charisma, strong performance, and a desire for achievement. They are able to influence others to follow their lead. Corporate psychopaths have the same qualities. They are able to manipulate others into following them and even convince them to engage in behavior that they may find unethical. A major difference between a psychopathic leader and a non-psychopathic leader lies in the ability to feel empathy, responsibility for others, and a commitment to obey the law. Because these are internal, it can be hard to differentiate between the two until a law is broken or a crime is committed. Also, many people—both in business and outside of business—think that business is a game that must be won, and that succeeding involves being aggressive and beating others at the game. Hence, behaviors such as bullying—a characteristic of a corporate psychopath—may be ignored simply because those involved believe that this is the way a successful person gets ahead.

Does this mean that some of the bigger misconduct scandals in business are due to corporate psychopaths? Business professor Clive R. Boddy advances the Corporate Psychopaths Theory of the Global Financial Crisis. This theory posits that corporate psychopaths in high levels of the organization were largely responsible for much of the misconduct that led to the global financial crisis in 2008-2009. Boddy claims that globalization, a rapidly changing business environment, and the many jobs most employees tend to have in their lifetime has made it harder to spot corporate psychopaths as they either move up quickly through the organization or take better jobs

This material was developed by Jennifer Sawayda under the direction of O.C. Ferrell and Linda Ferrell. It is provided for the Daniels Fund Ethics Initiative at the University of New Mexico and is intended for classroom discussion rather than to illustrate effective or ineffective handling of administrative, ethical, or legal decisions by management. Users of this material are prohibited from claiming this material as their own, emailing it to others, or placing it on the Internet. Please call O.C. Ferrell at 505-277-3468 for more information. © 2015

elsewhere. Bernie Madoff—the mastermind behind a \$60 billion Ponzi scheme—was a prestigious man on Wall Street and was highly respected. He has been accused of being a corporate psychopath. Although he denies being a sociopath (similar to a psychopath), he has many of the same qualities: respectability, drive for achievement, and the ability to manipulate. While he claims he is remorseful and responsible for his crimes, he has also placed much of the blame on the victims because—as he put it—they should have realized the risks.

Yet while it is entirely possible for corporate psychopaths to end up in positions of authority, others maintain that organizational culture has more of an influence on misconduct. Critics of the corporate psychopath theory might maintain that classifying an executive’s misbehavior as being the result of a mental disorder is an excuse used to rationalize his or her crimes. For example, prosecutors challenged the claim of Daniel Bonventre—a former executive in Bernie Madoff’s organization—that said he was “relentlessly manipulated” by Madoff’s corporate psychopathic behavior. They believed this was an excuse to gloss over his alleged guilt. Additionally, many of the most well-known business scandals are characterized by extremely complacent or unethical corporate cultures. Enron, for instance, had a corporate culture that stressed competition and winning at all costs. Breaking the rules was tolerated if it resulted in higher profits. In addition, at Countrywide Financial lenders were encouraged to engage in “liar loans” because they earned large incentives for making the sale. Hence, it may be just as likely that major business scandals are the result of a toxic, unethical organizational culture rather than stemming from the actions of corporate psychopaths at the top of the company.

There are two sides to every issue:

1. Serious organizational misconduct occurs due to corporate psychopaths occupying high executive positions in the firm.
 2. Serious organizational misconduct is more often a result of an unethical organizational culture than from corporate psychopaths.
-

Sources:

- Paul Babiak and Mary Ellen O’Toole, “The Corporate Psychopath,” *The Federal Bureau of Investigation*, November 2012, <https://leb.fbi.gov/2012/november/the-corporate-psychopath> (accessed November 3, 2015).
- Clive R. Boddy, “The Corporate Psychopaths Theory of the Global Financial Crisis,” *Journal of Business Ethics* 102 (2011): 255-259.
- Scott A. Bonn, “How to Tell a Sociopath from a Psychopath,” *Psychology Today*, January 22, 2014, <https://www.psychologytoday.com/blog/wicked-deeds/201401/how-tell-sociopath-psychopath> (accessed November 3, 2015).
- Alan Farnham, “Bernie Madoff Aide May Have Been Duped by Psychopath, Lawyer Says,” *ABC News*, February 10, 2014, <http://abcnews.go.com/Business/madoff-aide-pawn-psychopath/story?id=22417574> (accessed November 3, 2015).
- Erik Larson, “Madoff Ex-Aide ‘Corporate Psychopath’ Defense Challenged,” *Bloomberg*, February 6, 2014, <http://www.bloomberg.com/news/articles/2014-02-06/madoff-ex-aide-corporate-psychopath-defense-challenged> (accessed November 3, 2015).
- Victor Lipman, “The Disturbing Link Between Psychopathy and Leadership,” *Forbes*, April 25, 2013, <http://www.forbes.com/sites/victorlipman/2013/04/25/the-disturbing-link-between-psychopathy-and-leadership/> (accessed November 3, 2015).
- Graeme Wearden, “Bernard Madoff: remorse, tears and a good character reference from his therapist,” *The Guardian*, February 28, 2011, <http://www.theguardian.com/business/2011/feb/28/bernard-madoff-remorse-not-a-sociopath> (accessed November 3, 2015).