

# Narcissism in the Workplace and its Effects on an Organization

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## **Abstract**

This report explores the relationship between narcissism and unethical conduct in an organization by answering two questions: (1) In what ways does narcissism affect an organization?, and (2) What is the relationship between narcissism and the financial industry? Research suggests the overall conclusion that narcissistic individuals directly influence the identity of an organization and how it behaves. Ways to address these issues are shown using Enron as a case study example.

## **Introduction**

Many strongly believe that in life, maintaining a positive and modest attitude is more important than ability and intelligence. I find this credo to be particularly true in the workplace. Working with individuals who are positive by nature that exhibit modesty are easier to work with, especially in a team setting. These individuals have the tendency to inspire their co-workers to excel in their personal and professional lives. But what about individuals who are not positive, but rather, bring negative and narcissistic attitudes to the workplace. How do they affect the business organization?

My topic for the scholarly research paper will be on narcissism in the workplace and its effects on an organization. Whether one is talking about narcissistic organizations or narcissistic leaders in the workplace, this is an issue that needs to be explored in more detail. Given that narcissism seems to be prevalent in the financial industry, because the industry seems to attract individuals with this trait, I plan on focusing on the relationship between narcissism and the financial industry. Particularly, I plan on exploring the relationship between narcissism and unethical conduct in the financial industry. Unethical practices occur every day in businesses across the United States, but what portion of unethical conduct is attributed to the narcissism of CEO's and management? Given the infamous unethical practices of Enron, it would be interesting to see, in the case study portion of this research, if narcissism and its end results took part in these unethical practices.

## **Review of Literature**

First and foremost, an understanding of the definition and use of the term "narcissism" is needed to further investigate its effects on an organization. Thus, a definition of "narcissism" by the American Psychiatric Association will be provided. This will provide the reader with the

characteristics of narcissism in order to later evaluate its detriment to an organization. The American Psychiatric Association defines narcissism as a personality disorder characterized by “a pervasive pattern of grandiosity, need for admiration, and lack of empathy” (2000, p. 717). A diagnostic criteria is available for psychiatrists to diagnose this mental condition, which includes a person’s sense of entitlement, requirement for excessive admiration, envy of others, interpersonal exploitation, rarity to accept fault as well as blame other for their mistakes, and a person’s preoccupation with fantasies of unlimited success, power, and brilliance. Although these characteristics are used for diagnosing a mental illness, they are useful in describing narcissistic personalities traits for the purpose of our discussion.

The primary motivation behind this paper topic was fostered by an article in the *Journal of Education and Business* titled “Ethics and Personality: Empathy and Narcissism as Moderators of Ethical Decision Making in Business Students” by Todd Brown, John Sautter, Levente Littvay, Alberta Sautter, Brennen Bearnes (2010). This article contains findings that (1) narcissistic personality traits are indicative predictors of unethical behavior among business students, and (2) finance majors show a significant tendency to be more narcissistic as compared to other business students.

Each finding in this article has its own significance in relation to my thesis. For example, the conclusion that narcissistic personality traits are indicative of unethical behavior among business students highlights the importance of understanding the effect of narcissistic personality traits on an organization because many of these students pursue careers in the business world after graduation. Moreover, their narcissism follows them into the business world. It is this narcissism that contributes to students’ unethical behavior in the workplace that can have severe detrimental effects on a business. Therefore, this article highlights the importance of my topic

because it shows that narcissism is prevalent in the business world. The second conclusion, that finance majors show a significant tendency to be more narcissistic as compared to other business students, is significant to my thesis because it highlights the prevalence of narcissism in the financial industry, as compared to other industries, and its potential to have an effect on a financial organization. Moreover, it raises the question of what is the relationship between narcissism and the financial industry?

The two findings of this article, taken together, may suggest that educational programs that focus on finance and accounting have the tendency to both attract and cultivate students with narcissistic personality traits but that is beyond the scope of this paper. The scope of this paper is to explore the relationship between narcissism and unethical conduct in an organization by answering two questions: (1) In what ways does narcissism affect an organization? and (2) What is the relationship between narcissism and the financial industry?

Duchon and Drake's (2008) article "Organizational Narcissism and Virtuous Behavior" in *The Journal of Business Ethics* provides relevant information to address ways narcissism affects an organization. In particular, the authors argue that an organization's identity is analogous to an individual's personality. This organizational identity will determine whether or not the company will act ethically when making decisions. Thus, Duchon and Drake (2008) claim that "organizations can adopt collective narcissistic identities that will produce non-virtuous behaviors" (p. 301). The details of how this occurs will be further discussed in the analysis and application section of this paper.

Carmeli and Sheaffer's article "How Leadership Characteristics affect Organizational Decline and Downsizing" also provides important information on determining the effects narcissism on an organization. This article supports the conclusion that self-centered leaders,

self-centeredness being a characteristic of narcissism, have a shortsighted managerial viewpoint, which encourages them to adopt reactive corporate strategies like ‘downsizing.’ Leaders with this sort of mindset also have a tendency to violate the moral obligations of the company and its employees (2009).

An article published in the *Journal of Education and Business* titled “Accounting as a Facilitator of Extreme Narcissism” by Amernic and Craig (2010) is used in this paper to depict the relationship between narcissism and the financial industry. In this article, the authors claim that financial accounting, when combined with extreme narcissism, serves as a *potential* precursor for unethical behavior in corporations. Moreover, the article discusses “features of financial accounting that potentially enable ego-defending behavior by narcissistic CEOs” (Craig, 2010, p. 79). These features will be discussed later to highlight the relationship between narcissism and accounting.

Two additional articles will be utilized in this paper to show specific examples of narcissism and how they relate to unethical conduct in a corporation. One of these articles is titled “Unlearned Lessons from the Past: An Insider’s View of Enron’s Downfall” by Madsen and Vance (2009), in which the authors interview an Enron insider about his experience with the corporation before its collapse. This article is useful in that it gives the outside world a view of how extreme forms of narcissism can affect a corporation and ultimately lead to its downfall. The second article is a dissertation by Mary Lynn Rapier titled “An Interview Study of Narcissistic Executives: Piercing the Corporate Veil of Narcissism In the Workplace” (2005), in which the author interviews several CEOs, company presidents, and chairmen to uncover examples and common themes of narcissism. Both of these articles will be used in conjunction with the above articles to provide supportive examples for my topic.

## **Analysis and Application**

Any person with a leadership position in an organization, who can set the rules, practices, and procedures to adhere to will ultimately influence the behaviors of their employees. These behaviors will be consistent with the “belief systems or cultures that help [employees] understand behaviorally who they are as a collectivity, how they got that way, what they should be, and how they should behave” (Duchon and Drake, 2008, p. 302) in an organization. That is, CEOs and top management have a direct influence on the organization’s culture and identity. Given such influence, it is not a surprise to see that narcissistic personality traits displayed by a CEO or top management can foster a narcissistic culture/identity within an organization. Duchon and Drake (2008) claim that organizations, like people, are also motivated to protect their collective sense of identity and legitimacy, and, like people, can also engage in narcissistic behaviors (p. 303). In general, narcissistic behaviors are used to strengthen and protect a person’s fragile sense of self and use “self entitlement, self aggrandizement, and denial” (Duchon and Drake, 2008, p. 304) to do so. When companies adopt this ego defense mechanism into their corporate structure and culture, the company will behave unethically to fulfill their perceived entitlements. A look into Enron’s corporate culture will provide a solid example.

Alan P. Warnick was Vice President of Organization Development and Training at Enron leading up to the corporation’s downfall. Mr. Warnick was interviewed in Madsen and Vance’s (2009) article “Unlearned Lessons from the Past: An Insider’s View of Enron’s Downfall”, in which Warnick revealed several narcissistic characteristics that account for Enron’s unethical behavior. In this interview, Mr. Warnick explains the corporate culture under the company’s President, Sam Segnar and Chairman of the Board, Ken Lay. He explains, among several examples, how Sam Segnar and Ken Lay created an elitist division at Enron by separating

themselves from their employees with lavish suites filled with expensive furniture like marble tabletops, copper baseboards, and fireplaces. Such a lifestyle puts an emphasis on hierarchal status in the corporation consistent with the narcissistic characteristic of self importance and self entitlement. The important factor to consider, however, is that unethical behavior was used to achieve their lavish lifestyle and self importance by trying to create a trading company with no assets by performing manipulative accounting procedures. Such unethical practices in a business operation are backed by enhanced egos, greed, and a lack of morals, all consistent with a narcissistic personality. In addition, Warnick claims that the Enron culture was where appearances mattered the most, where if employees could beat each other with an idea, they felt rewarded (Madsen and Vance, 2009). As a result, executives at Enron were measuring employee performance based on appearance rather than performance, which resulted in Enron's demise. These examples show how narcissistic behaviors by business leaders can create narcissistic organizational identities that result in unethical practices.

In a 2005 report, Mary Lynn Rapier conducted a study to find the common themes of narcissistic business leaders. Rapier, in her interviews, found hubris to be a common theme of narcissistic CEOs. The Merriam-Webster Dictionary (2010) defines hubris as an exaggerated pride or self-confidence. In today's corporate world, actions such as takeovers, corporate expansion programs, and disregard of the rules signal the presence of hubris (Raiper, 2005). "These actions sometimes imply that the firm's management believes that the world, and the major forces in it, including financial markets, government regulators, and competitors, have no impact on them, and that they are not governed by the same forces" (Raiper, 2005, p. 67). According to Mr. Warnick, the Enron insider, this was exactly the case. For example, executives at Enron formed mergers, sought takeovers, removed all the caps on compensation, sought SEC



approval for complicated and manipulative finance procedures, and fostered a cut-throat internally competitive culture with faulty reward system. With its enhanced egos, a sole focus on money and a lack of morals, Enron was blindly arrogant. The leaders of Enron deceived themselves into believing their creative accounting business model was not fraudulent but rather a legitimate money making strategy that could revolutionize the energy industry.

A main component of narcissism that is detrimental to an organization is self-centeredness. Carmeli and Sheaffer (2008) argue that psychological leadership issues such as self-centeredness, narrow managerial viewpoints, resulting in adopting short-sighted corporate strategies like ‘downsizing’ that contribute to an organization’s decline. In the case of Enron, the self-centered leadership style contributed to the termination of many employees. It is noted that firing employees may not be considered ‘downsizing,’ but both actions have identical results. Many Enron employees lost their jobs because they were not supportive of Enron’s unethical practices, especially when these practices were to serve their self-serving agendas. However, from the perspective of the company, self-centered leaders can rationalize that employees were laid off due to ‘periods of difficulties,’ a common reason for downsizing.

Rationalizations of this magnitude are quite common among narcissistic business leaders. For example, Mr. Warnick, in his interview (2009) claimed that Enron executives “really believed they were acting ethically” and that they “believed they were creating a new business model” (Madsen and Vance p. 220). Therefore, this sort of rationalization to classify firings as downsizing is not farfetched. What is important to grasp however, is that these short sighted solutions can negatively affect an organization, as was the case in Enron. The company fired employees who did not support these unethical practices and liberally rewarded those willing to

execute the company's unethical practices, leaving the company with self-centered, narcissistic personnel, which ultimately led to the company's downfall.

A retrospective look into the infamous fraudulent scandals brought forth by Enron may indicate that there is a relationship between the financial industry and narcissistic CEOs. According to Amernic and Craig (2010), there is a direct relationship between financial accounting and narcissistic CEOs. They conclude that financial accounting has special features, like quarterly earning reports, that facilitate a CEO's narcissistic personality. Specifically, these "published profits results are an ideal means for narcissistic CEOs to satisfy their intense need to have their superiority continually reaffirmed" (p.85). That is, the sole act of publishing an earnings report serves as a measuring stick (or personal report card) to satisfy a narcissistic CEO's need for frequent applause. Given this observation, it is easy to recognize and make sense of the unethical actions by Enron executives. All the financial reporting of false and over inflated profits were not only to make this executives rich but also to stroke their over inflated egos. This example illustrates that financial accounting, when combined with extreme narcissism, serves as a *potential* precursor for unethical behavior in corporations.

### **Conclusion**

I have elaborated upon my thesis on ways narcissism negatively affects an organization and on the relationship between narcissism and the financial industry, namely accounting. These topics must be continually researched and discussed to raise awareness of the relationship between a narcissistic personality trait and its effects on an organization. Raising public awareness about this relationship should be of concern to us because it will put a primary emphasis on ethics and morality back into the front seat of business. As was illustrated in this discussion, narcissistic individuals highly influence the identity of an organization and how it

behaves. Hubris, rationalization, self-centeredness, denial, and adopting short sighted strategies can result if we continue to ignore the potential effects of narcissism on a corporation.

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