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Analyzing And Managing Deviant Organizational Leaders

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Submitted to the Program of Organizational Dynamics in the Graduate Division of the School of Arts and Sciences in Partial Fulfillment of the Requirements for the Degree of Master of Philosophy at the University of Pennsylvania
Advisor: Ruth L. Orenstein

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Abstract
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ABSTRACT

This thesis presents a theoretical analysis for understanding and managing the root cause of the unscrupulous activities carried out by contemporary organizational leaders across a variety of industries. The current socio-economic impact of these actions requires that we thoroughly understand the characteristics that precipitate them. This analysis incorporates the work of Otto F. Kernberg, M.D. in *Ideology, Conflict and Leadership in Groups and Organizations* (2002) on the psychology of behavior of individuals, leaders and groups within organizations. *Suffering Souls, the Search for the Roots of Psychopathy* (2008) by John Seabrook is referenced in addressing the similarities between the characteristics of non-violent psychopaths and those of deviant organizational leaders. The work of Philip E. Tetlock, Ph.D. (1999, 2000) on accountability and responsibility within organizations is referenced along with that of Kim Cameron, Ph.D. (2003, 2004, 2005) on ethics, virtue and Positive Organizational Scholarship. The origins, popularity and limitations of organizational controls for unethical and illegal practices are discussed. The Baptist Healthcare Corporation model (2005) for operational effectiveness is presented to support the positive impact a dedicated, ethical and driven organizational leader has. Positive Organizational Scholarship (2005) as defined by Kim S. Cameron as a way of spreading what organizations do well is presented as part of the education needed to emulate what good organizations do. My conclusions are supported by my own experiences and the theories discussed, pointing to individual leaders as the primary drivers of managing and eliminating organizational deviance.

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CHAPTER 1

INTRODUCTION

Deviant is defined (Berube; 1982, 1985) as “differing from a norm or from the accepted standards of society” (p.389). It can be used to describe a person whose behavior and attitudes differ from what is considered to be normal or from acceptable social and moral standards.

During the spring, 2003 term, I participated in the Organizational Dynamics course, Understanding and Preventing Organizational Deviance. It provided me with my first introduction to the term deviant organization. That term was used to describe the very powerful influences that criminal and unethical actions and behaviors conducted by individuals within large organizational structures can have on their members (Ermann & Lundman, 2002). Corporations, religious cults and the military were examples of the types of organizations examined during the term. What I learned in this course immediately resonated with me because of my own experiences with the effects of organizational miscues throughout my career.

Over ten years ago, I left a career in the mortgage industry after fourteen years of underwriting prime and sub-prime loans. When I entered the industry, only prime loans underwritten within the strict guidelines of investors Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal Housing Administration (FHA), and the Veterans Administration (VA) were being made by mortgage corporations. There were strong organizational and industry wide standards for granting loans based on sound credit decisions. All were considered the standard means to organizational profit, sustainability and career success.

During the latter four to five years that I spent in that industry, organizational deviance became routinely accepted behavior within many of the sub-prime lending organizations that I worked for. The former emphasis on sound credit decisions had quickly become secondary to profit. Loans were often made to the detriment of unqualified borrowers. The high level of income they produced for the organization, senior executives and salespeople had become the sole purpose for approving them. The income was derived from the fees paid by customers and the investment entities that the loans were eventually sold to. This organizational practice quickly became very common and eventually became normative behavior throughout the sub-prime mortgage industry.

Organizational leaders influence not only those internal to their organization but those external to it such as their peers, the industry, other industries and society. When organizational leaders become addicted to, indifferent to and unafraid of risky actions, behaviors and practices, they can adversely impact and ultimately destroy the long term success and viability of their positions, careers, organizations and industries.

Organizational leaders are able to establish standards, rewards and penalties that drive complicity in deviant actions (Ermann & Lundman, 2002). When I refused to make loans based on unsound criteria at a company that I worked for, the president and owner told me that I was going to put him out of business. I responded that no, I was trying to keep him in business. He eventually went out of business because the high number of defaulted loans made by his organization left him unable to repay the organization's creditors. Overall, I worked for several different sub-prime lending organizations, always resisting the departmental and organizational pressures by each to approve bad loans. I wondered how and why the formerly established business practice of making sound credit decisions had disappeared so quickly. And I wondered why making loans outside of the former criteria was now normal and acceptable. I could not understand why so many employees were willing to carry out this behavior in light of its potential harm to themselves, customers and their organizations. Conflict arises between an individual's values & strengths (Drucker, 1999) and is resolved based on whether those individual values allow that person to carry out or reject the behavior. Eventually, I realized that the industry was operating against my values and I could not work within it.

Individuals within work organizations must be concerned not only with the results of their actions within the scope of their jobs but also the effect on the organizations that they work within. They must be concerned with the impact that their actions as workers and participants in an organization have on the organization as a whole, on other organizations within our society and on the global society (Drucker, 1972). Individuals are inherently responsible and accountable for their own actions and behaviors within an organizational structure and I place this same social responsibility on myself.

A president or chief executive officer with a propensity to ignore standards will use limited organizational oversight (Ermann & Lundman, 2002) and or deferential subordinates to manipulate organizational functions and processes to increase their own financial gain. In the sub-prime mortgage industry, that included authorizing, encouraging and eventually demanding that unqualified borrowers be granted loans they could not afford and that would likely result in foreclosure of the borrower's home. Employees had to comply with this deviance or be ostracized and forced to leave or be fired. Organizational leaders and compliant subordinates reaped the tempting financial rewards of this practice and eventually nearly an entire industry was influenced into participating in similar conduct. To stay competitive, many mortgage companies adopted the risky but financially rewarding behaviors of their peers until it became the industry standard.

My interest in examining organizational deviance was further propelled by the three well known scandals involving former corporate leaders Bernard Ebbers (WorldCom Inc.), John Rigas (Adelphia Corporation) and L. Dennis Kozlowski (Tyco International Ltd.). The criminal activities these men carried out within their organizations were uncovered and each man along with his accomplices was tried, convicted and sentenced to long prison terms. During the same timeframe, other criminal incidents of deviance by corporate leaders were identified at Enron Corporation, Credit Suisse First Boston and Martha Stewart Living. All resulted in the prosecution and conviction of the offenders. All six organizations represented different industries and each had a chief executive or senior leader who directed illegal actions for his or her own financial benefit as well as that of their accomplices (Hayes, 2005).

The WorldCom, Adelphia and Tyco organizations brought in new chief executive leaders and enacted corporate governance and ethics oversight processes that were intended to prevent any similar episodes by their new leadership. Enron was the only one of the six organizations that was completely destroyed as a direct result of the extensive criminal actions that took place there and was forced to go out of business. At the time, Enron's destruction seemed to be the exception to similar crimes. New and strengthened corporate governance structures, ethics programs, ethics departments, ethics hot lines and ethics training soon became trends across all types of corporate industries including the major pharmaceutical organization that I worked for at the time. All employees at my former organization were required to participate in both group seminar and self paced ethics training sessions.

My experiences have provided me with direct insight into how the manipulation of organizational standards can lead to unethical organizational and industry norms with the power to cause the substantial social and economic devastation we are experiencing today. The sub-prime mortgage industry has imploded as a result of adopting routine unsound lending practices over the long term as the typical and acceptable way of conducting business. Our country is now in the midst of addressing the extended socio-economic ramifications of continual unsound business practices across many banking, insurance and manufacturing organizations on us and the world.

As of mid-February 2009, the Federal Bureau of Investigation (FBI) was investigating approximately 530 cases of corporate fraud. Thirty-eight of those cases involved well known finance corporations whose actions have been associated with the current national economic downturn (Barrett, 2009). In this thesis, I will attempt to understand why only a few years after several well publicized scandals and the popularity of organizational and governmental controls, so many similar activities continued to occur with unprecedented global socio-economic consequences.

This thesis applies the competencies (e.g.: knowledge, skill and creativity) that I have gained from the Organizational Dynamics program at The University of Pennsylvania. I will analyze perilous organizational behavior as a fundamental exercise in learning how to understand and manage it. I consider how established theories, models, and cases of corporate deviance, effective management, ethics and corporate governance can be used to understand both the individual and the organizational complexities that convert such conduct into normal practice. I will address how the background of an organizational leader can influence that role. I will conclude by recommending steps that organizational leaders can take to identify and understand individual behaviors in order to monitor and control organizational weaknesses that enable deviant behaviors.

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CHAPTER 2

DEVIANT ORGANIZATIONS

The use of metaphors in describing business organizations can lead to a greater understanding of and determining the nature of, the weaknesses within them (Morgan, 1998). By defining an organization abstractly such as being sick, with departments that remind workers of kindergarten, a better external perspective is gained in understanding the organization, its departments and the problems encountered by those working in them. It then becomes easier to understand and map out a potential solution to the problem. An abstract version of a problem provides a visual cue to the problem. The individual interactions and organizational activities that contribute to employees feeling as though they are in kindergarten can be uncovered and their causes examined. Positive changes can be developed, implemented and measured with a new metaphor of how employees feel. The new metaphor will indicate whether or not the problem has been resolved. If the same employees later report feeling treated like high school freshmen then it's likely that improvement has occurred but more investigation and changes need to occur. When the employees report honestly that they feel treated like mature adults, then it is likely that the identified causes and implemented changes were successful.

As an underwriter, the various sub-prime mortgage organizations that I worked in could be described as dictatorships. Even though I was hired to make sound independent credit decisions, department managers and senior executives constantly interceded with my freedom and obligation to do so. My job role was a disguise, a facade that created an image of lending propriety and standards within the organization. I didn't know that my job was an industry façade until I had held the role within several organizations whose leaders all demanded that I comply with routinely making loans outside of sound credit granting criteria.

The mortgage business like any other is dependent on customers seeking its services. Low periods of customer demand for loans set the stage for the corrupt manipulation of standards by the organizational leaders. Senior management continually emphasized meeting individual and departmental loan goals even though there were no adjustments in those goals to account for fewer customers making loan applications. The following are examples of loans that were manipulated and approved by management after I had rejected them. Each incident occurred during a period of slow demand for mortgage loans when the number of unqualified applicants typically outnumbers solid ones.

- A self-employed borrower was turned down for a loan based on insufficient income. A short time later the same borrower was approved for the same loan request when he provided the department manager with a revised set of tax returns inflating his income to an amount sufficient for our investor's income requirements.
- A retired fixed income borrower who fit most of the loan requirements was approved for a refinance loan. She had only $100.00 in disposable income remaining after making her mortgage payment each month. Her loan was inflated by the exorbitant fees charged by her broker and the mortgage company.

- An appraisal of a property in a flood zone was re-written by the appraiser at the underwriting manager's request stating that the property was not in a flood zone. This was done because the customer was a high risk. His total debt was at the maximum acceptable level for the loan. The additional cost of flood insurance on the property would have made him ineligible for the loan.

In each of these cases, loans were made to customers who really could not afford them. The self-employed borrower did not earn the income needed to make his loan payments and would likely default on his loan at some point. The fixed income borrower could afford her loan as long as she incurred no other new debts or unplanned needs for cash. This was a risky and unlikely assertion to make. The borrower whose home was in a flood zone could afford his loan but could likely lose his home under the realistic possibility of flood damage or destruction. Management was also putting its collateral at risk. All of these loans had been rejected by me for not meeting valid and real credit standards.

The metaphor of a lending organization as a dictatorship with the title of underwriter being a facade is a very descriptive approach to pinpointing the source of its weaknesses. It immediately implies that possibly there are enforced improprieties taking place that need to be addressed. The subtlety of general claims of dissatisfaction with work, processes, management or the company makes detecting the true sources of organizational malpractice more elusive and difficult to detect.

Although business organizations know and understand the inherent long term risks of unethical behaviors, the immediate perception of success, financial gratification, and material wealth attained by the organization’s leadership supersedes any restraint against the known ethical dilemmas and risks. Organizations provide a framework in which these activities can perpetuate but it is the decisions of the individuals that lead and function in them to comply with or reject unethical practices. Each individual has responsibility for managing and preventing unsound business activities by virtue of whether they choose to cultivate and participate in them or not.

CHAPTER 3

DEVIANT ORGANIZATIONAL LEADERSHIP

In American society, being a president or chief executive officer of a large corporation is typically synonymous with leadership skill and competence. Being a long term leader in such an organization or industry is considered synonymous with being a good leader. Attaining a leadership position in business provides instant stature and a deferential following of replaceable (Ermann & Lundmann, 2002) organizational members. Whether the leader is capable or not, has truly earned the position or not, the power to influence others belongs to him or her.

Drucker (1972) states:

> Nothing is more dangerous, and nothing is more common than the appointment to the top command of a brilliant lieutenant whose emotional and intellectual capacities for an independent position have neither been developed or tested (p. 29).

Late social philosopher Peter Drucker's theories about individuals and the organizations they work within are very useful in understanding leaders involved in corporate scandals. He defined himself as a social ecologist (Drucker, 1993) who examines individuals and the organizations they work within. He was interested in how the politics and economics of a society affected the individuals in that society and the resulting level of satisfaction with life experienced by them.

Former WorldCom chief executive officer Bernard Ebbers was born and raised in Alberta Canada. His first jobs were as a milk deliveryman and as a bouncer. He entered Mississippi College on a basketball scholarship, graduating in 1967 and remaining in Mississippi as a physical education teacher. In 1974, he invested in a local motel, and in 1983 he invested in a telecommunications company, Long Distance Discount Service, LDDS. He became chief executive officer of LDDS in 1985. In 1995, the successful LDDS acquired a voice and data transmission company, named Williams Telecommunications Group. The merged companies became WorldCom, Inc and Ebbers remained as chief executive officer (Hayes, 2005).

On March 15, 2005, Ebbers was found guilty of fraud, conspiracy and the filing of false documents during his leadership at WorldCom, now known as MCI. The charges against him were related to 11 billion dollars in accounting irregularities at WorldCom. Ebbers resigned his position on April 30, 2002, after the Securities and Exchange Commission began an investigation into why WorldCom had apparently authorized 366 million dollars in personal loans to Ebbers. A March 11, 2002 press release from WorldCom stated that its accounting practices were being investigated by the Securities and Exchange Commission. WorldCom had made a questionable 366 million dollar loan to Ebbers to account for a drop in value to shares of WorldCom stock Ebbers had placed as collateral on a personal line of credit (Hayes, 2005). After testifying at trial that he did not participate in the accounting fraud, Ebbers was found guilty and sentenced to 25 years in prison. He could have received a maximum of 85 years (Hayes, 2005).

Failure is taboo in American society and the thought of it can be haunting to many individuals (Sennett, 1998). It perpetuates existing feelings of insecurity and low self esteem (Sennett, 1998). It morphs into internalized fears of losing control of the success that brings material wealth, high esteem and a source of identity (Sennett, 1998). The prosecution contended that Ebbers directed fraudulent accounting entries in order to preserve his wealth which was tied to

WorldCom's stock performance (Belson, 2005). From early 1999 through first quarter 2002, WorldCom financial statements overstated income by approximately 7.2 billion dollars to mislead investors (SEC, 2002) and inflate its stock price (Belson, 2005).

Ebbers came from a modest economic and social background, dropping out of college twice before coming to Mississippi At some point, he formed expectations for what our society calls the American Dream or the promise of individual fulfillment and the (Drucker, 1972) “promise of status and function as an individual” (p. 136). Over a period of twenty-four years, Ebbers went from being a physical education teacher making a modest investment in a local motel to chief executive officer of a multi-billion dollar telecommunications corporation with 80,000 employees (Hayes, 2005).

Ebbers’ exceptional socio-economic rise to status, power and wealth was not likely something he wanted to lose his grip on. *In Adventures of a Bystander* (1978), Peter Drucker writes that he had finished writing The *Future of Industrial Man* (1942) by concluding:

> Business enterprise has become the constitutive institution of industrial society and the institution within which principles of governance and the individual's status and function have to be realized (p. 256).

Drucker believed the existence of organizations and the income they provide to workers are not the final goals of the individuals who work in them. American society promises (Drucker, 1972) “individual fulfillment” [through] “the promise of status and function as an individual” (p.136).

Ebbers appears to have been looking for the realization of some idealized goal (Drucker, 1972) that was over and above the achievement of creating and running a large and successful corporation and the legitimate economic rewards that it provided. He had no formal business education and by chance, not by knowledge and experience in the industry, was able to invest in and become a leader in the expanding telecommunications field.

Former WorldCom chief financial officer Scott D. Sullivan and former controller, David F. Myers both pled guilty to participating in Ebbers' fraudulent accounting scheme (AP, 2005). Sullivan testified at Ebbers' trial that he tried to talk Ebbers out of inflating WorldCom's earnings and stated that Ebbers pushed back by emphasizing the need to meet the expectations of Wall Street investment analysts. Sullivan said he then ordered Myers as head of the accounting department to make sure the earnings figures were changed. Two accountants under Myers threatened to quit in protest but he persuaded them to stay by saying these types of accounting changes would never be made again (Belson, 2005). Sullivan, Myers and one of the accountants who threatened to quit each were fined and received prison terms.

Unscrupulous organizational leadership begets the same throughout an organization. Deviant leaders create and maintain deviant organizations. Only the individual organizational leader can create and maintain the culture that permeates though out the organization. A deviant organization cannot change unless the individual leader of that organization is willing to change it. Sullivan testified that after telling Ebbers about the protests of the two accountants under Myers, Ebbers stated that he and Sullivan should not be asking them to make the fraudulent accounting changes (Belson, 2005). Obviously Ebbers decided not to stop the fraud or correct it before making the numbers public. And, neither did

Sullivan or Myers, the complicit leadership below him. Any one of these leaders could have rejected carrying out the fraud and stopped it from taking place even if they had to contact law enforcement. Three individual organizational leaders had the capacity to change the outcome of Ebbers' order and the ramifications to themselves, their subordinates, other employees, shareholders, their families and all others who were adversely impacted by this crime.

Kernberg (1998) wrote:

> There is such a thing as a poisonous organizational environment. It is noteworthy how often staff members who work in such a destructive environment deny to themselves the insoluble nature of the problems of the organization, indeed, gratify their pathological dependency needs by such denial, and fail to admit the need to move on (p. 74).

Apparently, the activities that Ebbers directed in the first quarter of 2002 were not the first time that similar fraud had taken place. In their official complaint against David F. Myers, the Securities and Exchange Commission wrote that during an approximately three year time period, the income that WorldCom reported to the public was (Blackburn, 2002) "artificially and materially inflated" (p.1). Ebbers, the individual, poisoned the WorldCom environment by proposing fraudulent practices and ordering subordinates to carry them out.

Over time, the negativity that results from unethical leadership activities will permeate to varying degrees throughout an organization and eventually defines the culture of the organization. Ebbers' lack of values and ethics, trickled down through the various WorldCom organizational levels, first to Sullivan, then Myers, to the staff accountants and then to the data entry workers who physically changed the numbers. Often, employees at these functional levels within the organization will deny the existence of the negativity and its impact on themselves and their positions within the company. These employees will try to justify the organizational negativity by accepting and giving credence to the demands of the organizations' leader simply because he or she is the leader. This is passive acquiescence to the deviant leader's orders and supports the belief that rather than strongly challenge or refuse to comply with the leader's behavior, many organizational members will automatically default to the notion that the demands of the leader occupying that role must be carried out. Myer's reacted to Sullivan's orders the way Sullivan did to Ebbers', by doing what he was told. The accountants under Myers originally rejected Myers orders and threatened to quit their jobs. Myers was able to persuade them to stay and participate in that incident under the guise of it never happening again. The Associated Press (AP) reported during Ebbers' trial, that Myers blamed much of the accounting fraud on Sullivan (AP 2005). Myers could have stopped the deviance from permeating further into the organization but he didn't.

When employees have a realistic perspective of the existence of and source of the negativity within their organization, they can be more objective about the failings of the leader, the organization and the impact it has on themselves and their careers. At this point, an employee is better able to make the decision to leave the security of the organization and the negativity that goes along with it. A time comes when (Kernberg, 1998) "the individual has a responsibility to him or herself that transcends the responsibility to the organization" (p. 74) and being aware of organizational controversy enables him or her to realize when that time has come (Kernberg, 1998). Sullivan and Myers could also have prevented Ebbers' schemes from being carried by leaving the organization and refusing to participate in and perpetuate them. This would have placed a void where Ebbers' needed complicity and depending on the timing may have prevented him from finding another accomplice to help carry out the fraud.

In the year 2000, Forbes Magazine stated Ebbers' net worth at 780 million dollars. For the typical individual in our society, whether from humble beginnings or not, this level of financial success would be more than enough to satisfy a desire for attaining social and financial success (Hayes, 2005). Greed, fear of failure and the prospect of losing power and the accompanying status may have all been factors in Ebbers' downfall. Those are simplified conclusions to reach but aren’t specific enough to truly try to understand his decisions and actions. What needs to be examined further is a determination of what propelled him to develop those characteristics. Chapter 4 will examine psychological traits, their role in defining an individual's perception of ethics, values, accountability and responsibility, and how they culminate into the actions, beliefs and behaviors of a fallen leader like Ebbers.

CHAPTER 4

BEHAVIORAL PSYCHOLOGY

In order to understand the root cause of deviant organizational leadership tendencies, it is necessary to understand the psychology of such individuals. Narcissism (Berube; 1982, 1985) is “excessive love of and admiration for oneself” (p. 830). Narcissistic personalities are often motivated by a powerful desire for authority and status (Kernberg, 1998). This attracts them to authoritative roles and they often hold lofty leadership positions (Kernberg, 1998). Narcissistic traits counteract the creative contribution that typically intelligent, ambitious, capable, and gifted individuals can make to an organization (Kerenberg, 1998). Kernberg (1998) goes on to say that narcissistic leaders preserve close connections with associates who are compliant and will act on the leader's orders, thrusting more truthful and consequently, essential employees to the sidelines. The WorldCom relationships of Ebbers and Sullivan and Sullivan and Myers and Myers and two of the accountants reflect this.

Kernberg (1998) writes:

> [Pathologically narcissistic leaders] may neglect the functional requirements of leadership, the human needs and constraints involved in the work, and the value systems that constitute one of the important measures against which to judge administrative and technical responsibilities (p. 83).

The mortgage company president that I previously worked for reacted with frustration at his inability to intimidate me into making unsound credit decisions. He wanted me to feel guilty for not making bad loans that his company could then benefit financially from. The financial impact of my not making bad loans was his priority and he supported this point of view with only his needs in mind.

There was no apparent concern for the impact to customers or the ethics of encouraging a staff member to make inappropriate decisions. He had also strategically placed members of his family into high level positions in the organization, including head of the sales division. In hindsight, I understand how his family members allowed his message to resonate throughout the organization.

Compliant associates are typically necessary to assist the deviant organizational leader in carrying out and or covering up the deviant activity. This was true in the cases of Ebbers who involved his former Finance Chief Scott D. Sullivan, Kozlowski whose accomplice was former Chief Financial Officer, Mark Schwartz and Rigas who relied on two of his sons who were officers in the organization, in addition to Adelphia’s former Assistant Treasurer and former Vice President of Finance.

In the conversation Ebbers and Sullivan had to conspire what turned out to be their final act of fraud, Ebbers seemed more afraid of the impact of not reaching projected financial goals for WorldCom than he was of the ramifications of being caught (Belson, 2005). Just like the mortgage company president, Ebbers' focus was on the organization appearing to be financially successful and the real status and wealth that would accompany that appearance of success. Both men knew that they were creating their wealth in an unsavory manner but continued their actions until they destroyed their images and their careers.

In *Suffering Souls, the Search for the Roots of Psychopathy,* John Seabrook (2008) writes about research that makes a valid case for classifying some perpetrators of white collar crime as non-violent psychopaths. He states that it rejects the view that a distinction be made between violent murderous psychopaths and non-violent corporate criminals. Seabrook writes that the research concluded that both types of offenders are willing do whatever is necessary to achieve their desires. The research raises the rhetorical question of whether a serial killer causes more tragedy than the culprits at Enron did due to the many destroyed lives and suicides that followed as a result of so many people losing their jobs and pensions (Seabrook 2008).

A psychopath is able to hide behind a perfect mask (Seabrook, 2008) “of normal emotions, fine intelligence, and social responsibility [a hideously] disabled and irresponsible personality” (p. 67). In reality, psychopaths have a (Seabrook, 2008) “severe emotional detachment” (p.64) that causes a complete (Seabrook, 2008) “lack of empathy and remorse” (p. 64). The ability to hide behind a mask of normalcy is a common denominator among many deviant business organization leaders. Often, the comments from those who know the offender are astonishment and doubt that the offender would have planned, been involved with and carried out the acts he or she is accused of (Seabrook 2008). The offender’s external persona is seldom an indicator of the extent of his condition (Seabrook, 2008). Convicted Ponzi schemer Bernard Madoff has been described as being (Creswell and Thomas, 2009) "affable" and "charismatic" (pg. 1). Creswell and Thomas (2009) write Madoff appears to share many of the destructive traits typically seen in a psychopath. (Creswell and Thomas, 2009) “That is why so many who came into contact with Madoff have been left reeling and in confusion about his motives” (p.1).

(Seabrook, 2008) “The individualistic winner-take-all aspect of American culture nurtures psychopathy [and psychopaths] are more prevalent in individualistic societies in the West” (p. 67). It’s obvious that American society’s focus on economic status, material wealth and admiration feeds, to some degree, the corrupt actions taken by organizational leaders as a means to achieving these representative notions of success. With the undeniable psychological component of deviant behavior acted out by organizational leaders, serious attention should be given within our society to developing successful ways of identifying, monitoring and controlling this extremely destructive behavior.

Kernberg (1998) developed some points for uncovering an existing or potential organizational leader’s proclivity for deviant behavior.

- Are his or her social skills a façade?
- Is his or her sense of accomplishment based on the work and the inner working of the organization or the status, wealth and recognition the work provides?
- Is he or she deeply committed to professionalism?
- Does the person exhibit the courage of his or her convictions?
- Is the person devoted to developing and nurturing subordinates or envious of them?

These points are quite valid and really must be taken seriously by organization members. Our society must learn to focus on characteristics and behaviors as the primary controls against criminal and unethical actions within business organizations. The use of proven reliable methods for determining and monitoring the potential for anti-social behaviors in individuals that lead and work in business organizations is essential to preventing it. Organizational controls such as corporate governance and ethics structures are insufficient in preventing unscrupulous behaviors and actions carried out by psychologically flawed organization members. Individual organizational leaders are responsible for recognizing this point and adequately addressing it.

CHAPTER 5

ORGANIZATIONAL CONTROLS

The Sarbanes-Oxley Act of 2002 was created as a direct result of the biggest financial scandals and bankruptcies in American history, including those at WorldCom, Tyco and Enron. It is generally considered to contain some of the most significant revisions in federal securities laws since the 1930s (Street Authority, 2009).

Street Authority (2009):

> In general, Sarbanes-Oxley raised financial standards in three main areas: corporate governance, securities analysis, and the performance of audit work....One of the most important goals of the Sarbanes-Oxley Act is to ensure that company directors and officers are aware of and accountable for the financial condition of the companies they manage (p. 1).

The question arises as to whether or not enough was learned about what drove the actions of Ebbers and other recently fallen corporate leaders. Understanding all of the factors contributing to their behavior could have helped to curtail or prevent the proliferation of subsequent actions by organizational leaders. The viability and success of corporate governance as a control factor for organizational deviance was grossly miscalculated. Individuals invent, plan, and conduct deviant actions and corporate governance is an organizational control that is only as effective as the individual organizational leader allows it to be. This includes the individual directors that sit on organizational boards and their acceptance and adherence to the responsibility that the Sarbanes-Oxley Acts holds them accountable to.

It is very important to understand why the implementation of the Sarbanes-Oxley Act and the popularity of governance and ethics programs across American business industries just a few years ago, did not stop the proliferation of precarious actions by corporate leaders from expanding to its' current magnitude.

Such activities within business organizations are far too common in American society today. They thrive on, promote and maintain negativity to, at the very least, the detriment of those who are economically dependent on the livelihoods business organizations provide to them. As we know today, such business organizations can be detrimental to employees, their families, customers and shareholders, their communities as well as geographical regions, states, the entire country, society and the rest of the world.

Kim Cameron (2003) writes that people tend to create their own standards in a constantly changing environment. He believes that the high pressure and high velocity of change occurring in many professions leads corporate leaders to make up their own rationale for what is acceptable behavior and action. Perhaps, corporate mission, vision and values statements, ethics standards and governance controls, were regarded as simply being a part of the continual flow of business information, trends and changes that these leaders were managing. They may have expected that these controls would be temporary trends that would not last and so, disregarded them. Ethics programs establish the ethical climate that is driven by and perpetuated by formal organizational mission, vision and value goals (Spencer et al., 2000).

Cameron (2003) writes that these constantly changing conditions are the very reason why morals, ideals and principles are needed. They serve as a predetermined framework within which to think and act (Cameron 2003).

Integrity strengthens a set position (Cameron, 2003), a standard, a boundary within which ones behavior and actions must fit. Deviant organizational leaders are very inwardly focused. They thrive on social status and visibility, lavish material possessions and industry recognition. If they look outwardly, too far beyond their own immediate needs and gratification, they would be faced with the impact their choices and behaviors have on others. They would need to examine their own commitment to values and ethics, responsibility and accountability. They would need to face the nature of who they really are.

The Committee on Oversight and Government Reform (Oversight: About, 2009) "is the main investigative committee in the United States House of Representatives. It has jurisdiction to investigate any federal program and any matter with federal policy implications" (p. 1). In 1998, United States (Oversight: Issues, 2009) "Representative [Henry Waxman] formed the Special Investigations Division to conduct investigations into issues that are important to members of the Oversight Committee and other members of Congress" (p. 1). Corporate Accountability, now one of the categories of issues being investigated was likely created in part to do with the loopholes in the Sarbanes-Oxley Act. Executive compensation structures across various organizations are now under investigation by the Oversight Committee. (Marco, 2008) "I think there's merit to pay for performance…. But it seems like CEOs hit the lottery even when their companies collapse" (p.1).

A formal and documented oversight process in a business organization should be in place to define the role of the board of directors in managing acceptable boundaries of business actions carried out by the chief executive officer, president, executive management and senior level management. A corporate charter is created to define the formal corporate governance guidelines and references all sub-categories of oversight committees created by the board of directors. These sub-categories of oversight include Audit, Compensation and Benefits, General Issues, Codes of Conduct, Ethical Standards, Processes for Nominating and Contacting board Members. Each sub-category has a separate charter outlining and defining the controls in place for managing oversight in each of these areas of corporate activity. Oversight of functional level employees is typically covered in Codes of Conduct and/or Ethics Guidelines.

The corporate titles of president, chief executive officer and chairman of the board were historically held by three separate individuals within an organization. Over time, these roles have commonly been combined as 1) president and chief executive officer, 2) chief executive officer and chairman of the board and 3) president, chief executive officer and chairman of the board. The combining of these roles blurs and reduces the level of objective oversight of organizational leadership. The title, chairman of the board is seldom the only position the holder has within the organization. When the president is also the chief executive officer and the chairman of the board, obviously the board of directors cannot have true independent and objective oversight and control of the activities of this individual.

Weak corporate governance structures and capabilities along with weak boards of directors basically set the stage for unscrupulous behavior by a president or chief executive officer. The success and sustainability of corporate governance oversight is directly dependent upon the level of deviant tendencies held by the organization’s leader. It is supported and maintained by the organization but it is dependent upon the beliefs and motives of the individual leader.

CHAPTER 6

MORAL PRINCIPLES

Accountability and Responsibility

(Green et al., 2000) "Accountability, the social pressure to justify one's views to others, has repeatedly been shown to influence how and what individuals think" (p. 1380) Individuals also may respond to accountability by conducting themselves in a manner that assists them in evading or reducing the demands that accountability generates (Green et al., 2000). This would be much like the guilty Bernard Ebbers during his trial, acting astonished and bewildered that he could possibly be accused of directing the WorldCom accounting fraud.

Maintaining the core sense of self is a factor only when visibility of a deviant action threatens the actor and excuses are used to validate ones self as acting within social norms (Markman and Tetlock, 2000). It is an interesting claim that a deviant actor has and protects a core self when the deviant act is uncovered but apparently does not see the need to protect that core self while carrying out the deviance. Once the deviance is uncovered then the offender retreats behind a veil of upstanding citizenship. Lerner and Tetlock (1999) wrote that socially uncomfortable individuals show a greater likelihood of going along with the views of their potential listeners. This could explain why Ebbers told Congress that he did nothing wrong, pled innocent to the charges against him, and denied having any responsibility in the WorldCom trial during testimony at his trial (Hayes, 2005). He may have felt that if he portrayed himself as being like an upstanding Congress person, prosecutor and jury member, those individuals would believe he really was like them and be unable to find him guilty.

Ethics and Virtue

Ethics are a distinct system of values and vary slightly at most between organizations (Drucker, 1999). Ethical behavior in one organization is equivalent to that in another (Drucker, 1999). Individual values and organizational values must be compatible (Drucker, 1999). My values clashed with the values of the sub-prime mortgage industry. I left it because my values and ethics were constantly clashing with the ethics, values and cultures established by the leadership in the organizations that I worked for. My standards could not be broken in order to follow those of the sub-prime mortgage industry. Their leaders were inclined to produce damage and not to generate goodness (Cameron, 2004). They did the opposite of what is principled and just in a civilized society.

Only individuals that respect, value and practice ethical beliefs will be inclined to respect, value and adhere to the controls defined by federal law and within the corporate governance and ethical behavioral standards established by an organization's objective and independent board of directors.

Cameron (2004) writes:

> Recently, it has become clear that in high pressure, high velocity environments, some people in the energy-trading, telecommunications, and accounting industries simply made up their own rules (p.1).

In 2008, untold numbers of long term deviant actions by corporate leaders within and often across entire industries were being uncovered. The American government and the American public were not prepared for the resulting onslaught of business and industry failures or the eventual financial and economic ramifications presently impacting everyone in our society and culminating in a broad global impact.

Values and principles serve as fixed boundaries (Cameron, 2004) within which appropriate beliefs and conduct fall. Veering outside of those boundaries leads to areas of inappropriate actions and behaviors. Values and principles are universal (Cameron, 2003) and consistent. Damage is the consequence of unethical behavior (Cameron, 2003). Ebbers' unethical behavior damaged himself and those who conspired with him and/or carried out his orders, WorldCom's shareholders, other employees and the families of all. The sub-prime mortgage industry, its organizations and their leaders harmed customers, employees, families, investors, the real estate industry, construction industry, communities, our socio-economic state and that of the world.

Virtuousness is rewarding and contagious (Cameron, 2003). It makes individuals feel good and enables organizations to perform well in conditions of turmoil by providing stability (Cameron, 2003). While Ebbers, Madoff and others were so involved in their own harmful schemes of financial fraud for material gain and adulation, they had no idea that they were partners in creating possibly the most severe economic downturn in American history.

Cameron (2003) believes the best leaders of this century will be those who practice ethical and virtuous behaviors. They will be those who commit to using their organizational powers to consciously prevent doing any harm and at the same time ensure that the organizations they lead produce goodness and not just revenue (Cameron, 2003).

Cameron (2003) states:

> Ethics and virtues serve as fixed points in a sea of confusion. They enable self-reinforcing positive outcomes to occur, and they buffer individuals and organizations from the verities of a world in which harm,

damage, violations of principles, selfishness, and greed are likely to be everywhere (p. 4).

CHAPTER 7

BAPTIST HEALTH CARE CORPORATION

Baptist Health Care Corporation president and chief executive officer Al Stubblefield is an excellent example of an organizational leader successfully taking responsibility for changing the culture and performance of his organization for the better (Stubblefield, 2005). The positive impact of Stubblefield's efforts is the result of his focused determination to improve the functioning of his organization, the satisfaction of his employees and to provide excellent services for his customers (Stubblefield, 2005). In 2004, Baptist Health Care Corporation was awarded the Malcolm Baldrige National Quality Award (Stubblefield, 2005). The award was established by Congress in 1987, and is America's utmost tribute to innovation and performance excellence (NIST, 2009). The President of the United States presents the award annually to U.S. organizations (NIST, 2009). The award program is managed by the National Institute of Standards and Technology (NIST) along with private sector participation (NIST, 2009).

Drucker (1999) writes that management's attentiveness and its duty are all that affect the accomplishment of the organization and the results whether internal or external, within the organization's power or not. When Stubblefield became chief executive officer of the hospital system in 1995, Stubblefield faced patient dissatisfaction and low employee morale. He recognized the opportunity for improvement to be made in how the organization functioned. In his new position, he was passionate about the workings of the organization not the external accolades of status, position and money that drove Ebbers, Madoff and others.

Although medical care is rooted in ethics and the company was formed on Christian values and principles, over time its culture had still become unhealthy (Stubblefield, 2005). These two cultures did not by themselves maintain the original cultural tone of the organization. It took the concern and vision of an individual leader to create, drive and implement methods that brought the culture of the hospital back to those original standards. Stubblefield calls his transformed workplace a culture that *WOWs!* The acronym stands for ***W****orkers to become* ***O****wners and* ***W****inners* (Stubblefield, 2005).

WOWS! Keys to Performance Excellence (Stubblefield, 2005)

1. Create and Maintain a High Performing Culture
2. Select, Retain and Develop High Performing Employees
3. Commit to Exceptional Customer Service
4. Continuously Develop High Performing Leaders
5. Sustain High Performance Through Systems of Accountability

Stubblefield's methods serve as a remedy to Kernberg's (1998) points for uncovering an existing or potential organizational leader's proclivity for deviant behavior.

- Are his or her social skills a façade?
- Is his or her sense of accomplishment based on the work and the inner working of the organization or the status, wealth and recognition the work provides?
- Is he or she deeply committed to professionalism?
- Does the person exhibit the courage of his or her convictions?

- Is the person devoted to developing and nurturing subordinates or envious of them?

Drucker (1999) writes:

> Management is the specific and distinguishing organ of any and all organizations" (p. 9). "The task is to lead people and the goal is to make productive the specific strengths and knowledge of each individual" (p. 22).

Stubblefield has learned this by simply recognizing the need to train his physicians in the business leadership skills that are not usually a part of medical school curricula. He realized that in a hospital system, doctors are leaders and yet they receive no training to prepare them to be effective leaders.

Drucker (1999) wrote that "unless an organization sees its task as leading change, the organization will not survive" (p. 73).

Cameron (2003) states:

> [Virtuousness] is not only a condition of not producing harm, but it is a condition of doing good, honoring others, taking a positive stance, or behaving in ways where self-interest is not the driving motivation (p. 2).

Stubblefield and his unselfish efforts give credence to the power of an ethical, positive organizational leader to change an organizational culture that at the same time is financially successful.

CHAPTER 8

POSITIVE ORGANIZATIONS

Cameron and Caza (2005) noted "The ability or inclination of one to act in an appropriate fashion" (p. 1) is not frequently recognized as a valuable characteristic for successful leadership. It is conduct that associates accountability with what is right, correct or beneficial (Cameron & Caza, 2005). Positive Organizational Scholarship is a very useful leadership thought and behavioral process that focuses on values in order to maximize organizational functions and workforce contributions. It promotes a philosophy of making the most use of human potential in attaining what is good and right (Cameron & Caza, 2005). Ethics, values and virtue are beliefs and standards that constrain socially unacceptable behavior and actions (Cameron & Caza, 2005). Accountability and responsibility are duties that extend from ethics, values and virtue and all form the basis for Positive Organizational Scholarship (Cameron & Caza, 2005).

Positive Organizational Scholarship is about promoting and emulating what works right in organizations such as Baptist Health Care Corporation. It requires leaders such as Al Stubblefield with an ability to use their positions to attain goals external to themselves. These include goals relate to the product or service the organization provides as well as the operational functions and employee needs within the organization. It requires individuals who aspire to lead an organization by deviating in a positive direction from the basic maintenance of the status quo. It requires leaders whose own perceptions of success can be measured and satisfied by moving their organizations towards making positive enhancements that ultimately enrich the members of the organization as well as the customers and greater society that utilize the organizations products and or services.

Cameron and Caza (2005) write:

> Positive Organizational Scholarship focuses on spreading the knowledge of what goes right in organizations (rather than what goes wrong), what is life giving (rather than life-depleting), what is experienced as good (rather than bad), what is inspiring (rather than depressing), and what elevates individuals and systems (rather than diminishes them) (p.1).

Leaders within the realm of Positive Organizational Scholarship also are capable of utilizing their positions when possible for the greater good of those with no direct connection to the organization by doing humanitarian work and supporting humanitarian causes because it is the right way to behave and not because of publicity or other forms of reciprocation. These are the leaders that can set the tone for others to learn and emulate. These are the leaders and the personality types that organizations need to seek, embrace and develop as noted by Cameron and Caza (2005):

> Responsible leadership in the [Positive Organizational Scholarship] sense is unashamedly value biased. It emphasizes an affirmative orientation toward the enablement of positive human capability. Responsible leadership in the [Positive Organizational Scholarship] sense focuses on [what is out of the realm of normal but is also good] in that it focuses on extraordinary positive outcomes and the processes that produce them (p.1).

CHAPTER 9

CONCLUSIONS

The types of crises that occurred at WorldCom and other organizations can be minimized, avoided or eliminated only when organizations commit themselves to vigilant corporate governance, educating their workforces in standards of conduct and ethics that reinforce the effect that individual decisions, choices, actions, and behaviors can have on an organization and strongly enforcing those standards on a continual basis (Hayes, 2005). Positive Organizational Scholarship is a way to spread the necessary knowledge to emulate good and ethical value based ways of leading business organizations.

Individual actions inside and outside the context of an organization should be carried out with responsibility and accountability towards others. Leaders must be willing to influence, manage and change organizational cultures for the greater good and not simply their own needs. Individuals working at all organizational levels in all functional roles must learn and be encouraged to perform within the realms of ethics, values and virtue.

The current socio-economic crisis and its direct link from the behaviors and actions of unknown numbers of corporate leaders makes the need to focus on re-teaching and re-learning values, ethics, virtue and responsibility both necessary and dire to our survival as a society. Our society must redefine how children as well as teens and adults perceive status, achievement, wealth and material goods. We must develop people who will have the vision, willingness and capacity for the self control necessary to lead organizations unselfishly. We must remember and emphasize in schools and colleges that deviant organizational leadership is the foundation for potentially devastating, personal, social, financial, economic, national, and global ramifications. It is very important that the extended ramifications of this behavior be associated with the individuals who devised, carried out and participated in it.

Reliable methods for selecting and monitoring organizational leaders that incorporate screening tools for deviant and psychopathic tendencies must be developed, taught and utilized. We must remember that organizational and social systems are developed and perpetuated by individuals. Every individual needs to realize and accept his or her direct responsibility in contributing to the evolution, maintenance, success and longevity of those systems.

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