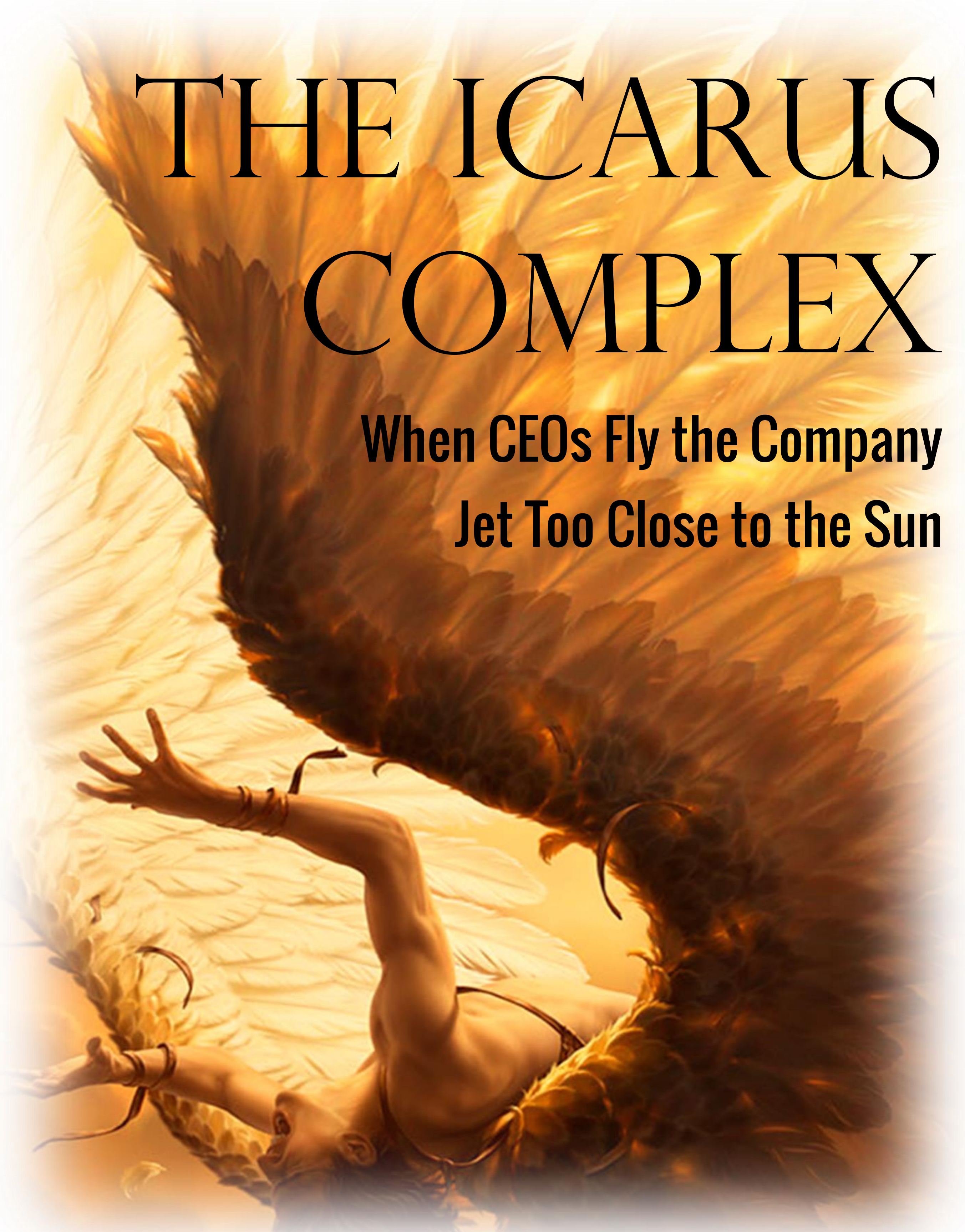
THE ICARUS COMPLEX

When CEOs Fly the Company Jet Too Close to the Sun



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The Icarus Complex

When Bad CEOs Fly the Company Jet Too Close to the Sun

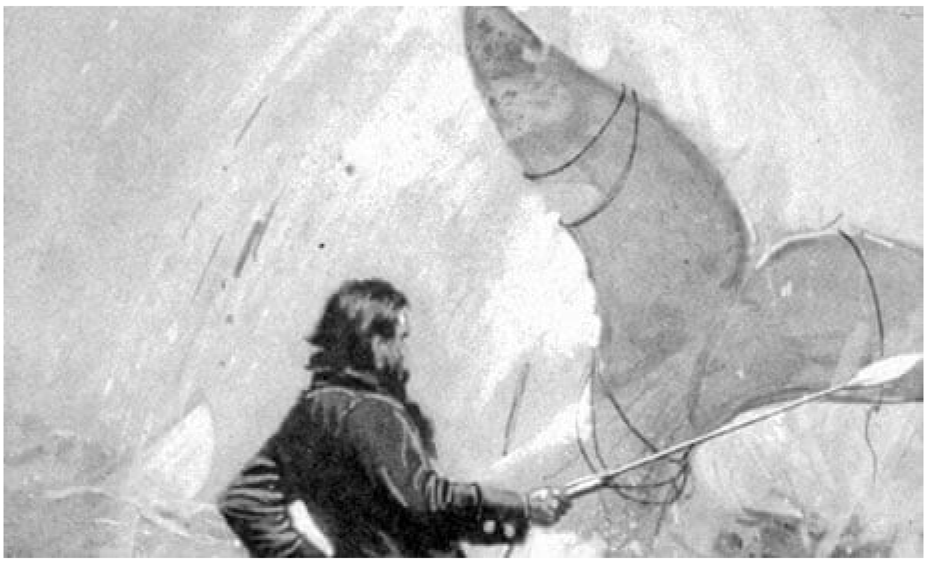
Executives harboring Icarus complexes are a hazardous game changer for everyone in an organization, especially when risky decisions or fraudulent actions jeopardize employees' livelihoods and those with financial stakes.

Residents of C-suites and boardrooms who exhibit the "Icarus complex" often initially soar but ultimately plummet from lofty heights and take their companies with them. I've worked in such an organization (detailed in this eBook) that created a hostile work environment and crossed the line with unethical and illegal business practices. Here's how organizations can identify them in the hiring or vetting process and prevent disaster.

In Greek mythology, Daedalus and his son, Icarus, escaped imprisonment on the island of Crete by fashioning wings made of feathers glued together with wax, as this ebook cover illustrates. Daedalus taught Icarus how to fly with the wax wings, but he cautioned his son not to soar too high or the sun would melt them.

But Icarus ignored his father's wise counsel and began flying higher until the wax began melting under the heat of the sun. His wings quickly fell apart, and he plunged into the sea and drowned.

Another literary tragic figure is Captain Ahab in Melville's *Moby Dick*, who's consumed with one mission: the white whale. Ahab is a most dangerous kind of leader. His narcissistic carelessness and destructive determination defeat him as he takes the whaling ship *Pequod* and her crew (except for Ishmael) down with him — the maritime equivalent of flying too close to the sun.



More than ever before, organizational leadership demands not just accomplished functional skills, experience and knowledge, but also personality and psychological stability. Emotional and influential illiteracy still plague many C-suites and boardrooms as do examples of recklessness, defiance of limitations and personal over-ambition. Executive instability leads to fraud.

Figure 1 illustrates a simple model of destructive leadership behavior and its relationship with subordinates and an organization.

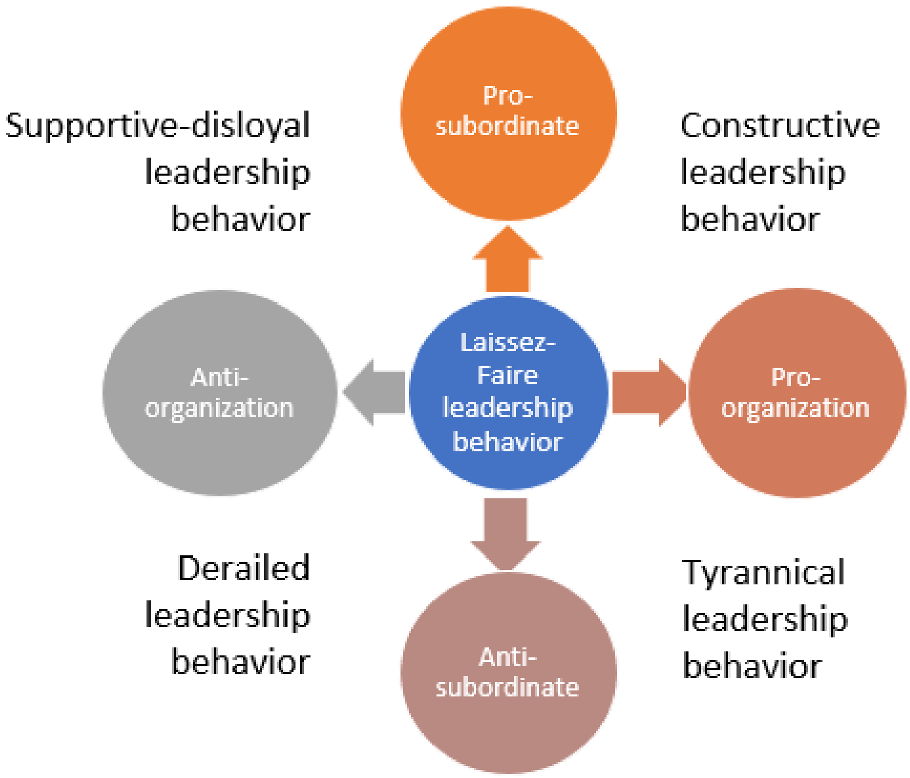


Figure 1: A model of destructive leadership behavior

(From "The prevalence of destructive leadership behavior," by Merethe Schanke Assland, et. al., British Journal of Management)

Icarus Complex

Harvard psychologist Henry A. Murray coined the term "Icarus complex" to characterize a specific type of hyper-ambitious personality that includes elements of narcissism, ascensionism (love of flying and heights) and extreme imaginary cognitive states. The person with an Icarus complex initially soars but ultimately plummets precipitously from lofty heights.

The Icarus complex shares many traits of personality disorders with “dark psychology.” Individuals who consciously take advantage of others exhibit characteristics known as the “Dark Triad of Personality.” These traits include the tendency to seek admiration and special treatment (**narcissism**), to be callous and insensitive (**psychopathy**) and to manipulate others for one’s personal gain (**Machiavellianism**).

While a modicum of narcissism can be healthy for some charismatic leaders, excesses of dark psychology have given rise to “dark leadership.” Such undiagnosed disorders in corporate leaders can be dangerous to an organization’s financial and emotional health. One 2010 study of the Norwegian workforce found that destructive leadership behavior varied from 33.5% to 61%, which indicates that “destructive leadership is not an anomaly,” according to an article by Merethe Schanke Assland in *British Journal of Management*.

Flying Too High in the C-suite

David Skeel of the University of Pennsylvania Law School writes:

> "C-suite executives harboring Icarus complexes are a hazardous game changer for everyone in an organization, especially when risky decisions or fraudulent actions jeopardize employees’ livelihoods and those with financial stakes. “Our most important corporate regulation has always been enacted in the wake of stunning Icarus Effect collapses."
>
> *— David Skeel, University of Pennsylvania Law School*

The media and Hollywood have romanticized the notion of personable and charismatic but ruthless executives running large organizations as in "The Wolf of Wall Street," "Wall Street" and "Boiler Room." The congenial outward appearance often masks emotional coldness, exploitation, unethical and manipulative behavior, and grandiose self-importance that wreak havoc on management staff and employees. Such polish, charm and even-keel decisiveness often are mistaken as leadership qualities when they can just be the outward-facing appearance of darker personality traits.

Corporate executives harboring an Icarus complex with other dark tendencies often make decisions in isolation without input from others. Managers and other subordinates quickly realize that the Icarian exec doesn't value their counsel. They become disengaged as the work environment becomes toxic.

Such a closed-loop approach can have costly corporate implications, says Don Hambrick, Evan Pugh Professor and the Smeal Chaired Professor of Management at the Smeal College of Business at Penn State:

> "… [N]arcissism in the executive suite can be expected to have effects on substantive organizational outcomes, potentially including strategic grandiosity and submissive top management teams."
>
> *— Don Hambrick, Professor of Management, Penn State University*

These often are self-destructive personalities because they ignore their own limitations and other boundaries. They're flames that burn twice as bright as others but only half as long.

Case Study: Marvell Technology Group

Congress created the 2002 Sarbanes-Oxley Act to protect investors from corporate accounting fraud by strengthening the accuracy and reliability of financial disclosures.

One company with a history of governance and compliance problems is Marvell Technology Group (my former employer for eight years). The U.S. Securities and Exchange Commission (SEC) fined the company, run by its husband-and-wife co-founders, $10 million for an employee stock-options backdating scheme.

A patent infringement lawsuit with Carnegie Mellon cost the company $750 million. The SEC also fined Marvell $5.5 million for running an undisclosed revenue management scheme. NASDAQ threatened the company with delisting for non-compliant report filing.

In April 2016, the Marvell board dismissed the co-founders.

Marvell stock soared 14 percent in pre-market trading the day after the announcement of the co-founders' departure from the company.

Marvell leaders, who resorted to — or were willfully blind to — problematic accounting and regulatory practices caused turbulent times at the expense of shareholders. The company laid off hundreds of employees and closed several technology design centers between 2012 and 2016 to preserve and redirect capital.

This was unfortunate because both billionaire founders were smart, prominent and respected businesspeople in the Santa Clara high-tech community. They were widely recognized for their local and global philanthropic causes. But this type of public persona is the narcissist's mask.

Narcissists and Behavior Rationalizations

If a situation deteriorates, narcissists will likely try to explain how everything is working exactly as intended. In fact, they often rationalize their own questionable behavior if the means serve the ends. Marvell's leaders used these types of classic rationalizations to pass off its corporate behaviors and actions: "slippery slope" (options backdating: "everyone's doing it"), "king's pass" (public achievements and philanthropy should overshadow the ethical errors in judgment), and "Hamm's excuse" (patent infringement and revenue mismanagement: "it wasn't *my* fault").

David Cotton, CFE, CPA, chairman of Cotton & Company, tells how some in the C-suite succumb to the power of position.

> "[It's a] given that pretty much everyone wants more money." And executives with 'chief' in their job titles are almost always in a position to override or circumvent internal accounting and fraud controls. So, pretty much every senior executive inherently already has two legs of the Fraud Triangle."
>
> *— David Cotton, CPA, Cotton & Company*

Replacing the hostile environment in 2016 probably was the best change for the company when Marvell's C-suite executives were rationalizing repeated compliance dodges and questionable ethics. No longer would C-suiters regularly fire executives for expressing differing opinions from one of the founders. Gone were the founders' hand-picked directors — "yes men" — whose autocratic leadership style forced the departure of talented professionals.

One reporter opined an all-too-familiar refrain. "And Silicon Valley has once again been reminded that placing people on a pedestal too high can make their fall even more painful to watch."

Warning Signs are There if You Know What to Look for

Evidence of fraud or improper reporting goes beyond the entries on a spreadsheet. When auditors and fraud investigators are taught what to look for, they can be well-positioned to identify the signs of the Icarus complex (excessive risk, over-confident demeanor), and its attendant narcissistic behaviors (exaggerated sense of self-importance, need for admiration, lack of empathy) in the C-suite.

A savvy auditor or fraud investigator can observe odd personality displays that might influence risk assessment and set off audit risk alarms. One study found a potential relationship between organizations led by a narcissistic CEO and higher audit fees, which were the result of additional audit work required and/or charging higher risk premiums. There might also be some connection between narcissistic CEOs and weak internal controls.

Here are some other indications, when taken together, which suggest that closer audit or investigative scrutiny might be in order.

- Narcissistic CEOs are inclined to speak and write using the first person singular ("I" and "me") versus third person plural ("us" and "we").
- Narcissistic CEOs are often pictured alone or positioned more prominently in group photos.
- Narcissistic CEOs tend to have lengthy and stylish signatures (conveying and signifying their self-importance).

The *Narcissistic Personality Inventory*, known as the *NPI-16* (a concise version of the 40-item NPI-40), could be offered as a proactive tool during pre-audit planning discussions with key corporate executives.

What About After-Hours CEO Lifestyles and Behavior?

It's not just on-the-job actions and decisions that should trouble boards and stakeholders when they look at CEO behaviors. Several studies suggest leaders' lifestyles and off-the-clock activities correlate with actions back at the office.

Insider trading

One study identified companies that simultaneously hired at least one executive with a criminal record (misdemeanors, felonies) and one without a record between 1986-2017. Researchers examined trades of company stock and found that executives with a prior record made more on those trades than those executives without a record. The difference was greatest among executives with multiple offenses and more serious violations, which implied that privileged information was used.

Despite their organizations' "blackout" policies to deter improper trading, executives with the more serious past offenses were the worst policy violators and were more likely to miss SEC reporting deadlines. While governance policies can instruct executives with minor offenses (traffic violations, for example), they appear largely ineffective for those with more serious infractions (legal judgments, restraining orders).

Part of the problem lies with boards performing only superficial due diligence as reflected in comments to researchers, such as, "I don't care what they did, especially if it was a long time ago." The executive who oversteps legislative controls, corporate policies and ethical boundaries — and who engages in risky behavior — is soaring too high with feathered wings.

Fraudulent financial statements

Another study identified 109 companies that had submitted fraudulent financial statements to the SEC. When compared to CEOs of companies with no statement infractions, 20.2% of the leaders in the fraudulent reporting group had records compared to just 4.6% of the other group.

Executive materialism and reporting risk

Researchers used property and tax records to determine personal consumption habits (expensive cars, boats, homes) of CEOs. They found a correlation with lavish/extreme lifestyles and careless operations when reporting errors and financial misstatements were widespread. The effect was enhanced during C-suite changes associated with increased fraud risk, such as appointing avaricious CFOs, increasing equity-based incentives to misreport and lax board monitoring.

Tendency for risk taking

A study of materialistic banking CEOs found they more readily embrace risky practices for their institutions, such as higher outstanding loans, more non-interest income and dicey mortgage-backed securities as components of total assets. Such bank CEOs also had less stringent risk management practices, which suggests a tendency to operate their institutions under very flexible policies and procedures. Non-CEO executives in banks with materialistic CEOs traded on insider information more aggressively around government bailouts during the 2008 financial crisis.

Corporate social responsibility

Companies led by materialistic CEOs have lower corporate social responsibility (CSR) scores. While there's no correlation to profitability in such companies, there's a corresponding decrease in CEO influence when CSR scores are low. There's also an inverse relationship between a CEO's materialism and CSR scores.

In other words, as a CEO's materialism increases, that associated CSR score decreases. CSR scores in firms with non-materialistic CEOs are positively associated with accounting profitability. It's unrealistic to believe that legislative controls and corporate policy will have a deterrent effect for all employees because these studies reveal how different individuals have varying degrees of risk tolerance and relative levels of compliance to rules, ethics and governance.

How Can Boards Better Vet External CEO Candidates?

The No. 1 pitfall for boards that threaten a company's success is selecting the right CEO.

Boards can help limit their exposure to external (and potentially problematic) CEO candidates by looking for previous patterns of questionable behavior during the candidate's tenure in similar positions and perhaps those leading up to it. Third-party entities that specialize in full legal background investigations, which require the candidate's consent, are best equipped to conduct the inquiries.

Most boards are concerned about extravagant spending by their CEOs while on the job. However, as the previous studies reveal, boards' failure to check off-the-clock behaviors and ignore red flags associated with dark-personality disorders could spell disaster.

Willful Blindness Plays a Role — in Some Cases

We turn a blind eye to truths, situations and facts every day. We create a false sense of "blissful ignorance" when we try to avoid blame, pain or accountability. Whenever contradictory evidence confronts our beliefs, the "backfire effect" further entrenches them. It seems that our brains prefer the path of least resistance when we stick to our beliefs in "uninformed obedience"— instead of applying critical thinking to people and situations.

Board members should know how willful blindness has a strong connection with avoiding unpleasantries and pleasing others. They must enter the CEO vetting process with a stronger level of due diligence and deeper self-awareness that allows them to not succumb to the influence of a powerful personality.

Some narcissistic CEOs might never have read Greek tragedies or Melville, or perhaps they failed to learn the lesson from the narratives. Others might have been willfully blind to events in their organizations. However, David Cotton believes there's another reason: "Sociopaths and psychopaths do not need two of the three legs of the Fraud Triangle … they just need one: opportunity."

Relating the fate of Icarus in 21st-century parlance, such individuals might have soared skyward initially, but eventually they all flew their company jets too close to the sun.

There's more free eBooks at:

www.donnleviejrstrategies.com

Donn LeVie Jr. is a respected leadership influence strategist/consultant, award-winning author, leadership coach and mentor, and global speaker who focuses on how people speak (**linguistics**), how they think (**cognitive psychology**), and how they make decisions (**behavioral economics**).

In his roles leading people and programs for Fortune 100 companies (**Phillips Petroleum, Motorola, Intel Corp.**), government agencies (**National Oceanic and Atmospheric Administration**), and academia (**the University of Houston Downtown College – Department of Natural Sciences and Mathematics**), Donn has been directly involved with global oceanographic research projects, multi-million-dollar offshore oil and gas exploration programs, high-tech chip design initiatives, and teaching fundamentals of petroleum exploration and production to undergraduate students.

Donn stepped away from the corporate world in 2013 to launch his own firm: Donn LeVie Jr. STRATEGIES, LLC. Over his career he's spoken at more than 70 conferences and since 2011 has been a regular presenter and leadership strategist at the annual Global Fraud Conference sponsored by the Association of Certified Fraud Examiners.

Donn's client and audience list spans organizations from the public, private and education sectors, including the FBI, Dept. of Education Inspector General's Office, New York Port Authority, National Science Foundation, FDIC, Enterprise Holdings, Ernst & Young, the City of Nashville, Franklin and Marshall College, and many more.

As an author, Donn's books have won the Global eBook Award and the International Book Award (***Confessions of a Hiring Manager***, 2012; ***Strategic Career Engagement***, 2016). Donn's newly released books, ***From the Underworld to the Boardroom: True Tales of Fraud, Corruption, Counterfeiting, and Cons*** and ***STACKING THE DECK: Career Strategies for Outsmarting the Competition*** are available only through Donn's programs.