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# Can an Ethical Revival of Prudence within Prudential Regulation tackle Corporate Psychopathy?

**ABSTRACT.** The view that corporate psychopathy played a significant role in causing the global financial crisis, although insightful, paints a reductionist picture of what we present as the broader issue. Our broader issue is the tendency for psychopathy, narcissism and Machiavellianism to cluster psychologically and culturally as ‘dark leadership’ within global financial institutions. Strong evidence for their co-intensification across society and in corporations ought to alarm financial regulators. We argue that an ‘ethical revival’ of prudence within prudential regulation ought to be included in any package of solutions. Referencing research on moral muteness and the role of language in framing thoughts and behaviours, we recommend that regulators define prudence in an explicitly normative sense, an approach that may be further strengthened by drawing upon a widely appealing ethic of intergenerational care. An ethical revival of prudence, we argue, would allow the core problems of greed and myopia highlighted by corporate psychopathy theory to be addressed in a politically sensitive manner which recognises the pitfalls of regulating directly against corporate psychopathy. Furthermore, it would provide a viable conceptual framework to guide regulators along the treacherous path to more intrusive cultural regulation.

**KEY WORDS:** dark leadership, corporate psychopaths, prudence, regulation, intergenerational care.

## **Introduction**

As Boddy (2011) recently observed in the *Journal of Business Ethics*, management academics increasingly view capitalism as threatened by dark leadership in general and corporate psychopathy in particular. As we are concerned with the corresponding challenge for financial regulators, a useful preliminary is to look in more detail at the aetiology and nature of this threat. Boddy's threat comprises manipulative and exploitative leadership behaviours geared towards short term self-aggrandisement. According to his corporate psychopathy theory, such behaviours are increasingly present at the highest echelons of financial élites. Those engaging in the behaviours may succeed, for a time at least, because they are often respected and trusted as the most charismatic and visionary of leaders. Boddy's corporate psychopaths are distinguished by their incapacity to feel moral guilt. The reason for this, Boddy explains, lies in the brain science which finds abnormally poor connectivity in the emotional centres of the psychopathic brain. Yet Karpman (1948) estimated that perhaps only 15% of psychopaths (called 'primary psychopaths') possess this biogenetic disorder. The remaining 85% possess forms of psychopathy considered 'secondary' because they arise in individuals without the disorder. More recent literature has broadly upheld Karpman's estimated proportions, while adding that primary and secondary psychopathy blur together as a 'continuous mixture' in non-institutionalised populations (Levenson et al. 1995). We know that although this much larger group of secondary psychopaths behaves like primary psychopaths, their manipulations can render them morally conflicted and susceptible to guilt and remorse (Skeem et al. 2003).

Although we share Boddy's concerns regarding the destructive behaviours caused by primary psychopaths in leadership positions, we view these behaviours as arising from a much broader psychological base comprising not just primary and secondary psychopaths, but also Machiavellians and narcissists. We use the term 'dark leadership' to refer to the

tendency for these personality patterns to cluster and co-intensify in individuals. The fact that many dark leaders, especially secondary psychopaths (Skeem et al. 2003) and Machiavellians (Drake 1995) can feel moral guilt, leads us to seek regulatory solutions which strengthen moral conscience. If the culprits are primary psychopaths, as Boddy assumes, his suggested solution to develop HR practices to screen out the rogue individuals at each rung in the corporate ladder makes sense. As we take dark leadership as the basic problem, we instead begin our search for regulatory solutions by emphasising that corporate experience can make and unmake dark leaders. Although a literature review of environmental determinants of moral conscience is well beyond the scope of this paper, we can usefully highlight Robert Jackall's (1988) famous argument that experiences of patrimonial bureaucracy can produce the ethical desensitisations we associate with dark leaders, to emphasise that the problem is unlikely to reduce without determined long term regulatory effort.

### **What is Dark Leadership?**

References to 'dark' or 'dark-side' leadership are relatively new. This is partly because leadership scholarship used to deny the title of leader to those who could not lead well (Kellerman, 2004). Hogan and Hogan (2001) refer to the growing interest in personality disorders that occurred during the 1970s as a turning point. It then became common to explain managerial failure with reference to a host of subclinical disorders which render managers preoccupied with self and unable to build trust or learn from experience. Dark leadership thus became a gallery of many psychological ills. Clear definitions have remained elusive ever since.

Our conception of dark leadership is however grounded very specifically in what Paulhus and Williams (2002) first called the socially aversive 'dark triad'. Its three constituent constructs - Machiavellianism, psychopathy and narcissism - blur together. This

blurring allows recent authors such as Boddy to write about corporate psychopaths in a way that captures many of the problems of dark leadership. Similarly, Higgs (2009) exploration of 'dark side leadership' relies on corporate narcissism literature.

Jonason and Webster's (2010) development of a 12 item dark triad measure explores this overlap. They call the dark triad a 'short-term, agentic, exploitative social strategy'. Their measure, comprising the four best performing items for each of its three constituent constructs, comprises Machiavellianism items that tap interpersonal manipulateness, psychopathy items that tap remorseless lack of concern for others, and narcissism items that tap excessive concern with admiration, status and prestige.

Machiavellianism and psychopathy appear particularly closely related. Christie & Geis' (1970) 'Mach scales' were constructed from morally ambiguous statements found in Machiavelli's own writings. 'High Machs', Christie and Geis maintain, possess a hallmark lack of empathy – which they call 'encounter blindness' - that allows them to manipulate others in interpersonal situations. Knowing this, we might be tempted to simply equate Machiavellians with psychopaths. Some commentators do. As McHoskey et al. (1998) put it, although successive Mach scales were developed for general populations, and scales designed to measure psychopathy were developed largely for clinical and criminal populations, Mach scales provide good global measures of both primary and secondary subclinical psychopathy.

Narcissism is rather different. Right at the start of our paper we presented the problem posed by dark leadership as having a dual aspect. The private reality of the selfish and remorseless manipulator seems adequately captured by the above Machiavellianism and psychopathy constructs. Yet the charisma that can grant these grizzly private realities access to the highest levels of financial élites, is perhaps best explained with reference to Narcissism (Sandowsky, 1995). Psychometric narcissism, as measured by Raskin and Hall's (1981) Narcissistic Personality Inventory, reveals narcissists to be individuals who 'want others to

admire them'. They also 'want others to pay attention to them', they 'expect special favours from others', and they 'tend to feel that things are owed to them'. An important motivator underlying all of these psychic needs is a power lust which often manifests within power contests as a strong sense of entitlement (Foster et al. 2006). Underlying this power lust is 'self love' (Freud 1914). Narcissists both seek power over others and struggle constantly to maintain an appearance of 'perfection' in the eyes of others, to maintain self-esteem (Kohut, 1971). If we are to fully appreciate the problem posed by dark leadership, then, it is important to bear in mind that power lust is part of the problem and taming power ought to be part of the solution.

The above references to the workings of mind lead us to acknowledge ambiguity over the precise nature of the dark triad. Modern psychometric research produces factor domains which require interpretation using theory. It must always speculate as to latent (i.e. not directly measurable) personality structures and processes to make sense of its findings. Psychometric studies of psychopathy and narcissism are no exception. They rely on older literatures on antisocial and narcissistic disorders which trace back through early psychoanalysis into pre-Freudian psychology (Millon, 1996).

Although it is well beyond the scope of this article to explore these speculative and controversial literatures, we can usefully mention that they allow us to see *in extremis*, psychological patterns whose spread across corporate leaderships can be too subtle, too widely distributed, and too slow growing, for us to be able to discern without simplifying frames. Millon's (1994: p.283) 'principle of syndromal continuity' serves us well here. It asserts that personality disorders are simply exaggerations of normal and healthy psychological patterns distributed widely across general populations. Taking stock, our regulatory problem of dark leadership can plausibly be viewed as a problem of the universal human condition, whose contours sharpen for us as we refocus first towards dark leader

types, and then towards the further extremities of antisocial and narcissistic disorders, each time finding a frame that helps us make sense of what we all think, say and do at times.

### **Co-intensification**

Our rationale for using the three constituents of the dark triad to scope dark leadership is that this lets us focus on a problem that seems to be intensifying in general populations and corporations. Babiak and Hare (2007) famously charted the rise of corporate psychopathy. Lasch (1979) and Maccoby (2003) achieved academic celebrity for discussing much the same phenomena within a narcissism frame. Although the term ‘corporate Machiavellianism’ is not widely used, much indirect evidence for its rise comes from psychometric studies which find growing ‘Mach’ levels in general populations. This trend was noticed as early as Christie & Geis’ (1970) review of Mach scale research. Researchers continue to remark upon rising Mach levels even when not looking for them (Jakobwitz and Egan, 2006). Marshall and Guidi (2012) conclude that the dark triad pattern may be inculcating itself within our everyday common sense views of what we should desire, believe and do, which means it can guide our practical rationalities and help us cope with uncertainty.

### **Dark Leaderships and Dark Triad Followerships**

If many of us have already internalised the dark triad pattern to some significant extent, then the possibility arises that our admonitions against dark leadership could manifest a psychological defence mechanism where we take aspects of our own personalities we wish to deny or downplay – especially concern for self at the expense of the wider social good, and our preferences for materialistic consumption over long term thrift – and we then ‘project’ these onto scapegoat groups: the corporate psychopath; the dark leader; the ‘banker’.

Conte and Plutchick (1995) clarify in their review of the defence mechanism literature

that most commentators consider use of the projection mechanism widespread and relatively uncontroversial in its basic process. The need for projection arises where the unconscious mind becomes aware of undesirable thoughts that, should they enter consciousness, would be punished by conscience. This causes anxiety, to which conscious mind can attribute no obvious cause. However our unconscious minds can quell this anxiety by imagining these thoughts to be the thoughts of others. In other words it can 'project' our undesirable thoughts onto others. The moral punitiveness we might otherwise direct towards ourselves can now discharge safely towards our selected target groups. As the workings of projection are wholly unconscious, it can shape our thoughts without our knowledge or consent. Given Stiglitz' (2010) argument that it is we ourselves who ultimately caused the recent financial crisis owing to our growing addiction to credit, it can be argued that we might all have a powerful and sinister motive to project our intensifying dark triad attributes onto dark leaderships. We need to be careful, then, when discussing possible regulatory measures against dark leaderships. We could be pushing a commonly used projection mechanism down a dangerous path towards cultural amplification (in the media, in politics, and conceivably in regulatory practice) at which point action against the target group becomes, psychodynamically speaking, a witch-hunt.

### **The Pros and Cons of Dark Leaders: enduring ambivalence to a well-known type**

A simple sociological metanarrative drawn from Italian social theory allows us to appreciate that what Marshall (2007, p.136-142) calls the recent 'rise of the dark triad' deserves to be placed in historical perspective. This establishes important context for how we frame our regulatory problem in the following section. There, our argument will run, regulators need to tread very carefully when regulating against a phenomenon which has been valued for centuries for its positive aspects and is therefore capable of eliciting intense ambivalence.



Marshall (2007, p.21-25) follows Rebhorn (1988) in drawing a historical parallel between modern capitalism and the renaissance. In each case we see the creation of detraditionalised and displaced ways of life where a new type of person - someone who is both produced by, and can thrive upon, complexity and change – emerges and begins to reshape how people see themselves. Rebhorn points out that the renaissance mind agonised over the emergence of this new type. Boccaccio represented it as a desperate itinerant crook. His *Decameron* was filled with charlatans and roguish monks, swept towards moral ignominy and depravity by war, famine and plague. For Niccolò Machiavelli, however, such individuals were not merely the psychological fallout produced by the sweeping social and economic changes of the renaissance. Machiavelli saw the leadership potential within this type, viewing it simultaneously as a modern expression of human nature and as an aptitude for political rule that has proved decisive throughout ancient and modern history. Hence in chapter XVIII of *The Prince* (Machiavelli, 1513/1966) we are told that the ‘fox’ who knows how to use the strategy of ‘fraud’ can ‘avoid the snares’.

Five hundred years later, the sociologist Vilfredo Pareto became deeply impressed by Machiavelli’s leadership insight, and especially by his use of the fox caricature. Hence he brought these together once more to develop what we now call classical elite theory (Pareto, 1901/1991). At the heart of that theory, almost a century before Babiak and Hare (2007) wrote on corporate psychopathy, and long before Lasch (1979) and Maccoby (2003) wrote on corporate narcissism, we find the idea that a cunning, manipulative, self-seeking type is *always* likely to prosper within the most senior echelons of business and political elites, owing to its superior ability to negotiate complex and changing social networks, jettisoning loyalties to people and to ideas whenever necessary. In Pareto (1935) in particular, we find this same elite theory now set within a broader macrosociological framework, warning that within ‘individualised’ social forms, foxes can proliferate to levels which allow them to exert

unusually pronounced influence on elite decision making. These ‘vulpine’ elites may cope admirably with social complexification. Yet the intensifications of greed, materialism, and short term risk taking that they bring increasingly threaten elite downfall. And so decades before the contemporary debate within management literature as to whether corporate psychopaths threaten modern capitalism, we find Pareto representing history as a ‘graveyard of aristocracies’ owing to the leadership collapses which Machiavelli’s foxes have precipitated many times before throughout history, in both economic and political life.

Pareto’s view is arguably ahead of much of the modern corporate psychopathy and dark leadership literature in one important respect. Writing as a sociological functionalist who views Machiavelli’s foxes as simultaneously adaptive and maladaptive to their environments, in differing respects, he demands that we consider both strengths and weaknesses if we are to achieve a full sociological understanding of the leadership phenomenon. Consider that all of the terms which we have used so far to discuss the phenomenon have contained strong negative evaluations. As Italian social theory urges us to reconsider ‘dark leadership’ as a psychological and cultural phenomenon with many pros as well as cons, let us briefly consider some of these with reference to modern literatures.

Many dark leader attributes – lack of empathy, ruthless preoccupation with self-promotion, treacherous disloyalty to persons, groups, and collective beliefs – are also widely considered to be the very sources of their success. Their vulpine cunning recognises that all loyalties and emotional attachments can quickly become impediments to upward social mobility (Machiavelli’s snares) within social environments characterised by complexity and flux. Indeed, Christie and Geis’ (1970) study of Machiavellianism stressed that it is impossible not to envy these successful manipulators. Their emotional aloofness not only facilitates personal success, but allows them to become masters of self-reinvention who can recover quickly from failure – as many might associate with the powerful myth of the

American dream. These individuals have, after all, been celebrated as 'Protean selves' who show 'resilience in an age of fragmentation' (Lifton, 1993). They can also be 'defenders of freedom', because unbound by collective beliefs, and therefore less likely to be hoodwinked by charismatic leaders, they are better able to expose leader malfeasance, just as they are better able to engage in it (Burnham, 1943). It is popularly argued (e.g. Galbraith, 2009) that false collective beliefs, in particular, veil fraudulent practices within financial systems. The dark leader's faculty of critical scrutiny and refusal to internalise collective belief seems to place them in a psychologically privileged position from which they can pick away at false collective belief, possibly with benign implications for fairness and transparency within financial systems. The attention which Jackall (1988, p. 203-204) gives to how 'narcissists of high rank' operate within bureaucracies, provides a good way to develop this argument. On the one hand, Jackall stresses that narcissists learn to subordinate themselves through a 'psychic asceticism' which suppresses their powerful expressive tendencies. Yet this produces what he calls a 'curious sense of guilt' which can find harmful outlet in private emotional life (e.g. as alcoholism, depression and rage). We suggest that such narcissists are likely to crave whistleblowing opportunities that offer good prospects for success, which will allow them to cast off this crippling asceticism and thrive as expressive showmen or women.

The cultural coevolution of their social relations flexibility with democratic individualism has also been discussed (e.g. Gellner, 1997). And for all that such individuals are commonly derided as self-seeking 'entitlement thinkers', it is often no bad thing to fight for rights. These are useful whistleblower traits which can advance causes of justice, fairness, integrity and open deliberation within organisations.

This type is also commonly admired for its charm and social astuteness, which evolutionary psychologists have put down in part to hardwired 'Machiavellian intelligence' (Byrne and Whitten, 1997). More psychoanalytically inclined commentators explain these

characteristics differently. In Kohut (1971) the basic psychological process is associated with the 'hollow self'. Narcissists compensate for identity confusion by manifesting whatever social identity will work well for them in each passing situation. Similarly, in Cleckley's classic work on psychopathy, we find psychopaths presented as 'persistently lacking the ability to become aware of what the most important experiences of life mean to others' (Cleckley 1941, p. 371). Yet the powers of mimicry they develop to compensate for this are incredible. Their social cognitive apparatus operates as a "subtly constructed reflex machine" (*ibid*, p. 372) which throws our own emotions back at us, convincing us of an illusory emotional connection which the psychopath can then exploit ruthlessly. As Babiak & Hare (2007) observe, the 'political' organisational environments that displaced more traditional role-constrained environments during the organisation wars of the 1970s, gave this type a historic chance to flourish within organisations as never before. Arguably, we can value the responsive theatricality of these smooth political operators as a core leadership skill fit for the modern organisation, particularly as issues of corporate image, identity and reputation continue to grow in perceived importance.

We may worry about possible confluences of charismatic leadership, pliable followership and unstable situation, sometimes called 'toxic triangles' (Padilla et al., 2007). Although their argument resists easy summary, the basic problem here is where 'destructive leaders' pursue private agendas in many different 'destructive conditions' including those created by poor governance, system instability, upheaval, centralising authority, cultural homogeneity, and a variety of social discontent factors. Much of the destructiveness within destructive leadership arises from its paternalism under destructive conditions. Charisma is used within destructive leadership to subdue and deceive followers, not to empower them, collaborate with them, share burdens with them, or unleash their creativity. Hence destructive conditions can easily deteriorate where destructive leadership prevails. Furthermore,

destructive leadership can often conceal deteriorating crisis situations by disseminating false confidence to gullible followers who crave reassurance more than truth. Consider for example Enron President Jeffrey Skilling's repeatedly successful reassurances to Enron employees that they need not sell their stock when the firm was on the edge of bankruptcy.

Yet despite this potential for charismatic leadership to slide into destructiveness, we can still acknowledge the utility for organisations in having leaders with exceptional skill in providing reassurance when that is called for. Oratorical and dramaturgical skills can be highly prized within constructive leaderships (Gardner and Avolio, 1998). Requirements for such skills can only grow as organisational crises and change processes grow more commonplace.

Machiavelli and Pareto called such individuals 'foxes'. Indeed, the great survivor of Italian Politics, Giulio Andreotti, remains the archetypal fox to many Italians. In business ethics literatures we label such people corporate psychopaths or dark leaders. These terms strip away the possibilities for respect or even affection that might be shown towards a cunning old fox. We emphasise, then, that our character sketches, and our fascinated ambivalence, date back at least five hundred years, are deeply inscribed within our folk psychologies, and, most crucially of all, encompass positive as well as negative evaluations. We know well that these are rich personality types with many strengths and weaknesses. And perhaps it is the terminology that we inherit from the old Italian tradition that reminds us of this most effectively. We cannot be content with the negative labels in widespread use today.

### **Framing the Regulatory Problem**

Taking stock, the remainder of our paper will toe the old Italian line and label such individuals 'foxes'. Dark leadership thus becomes 'vulpine leadership'. This fairer and more neutral terminology has important implications for how we conceive our regulatory problem.

No longer can we reasonably view the aim of regulatory intervention as the eradication or suppression of a rogue personality pattern. Instead we must concern ourselves with supporting its ethical development so that regulatees may continue to harness its talents. Furthermore, the preceding discussion leads us to envisage regulation as encountering problems related to the intense *ambivalence* which this pattern can elicit when we detect it both within ourselves and within organisations. Clearly, any regulation aimed at tackling ‘vulpine leadership’ will need to package, explain and justify itself with great sensitivity if it is to build stakeholder confidence in what will surely be a volatile public scrutiny environment.

There is ample evidence, based on what we know about the common media practice of toying with popular ambivalence, to forewarn us that regulators should take this political sensitivity problem very seriously. Mere mention of the dark triad, or any of its three constituents, seems to touch a funny bone within popular culture. Each passing year gives rise to research supporting the rise of the dark triad theory. This is often very widely publicised, most probably because it re-orchestrates the intense ambivalence we have sketched above. It follows that any financial regulator perceived to be taking on individuals labelled as corporate psychopaths or dark leaders might well instigate a media storm. Business lobbies would, not without merit, accuse regulators or governments of suppressing what are obviously well known positives within this personality pattern. They may well try to sink regulatory efforts by representing them as populist exercises in banker bashing repackaged at levels of vulgar stereotypy no public body should stoop to.

We suggest that part of the solution to this regulatory dilemma can be terminological. The remainder of our paper argues that regulators can frame the problem in such a way as to render regulation more politically palatable and better able to engage moral conscience. Yet we propose a major shift of focus to enable this – one that brings together hitherto

unconnected literatures. The remainder of our paper argues that it is better to frame the regulatory problem, not negatively and with reference to any particular kind of dysfunctional leadership, but positively with reference to the need for ‘prudence’ within decision-making culture and psychology. This terminological turn, we suggest, sets the scene where scrutiny of individual corporate managers, and of whole corporate cultures, can value the many positives that vulpine leaders can contribute, whilst also seeking to cultivate their abilities to think ethically and well over the longer term.

Philosophers such as Wittgenstein, social theorists such as Foucault, and linguists such as Chomsky all agree on the centrality of discourse – that our ideas are dependent upon the words we use to describe them (Edelman, 1985). The absence of ethical language can lead to moral muteness - a term coined by Bird and Waters (1989) to describe the lack of ease with normative language which constrains managers from accounting for their actions in normative terms, or speaking out when ethical breaches are observed. This lack of confidence in using ethical terms has behavioural implications. For example, Trevino (1987, cited in Trevino and Nelson, 2010) found when faced with an ethical dilemma, business managers who talked in normative terms such as ‘right’ and ‘wrong’ were more likely to take the ethical decision than those who talked in business terms such as ‘costs.’

One way ‘foxes’ have gained and maintained power is by co-opting language. Liendo (2001) argues that ‘business as war’ metaphors abound in business discourse (e.g. ‘strategy’, ‘captive markets’). These metaphors reflect the competitive nature of the business world, but importantly also legitimise, perpetuate and create this reality. In addition, alongside corporate malfeasance is inevitably to be found a host of euphemisms that distort and disguise the real consequences to society, for example bribes become ‘tips’ or ‘consultancy fees.’ The role of language in co-opting organisational culture is vividly portrayed in Cohn's (1987) study of language used in the defence industry. Writing as a participant observer, she reports how

usages of language shift the referent from humans to weapons, where death becomes 'collateral damage' and where talk of 'clean bombs' and 'counterforce exchanges' disguise the human reality. Cohn noted how quickly she moved from being shocked by the cold bloodedness of the talk, to becoming excited by it. More worryingly, she also found that the terminology both disguised the moral implications of policies and steered her internal consciousness so that some thoughts and values simply could not be expressed. Similarly, Partnoy (1998), a former derivative trader on Wall Street, portrays how language and terminology are used in the finance sector. While the securities traded had innocuous names used in public (e.g. PERLS, BIDS), the insider language of the traders demonstrated that corporate psychopathy was so advanced and so confident in its own position that euphemisms were not even bothered with; indeed, policies such as 'rip the customer's face off', and references to subprime mortgages as 'liar loans' indicate that traders openly revelled in their lack of ethics. More tellingly, like Cohn, Partnoy reports that despite his ethical qualms, the corporate culture mediated by its own insider discourse, made it almost impossible to express more ethical values.

Some of the blame for the marginalisation of moral language in business has been attributed to management theory and management education. For example Ghoshal (2005) claims that, by adopting the 'scientific model,' management theories ignore the role of human intentionality, and thus any notion of moral responsibility, resulting in prescriptions that are not simply value free but actively amoral.

We suggest that regulators can counter this ethical fading of corporate terminology through the use of ethical regulatory discourse. In making this suggestion, we are not naively underplaying the fact that vulpine leaders are expert in maintaining public veneers of ethical concern and commitment which they might mock in private. Rather, our argument simply draws upon the power of ethical discourse by emphasising that such hypocrisies often resolve



over time through internalisations of the ethical façade. The political scientist Jon Elster uses a very memorable term – “the civilizing force of hypocrisy” – to refer to the slow tendency for publicly used terminology to influence the minds of even the most self-interested of people who participate in public discourse (Elster 1998, p.12). Much is at stake here. If vulpine leaders can be encouraged to internalise public discourse, then the effect can be to sensitise them to the full and longer term consequences of their business decisions. Much of Patricia Werhane’s (1999) writing on ‘moral imagination’ deals with the cultivation of this large and long view, leading us to appreciate that to think ethically and to think well are interdependent. Here we must reiterate once more that our ‘vulpine leaders’ comprise many morally conflicted individuals. Hence we can view them as are susceptible to the cultivation of moral imagination. Ethical language, we therefore suggest, can help make vulpine leaders into better and more ethical leaders.

### **Rediscovering Prudence**

Prudence is a term which is already highly visible within global regulatory discourse. We argue that if prudential regulators are prepared to restore the concept of prudence to re-engage with its classical range of meanings, then they may be able to rediscover within it a simple cultural, psychological and ethical prescription for good judgment which can help protect firms from the excesses of vulpine leadership.

Of course, prudence need not be concerned with ethics at all. Some modern academic usages of the term treat ‘prudential foresight’ and ‘altruistic foresight’ as wholly different (Thompson et al., 1997). Kimball (1990) simply defines prudence as ‘the propensity to prepare and forearm oneself in the face of uncertainty’. These views evolve from much older literatures which treat prudence solely as an enabling skill for the pursuit of self-interest. Hoy (1958), for example, cites Burke’s definition of the prudent person as someone ‘capable of

deliberating well on what is good and expedient for his own interest’.

This ethically agnostic view of prudence seems to prevail today amongst governments striving to improve prudential regulation in the wake of the recent financial crisis. Take for example the major announcement (BoE and FSA, 2011) issued by the UK government’s Treasury department in May 2011, confirming that the old ‘Financial Services Authority’ (FSA) regulator would soon be replaced by a new ‘Prudential Regulation Authority’ (PRA) and Financial Conduct Authority (FCA). In this new ‘twin peaks’ system of financial regulation, the PRA will mitigate risks to the stability of the financial system, whilst the FCA will mitigate risks associated with confidence in that system. This major announcement was what some might regard as a missed opportunity to float some workable, ethically meaningful conceptualisation of ‘prudence’ to pave the way for a bolder and more ethically prescriptive approach to financial regulation. The document announces that the PRA will ask firms to review their firm-wide cultures under circumstances where regulatory outcomes are not being met, but it will not specify what these cultures should consist of (para 59). This UK example illustrates well the general tendency for regulators to restrict themselves to an output-based view of prudence where the word prudence simply equates to the ongoing soundness of financial institutions and financial markets. To be prudent, on that view, is not to possess any particular habit of mind and will. It is simply to maintain an ability to meet financial obligations.

Yet our UK example also illustrates how this might change in future. There remains ambiguity in the new PRA’s stance towards the possibility that regulation might help instil some ethical compass within decision-making culture and psychology to facilitate the decision-maker’s regard for the longer term and so help ensure prudence soundness is maintained. On the one hand, the (2011) document stipulates that the regulator will consider there to be no ‘right culture’. In the event of poor regulatory compliance, regulatee financial

firms themselves will most likely be deemed the best arbiters of how to adjust their cultures to improve regulatory outcomes. Yet there are nonetheless grounds for supposing the new PRA might increasingly experiment with cultural regulation by assessing and making ethical judgments about corporate cultures and individual managers. As FSA Chief Executive Hector Sants (2010) puts it, the ‘rubicon’ of cultural regulation has ‘already been crossed’ to some extent by the outgoing FSA regulator, at least to the extent that it routinely began scrutinising corporate cultures to understand their effects on regulatory outcomes. Sants stops short of recommending that financial regulators should specify desirable cultural properties, yet he does maintain that individual character and judgment ought to be scrutinised – an interesting claim within the context of the PRA’s power to sack managers of financial firms to which it gives higher risk ratings.

Ethical views of prudence are useful within that scrutiny context. More generally, however, they also set us thinking about prospects for giving regulatory support to organisational culture and psychology by specifying some minimum standard for what an organisational culture ought to include at its ethical core. We suggest that the new PRA, and other prudential regulators across the globe which have been granted new powers in response to the financial crisis, should embark on their new missions with a determination to develop bold demands for cultures of prudence. However this requires clear and transparent meaning. What should it mean? Prudence has always involved some element of ‘foresight’ or ‘clear-sightedness’ which permits agile temporal framing for decisions and consequences. On this, at least, ethical and ethically agnostic viewpoints can agree. Whereas imprudence has always been a synonym for rashness, or for thinking myopically without regard to the longer term, prudent individuals have always been represented as capable of making inter-temporal trade-offs between short term and long term interests. Ethical approaches vary in how they view the motivations that underlie these trade-off decisions. In the concept’s ancient Greek origins, for

example, prudence equates to what Aristotle called ‘phronesis’. Book VI of Aristotle’s *Nicomachean Ethics* described phronesis as ‘a true and reasoned state of capacity to act with regard to the things that are good or bad for man’ (Cooper, 1975). This of course only makes sense with reference to the aspirational humanistic view of human flourishing that still thrives today. The Christian Scholastics, who revived Aristotle’s thought and set about further developing the concept, remained fundamentally concerned with the temporal context for good judgment and the cultivation of virtue, yet they justified this concern differently. Thomas Aquinas’ *Summa Theologica* extended this context from the individual lifespan to the soul that survives death. It now became prudent to choose spiritual over worldly happiness. Aquinas’ forms of false prudence by contrast, are bound by worldly goals. Within both Aristotle and Aquinas, then, concern for the longer term is justifiable with reference to constructs – Aristotle’s humanism and Aquinas’ view of the soul – which taken together might begin to form a pluralistic meta-ethical base for an ethically reinvigorated understanding of prudence which regulators could find valuable.

However, when we look closer at Aquinas’ view of prudence we also find a very succinct framing of the problem posed by dark leadership. As Pieper’s (1966) classic reading of Aquinas explains, one of his forms of false prudence is ‘covetousness’. Pieper describes this as referring to ‘anxious senility, desperate self-preservation, over-riding concern for confirmation and security’. This simple sentence brings together classic narcissistic themes which lie at the core of the dark triad pattern. Narcissists, as we have already argued, feel threatened by power wielded by others. Here we might also usefully mention their fear of ageing, which Lasch’s (1979) work on the rise of narcissism devotes an entire chapter to. Narcissists, the argument runs, are terrified of the prospect that they may one day no longer be admired for their ‘beauty, charm, celebrity or power’ because when that day comes their self-esteem systems will crumble (Lasch 1979, p.210). The implications for the narcissist’s

general cognition are far-reaching. They come to focus their anxieties almost exclusively around their immediate predicaments, instead of looking forward more selflessly to the distant future, or indeed backward to achieve a sense of historical perspective. Narcissists within business organisations often focus upon gaining, maintaining and applying personal power to exert personal influence. Many succumb to inflated self-importance. They believe they need to ‘make their mark’ quickly on their organisation, as those who follow will lack ability or opportunity. Many of their decisions are intended as displays of ‘narcissistic grandiosity’ (Raskin and Terry, 1988) which test the limits of personal power and status, sometimes at the expense of responsible long term custodianship. The temporal framing of decisions by such individuals may well shrink around the present and near future under the combined weight of these narrow obsessions. Perhaps, therefore, these are the vulpine leadership dynamics which ‘prudential regulation’, ethically redefined, should target and seek to overcome.

If prudence is to be ethically revived and used within regulatory discourse to mitigate the darker side (especially involving myopic decision-making) of vulpine leadership, then clarity and simplicity are important for definitional purposes. At the same time, meta-ethical pluralism is desirable if the term is to be ethically meaningful to the broadest possible audience. So how can prudence be articulated in simple terms, whilst also permitting multiple meta-ethical interpretations and thereby connecting with millions of ethical consciences that are perhaps grappling with their imprudence on very personal levels? We suggest that construing prudence as an ethic of intergenerational care fits comfortably with current discourse which views sustainable development as ‘development that meets the needs of the present without compromising the ability of future generations to meet their own needs’ (WCED, 1987).

Erik Erikson’s (1950) lifespan theory provides some valuable psychological context for

this ethic. The theory divides the human lifespan into eight consecutive life stages. The seventh relates to middle adulthood where career pinnacles have been reached. Erikson characterised this life stage as one of psychic conflict between conflicting tendencies towards 'generativity' and 'stagnation'. Erikson's generativity involves productive activity motivated by a farsighted ethic of intergenerational care; stagnation, however, equates to narcissistic self absorption (Hoare, 2001). Erikson thus sets us thinking of a universally experienced life stage conflict where a motivated ethic we can call 'prudence' and a state of ethical decay which we can equate with the dark side of vulpine leadership, compete in an endless see-saw to be the dominant influences on personality and, by extension, culture. At this point we can better appreciate that integrating the ethic of intergenerational care into conceptions of prudence might provide additional armoury against the ubiquitous problem of narcissistic self-absorption, for as Freud claims: "parental love, which is so moving and at bottom so childish, is nothing but the parents' narcissism born again" (Freud, 1914: 91).

### **Conclusion: prudence as an ethic of intergenerational care**

It is clear that a simple change of terminology will not by itself overturn corporate psychopathy. Yet we argue that the lack of ethically charged terminology has played into the hands of corporate psychopaths. It has also given rise to 'moral muteness' on the part of fellow workers who lack an acceptable vocabulary with which to voice their objections. We propose that 'prudence' as a concept can work harder than it does currently, by presenting an explicitly normative prescription for behaviour. Undoubtedly there will remain those that violate such prescriptions. However they will at least have to answer for their actions in normative terms, and while they may indeed demonstrate great hypocrisy they at least can be accused of it by regulators who increasingly regard it as their duty to judge ethical character.

This may seem like a minor gain, but considered against insider testimonials (Partnoy,

1998) that highlight the openness with which unethical practices are flaunted (e.g. policies such ‘rip the customers’ face off’ and ‘liar loans’) this is a necessary direction to take. Integrating the ethic of intergenerational care into our conception of prudence may further extend its reach, allowing it to tap into current sustainability discourses, and to provide additional insight into the instinctive motivations and driving forces of managers. Most importantly, might commonly understood requirements for intergenerational care reactivate the moral consciences of vulpine leaders themselves? Given that the problem of vulpine leadership is already deeply embedded within our folk psychology, perhaps this is also where we might find an answer to our question. Michael Douglas’ character ‘Gordon Gekko’, who appears in Oliver Stone’s two (1987 and 2010) *Wall Street* films, is arguably cinema’s most famous criminally psychopathic banker. Gekko steps back from the brink of stealing his daughter’s last \$100 Million, when, in the sudden character arc that brings *Wall Street II* to its close, he first sees his unborn grand-daughter in an antenatal scan. Such moral u-turns and unexpected outbreaks of intergenerational care are not confined to fiction, as shown by the much publicised about-turn made by Lee Scott CEO of Wal-mart on his approaches to Wal-mart’s environmental impacts which seem to have been triggered by love of a granddaughter (Little, 2006). Whilst Boddy’s (2011) small hard core of primary psychopaths are likely to remain obdurate to such influences, a much larger throng of secondary psychopaths, narcissists and Machiavellians, may find they have some transformative power over their conflicted moral consciences. Perhaps invigorating the ethic of prudence, drawing on current discourse of inter-generational care, and highlighting connotations of influence over not only the present, but the future, may appeal both to the dark side of so-called corporate psychopaths – their love of power, but also to the other side – simply love.

We conclude by accepting that the word ‘love’ in an academic paper may ignite shocked outrage and mutterings of inappropriateness, yet care for others is surely the core of

ethical behaviour, and love a key motivator. As argued in this paper, the general lack of ease with such normative language, both in business (Bird and Waters, 1989) and in academia (Ghoshal, 2005) must bear part of the blame for the ease with which corporate psychopathy has prevailed. A relabeling of the problem, first as 'dark leadership', then as 'the dark side of vulpine leadership', is called for to fully appreciate what is at stake. An ethical revival of prudence can then become a sensible part of the solution.

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