

# Corporate Psychopaths as Risk Factors: The Role of Managerial Control and Competition for Risk Governance

*12th Annual Conference on Risk Governance:  
Reexamining Competition from a Risk  
Governance Perspective*

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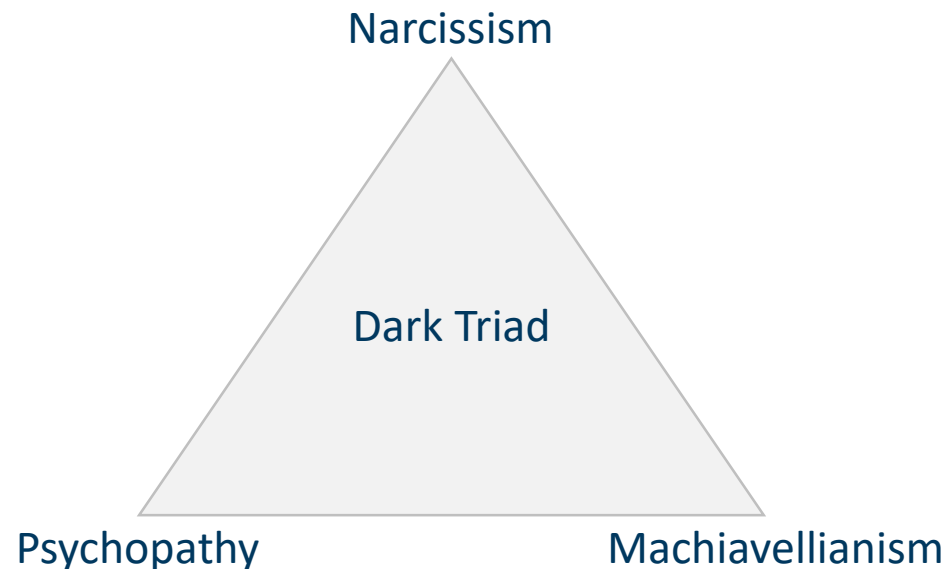


# Background

- There is an increasing interest in Dark Traits in Accounting Research
- Current papers have investigated:
  - the impact of dark traits on investment decisions and a firm's financial performance (e.g., Ham et al., 2018)
  - the effect of dark traits in performance evaluation contexts (e.g., Dworkis & Patelli, 2022; Maske & Sohn, 2023)
  - the implications of dark traits on the accuracy of financial disclosures (e.g., Abdel-Meguid et al., 2021; Ham et al., 2017; Majors, 2016; Murphy, 2012; Schrand & Zechman, 2012)
  - the effects of dark traits in the auditor-auditee relationship concerning collaboration and audit quality (e.g., Chou et al., 2021; Church et al., 2020; Hobson et al., 2020; Johnson et al., 2013)
- Dark traits have equally become attractive as control variables in a variety of empirical accounting research (e.g., Davidson et al., 2019, 2020; Dikolli et al., 2020; Murphy et al., 2020; Wang, 2017)
- **But yet lacking:** Management Accounting & Control Research on Corporate Psychopaths

# Concept of Corporate Psychopathy

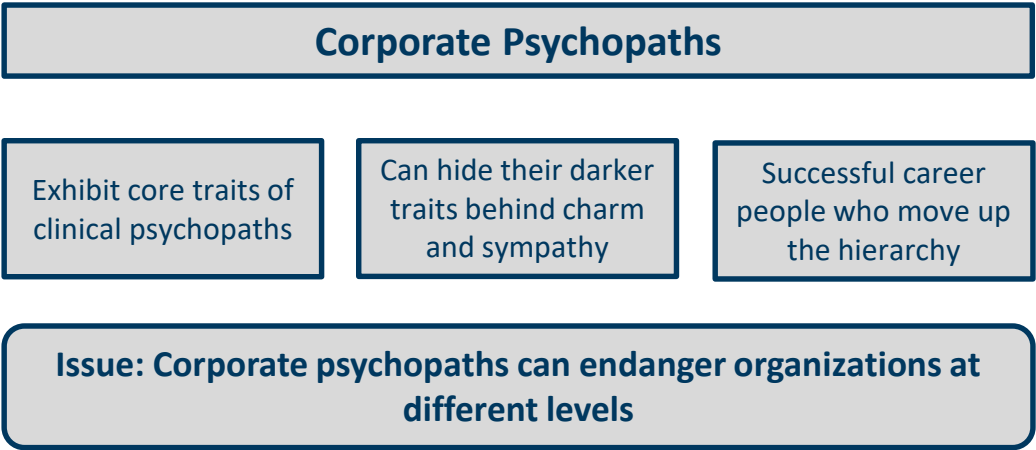
- Psychopathy is a syndrome, “a cluster of related symptoms” (Hare, 1999, p. 34)
- It is a “distinct psychiatric illness marked by serious behavioral deviancy in the context of intact rational function” (Patrick, 2018, p. 4)
- It is often seen as part of a “Dark Triad” of personality traits (Paulhus & Williams, 2002)



# Concept of Corporate Psychopathy

- Traditionally, the pursuit of psychopathy research was the domain of clinical psychologists
- Newer evidence indicates a subclinical form of psychopathy = Corporate psychopaths
- Traditional measurement PCL-R (Hare, 2003)

Dimension	Subfactor	Clinical Psychopaths	Subclinical Psychopaths
Primary Psychopathy (Factor 1)	Callous Affect	✓	✓
	Interpersonal Manipulation	✓	✓
Secondary Psychopathy (Factor 2)	Erratic Lifestyle	✓	×
	Antisocial Behavior	✓	×



# Corporate Psychopaths as an Organizational Risk Factor

- General organizational decline: E.g., revenue, employee commitment, innovativeness,... (Boddy, 2017)
- Antisocial conduct, destruction of subordinates' commitment (Boddy et al., 2015)
- Inability to work as a team player (Babiak & Hare, 2019)
- Reducing physical and emotional employee commitment (Boddy et al., 2015), increasing sickness rates with sometimes even long-lasting traumatization (Boddy & Taplin, 2016; Clarke, 2005) leading to a growing intention to quit their jobs (Boulter & Boddy, 2021; Mathieu & Babiak, 2016)
- Overstating of personal performance, also forging degrees and qualifications (Babiak et al., 2010; Boddy & Taplin, 2016)
- Lack of commitment while claiming the good work of others as their own (Boddy, 2017)
- Conversely, they do not accept responsibility and tend to blame others for failures (Boddy, 2015; Boddy et al., 2022; Campbell & Elison, 2005)
- Taking unreasonable amount of risk due to high fearlessness and need for stimulation (Boddy et al., 2010)
- Lying, manipulating others and cheating for their own advantage (Boddy, 2005; Walker & Jackson, 2017)
- Ruthless short-term focus on own benefits, less interest in enduring success of the organization (Boddy, 2005)
- Negative impact on CSR (Boddy et al., 2010; Myung et al., 2017)
- Acceptance of crimes to reach own goals (Lingnau et al., 2017)

# Management Control

- From MAC research, focus on decision-influencing or the “control” aspect
- I.e., “those systems, rules, practices, values and other activities management put in place in order to direct employee behaviour” (Malmi & Brown, 2008, p. 290)
- Diverse approaches to systematize control elements and systems (e.g., Merchant & Van der Stede, 2017; Simons, 1994)
- Paper follows taxonomy by Malmi and Brown (2008)

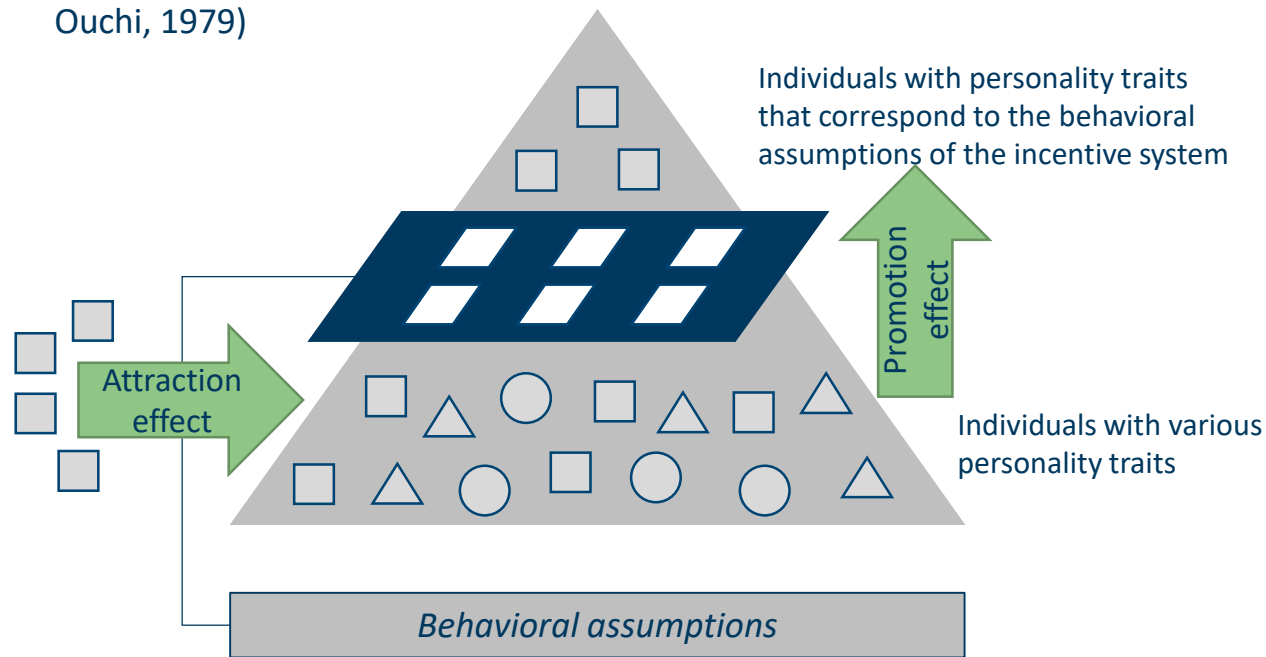
Cultural Controls						
Clans		Values			Symbols	
Planning		Cybernetic Controls				Reward and Compensation
Long range planning	Action planning	Budgets	Financial Measurement Systems	Non Financial Measurement Systems	Hybrid Measurement Systems	
Administrative Controls						
Governance Structure		Organisation Structure			Policies and Procedures	

# Competition

- According to the Oxford English Dictionary (2024) competition is the “action of endeavouring to gain what another endeavours to gain at the same time”
- Three aspects under consideration:
  - First, competition as a conscious or unconscious design choice of management control → affects the selection and behavior of employees with subclinical psychopathic traits
  - Second, a specific kind of ruthless competition can be seen as prototypical of corporate psychopaths when they endeavor to achieve an advantage over others
  - Third, the impact of corporate psychopaths on the overall competitiveness of the firm in the long run

# Selection and Interaction Effect

- Dysfunctional selection effect (Fuchs & Lingnau, 2024a, 2024b) is based on individual-organizational fit theory stating that individuals tend to self-select into an organization that resembles their personality traits (Lazear & Rosen, 1981; Ouchi, 1979)



- Dysfunctional interaction effect: How corporate psychopaths interact with existing MC elements or systems, how for example they try to manipulate and adjust these to their individual benefits

# Research Directions and Propositions

## Planning system

- Corporate psychopaths (CPs) are individuals who are short-term oriented and don't care about the genuine long-term success of the organization (Boddy, 2006, 2015)
- CPs love turbulent environments and tend to change their positions regularly to avoid detection (Boddy et al., 2021)
- CPs are extremely fearless (Hurst et al., 2019), overestimate and overstate their potentials (Boddy, 2017; Boddy et al., 2021; Perri, 2013), and take high organizational risks that others would not dare to (Boddy et al., 2010a)

**Proposition 1a:** Short-term oriented planning should attract corporate psychopaths, while more conservative, long-term planning, also using pre-action planning, should exert a detractive effect.

**Proposition 1b:** Corporate psychopaths will try to change the organizational focus to more short-term goals, neglecting relevant long-term objectives.

**Proposition 1c:** Corporate psychopaths will tend to make tough plans on others, especially, their subordinates, like unreasonable stretch goals, and take high risks if they see an opportunity for short-term profit.

**Proposition 1d:** With the induced short-term focus by corporate psychopaths, the long-term competitiveness of the company will suffer.

# Research Directions and Propositions

## Cybernetic controls

- CPs are materialistic and self-interested, they are unconcerned with CSR and long-term organizational responsibility (Boddy, 2023; Boddy et al., 2010a; Myung et al., 2017; Pelster & Schaltegger, 2022; Wu et al., 2019)
- CPs are attracted by power and prestige, they lie and cheat for their personal advantage (Boddy, 2011b; Boddy et al., 2024; Mathieu, 2022)

**Proposition 2a:** Corporate psychopaths are attracted by companies that place a focus on financial measures, while they are detracted by an emphasis on non-financial measures (like CSR-based indicators).

**Proposition 2b:** Corporate psychopaths will lie and cheat in budget negotiations, increasing organizational slack, hurting the long-term performance and competitiveness of a company.

**Proposition 2c:** Corporate psychopaths will put the long-term sustainability competitiveness at risk by neglecting a clear engagement with measuring CSR performance.

# Research Directions and Propositions

## Reward & compensation

- CPs are extremely selfish and materialistically oriented (Glenn et al., 2017)
- Bonus schemes based on assumptions of individually oriented, opportunistic, and potentially discretionary behavior reverberate strongly with core traits of corporate psychopaths (Fuchs & Lingnau, 2024b)
- Conversely, longer-term oriented bonuses like bonus banks or the application of longer-term responsibility, should be less attractive to CPs
- CPs fake social emotions, have no genuine interest in others beyond using them for personal advantage (Book et al., 2015; Porter et al., 2011; Walker & Jackson, 2017)
- Less rewarding individual performance and individual competition but more (teamwork and) team-oriented remuneration could be a detractor to corporate psychopaths
- CPs are masters of disguise and impression management and can appear as very charming (Gillard & Rogers, 2015; Hanson & Baker, 2017; Mathieu et al., 2021), which has implications for evaluation contexts

# Research Directions and Propositions

## Reward & compensation

**Proposition 3a:** Corporate psychopaths are attracted by short-term, individually oriented bonus schemes while conversely, longer-term, more responsibility-oriented remuneration would be a detractor.

**Proposition 3b:** More socially oriented instead of individualized-competitive rewards are a disincentive for corporate psychopaths.

**Proposition 3c:** Corporate psychopaths will tend to propose the implementation of more short-term and financially oriented performance measures.

**Proposition 3d:** By focusing on short-term target fulfillment, corporate psychopaths are endangering the long-term competitiveness of the organization.

**Proposition 3e:** In case of subjective performance evaluation measures, corporate psychopaths will be overrated by their superiors.

# Research Directions and Propositions

## Administrative controls

- CPs are ruthless and selfish (Boddy et al., 2010b, 2015; Lingnau et al., 2017), they should be attracted by flexible governance regimes that do not seem to be enforced in actual behavior
- Strong governance in a sense of “good conduct” (Stein & Wiedemann, 2016) may help in deterring CPs
- CPs are attracted to power and prestige (Boddy, 2006; Boddy et al., 2010b; Glenn et al., 2017), i.e., strict hierarchy and power distance in an organization, which can again be seen as a competitive element
- Flat hierarchies and structures that emphasize teamwork and collective efforts over individual achievements may deter psychopaths who prefer to be in the spotlight and dominate (Lingnau et al., 2017)
- CPs will be likely to consolidate their power by removing potential competitors, also using means of lying and spreading false rumors (e.g., Pheko, 2018)
- CPs use fear and dominance as a means to avoid being questioned and to push subordinates in the short-term (Boulter & Boddy, 2021)
- CPs avoid accountability and tend to blame others (Boddy, 2015; Boddy et al., 2022; Campbell & Elison, 2005)

# Research Directions and Propositions

## Administrative controls

**Proposition 4a:** Flexible governance regimes that do not seem to be enforced in actual behavior attract corporate psychopaths, while good governance should be a disincentive to corporate psychopaths.

**Proposition 4b:** Strong hierarchies and power-distant working conditions attract corporate psychopaths, while flat hierarchies and more team-oriented working places, where true social skills are required, are a disincentive to corporate psychopaths with regard to joining an organization.

**Proposition 4c:** Corporate psychopaths prefer companies that have policies and procedures that are more loosely defined and they are repelled by policies that are clear and coupled with the notion of good governance.

**Proposition 4d:** Corporate psychopaths are going to undermine governance structures as well as policies and procedures that are seen as restricting their potential to pursue their own benefits.

**Proposition 4e:** By undermining and altering corporate administrative controls to their own needs, corporate psychopaths induce unforeseeable and uncontrolled risks that threaten the longer-term success of an organization.

# Research Directions and Propositions

## Cultural controls

- Culture is always present in an organization, even if not consciously decided upon like other management controls (Merchant & Van der Stede, 2017)
- CPs love high turn-over, competitive, individualized settings (Fuchs & Lingnau, 2024a; Kets de Vries, 2012). They should be attracted by a culture that rewards short-term success and focuses on individual competitors
- A culture of team-orientation and of honesty, decency, and responsibility, i.e. for example, compassionate morality as an inverse of psychopathic traits, should be a detractor (e.g., Woodmass & O'Connor, 2018)
- Corporate psychopaths like power, wealth, and prestige (Boddy, 2006; Boddy et al., 2010b; Glenn et al., 2017), i.e., symbols of such properties should be highly attractive
- Impact of clan culture (Ouchi, 1979) should depend on concrete organizational overall culture and clan subculture

# Research Directions and Propositions

## Cultural controls

**Proposition 5a:** Corporate psychopaths are attracted by cultures that emphasize high turn-over, competitive, individualized environments, while they are detracted by a culture of team-orientation, honesty, decency, and responsibility.

**Proposition 5b:** Corporate psychopaths are attracted by symbols of power, prestige, and wealth.

**Proposition 5c:** The impact of a clan depends on the norms enforced in that subculture and should have a moderating effect on the impact of values and symbols of the entire organization.

**Proposition 5d:** Corporate psychopaths are inducing a corruptive effect on the values in organizations while engaging in the promotion of prestigious symbols and rewards for themselves.

**Proposition 5e:** The corruption induced by corporate psychopaths will negatively affect the long-term prosperity and viability of the organization.

# Conclusions

- Growing evidence on the risks posed by corporate psychopaths
- Great research potentials for MAC research
- Fostering or preventing corporate psychopaths is not about whether MCs are weak or strong but such effect depends on the specific design of the controls
- Future research focusing on risk prevention should explore which rules, procedures, and design choices for MCs can create more psychopathy-resistant and -resilient organizations
- Empirical research required, also with regard to potential interaction of MCs
- Future research should also explore how specific MC designs can attract individuals with the right or “good” dispositions – virtuous leaders with well-balanced traits



**Overarching Goal:** Ex-ante protection, create working environments that attract talented, motivated individuals but not corporate psychopaths

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