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Accounting as a Facilitator of Extreme Narcissism

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ABSTRACT. We add texture to the conclusion of Duchon and Drake (Journal of Business Ethics, 85, 2009, 301) that extreme narcissism is associated with unethical conduct. We argue that the special features possessed by financial accounting facilitate extreme narcissism in susceptible CEOs. In particular, we propose that extremely narcissistic CEOs are key players in a recurring discourse cycle facilitated by financial accounting language and measures. Such CEOs *project* themselves as the corporation they lead, *construct* a narrative about the corporation and themselves using financial accounting measures, and then *reflect* on how their accounting-constructed performance is perceived by stakeholders. We do not present empirical evidence about whether the use of accounting language and measures leads to unethical behaviour by extreme narcissistic CEOs – although the conclusions of Duchon and Drake (2009) suggest empirical support is probable. Rather, we focus on developing alertness to the *potential* for accounting, when engaged by an extremely narcissistic CEO, to be a precursor or implement of unethical behaviour.

KEY WORDS: accounting, behaviour, chief executive officer, discourse, language, leadership, narcissism, psychology

The confluence of CEO power and CEO narcissism has important consequences for organizational stakeholders. The motives, outlook and behaviour (including the ethical conduct) of CEOs is influenced by intra-psychic factors which comprise a 'very strong vivid inner theatre' (Kets de Vries, 1994, p. 78). Accordingly, we seek to enhance understanding of one intra-psychic phenomenon, narcissism, and to develop appreciation of the potential for extremely narcissistic CEOs to engage with a major social institution (financial accounting) in a way that has the potential to induce unethical behaviour. In particular, we propose that there is an iterative discourse cycle involving extreme CEO narcissism and financial accounting language.

This article is also partly a response to a call by Kets de Vries (1994, p. 78) to explore 'the inner theatre of the top executive … [in order to obtain] … a unique perspective of the dynamics of the organization'. Consistent with Anderson and Tirrell (2004), we suggest that many narcissistic CEOs make accounting policy choices and earnings management decisions 'to maintain a positive sense of self', defend their egos, and 'preserve self-esteem' (Brown, 1997, p. 645). We explain the features of financial accounting that potentially *enable* such ego-defending behaviour by certain narcissistic CEOs. Our investigation is prompted too by argument that the existence of extreme narcissism helps to explain corporate decay (Schwartz, 1991). Further, because narcissism 'lies at the heart of leadership' (Kets de Vries, 2004, p. 188) we believe that better understanding of narcissism can lead to better explanations of the involvement of CEOs in episodes of misleading and unethical financial reporting that have been implicated in spectacular corporate collapses.

Another motivation for this article has been the conclusion of Duchon and Drake (2009) that an extreme narcissistic organization (presumably led by an extremely narcissistic CEO) 'so desires external goods [profit or reputation] that it will behave unethically to obtain them' (p. 306). Such unethical behaviour is alleged to arise because extremely narcissistic organizations (and presumably their CEOs) 'become self-obsessed and use a sense of entitlement, self-aggrandizement, denial, and rationalizations to justify anything they do' (Duchon and Drake, 2009, p. 301). These are important conclusions. We do not contest them. Rather, our focus is confined to highlighting the *potentiality* for the language and

apparatuses of financial accounting to be a facilitator or enabler of extreme narcissistic behaviour by CEOs.

This article contributes to the corpus of knowledge regarding the relationship between personality disorders and accounting. Recently, there has been renewed interest in exploring this under-researched relationship. For example, Wakefield (2008) has investigated the association between Machiavellianism and accounting, and Ramamoorti (2008) has explored the psychology and sociology of fraud from an accounting perspective. However, to date, there have been no published studies focusing on the association between narcissism and accounting.

We recognize that CEOs have ample opportunity to influence the choice of accounting policies and practices; to engage in (so-called) 'creative accounting' (often a euphemism for unethical accounting); and to inflate (or otherwise manage) reported financial results to boost their ego and self-esteem. Our particular interest arises because of the capacity for accounting language and accounting measures [such as net income, earnings per share (EPS) and rate of return on investment (ROI)] to facilitate such ego-boosting behaviour. Indeed, Chatterjee and Hambrick (2007, p. 378) have provided evidence of a 'strong indication' of an association between CEO narcissism and 'large annual fluctuations in accounting returns'. In view of this evidence, it seems important to develop a better understanding of the relationship between CEO narcissism and reported accounting results.

Our central thesis is that accounting has unique and distinctive features which plausibly encourage ego-boosting behaviour by certain, more extreme, narcissistic CEOs. Narcissists possess an exaggerated sense of self-importance, a pre-occupation with being the centre of attention, a lack of compassion for others, a high degree of sensitivity to criticism, and high levels of envy and arrogance. We contend that certain CEO narcissists invoke financial accounting language and measures as important implements in their accountability discourse with corporate stakeholders.

It is important for auditors, analysts, regulators and other corporate stakeholders to generally monitor the language of CEOs for narcissistic-like signs – including such signs provided by financial accounting language and measures. This importance is stressed by Amernic and Craig (2007, p. 27) who contend that CEOs possessing extreme narcissistic-like tendencies are 'more prone to ''play loose'' with the company's reported financial position, to shun remediation strategies and to live in a fantasy world of delusion about the company's financial strength'. If there is closer monitoring of the language of CEOs (including their accounting language) to detect signs of obvious narcissism, benefits are claimed to accrue in areas of succession planning, corporate image and corporate governance (Amernic and Craig, 2007, pp. 27–28).

In the following sections, we develop a more nuanced understanding of CEO narcissism by delineating two broad types of narcissist CEOs – constructive narcissists (CNs) and destructive narcissists (DNs). We then outline the 'specialness' of accounting which helps facilitate narcissistic behaviour, especially by DNs. Finally, we draw attention to how financial accounting language and accounting representations in financial statements can be particularly useful to DNs in expressing their perverse leadership. In the context of accounting narrative, we argue that a discourse cycle emerges, which involves the activities of *projection*, *construction* and *reflection*.

Accounting language as a shaper of corporate discourse

Continuing episodes of major corporate accounting, ethical and regulatory scandals, have not diluted the potency of accounting as a language and an institution. This is partly due to the social sanctioning of accounting through the imprimatur of generally accepted accounting principles (GAAP), certification by auditors, and the putative reform attempts of the accounting profession and the US Congress (e.g., the *Sarbanes–Oxley Act, 2002*). Despite criticisms levelled at the accounting profession, accounting language continues to help shape 'the discourse of [corporate] performance…' (Power, 2004, p. 778). Accounting language 'shapes' the way CEOs talk and write about their entity's financial performance because it possesses at least three especially salient communication and governance roles for CEOs.

First, accounting-based performance targets help define a CEO's bonuses and reward system. This

affects how a CEO describes and discusses accounting performance. When persons attain the role of CEO of a corporation their reward system depends significantly upon financial accounting performance measures such as corporate EPS and corporate ROI. Ittner et al. (1997) reported that 25.3% of sample firms used operating income or income before tax in CEO compensation plans, 27.2% used net income and 28.5% used EPS.

Second, CEOs have the power to exert significant influence over the myriad policies that underlie the financial accounting language and financial statements of their corporation. This power is manifest in concerns about the 'tone at the top' in corporate financial reporting reform (Castellano and Lightle, 2005). A CEO, as the most senior corporate officer, can set the 'tone at the top' and influence ethical attitudes through exercising potent financial accounting language. For example, the influence of Fannie Mae's CEO Raines was such that the company's 'CFO Timothy Howard, and other members of the inner circle of senior … executives sought to convey… [a false]… image of Fannie Mae' (Office of Federal Housing Enterprise Oversight (OFHEO), 2006, p. 2). The OFHEO (2006, p. 3) also concluded that 'Fannie Mae's corporate culture was intensively focused on attaining EPS goals. Decisions by Mr. Raines shortly after he became CEO in 1999 set an inappropriate tone at the top that permeated the enterprise throughout his chairmanship'. The problems of tone at the top at Fannie Mae, especially as they relate to accounting, were illuminated further by allegations that:

> … there seems to have been a tone at the top that FAS-133 [Financial Accounting Standards Board, Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments] did not really apply at Fannie Mae and, while it was [a component of] generally accepted accounting principles … the mindset was that if management did not agree with the rules, it would just not follow them (Christian, 2005, p. 48).

Anand et al. (2004) cite examples of accounting practices at Qwest, H. J. Heinz (in the 1970s) and the Leslie Fay companies to illustrate that top management serves as ethical role models for subordinates, often forcing them to commit accounting fraud. Indeed, neuroscientific and biological evidence is emerging that followers (presumably including subordinate accountants) mirror the behaviour of their leaders. According to Goleman and Boyatzis (2008, p. 76) 'mirror neurons have particular importance in organizations, because leaders' emotions and actions prompt followers to mirror those feelings and deeds'. However, followers should not be regarded necessarily as 'just lemmings being led into the sea' (Clements and Washbush, 1999, p. 172) but as collaborators, with their leaders, in the process of influence. In terms of Kelley's (1992) model of follower behaviour, subordinate followers in the realm of accounting who are *conformist* (active and dependent, uncritical thinking) and *passive* (passive and dependent, uncritical thinking) would be most prone to be influenced by the policies, actions and language of their CEO.

Third, when persons are appointed CEO of a corporation there is ample potential for them to assume personal ownership of accounting targets and to consider corporation-wide financial accounting results to be a personal reflection, or personal report card, on their success or failure. Swieringa and Weick (1987, p. 304) draw attention to the implications of this by explaining that financial accounting performance measures (such as a company's ROI) operate in a context in which 'actions are public, irreversible and volitional…'

> ROI… is almost ideal to produce high commitment. Managers have their past performance reviewed publicly and state, in writing, the levels they will try to achieve in the next period. Managers are held accountable for past performances, which are irreversible by definition, but they are also held to future estimates which make these estimates also relatively irreversible. Finally, managers have a say in what they will be held to and in how they allocate resources to make those numbers, which means that volition is also introduced. When ROI targets are reviewed and set, the context within which this process occurs (high visibility, high irreversibility and high volition) virtually guarantees that managers will feel intense pressure to demonstrate that the target is reachable and worthwhile (p. 304).

Many CEOs regard financial accounting performance measures to be indicative of their personal accomplishment. They have incentive to influence strongly the policies underlying financial accounting performance measures, often because their personal

remuneration depends directly and indirectly on such measures. If CEOs are extreme narcissists and control the communication and governance activities associated with financial accounting, then examining the interplay between accounting and narcissistic behaviour seems apt. Single figure, abstract, reductionist, accounting performance measures (such as profit, ROI, operating ratio, free cash flow and EPS), together with socially prominent corporate accountability discourse in which such accounting language frequently appears (such as CEO letters to stockholders in company annual reports), lend themselves to manipulation and mischievous interpretation by CEOs. The possibility that manipulation and mis-interpretation of self-constructed accounting information occurs for narcissistic purpose (for example, to sustain any fantasy a CEO wants and/or needs to believe) deserves closer attention.

Narcissism and the corporate CEO

There are plausible grounds to presume that most CEOs exhibit narcissistic tendencies. Kets de Vries (2004, p. 188) argues that 'a solid dose of narcissism is a prerequisite for anyone who hopes to rise to the top of an organization'. In many companies, competition for appointment as CEO is an intense battle, and 'perhaps individuals with strong narcissistic personality features are more willing to undertake the arduous process of attaining [such] a position of power' (Kets de Vries and Miller, 1985, p. 587). This view is supported by Lubit (2002, p. 127) who claims that 'certain personality traits commonly but not exclusively found in destructive narcissism help superior people to rise within management structures …[such traits include]… high levels of expressed self-confidence, magnetic enthusiasm, and unrelenting drive to attain prestige and power'. Pech and Slade (2007, p. 262) argue that narcissists 'covet higher managerial positions' and that they can satisfy their covetousness and acquire power by legitimate means through a capacity to conform 'to the demands of the organization's rituals and routines'.

Narcissism is often referred to as one dimension of the 'dark triad' of personality (Jakobwitz and Egan, 2005; Paulhus and Williams, 2002). The other dimensions are Machiavellianism [the 'interpersonal strategies that advocate self-interest, deception and manipulation' (Jakobwitz and Egan, 2005, p. 332)] and psychopathy. A psychopath is said to lack a conscience, be incapable of experiencing the feelings of others, be manipulative, an accomplished liar, ruthless, opportunistic, calculating, unremorseful, cold-hearted, yet capable of being charming, charismatic and faking emotions (Boddy, 2006, pp. 1461–1462). Paulhus and Williams (2002, p. 557) contend that all three of these personality types 'entail a socially malevolent character with behaviour tendencies towards self-promotion, emotional coldness, duplicity and aggressiveness'. Nonetheless, Paulhus and Williams (2002, pp. 561–562) subsequently qualify this assessment by concluding that 'Machiavellians and narcissists may be more of an interpersonal irritant than a threat … [and] are a mixed blessing in … organizational contexts'.

There is empirical evidence of an overlap between narcissism and psychopathy, and between Machiavellians and narcissism (Paulhus and Williams, 2002, p. 557, citing several published studies). The overlap between narcissism and psychopathy is particularly relevant to the case made in this article. This is because of argument that the key symptoms of psychopathy include several that are critical aspects of a clinical diagnosis of narcissism (outlined more fully later) – egocentricity, grandiosity and lack of empathy (Hare, 1994, p. 56). According to Hare (1994, p. 58) psychopaths have a narcissistic and grossly inflated view of their own self-worth and importance, a truly astounding egocentricity and sense of entitlement, and see themselves as the centre of the universe. The link between narcissism and psychopathy is important too in view of claims that 'the recent spate of corporate collapses in the US can be linked to the senior management of these corporations exhibiting the behaviours of organisational psychopaths … willing to falsify financial results to get promotion … bonuses and other benefits' (Boddy, 2006, pp. 1467–1468).

The analysis we conduct is a timely response to the call by Boddy (2006, p. 1472) for research 'to contribute to the building of a body knowledge to explain the impact of organizational psychopaths [and by implication, narcissists] on organizations … outside the disciplines of psychology and criminology'. Thus, in this article we focus on one aspect of psychopathy (narcissism) and highlight how it

affects, and is affected by, the institution of accounting and financial reporting. It is the role of accounting in facilitating extreme CEO narcissism (discussed below) which interests us.

Many well-known CEOs have been identified as narcissists. Anthropologist, psychoanalyst and leadership scholar, Maccoby (2003), claims the following current (or former) CEOs of major, high-profile companies are (or were) narcissists: Bill Gates (Microsoft), Andy Grove (Intel), Steve Jobs (Apple), Jeff Bezos (Amazon.com), Jack Welch (GE), Herb Kelleher (Southwest Airlines), Larry Ellison (Oracle), Donald Trump (Trump Organization), Martha Stewart (Martha Stewart Living Omnipedia) and Pehr Gyllenhammar (Volvo). Kets de Vries (1994, pp. 85–86) highlights the narcissism of Pierre Cardin. A study by Chatterjee and Hambrick (2007, p. 351) of 111 CEOs in the computer hardware and software industries, for the period 1992–2004, revealed narcissistic CEOs who 'favour bold actions that attract attention, resulting in big wins or big losses'.

Understanding narcissism

Narcissism is a condition 'named for Narcissus, a beautiful youth in Greek mythology who fell in love with his own reflection and then pined away, not realizing the object of his fancy was a mere image' (Race, 2002). Although all humans show signs of narcissistic behaviour, it is important to acknowledge that 'a healthy dose of narcissism is essential for human functioning … [but that] it is the danger of excess, particularly in the case of leaders, which gives narcissism its often derogatory connotations' (Kets de Vries, 1994, p. 84). Having too little or too much narcissism is likely to lead to an unstable personality. Leaders with 'only limited narcissistic tendencies are very talented and capable of making great contributions to society. Those who gravitate toward the extremes, however, give narcissism its pejorative reputation' (Kets de Vries and Miller, 1985, p. 588).

The terms used to describe and classify narcissism are usually dichotomous. They are based on assessments of the features of the narcissistic tendencies of an individual. Those conceived to have 'not too much and not too little' narcissism are described variously as being constructive (Kets de Vries, 1994, 2004), productive (Maccoby, 2003), reparative (Glad, 2002) or healthy (Brown, 1997) narcissists. Those with 'excess' narcissism are described variously as being reactive (Kets de Vries, 1994, 2004), destructive (Lubit 2002), non-productive (Maccoby, 2003), malignant (Glad, 2002), pathological (Brown, 1997) or extreme (Duchon and Drake, 2009) narcissists. We use the terms CN and DN to refer to these two types of narcissism in CEOs.

A widely accepted definition of narcissism is provided by the American Psychiatric Association's Diagnostic Statistical Manual (fourth edition, text revised version), known commonly by the acronym, DSM-IV-TR. This definition is used in most prescribed university texts on abnormal psychology (e.g., Barlow and Durand, 2005) but it is a definition which is more consistent with the idea of excess or destructive narcissism or DN. DSM-IV-TR defines narcissism as 'a pervasive pattern of grandiosity (in fantasy or behaviour), need for admiration and lack of empathy…' The condition is said to exist in a person when five (or more) of the following criteria (stated in abridged form) are present. The person:

1. Has a grandiose sense of self-importance.
2. Is preoccupied with fantasies of unlimited success, power, brilliance and beauty.
3. Believes that he or she is special and unique.
4. Requests excessive admiration.
5. Has a sense of entitlement to especially favourable treatment.
6. Is interpersonally exploitative.
7. Lacks empathy with the feelings and needs of others.
8. Is envious of others or believes that others are envious of him or her.
9. Shows arrogant, haughty behaviours and attitudes.

To better explore the relationship between CEOs, accounting, and narcissism, we highlight the differences between 'good' or CN and 'bad' or DN. It is important to do this because many people seem to regard narcissism axiomatically, but erroneously, as bad. Maccoby (2003, pp. 6, 39) draws attention to this by noting that 'the concept of narcissism has been widely misunderstood … [and] has become a linguistic garbage pail piled so high with entirely

negative characteristics that is has lost its descriptive power'.

There are many negative aspects of narcissistic personalities (such as oversensitivity to criticism, incapacity to listen to others, exaggeration, paranoia and grandiosity). However, not all narcissists are liabilities to an organization, because they 'can be honest or crooked, brilliant or ordinary, wise or foolish' and are often best suited to lead organizations during times of rapid social and economic change (Maccoby, 2003, p. xiv). They are claimed to be independent thinkers who take big risks; pursue their vision with great passion and perseverance; are passionate and charismatic; and have the drive to convince others to embrace their vision (Maccoby, 2003, pp. xiv, 10, 95).

Constructive narcissists

Although CNs can be 'quite ambitious and can be manipulative and hypersensitive to criticism' (Kets de Vries and Miller, 1985, p. 595), they also have a positive vitality, a secure sense of self-esteem that helps them cope with daily frustrations, and a capacity for introspection and empathy (Kets de Vries, 2004; Lubit, 2002). CNs identify with followers, consult with them, and advance their causes (Glad, 2002). They do so quite often because they have a vision of a better organization that they want to realize with the help of others. CNs seem likely to possess the five elements of 'strategic intelligence' which Maccoby (2003) contends are part of the make-up of a productive narcissist. These elements are *foresight* in predicting 'how social and economic forces will interact in ways that can change the business climate' (Maccoby, 2003, p. 166); *systems thinking* or 'conceptualiz[ing] the whole rather than a collection of separate parts' (p. 167); *visioning* or combining foresight and systems thinking into a holistic vision, and 'then creating that vision in the real world of business' (p. 171); *motivating* or 'get[ting] people … to embrace a common purpose and implement your vision' (p. 175); and *partnering* or making personal and strategic alliances and understanding how each alliance fits into a vision for the company (pp. 191–192).

A CN is claimed to be suited to innovative, change-oriented businesses where they have good scope to take risks and 'to realize visions in new technologies, globalization and the information age' (Maccoby, 2003, p. 11). CNs are not so well-suited to retailing and manufacturing companies 'where success is measured by doing the same thing over and over again more efficiently' (Maccoby, 2003, p. xvii). CNs do not feel a 'need to distort reality' to deal with their frustrations because they 'have enough self-confidence, adaptability, and humor to stress real achievements' (Kets de Vries and Miller, 1985, pp. 593, 595). For CNs, the 'collective defense of self-esteem is effective without being excessive' (Brown, 1997, p. 672).

Destructive narcissists

DNs often enter 'adulthood with a legacy of feelings of deprivation, insecurity, and inadequacy' and see life as a 'zero-sum game: there are winners and losers' (Kets de Vries, 2004, p. 189). They wield power to buttress a grandiose self-image and reign in an environment of orchestrated adulation, rash behaviour, paranoiac defence and volatile behaviour (Glad, 2002). They are more prone to unethical behaviour than CNs. DNs are likely to be 'cold, ruthless, grandiose, and exhibitionistic' (Kets de Vries and Miller, 1985, p. 595) and 'fixated on issues of power, status, prestige, and superiority'. They are pre-occupied with having their 'very inflated self-views … continuously reinforced' (Campbell et al., 2004; Chatterjee and Hambrick, 2007, p. 351). Many DNs need to rely on ego-defence mechanisms to maintain their excessive levels of self-esteem (Brown, 1997, p. 672).

Fantasy is often an important component of a narcissistic personality disorder – and especially so for DNs. This is unsurprising because people 'learn that "getting ahead" in organizational life comes from dramatizing a fantasy about the organization's perfection', and that fantasy represents a 'return to narcissism, in which the organization and its highest participants are seen as the center of a loving world' (Schwartz, 1991, p. 249). DN CEOs 'can become intolerant of criticism, unwilling to compromise and frequently surround themselves with sycophants' (Clements and Washbush, 1999, p. 171). They are prone to surround themselves with sycophantic admirers including possibly acquiescent auditors

(Bazerman et al., 2006) and compliant chief financial officers. They often live in a fantasy world and have their understanding of reality tested sorely. 'They are happy to find themselves in a hall of mirrors that lets them hear and see only what they want to hear and see' (Kets de Vries, 2004, p. 191). Accounting, as the presumed language of business, has the potential to be prominent in this 'hall of mirrors', as we now explain.

The special features of accounting in facilitating CEO destructive narcissism

Corporate financial accounting has a special character which accords it a potentially important role in facilitating more *extreme forms* of narcissism by CEOs. Published profit results are an ideal means for narcissistic CEOs to satisfy their 'intense need to have [their] superiority continually re-affirmed' (Chatterjee and Hambrick, 2007, p. 354). The periodic nature of corporate public financial reporting (e.g., quarterly, annually) makes such reporting conducive to satisfying a narcissistic CEO's need for frequent applause. This contention is consistent with argument that finance (presumably including accounting) offers 'greater narcissistic possibilities' than other management functions (Schwartz, 1991, p. 262). These possibilities are assisted by the capacity of accounting to express the results of complex and diverse activities as single performance measures. Reliance on accounting is given impetus because of the implausibility that any human being could cope with the heavy cognitive load that serving as a CEO of a major corporation would require in the absence of the mediating and simplifying *single figure* performance measures provided by accounting. Five aspects of the specialness of accounting that are likely to make it a facilitator and enabler of CEO destructive narcissism are discussed below.

Accounting as a personal report card

Some CEOs over-identify with the corporation they lead. They project themselves as the company. The conceptual metaphor which captures this is THE CEO IS THE COMPANY. This over-identification is more excessive than mere feelings of organizational membership and loyalty. DN's, in particular, are prone to develop a mental model of themselves as the embodiment of the company they lead. Their lack of magnanimity is unsurprising. It is consistent with many of the behavioural traits of extreme narcissism outlined in DSM-IV-TR: grandiosity, self-importance, fantasies of power and brilliance, quest for admiration and arrogance.

Such projection, together with the mental process of 'splitting' tend to be characteristic of DNs. Glad (2002, p. 21) observes that 'malignant narcissist[s] …[have]… a deep-seated proclivity to split the world in two, assigning all the darker traits of their own personalities to external enemies' (see also Volkan, 1988). DNs are prone to paranoia and to invoke splitting as a defence to maintain 'some sort of stability' (Glad, 2002, p. 21). The DN CEO is apt to split the world, with himself as the 'representative of good', engaged in a battle with the 'representatives of evil'. For example, in 1941, Walt Disney, a self-styled 'representative of good', was engaged in a battle with labour unions. Disney portrayed the labour unions as having 'ganged up' on the Disney company in an ideologically perverted fashion to impede the company from operating smoothly. However, Disney was silent about his own 'hostile, and perhaps illegal, anti-union activity' (Amernic and Craig, 2006, p. 99). In his 1941 letter to stockholders, Disney subconsciously ascribes his darker traits to his enemies, labour unions.

The processes of splitting and projection, when effected by DN CEOs, seem especially significant given a common metaphoric conceptualization of THE CORPORATION IS A PERSON. This is often the default manner of talking about, and thinking about, the corporation. In law, this metaphor has influenced the evolution of the legal standing of the artificial entity known as the corporation, such that it 'becomes a person protected by the First Amendment' (Berger, 2004, p. 180). Amernic and Craig (2006) draw attention to the metaphor BILL GATES IS MICROSOFT and to how metaphors such as this have been used widely to structure reasoning about the accounting by a corporation. Thus, the metaphor THE CORPORATION IS A PERSON has been transmuted into a legal fact and into accounting and business discourse more generally, as a 'natural idea'.

An implicit assumption of the A CORPORATION IS A PERSON metaphor is that we are dealing with a mentally healthy (metaphorical) person. However, what if a DN CEO is in charge? What if, by the processes of splitting and projection, DN CEOs over-identify with the corporation they lead to the extent that they regard the corporate portrayal of financial well-being reported to the world by financial accounting to be a very personal report card on them? In such circumstances, financial accounting assumes a new psycho-social role. As we explain below, financial accounting has further special features which make it well-suited to such a role.

Amenability and malleability

Accounting is a remarkably amenable and malleable resource (Burchell et al., 1980). It is alleged to have facilitated the creation of economic and business structures (Hopwood, 1987), played a key role in the rise of quantitative thinking in Western Europe (Crosby, 1997), enabled the establishment of counting and writing (Mattessich, 1987), contributed to the crises of late capitalism (Mitchell and Sikka, 1993), and demonstrated many other virtues and sins. Accounting's 'ascendancy in the twentieth century' is said to be explained by infatuation with its 'capacity to translate diverse and complex processes into the end result of the single figure…' (Miller, 1994, p. 246); and in 'the tyranny of the [single] bottom line' (Estes, 1996). The infatuation of CEOs with one-dimensional, single figure, abstract, accounting-based quantitative measures (such as net profit, EPS and ROI) is encouraged by the apparent ease with which such measures can be manipulated to alter the external validation they offer of a CEO's performance.

CEOs are comforted by the external validation bestowed by stakeholders and the world at large. They are aware that their achievement as CEO 'is reflected in their publicly reported scores … quarterly earnings, profit improvement, stock price, executive perks, and similar indices of outstanding success' (Levinson, 1994, p. 430). However, they are alert also to the possibility that the assessment others have of them, based on publicly reported financial results, will not indicate what they regard to be their 'true self' or 'true performance'. Fortunately for CEOs, published accounting measures are prepared in accordance with GAAP, and these are malleable and amenable to refraction and distortion by them. The sub-set of GAAP that have been chosen for use in the financial reporting of a company, and which can produce unflattering self-images, can be tailored easily to reflect a picture of financial performance that is more flattering and ego-satisfying for a CEO. The Economist (2005, p. 70), for example, has claimed that 'recent accounting snafus' have shown that 'accounting numbers are malleable. And they are getting squishier as the use of estimates in company accounts increases'.

The accounting profession is shifting from historic cost measures in financial reporting to fair-value (or market) measures in an attempt to reveal the (alleged) current worth of assets and liabilities. However, an important outcome is that a heavier weight is placed on estimates for items that do not have a reliable and readily available market price, thereby causing even greater malleability in reported profits and estimates of net worth (The Economist, 2005, p. 70).

The aura of accounting

An aura is 'the way in which a phenomenon is perceived or understood in society' (Gallhofer and Haslam, 1991, p. 488). The aura associated with accounting encourages CEOs to use accounting to help legitimize their performance-related claims. For CEOs, the appeal of accounting representations is that they are 'perceived in the public realm of capitalism to be neutral, objective ("true") and independent' (Gallhofer and Haslam, 1991, p. 491) and 'authentic' (Graves et al., 1996, p. 60). Accounting is often reified, albeit falsely, as factual and value-free. Instead, it ought to be recognized as 'necessarily subjective and value-laden' (Graves et al. 1996, p. 62). This aura of accounting arises because of widespread perceptions that accounting involves a 'hard counting' of 'facts and figures'; and because of its legitimization by the state and by courts (Gallhofer and Haslam, 1991, p. 492). Even the accounting-related expression 'the bottom line' has entered 'U.S. public discourse as a metaphor for ultimate or definitive truth' (Graves et al., 1996,

p. 61). The aura of accounting is such that it 'engenders an unquestioning acceptance of prevalent accounting numbers as conveyors of an unproblematic, concrete and "valid" message' (Gallhofer and Haslam, 1991, p. 492).

Financial statements are prepared in compliance with GAAP. These are an extensive set of rules and principles, in textual form, crafted over many years under the aegis of socially esteemed practising members of the accounting and auditing professions such as the International Accounting Standards Board, the US Financial Accounting Standards Board and similar bodies; and implemented in the USA under the watchful scrutiny of regulatory authorities such as the Securities and Exchange Commission and the Public Company Accounting Oversight Board. The reputation and general business knowledge of those who devise and endorse GAAP, and the legal or quasi-legal status GAAP have acquired in many countries, enhance the aura and social standing of accounting, the authority of ensuing social claims, and the gravitas and reputation of the claimants. And, in spite of accounting's implication in fostering periodic waves of regulatory, accounting and ethical failures of major corporations throughout the world (Clarke et al., 2003), it is still socially powerful. The power of GAAP has been helped by influential institutions and individuals. They have excused accounting from responsibility for the corporate financial and ethical crises of the early 2000s – they have ascribed the causes to 'a few bad apples'; to poorly designed management incentive systems and corporate governance protocols; and have emphasized the ameliorating effect of reforms (see Bratton (2002) and Gordon (2002)). Such blame-shifting and rationalization enhances accounting's socially powerful aura.

Imprimatur of GAAP and external audit

Company financial accounting information is subject to external audit, in which compliance with GAAP is assessed by independent professional auditors. According to Gallhofer and Haslam (1991, p. 492):

> … the production or authorization of accounting by people regarded as 'experts' also would seem to add to the weight given to the accounting representation in society … accounting arguably gains the broad trust of many people …[because]… The technical and expert language in which accounting is couched allows a boundary to be drawn around it preventing broader access to its comprehension.

The combination of the social weight and malleability of accounting enables it to facilitate more extreme narcissistic tendencies. Because of the public nature of financial accounting information, this enabling is even more potent than it would be otherwise (Swieringa and Weick, 1987).

The failure in 2002 of the multi-national auditing firm, Arthur Andersen, did not unravel the overarching social patina of presumed external auditor independence, or the presumed objectivity of audit reports on published financial statements. The audit profession seems to have been successful in defending its reputation through claims in society-at-large that imperfections in the audit process have been remedied by the passage of legislation (such as the *Sarbanes–Oxley Act, 2002* in the USA), and by improvements in operational standards and education in the audit profession.

The ostensibly independent external auditor's report on financial accounting statements is a publicly displayed, socially virtuous sign. The auditor usually expresses an unqualified opinion, proclaiming that the audited financial statements 'present fairly' a company's results 'in accordance with GAAP'. However, any public claim of 'fair presentation' is fragile since it is contingent upon compliance with GAAP, something which is fragile itself. Since social knowledge of the fragility of GAAP is neither widely known nor widely acknowledged (even by those who likely know), the public sign of the unqualified audit report is powerful social currency, amenable for exploitation.

Accounting as a powerful means of social expression

Accounting has a long history of serving as a powerful rhetorical device. According to Aho (1985), one of the pervasive technologies of accounting, double-entry bookkeeping, served rhetorical ends in late mediaeval commerce more than it served the measurement of profits and capital. During a period in which 'the moral status of … business' was 'at best

… considered tainted', double-entry bookkeeping 'made a powerful and favourable impression on its audience' (Aho, 1985, pp. 22, 42). It did this through its orderly arrangement of transactions, equality of debits and credits, and ensuing capacity to show that 'the profits and capital of the business are justly earned' (Aho, 1985, p. 42). This rhetorical power of accounting and double-entry bookkeeping, seems consonant with claims that even in ancient times, accounting plausibly served as a socially serviceable means of persuasion that enabled commercial activity (Mattessich, 1987). Modern corporate financial accounting is still based upon double-entry bookkeeping and it continues to evoke 'balance' and 'morality' (e.g., as in 'balance the books', 'debits must equal credits' and 'present fairly').

Hence, contemporary accounting can lay claim to a historically enduring and positive rhetorical potency. When exploited by narcissistic CEOs, this rhetorical potency has additional, perhaps even more important, features. Mouck (2004) argues that accounting has 'played a huge role in the production of "designer environments"', by which he means the financial worlds of budgets, costs, profit centres and so on, 'in which most of us [and all CEOs?] spend our [their] working lives' (Mouck, 2004, p. 118). We contend that accounting has a rhetorical specialness in this 'designer environment' of CEO narcissists. It facilitates CEO narcissism because it is a means of social expression with a lengthy historical pedigree. It has a strong capacity to construct the life world of the CEO.

Glad's (2002) analysis of the malignant (political tyrant) narcissist is apposite to the DN CEO. She refers to the vicious cycle which results as 'the tyrant becomes increasingly isolated from the people he would lead' (Glad, 2002, p. 27). We contend that financial accounting language, an abstraction, has strong potential to be implicated in such a cycle by contributing to the isolation of a DN CEO from his staff and people in general. According to such a view, accounting-based measures such as net income, EPS and ROI, lend themselves to constructing the life world of the DN CEO as the CORPORATION-cum-CEO. Thus, the abstraction of corporate financial accounting provides an accounting (a story) for another abstraction – the (metaphoric) corporation. Semiotically, accounting can help to construct and to isolate the DN CEO.

Leadership of a destructive narcissist CEO and financial accounting

In examining the relationship between CEO narcissism and accounting, one of the most apt of many perspectives of leadership is one which adopts a narrative perspective and conceives the role of the CEO as a storyteller. Gardner (1999, p. 1010) writes that:

> … leadership is an activity that occurs in the mind: the mind of the leaders, the minds of the followers, and the interactions and transactions occurring between and among those minds. The principal vehicle of leadership is the story: The leader affects individual behaviour, thought, and feelings through the stories that he or she tells.

In similar vein, Araujo and Easton (1996, p. 371) assert that 'the primary task of management is … to construct a discourse of corporate coherence'. Many CEOs are well aware of their role as corporate storytellers (Cuno, 2005).

We bring together our arguments about the implication of accounting in facilitating CEO extreme narcissism by focusing on financial accounting language. How well-suited is accounting for use by a narcissistic CEO in telling the story of his or her (grand, fantastic) leadership? We provide an explanation for how financial accounting language is likely to be implicated in leadership discourse by a destructive narcissistic CEO by employing the notion of an accounting discourse cycle (see Figure 1).

Once ensconced in their position, CEOs are key players in an accountability discourse cycle, in which accounting measures and financial accounting language are central elements. This discourse cycle runs parallel with each accounting and external financial reporting cycle of their company, and is recurring. It can become a vicious discourse cycle if the CEO is a DN. The cycle comprises an on-going sequence of activities, fuelled by accounting measures and the specialness of financial accounting language

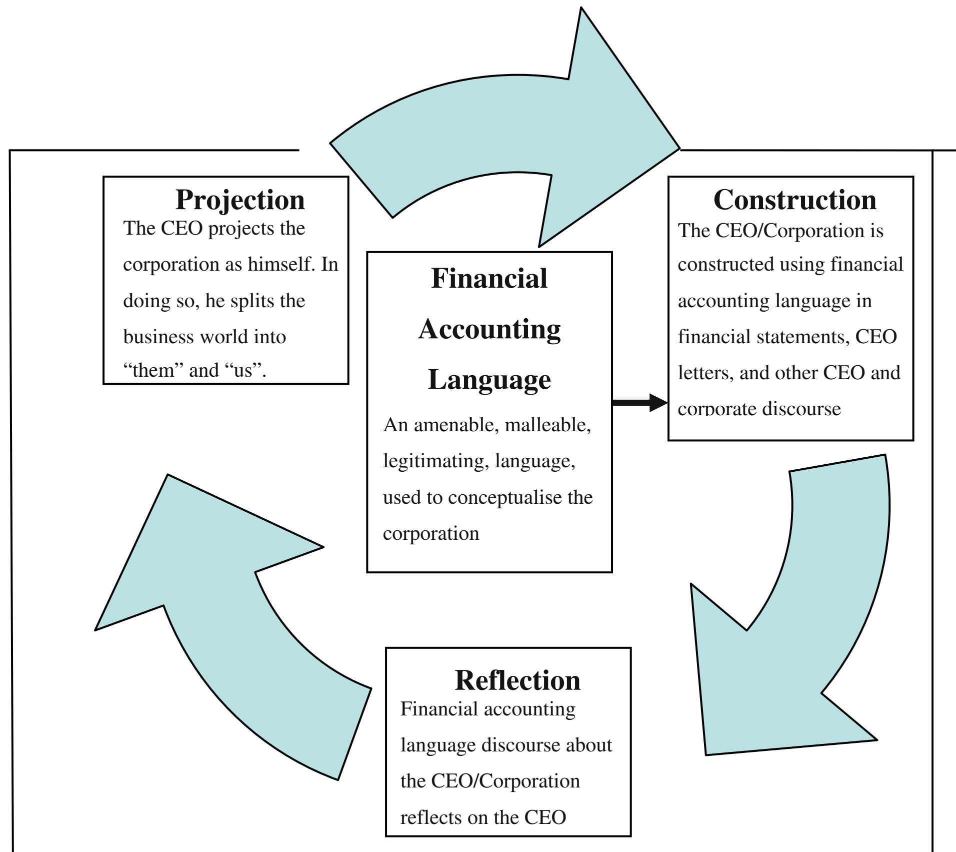

Figure 1. Financial accounting language and CEO narcissism as a discourse cycle.

described above. It involves the CEO in the activities of projection, construction and reflection.

Projection

CEOs who identify with the company they lead project the company as themselves. In many cases a pervading metaphor is THE CEO IS THE COMPANY. The personal success or failure of a CEO is described in stories (such as in CEO letters to stockholders) that use financial accounting language and accounting measures (profit, EPS, ROI and free cash flow). In such projection, CEOs split the business world into 'them' and 'us'. They attempt to glorify themselves often by recourse to the BUSINESS IS WAR metaphor (Amernic and Craig, 2006) and by projecting themselves as successful warrior chiefs. CEOs seek to show that in the war of business, the company and its warrior chief CEO are better than others on the battlefield. The capacity for CEOs to project themselves using financial accounting language is facilitated by the power CEOs have to determine their company's financial accounting policies and practices.

Construction

CEOs construct their image (and that of their company) through the accounting policy choices they make from the wide number of options permissible under GAAP. They also set 'the tone at the top' (as with the Fannie Mae case sited earlier) so that other senior corporate officers such as the chief financial officer can be persuaded to accede to accounting mistreatment or engage in ethically inappropriate behaviour. In addition, CEOs have added incentive to construct accounting measures in self-serving ways because their compensation is

commonly a function, directly or indirectly, of reported financial accounting results. They also construct favourable impressions of their leadership through the financial accounting language choices they make in their storytelling in CEO letters to stockholders and other CEO discourse (such as speeches and press releases).

The mechanisms by which financial accounting language is deployed in leadership narratives by a DN CEO are complex. They are affected by the CEO's general understanding of GAAP. The complexities and subtleties of GAAP, and the resulting hard-to-comprehend financial statements and accounting performance measures (such as EPS), can serve as rhetorical ammunition for the DN CEO too.

Wallace and Baumeister (2002, p. 830) reported 'the performance of narcissists was highly sensitive to changes in self-enhancement opportunities'. They concluded that 'narcissists perform well when they perceive that high performance will bring self-glorification' (p. 833). Thus, whenever CEOs perceive that the spotlight is focused on them, they are likely to be more inclined to seek performance opportunities for self-validation through the hoped for admiration of others. The financial statements of a listed corporation provide such 'self-enhancement opportunities' almost continuously, since they are published every quarter, and the discourse environment of the corporation resonates with talk regarding EPS forecasts, actual EPS results and other accounting indicators.

This discourse environment also includes media (such as the annual CEO letter published as part of corporation's annual report) which provide a significant 'glory' opportunity, especially for DN CEOs. The CEO letter has been lauded by many prominent CEOs such as Jack Welch as an important and publicly prominent medium of CEO expression (Welch, 2001). Thus, financial accounting language, deployed in such a self-enhancement medium as the annual report CEO letter, has strong capacity to facilitate self-construction of the DN CEO.

Reflection

The social recognition and self-image of the DN CEO is reflected by accounting numbers that are amenable to manipulation and 'creative management' by them. DN CEOs recognize that accounting has the capacity to show to the world outstanding EPS, ROI, sales revenue increases, and the other attendant accounting signs of success and grandeur – of the corporation, but more importantly, of the CEO projected as the corporation. CEOs reflect on how they have constructed themselves and their corporation using financial accounting reports and language. They also reflect on how internal and external constituents, in turn, will reflect upon that self-construction too. They seek to assess whether the 'accounting-language world' they have effected confirms their grandiose self-image within the confines of their 'very strong vivid inner theatre' (Kets de Vries, 1994, p. 78). For DNs especially, it is in this inner theatre that the 'designer environment' highlighted by accounting (Mouck, 2004) eventually plays out.

Discussion and conclusion

We have elaborated upon the facilitative role of financial accounting in a discourse cycle by destructively narcissistic CEOs. Alertness to this accountability discourse cycle is important because of its potential to isolate the CEO, to affect the tone at the top of a company, and to partly explain the dysfunction of a DN CEO. There seems to be strong potential for a DN CEO to retreat into the cognitively insulated world that has been largely self-constructed using financial accounting. One outcome of this is to create an image of corporate performance that is an idealized, wholly unrealistic, self-image.

The facilitative role of accounting is consistent with the contention that 'those in leadership positions such as Enron seek a special order of gratification … as the ultimate narcissistic fulfilment' (Levine, 2005, p. 728). Financial accounting discourse, in the presence of a destructively narcissistic CEO, is part of an ideology construction project that the CEO undertakes, either consciously or unconsciously, to achieve such fulfilment. Financial accounting helps to create an organizational ideology, serves the CEO's narcissistic fantasies, and helps to create 'a "fusion" of leader and led' (Kets de Vries, 2006, p. 205). Thus, when the leadership of Enron asserted in the company's 2000 CEO letter that 'Enron is laser-focused on earnings per share', such ideology (which was made manifest in

accounting discourse) helped to make possible 'conscious and unconscious dreams of togetherness, of shared purpose' and ultimately 'a false sense of group solidarity' (Kets de Vries, 2006, p. 205). When entwined with the specialness of accounting that we have described above, such narcissistically imposed 'dreams' seem prone to result in inapt financial reporting, inappropriate ethical conduct and contribute to corporate distress.

The general arguments we put forward apply equally as strongly, if not more so, in the realm of a company's management accounting and management control systems. This is a realm in which internally circulated budgets and performance reports are expressed in terms of accounting-related single figure measures. These include such measures as percentage increases in sales revenues, market share as a percentage of industry sales revenue, operating ratio, free cash flow – all of these have the potential to be manipulated to vindicate the policy directives of the CEO. There is strong potential for a DN CEO to 'manage' these measures to self-construct an aura of formidability and infallibility with subordinates – the readers of these internal reports.

There seems strong merit in requiring management control systems and audit procedures to give more concern to controlling or moderating the psycho-social make-up of the CEO: that is, to pay more attention to psycho-metric analysis of the 'ultimate controller', the CEO. Although urging some caution, Goldman (2006, p. 392) advocates the broader use of DSM-IV-TR as a means of 'extending the repertoire' of tools for assessing personality disorders in leaders. The tasks of moderating CEO behaviour or vetting CEOs have attracted considerable recent attention in many forums, including in this journal by Singh (2008); however, further discussion is beyond the scope of this article.

In the aftermath of the current global financial crisis, there appears to be a more determined resolve to reduce the incidence of (so-called) 'toxic' CEO behaviour. In this regard, it is noteworthy that Singh's (2008) description of toxic behaviour has the hallmarks of the behaviour of many DN CEO's; that is, as being 'more preoccupied with their selfish pursuits, their mad megalomania or reckless gambling with corporate assets and investors' funds' (Singh, 2008, p. 733).

Narcissistic CEOs, especially DNs, seem likely to be disposed to regard financial accounting language and reports as 'a mirror of the self' (Lasch, 1979, p. 239). There needs to be clearer appreciation that by engaging with the apparatuses and language of accounting, a DN CEO has the means both of holding the mirror and of defining the image.

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