

## Are Bad CEOs Good for Firm Performance?

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CEOs are important for firm performance. But is it possible that a bad CEO can lead a well performing firm? In 2021, a New Zealand CEO resigned with accusations of arrogance, bullying behaviour, and a dismissive management style. We ask, can a bad CEO be good for business? Are they also bad? And how is it that a 'bad' CEO can gain a profile of 'success' while those working for them see them as a problem? The present study sought to answer these unknowns within New Zealand businesses.

We used the dark triad to explore bad CEOs, which has three dimensions: *Machiavellianism* (self-interest, deception, manipulation of others), *narcissism* (a sense of perceived entitlement, superiority over others), and *psychopathy* (grandiosity, lying, superficial charm; lack of empathy and remorse; impulsivity, sensation seeking). Individuals with these characteristics make up 15% of the population, and research tells us they are more likely to become leaders. Some argue the focus on detrimental effects of dark triad CEOs ignores potential beneficial effects. This study took up the challenge.

We did this by exploring two types of firm performance, suggesting opposite effects. First, we suggest dark triad CEOs will be linked to **better** external performance (here, breakthrough sales). This is due to public perceptions around the CEOs grandiosity, charm, impulsivity, and sensation seeking. This might drive new sales. Conversely, dark triad CEOs will have **worse** internal performance indicators (here, organisational performance, which captures workforce satisfaction, and retention). In effect, the detrimental elements of the dark triad (e.g., deception, superiority over others, lying, lack of empathy) make working directly for the dark triad CEO detrimental for those better acquainted with dark triad CEOs (i.e., employees).

This study of New Zealand CEOs (rated by senior managers) does find dark triad CEOs perform better externally (breakthrough sales) but worse internally (organisational performance). The findings? Dark triad CEOs might be good for business – at least new sales! But not so good for the internal working of the firm. So, should boards and HR departments recruit dark triad CEOs to boost firm sales? Well, not so fast!

Firms are complex, and the business environment they operate in can be important. For example, differences occur in stable versus competitive environments. We found the detrimental effects of dark triad CEOs on organisational performance is weaker in competitive environments, suggesting a dark triad CEO (especially their grandiosity, impulsivity, and sensation seeking) might alleviate external pressures. But the environment doesn't change the beneficial effects on new sales. This additional finding makes a dark triad CEO more appealing.

Finally, we included managerial capital, which captures the knowledge and experience of the top management team. These teams are known to create firm value. The addition of the top management team with the business environment provides a clearer picture. The benefits of a dark triad CEO towards new sales **no longer exist**. While dark triad CEOs do undermine top management teams, it is the top management teams that hold the key to better organisational performance and new sales. The dark triad CEO is finally exposed as purely detrimental to firm performance. This detrimental effect is stronger in a stable business environment, and while weakens in more fiercely competitive markets, it is still consistently detrimental.

This study used a representative sample of 840 New Zealand firms broadly across industries, sectors, and sizes. The effects generalise across industry, age, size, workforce education, sector,

in Māori and family businesses. Interestingly, roughly 20% of CEOs are rated ‘bad’ meaning there might be lots of them!

What are the lessons for boards, HR departments, top management teams, and workforces? The dark triad traits do have appeal – especially in an interview. *Machiavellianism* (manipulation of others), *narcissism* (a sense of perceived entitlement), and *psychopathy* (grandiosity, sensation seeking) might all manifest as strong ‘confidence’ and ‘drive’ that makes CEO candidates much stronger and likeable than they likely are. But our evidence shows CEO dark triad is truly detrimental to business performance. They will undermine the top management team and demoralise the workforce. Those looking to hire CEOs need to be warned that the very nature of dark triad CEOs (*Machiavellianism, narcissism, psychopathy*) may make them very appealing in person – at least initially. They will charm and appear impressive. They might talk a very ‘big game’, but evidence of their toxicity will be available. Seek out feedback and input from former employees, past directors, and top management team members, who are all likely to help identify dark triad leaders.