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Organizational Narcissism

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Abstract
In order to protect their identities, organizations can become self-obsessed and display extreme narcissistic behaviors, which will, in the long run, lead to decline. Extreme narcissism can take two forms. The high self-esteem narcissistic organization institutionalizes an exalted sense of self-worth and becomes blind to its weaknesses. The low self-esteem narcissistic organization institutionalizes a profound sense of unworthiness and becomes blind to its own strengths. In between the extremes an organization can remain reality-based and institutionalize a healthy sense of self-worth and value. Enron exhibited many characteristics of the high self-esteem narcissistic organization, while Salomon Brothers exhibited characteristics of the low self-esteem narcissistic organization. Both organizations failed. Liz Claiborne has prospered because it demonstrates characteristics of the reality-based, healthy narcissist.

> The headquarters for Wal-Mart, the world's largest company, are set in a commercial strip on the edge of a small town in northwest Arkansas. The five and dime Sam Walton started is preserved as a company visitor's center.
>
> The Sears Holdings corporate headquarters occupies a 200-acre campus (that) … offers natural prairie lands, ponds and waterfalls, walking/jogging paths and athletic fields. The facility offers award-winning food service, coffee shops, childcare, wellness and fitness centers, automotive center, sample store, hair salon, sundry shop, bank, insurance agency, pharmacy, box office, dry cleaner and concierge services.

Wal-Mart takes great pride in its folksy roots, and its lack of ostentatious display is a conscious decision about how to present its identity. By preserving the five and dime, Wal-Mart is saying something important about what the company is and how it operates. In contrast, the Sears Holdings' sleek campus and its array of amenities make a statement about the company's identity, its sense of self as a modern, progressive company.

All organizations have identities much the way all people have identities. An organization's identity develops over time as it adapts to both environmental and internal pressures, and what emerges is the collection of central and enduring attributes that make an organization unique and distinguishable from its competitors. Expressed through policies, procedures, and behaviors, the organization's identity reflects the values and beliefs that lie at its core. Wal-Mart and Sears, both mass market retailers, look different, feel different, and their employees behave differently because the companies project different identities.

Organizations, like people, are motivated to protect their identities and they do this by rewarding behaviors that will sustain a positive sense of self and reduce collective anxieties. The effort to protect identity can become fixated on relieving anxiety, and when this happens, the identity itself takes on the qualities of narcissism.

Narcissism is a term that describes a person who is self-absorbed. A narcissist displays a sense of self-importance, fantasizes obsessively about success and power, assumes a strong sense of uniqueness, lacks empathy, and often exploits or takes advantage of others. These behaviors protect the narcissist's identity and fragile self-esteem.

Entire organizations can also become self-absorbed and focus on protecting an identity that has taken on narcissistic qualities. Every organization develops distinctive preferences, commitments, and practices that reflect collectively shared assumptions or ideologies about its identity, and the organization will reward people who best manifest that identity. These identity-capturing behaviors once reinforced will be imitated by others and so, over time, become institutionalized. We argue in this paper that extreme forms of organizational narcissism can harm organizations and even destroy them.

The extreme narcissistic organization becomes preoccupied with itself and its anxieties, and loses touch with its clients and markets. Self-absorption becomes an everyday practice, and the organization uses *self-aggrandizement*, a sense of *entitlement*, and *denial* to project what has become an extreme narcissistic identity. Self-aggrandizement, entitlement, and denial replace rational, reality-based decision-making.

For example, the once successful hedge fund Long Term Capital Management (LTCM) triggered a financial panic by accumulating $4.6 billion in debt between May and September 1998, and only an intervention by Federal Reserve Bank saved it from collapse. The company's crisis was caused not by poor talent or a lack of information, but rather by its own narcissism. LTCM's partners collectively displayed self-aggrandizement by believing that they possessed knowledge and capabilities far beyond those of any other hedge-fund managers. They collectively saw themselves as both omnipotent and omniscient in that they believed their method of "Value at Risk" calculations allowed them to predict and control the future. This collective sense of entitlement led the partners to take enormous investment risks in areas such as the Russian economy in which it had no previous experience. Between January and August 1998 LTCM's leverage ratio reached 50:1 (when 2:1 was the industry norm), and it had off-balance-sheet positions worth an additional $1.25 trillion. Even as the markets collapsed around them, the partners denied the reality of their precarious situation and instead were driven to prove LTCM's identity of superiority and dominance.

Extreme organizational narcissism takes two forms, based either on high or low self-esteem. A third form of narcissism we call healthy narcissism characterizes organizations that protect their identities by being self-confident, not self-aggrandizing, that earn success rather than believe themselves entitled to it, and that use data to inform rather then deny. Examples of high self-esteem narcissism, low self-esteem narcissism and healthy narcissism appear in Enron, Salomon Brothers, and Liz Claiborne companies, respectively. Analysis of these companies reveals the unique behaviors they employ to protect their identities.

Extreme organizational narcissism

An organization in the grip of extreme narcissism loses sight of the "reality" of its position in the marketplace and employs denial, self-aggrandizement, and a sense of entitlement to prop up its damaged sense of identity. For example, the organization denies facts about itself through spokespeople, press releases, and annual reports. It develops plausible and acceptable justifications for its actions through rationalization. An extreme narcissistic organization self-aggrandizes by endowing itself with a sense of rightness, and by making claims of its uniqueness even in the face of contradictory evidence. This is accomplished in several ways. For example, the organization commissions flattering corporate histories, executives make speeches embedded with claims of uniqueness, and it deploys office layouts and architecture as expressions of status, prestige, and vanity. An extreme narcissistic organization takes on a sense of entitlement that is accompanied by a lack of empathy and a willingness to exploit others. It assumes that it is entitled to continued success, and can exploit resources, people, and other organizations in the service of that success.

Such extreme self-absorption, however, will take on different manifestations depending on whether the organization is a high self-esteem or low self-esteem narcissist. Essentially, the high self-esteem narcissistic organization is characterized by excessive self-esteem, an exalted sense of self, and becomes blind to its weaknesses. In contrast, the low self-esteem organization suffers from a profound sense of inferiority and becomes blind to its strengths. In either case, the self-absorbed organization is no longer reality-based, and an identity that had once provided a competitive advantage turns into a competitive disadvantage.

High and low self-esteem narcissism

Table 1 presents the differences between high self-esteem and low self-esteem narcissistic organizations in terms of entitlement, self-aggrandizement, and denial. Table 1 also presents the characteristics of a "healthy" narcissistic organization: one that is reality-based, open to feedback and self-respecting. Table 1 is illustrative rather than exhaustive, and offers a framework for diagnosing/explaining organizational health or dysfunction.

For example, Long Term Capital Management exhibited the collective behaviors of high self-esteem narcissism. In contrast, the FBI near the end of J. Edgar Hoover's life exhibited the qualities of a low self-esteem narcissistic organization.

Below we analyze three different organizations in terms of their organizational narcissism traits.

Enron: an example of high self-esteem narcissism

The Enron Corporation's bankruptcy in 2001, the subsequent prosecution of many of its top executives, and the demise of its auditing firm Arthur Andersen, has become a cautionary tale in American business: even the mighty can fall quickly. Extreme high self-esteem narcissism was a central and enduring trait at Enron, and this trait informed commonly shared assumptions about what constituted acceptable, appropriate, even necessary behavior. Institutionalized narcissism enabled unethical and illegal practices.

Anxiety of mythic proportions

Kurt Eichenwald's book "Conspiracy of Fools" (2005) provides an inside view of an organization that seems, in retrospect, obsessed with its own undoing. "Crime was just one ingredient in a toxic stew (of) shocking incompetence, unjustified arrogance, compromised ethics, and an utter contempt for the market's judgment," Eichenwald reports, "Ultimately it was Enron's tragedy to be filled with

Table 1. Manifestations of Organizational Narcissism

	High Self-esteem Narcissism; Exalted Sense of Worth; It Loves Itself Too Much; Is Blind to Its Weaknesses	Low Self-esteem Narcissism; Profound Sense of Unworthiness; It Hates Itself Too Much; Is Blind to Its Strengths	Healthy Narcissism; Reality Based; Aware of Strengths; Aware of Weaknesses
Characteristic reaction to anxiety	Projects heroic, all-powerful, mythic entity	Projects alienation, dissatisfaction	Mindful assessment of situation
Self-aggrandizement: tendency to overestimate (underestimate) merits and accomplishments: overestimate one's importance, power, reputation	Core assumption: grandiose fantasies of success	Core assumption: fear of failure	Core assumption: aspirations of success, concern for mistakes
	Corp headquarters designed by famous architects, attention-grabbing architecture conveys wealth, energy, excitement; lavishly decorated offices; expensive art; private dining rooms, private jets, expensive parties, sponsor professional sports teams; staff wear hip, fashionable clothing	Corp headquarters hidden within landscape, walls, gates; architecture conveys detachment, isolation; security systems prominently displayed; need for security exaggerated; staff wear dowdy clothing; might require uniforms, lab coats	Corp headquarters show pride of place
	Decisive/high risks: bet the company	Indecisive/no risks: bet nothing	Risks carefully considered
	Characteristic employee behavior is brash, boastful, preening	Characteristic employee behavior is secretive, hand wringing	Characteristic employee behavior is open, inclusive
	Stories emphasize great triumphs won	Stories emphasize great mistakes avoided	Stories emphasize effective problem solving

Table 1. Manifestations of Organizational Narcissism *(continued)*

	High Self-esteem Narcissism; Exalted Sense of Worth; It Loves Itself Too Much; Is Blind to Its Weaknesses	**Low Self-esteem Narcissism; Profound Sense of Unworthiness; It Hates Itself Too Much; Is Blind to Its Strengths**	**Healthy Narcissism; Reality Based; Aware of Strengths; Aware of Weaknesses**
Entitlement: sense of having the *right* to use/exploit situations/people	Core assumption: we deserve to be successful	Core assumption: we don't deserve success	Core assumption: we can earn success
	Exploit with aggression	Exploit with passive-aggression	We don't exploit
	Project the illusion of control with boisterous, exhibitionistic behavior	Project the illusion of victimization with avoidance behaviors	Project a sense of respect and fair-mindedness
	Values entrepreneurial style	Values obsession with rules	Respect people; values inclusiveness
	Language emphasizes the "rightness," the "deservedness" of success	Language emphasizes the need to avoid failure, the dangers that lurk, the problems that will be encountered	Language emphasizes sense of community and shared destiny
Denial: inability or refusal to acknowledge problems	Employees routinely over-represent their status	Employees characterized by jealousy of each other	Employees respect/acknowledge each other's accomplishments
	Core assumption: the data (or feedback) are wrong	Core assumption: the data (or feedback) can't be trusted	Core assumption: the data (or feedback) are an important source of information
	Environmental scanning not necessary (omniscience)	Environmental scanning too confusing, threatening	Environmental scanning is important source of data
	Ignore disconfirming evidence	Re-package disconfirming evidence	Seek out disconfirming evidence
	Admitting to "problems" is seen as weakness	Discussing opportunities seen as naïve	Both opportunities and problems must be seen for what they are
	Contrary opinions are publicly shouted down	Contrary opinions are dismissed as "uninformed"	Contrary opinions sought as way to balance
	Managers surround themselves with "yes" people; "suck-ups" celebrated as team players	Managers surround themselves with doomsayers; doomsayers celebrated as prudent	Managers surround themselves with talent

people smart enough to know how to maneuver around the rules, but not wise enough to understand why the rules had been written in the first place." Those people were "not wise" because they were operating in an extreme narcissistic environment that encouraged displays of entitlement, celebrated self-aggrandizement, and systematically denied that anything was out of order.

We are Entitled to Success

People at Enron skirted the rules because the "rules" didn't apply to them: the message was that the people at Enron were entitled to success and riches. Consider that market-trading prices did not dictate the value of contracts at Enron. Instead, the company created and used its own projections for anticipated income. Fees were treated as a return on investment. Such a calculation lowered capital investment costs and artificially raised returns. No one objected to this practice. Conflicts of interest were of little concern. For example, the finance group created its own little world where buyers (i.e., the clients they represented) worked hard to protect the interest of sellers (i.e., Enron). The company side-stepped conventional accounting practices when it seemed profitable to do so. For example, Enron devised its own variation of Mark to Market accounting such that contracts were assigned the value of anticipated future profits, not current market prices. That the future profits might not actually be realized didn't matter. Enron believed itself entitled to a healthy-looking balance sheet.

Self-aggrandizing Fantasies of Success

Enron saw itself changing the world, and executives and employees were not shy about making sure that the world was aware of the changes. Boasting and bragging became institutionalized. For example, executives often spoke with messianic fervor about the new order they hoped to create: they were going to take power away from the monopolies, finance the dying gas industry, and create new markets that didn't exist before. Jeffrey Skilling's group liked to show off. They liked being known as the best and the brightest—analysts who tore apart the company in search of excessive risks and the associated high returns. The group indulged themselves with flashy, sleek offices that were meant to symbolize the smart, gifted people they believed themselves to be. Others in the company did not shy away from exhibitionism: private jets and expensive parties were a normal part of the Enron's self-display. In 1999, Enron attracted further attention to itself by paying $100 million for the naming rights to the Houston Astros new stadium.

Denial: The Data are Wrong

A sense of entitlement and a need to self-aggrandize become exaggerated over time because a narcissistic organization practices a collective form of denial. The feedback loop is severed and any evidence that might threaten the organization's self-regard is never "seen" or is simply ignored. Most egregiously, the company ignored evidence of fraud and insider trading for years, and later denied responsibility for such practices. Top executives were seen to surround themselves with yes-men who were careful not to pass along bad news. International project development businesses routinely presented absurdly inflated project values and used improper accounting as a cover-up. One executive tried to share his concerns about such behavior with CEO Ken Lay. Within minutes he was ushered out the door and never heard anything back.

Denial was an important aspect of Enron's participation in the catastrophic Dabhol Power Project in India. The project was so large and politically complicated that the company decided it needed former Secretary of State James Baker as a consultant. Baker proved to be less than enthusiastic about the project, and his report raised many red flags, particularly about the Indian government's lack of commitment. The report was filed away and largely forgotten. However, most of the dangers Baker warned about materialized: a newly elected Indian government refused to support Dabhol. The project was on the chopping block as Secretary Baker predicted, yet no one in the company had seen (or was willing to accept) the possibility of such an outcome. Instead of a prudent retreat, however, the company decided to double its bet on India, a move celebrated in Houston as a grand slam homerun. As is the norm in high esteem narcissistic organizations, the risks of such a rash move were hardly considered After all, the international division's projections said Dabhol was a sure winner. Never mind that all the previous projections about Dabhol had been off the mark: the company was in denial. Altogether, Enron lost about $900 million on the project.

Salomon brothers: an example of low self-esteem narcissism

In contrast to the grandiose, exhibitionistic behaviors found in a high self-esteem narcissistic organization, the low self-esteem narcissistic organization is characterized by an environment that is self-denying, secretive, and projects a profound sense of unworthiness. See Table 1.

Anxiety and alienation

Michael Lewis's book "Liar's Poker" (1990) provides an insider's account of the low self-esteem environment at investment bank Salomon Brothers. While investment banking is an occupation not generally associated with low self-esteem behavior, the example applies here because Salomon Brothers seems to have been different. "Salomon was, in 1985, a profitable company as a result of dealing in bonds (but not junk bonds)," Lewis writes. "[Before deregulation], Wall Street had been content to let Salomon Brothers be the best bond traders because that was considered neither profitable nor prestigious. What was profitable was raising capital. What was prestigious was knowing lots of corporate CEOs. Salomon was a social and financial outlier."

Deregulation threw the company off-track. Instead of objectively analyzing opportunities and threats, the Salomon Brothers Lewis writes about became obsessed with its own anxieties. The organization projected a profound sense of unworthiness which hardened into a kind of cynicism that was used to justify unethical behavior. In 1991 Salomon Brothers was caught trying to acquire more U.S. Treasury bonds than was legally allowed. The scandal, combined with a fine that was the largest ever imposed on an investment bank up to that time, proved to be the company's undoing.

"Salomon Brothers was at the crossroads of change," Lewis writes, "but all the time wearing a blindfold. It lacked an accurate vision of where the explosion in the bond market would lead (and) from 1985 onward it took what must be one of the most expensive and fanciful commercial rides in the history of the American corporation." Each problem, instead of being seen as an opportunity for reform and change, only reinforced a sense of unworthiness and inevitable doom, a sense that was fulfilled because Salomon got itself into legal difficulties and ceased operating as an independent company in 1991.

Self-denying: Fear of Failure

Instead of over-estimating itself the way Enron did, Salomon Brothers systematically underestimated itself by projecting an image as social nonentities. For example, a top executive told the following self-deprecating story during a training session: At cocktail parties lovely ladies would corner me and ask my opinion of the market, but, alas, when they learned I was a bond man, they would quietly drift away. The training relentlessly stressed that people keep their heads down: the quickest way to be fired was to appear in the press boasting. Even successful people were expected to undervalue their accomplishments. One successful trader explained his success by noting that "… in the land of the blind the one-eyed man is king."

We Don't Deserve Success

Because Salomon Brothers' identity is characterized by low self-esteem, its presentation will be different, almost entirely opposite, from Enron's presentation. For example, entitlement at Enron meant that the company and its managers acted as if they were entitled to success and special accommodations in the marketplace. The inward-focus at Salomon Brothers meant that the company and its managers expected success to elude them and they turned their frustrations on themselves. They acted out by enforcing a regime of terror and abuse; a corporate version of coming home mad and kicking the dog. Bond traders ruled the shop, and their tyranny over salesmen was institutionalized. A favorite trick was starting rumors that all the sales people were going to be fired. Analysts were expected to be working all the time; they rarely slept and often looked ill. It seemed the better they got at their jobs, the nearer they appeared to death. A kind of protection game emerged where the weak sought to find favor and protection from the strong who were, of course, the biggest bullies. Management assumed seigniorial privileges. Their offices on the 41st floor were served by private elevators, and communication was accomplished over the phone. A staff person on the 40th floor was no closer to his/her manager than a staff person in Dallas. The company felt no loyalty to its staff. You want loyalty, one staff member noted, hire a cocker spaniel. Everyone felt entitled to treat customers with disdain. "I spent much of my time inventing logical lies," Lewis notes, "Most of the time when markets move, no one had any idea why. A man who can tell a good story can make a good living as a broker."

Denial: The Data Can't Be Trusted

Enron practiced denial in order not to pay attention to reality and thus continue disastrous, often illegal, practices. At Salomon Brothers, denial was used to justify managerial paralysis. In both cases, the feedback loop was severed or ignored, but Salomon Brothers turned on itself. "The plain fact," Lewis writes, "was that a combination of market forces and gross mismanagement had thrown Salomon Brothers into deep trouble. At times it was as if we had no management at all. No one put a stop to the infighting; no one gave a sense of direction … no one wanted to make the hard decisions that business men, like generals, simply have to make." Denial also took the form of scape-goating. The bosses were inclined to blame their lieutenants for poor execution of a brilliant plan rather than question the plan itself. The "grunts," Lewis notes, were better able to diagnose the company's problems than the "generals." Sales people who spent all day on the phone with customers saw drastic changes in the market to which management was blind, but one could not attempt to persuade management of this sad fact. Its response would have been to shoot the messenger. Lewis seems to be describing a organization that is arguing about rearranging deck chairs on the Titanic rather than face the reality of a sinking ship.

The point with both the Enron and Salomon Brothers examples is that extreme narcissism will produce such a dysfunctional work environment that legal troubles and business failure are easily predictable outcomes, even if that business had once enjoyed great success and acclaim. Also, the examples show that reactions to collective anxiety take on a different presentation depending on whether the extreme narcissism is characterized by high self-esteem or low self-esteem.

Liz Claiborne: Healthy narcissism

As presented in Table 1 it is possible to see that a form of functional narcissism resides somewhere between the extremes. The organization that manages to avoid narcissistic extremes can be said to be a healthy narcissist. Such organizations are reality-based and, overtime, show themselves to be worthy of trust and reliance. An organization with a healthy, authentic sense of self-values knowledge and awareness rather than denial, seeks justice and fair play rather than entitlement, and encourages self-confidence rather than self-aggrandizement. Healthy organizational narcissism enhances and builds the value of others in the organization and seeks to maximize benefits for the largest number of people without exploitation. Such an organization can value and reward high performance, but not become overly exhibitionistic about doing so. Certainly, healthy narcissistic organizations are subject to uncertainties and anxieties, they make mistakes, but are better able to cope with and adapt to these pressures than extreme narcissistic organizations. A healthy narcissistic organization shows resilience. As a metaphor, the extreme high self-esteem narcissist loves itself too much and is blind to its own weaknesses. The low self-esteem narcissist hates itself too much and is blind to its own strengths. The healthy narcissist is aware of and proud of its strengths and, at the same time, it is aware of and tries to overcome its weaknesses.

Mindful assessment

The healthy narcissistic organization remains fact-oriented and tries to discover the "truth" of a situation by examining both supporting and disconfirming evidence. The healthy organization is open to the possibility that it enjoyed a success because of luck, or a failure because of its own mistakes. A healthy organization's identity will not be unduly threatened by a short term failure because it possesses a healthy confidence that it will succeed in the long term. Because it is reality-based, a healthy organization will be much more open to change than its dysfunctional counterparts.

For example, under the leadership of Jack Welch, General Electric exhibited healthy narcissistic behaviors and experienced success that proved to be beneficial to shareholders and most stakeholders. To be sure, working as a manager for GE was not necessarily pleasant because the company so valued performance that a kind of Darwinian survival of the fittest model informed decision-making. Yet the performance driven environment did not have room for denial because managers had to take responsibility and be open to bad news in order to keep their operations on track. Yes-people were not rewarded, and although it was a competitive environment, it was also a transparent one where excessive self-aggrandizing and entitlement would not have flourished.

Consider how the healthy narcissism at Liz Claiborne has kept the company on-track first through its years of rapid growth, and then it was able to rebound in the late 1990s following a sharp decline in both sales and profits. The company designs and markets branded women's and men's apparel, fragrances, and accessories. It was founded in 1976 by Liz Claiborne, her husband Al Ortenberg, and two other partners, and enjoyed great success from its inception. The company went public in 1981 and, in 1986, became the first on the Fortune 500 list founded by a woman. Beginning in 1992, however, the company was unable to respond effectively to market changes and it suffered a three-year decline where its market capitalization fell from $3.5 billion to $1.2 billion. Management instituted a series of operational and marketing changes, and the market capitalization rebounded to $3.2 billion by 1997. By 2007 company sales approached $5 billion.

While the company has benefited from marketing and supply chain innovations, our argument is that the company's healthy narcissism played an important role both in its growth and its ability to respond to market changes. In contrast, Salomon Brothers, because of its low self-esteem narcissism, was able neither to recognize nor respond to changes in its industry. A healthy narcissist protects its identity by remaining reality based, and it does not fall prey to denial or engage in excessive displays of entitlement or self-aggrandizement.

Aspire To Success Rather Than Self-aggrandize

The company did not seem to be one that was either overly self-aggrandizing or self-denying. For example, company headquarters were housed in a stylish but not, in comparison to Enron, overly lavish building near Times Square in New York City. The building's décor features clean lines, lots of pure white, and is not ostentatious or attention-grabbing. While the staff's attire was not "button down," they tended to dress in Liz Claiborne fashions. Executives avoided the limelight and gave interviews to the press strictly for business reasons. In many ways the company's sense of self-esteem and lack of vanity reflected its core merchandising principle: Liz Claiborne produced stylish (but not too trendy) clothes that actually fit working women.

Success Is Earned, Not An Entitlement

Liz Claiborne has not enabled a sense of entitlement. Rather, the founders systematically developed an identity that prized teamwork and egalitarianism. Everyone mattered and enjoyed the benefit of friendly interpersonal relations, something that would not be possible in an organization characterized by rigidly defined privileges for the few. Liz Claiborne was run as a business, and it enforced a kind of business discipline on the staff that contrasted sharply with the "prima donna" companies commonly found in the fashion industry. For example, both executives and design staff routinely rode together to fitting sessions in a company van. The company as a whole did not feel it was entitled to special privileges. Rather, it took care to cultivate good relations with its suppliers, and even when its clout in the industry might have allowed it to demand special consideration, Liz Claiborne had a reputation for being fair with its off-shore contractors: they didn't oversample, didn't withdraw orders, and didn't make prototypes in one factory then bring it to someone else for production.

Not Denying: We Need The Data

A reality-based organization is one where people face the facts of their situation and accept responsibility. It does not enable the use of denial to avoid the facts or evade responsibility. For example, the Liz Claiborne company always took pride in listening to its customers. In 1987 it tried to re-introduce mini-skirt fashions, a concept that consumers rejected, so it was quickly withdrawn. The company took pride in claiming that it would not participate in the exploitation of poor laborers. Nonetheless, in 1984, evidence surfaced among international human rights groups that a Liz Claiborne contractor was using a knitting mill in China where employees received no more that sixty-one cents an hour, if they were paid at all. Instead of making excuses or stonewalling, the company acknowledged its responsibility and severed ties with the offending contractor. In analyzing the company's difficulties in the early 1990s, company executives took ownership of the fact that their product lines had gotten stale and the company, as a whole had grown complacent. A reality-based organization also knows that understanding "reality" requires understanding different points of view. Liz Claiborne expanded membership on both its Operating Committee and its Executive Committee specifically to ensure that different "realities" were represented. Denial is difficult to sustain in a heterogeneous environment.

The reality-based healthy narcissism at Liz Claiborne contrasts sharply with the high self-esteem narcissism at Enron where executives refused to "see" that many of their routine business practices were not just unethical, but were illegal. The low self-esteem narcissism at Salomon Brothers allowed executives to deny that their industry had changed.

Final comments

An organization's identity makes tangible the collectively shared values and assumptions that help employees understand who they are as a group, how they got that way, and how they should behave. The distinctiveness of an identity can contribute to an organization's competitive advantage, and this has been true for Liz Claiborne. In both good times and bad, a collective healthy sense of self-esteem and an identity that is reality based provided both an anchor in the present and a compass to the future.

Recognizing that Liz Claiborne's identity can be characterized as healthy narcissism underscores the idea that, in a sense, every organization is narcissistic. Every organization believes it possesses special capabilities; every organization seeks favorable publicity; every organization will at times ignore unfavorable events; top decision makers in every organization occasionally make bad decisions that they don't want to own up to. But *occasional* describes the normal, not the extreme. In the extreme case, healthy self-regard morphs into unhealthy self-obsession, and the reality base is lost. The grandiose, exhibitionistic narcissism at Enron and the inhibited, self-denying narcissism at Salomon Brothers resulted in system failure.

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Vitae

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