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HOW CEO NARCISSISM AFFECTS THE FINANCIAL PERFORMANCE OF COMPANIES: A REVIEW

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Abstract:
Because CEO narcissism influences CEO behavior in many ways, it is an area of study with strategic implications and has significant implications for CEO behavior. The CEO's narcissism may be idealistic or harmful to the company's financial performance. Therefore, the problem of our research revolves around answering the following question: How does CEO narcissism affect the financial performance of companies? through a narrative analysis of the most important previous studies in various countries. Our research contributes scientific value by enhancing the scientific debate and showing that CEO narcissism is not all opportunism. Senior managers strive for better financial performance, while for others, their narcissism is negatively reflected in financial performance. The researchers recommend the necessity of activating strong supervision by setting specific standards and mechanisms for the CEO and enhancing partnership and cooperation in the executive management of the company, that is, working in a team spirit to ensure improving the company’s financial performance and achieving sustainability.

Keywords: CEO narcissism, financial performance.

Introduction

Scholarly interest in CEO narcissism has increased over the past few years, spanning multiple disciplines. Many research has shown that CEO narcissism is an important aspect that should not be ignored (Ahn et al., 2020), as CEO narcissism is viewed as a stable and prominent psychological trait in the individual. The CEO's narcissism is a reflection of his charisma and self-confidence. Narcissistic CEOs want to gain admiration by purposefully displaying their skills and abilities. The company's financial performance and business actions are associated with this distinctive attribute (Shan et al., 2023).

Researchers' opinions differ about CEO narcissism. Some studies have shown its negative impact on financial performance because the company's increasingly narcissistic CEO will make unimportant decisions. Which leads to a decline in employee performance as a result of lower service and product quality (Kusiyah et al., 2022), (Muttiarni et al., 2022) (Maduwu, 2021). On the other hand, other researchers look at CEO narcissism from another perspective. They believe that a narcissistic CEO will foster employee innovation, strengthen relationships with partners, and expand public awareness of things. Finally, there will be an improvement in financial performance (Manullang, et al., 2024). Based on the above, this study investigates how CEO narcissism affects firm performance by conducting a theoretical assessment of previous literature and enhancing knowledge of the relationship between CEO narcissism and firm performance for different countries. By answering the research question: How does the CEO's narcissism affect the financial performance of companies?

2. CEO narcissism:

The CEO is the highest-ranking executive in the company and is responsible for ensuring its continued existence and prosperity (Wandeca & Alvia, 2012). According to Rusydi (2021), a CEO with strong confidence seeks to convince himself and others that he is able to effectively lead the company and oversee profits by leveraging his strength and adaptability in his role as the top decision maker. Therefore, even if this step is risky, it will always enhance the value of the company. Narcissism is described as a servant personality that seeks acceptance, respect, and flattery (Meiliya & Rahmawati 2022), According to Roche et al., (2013), narcissists may often lack awareness of their true selves and how others see them. Because of their self-confidence, they believe that his choice will be well received. And in order to achieve his goals, a narcissistic CEO will often try to control the available resources, which will make him more aggressive within the company.

3.The concept of financial performance.

Financial performance is an important and fundamental concept that represents the woman who reflects the company's activity and achievement and determines the company's level of achievement, the extent of its potential and exploitation of its resources, and the company's ability to achieve goals (Velentin, 2012). It is a measurable result achieved by the company within a specific period of time. It can be used to demonstrate positive results as well as to indicate the degree of financial health of a company. It examines and analyzes financial reports to show the financial position of the company, by explaining how it got to where it is now financially, and how it expects its financial condition to move forward (Sulastri & Zannati 2018). Analysis of financial reports helps interested parties solve the problems they face when doing business. An overview of the company's financial performance can be found in the reports. Examining financial performance reports is crucial because it allows the company to prepare strategies that should be implemented in the future in order to predict financial conditions. A company that performs well financially has a chance to survive (Fionita et al.,2022).

4.CEO narcissism and corporate financial performance.

A lack of empathy, a constant need for adulation, and grandiosity are characteristics of narcissism. Studies have shown that narcissism is linked to people choosing actions for their companies that feed their ego rather than improve the value and performance of the company. But according to other research, narcissism may actually be a good trait in an individual when the company is struggling financially, enabling the CEO to take advantage of calculated opportunities and make the right choices to help the company rise (Perez, 2017).

(Sinaga et al., 2023) noted in his study that numerous earlier studies have demonstrated a negative correlation and a substantial impact on financial performance between the CEO's narcissism. This is due to the possibility that a narcissistic CEO will be drawn to non-essentials, which could lower the caliber of his services, the reputation of his brand, the quantity of decisions customers make about what to buy, and the caliber of his goods.

While Wales, et al. (2013) attempted to explain why businesses with narcissistic CEOs were more susceptible to variations in their financial performance. Their study, which included data from 173 CEOs, provided a clearer understanding of how CEO narcissism influences performance variation and the reasons why the businesses they run are occasionally perceived as successful. In other words, the narcissism of the CEO encouraged a focus on business expansion and raised... Reactiveness, innovation, and taking calculated risks all improve the financial performance of the business.

While (Khajavi et al., 2017) looked into how narcissistic managers were when it came to overseeing the financial performance and profits of businesses registered on the Tehran Stock Exchange. Results for a sample of 52 companies listed between 2004 and 2015 on the Tehran Financial Market indicated a favorable and statistically significant association between financial performance metrics and managers' narcissism in managing earnings. Put differently, managers who give a flawless financial performance statement to stakeholders tend to be more narcissistic, which in turn causes them to be more inclined toward earnings management.

According to the study (Brouwer, 2018), which used 29,196 observations of the Standard & Poor's 500 S&P 500 index in the American market between (1992 -2017), there is a positive correlation between a manager's narcissism and the value and performance of the company. Furthermore, the impact of a manager's narcissism on a company's value is ten times greater than its impact on performance. As a result, investors interpret the manager's narcissism as a sign of promising future developments.

Regarding the connection between financial performance and social responsibility in businesses listed on the Tehran Stock Exchange, Ghafourian et al. (2019) focused on CEO narcissism and overconfidence. Their findings demonstrated a statistically significant correlation between a sample of 147 businesses operating in different industries throughout the period of 2011 to 2016 and their financial performance in terms of social responsibility. Furthermore, overconfidence did not significantly affect the relationship between financial performance and social responsibility. Lastly, CEO narcissism had no discernible impact on the relationship between social responsibility and financial success.

Yook and Lee (2020) provided a research approach that addressed the role of corporate social responsibility as a mediating factor in the relationship between the narcissism of the CEO and the success of the company. This study looks into how a narcissistic CEO may affect the value of the company. Regression analysis of 265 South Korean company samples from 2010 to 2016 shows that CSR actions are strengthened by CEO narcissism and that CSR increases the market value of the company. The hypothesis that CSR mediates the relationship between CEO narcissism and organizational success.

The study by Abdul-Azim Tolba Al-Sharqawi (2021) also looks at the connection between the company's value (as represented by Tobin's Q) and performance (as demonstrated by the return on assets ratio) and the narcissism of the CEO (as indicated by the size of his signature). based on 240 views over the course of three years, from 2017 to 2019, and a sample of 80 companies from various sectors of the Egyptian stock market. The study posed the following research questions: Does the performance of the company have a correlation with the narcissism of the CEO? Does the company's worth have anything to do with the narcissism of the CEO? The findings indicated that the narcissism of the CEO and the company's performance are positively and significantly correlated, whereas the narcissism of the CEO and the company's value are not correlated. It implies that investors do not factor the CEO's egotism into their models of decision-making.

Salehi et al. (2022) examined the relationship between the performance of a sample of 768 firms registered on the Tehran Financial Market between 2012 and 2017, and the impact that managers' and auditors' narcissism had on the stability of the management team. The findings demonstrated a negative and substantial correlation between management team stability and managers' and auditors' narcissism. There is a positive and strong correlation between the narcissism of managers and auditors and the relative performance of firms. Furthermore, the relationship between the narcissism of auditors and the stability of team management is positively and strongly impacted by the narcissism of managers. Additionally, there is a strong and unmistakable negative correlation between the relative success of corporations and the narcissism of auditors.

Whereas (Lin et al., 2022) examined the potential for the conceit and narcissism of the CEO to mitigate the effect of corporate sustainability on economic success. The study's findings imply that, in contrast to narcissistic CEOs, haughty CEOs will enhance the positive benefits of CSP on company performance—particularly in the social and environmental domains. Contributing to the corpus of work on CEO narcissism and arrogance, this study demonstrates how CEO personality qualities affect the link between corporate sustainability policies and business success.

Candy (2023) examined how capital structure functions as a mediating factor in the relationship between CEO overconfidence and narcissism and how well Indonesian companies doing while listed on the Indonesia Stock Exchange. The most significant performance-related finding of this research, which used 39 companies as a study sample, is that the narcissism of the CEO has a positive impact on return on shareholders' equity but has no effect on the company's return on assets.

And to investigate the connection between CEO narcissism and business performance, Shan et al. (2023) looked at 275 firms that were listed on the China Financial Market for the 2012–2020 fiscal year. Their results showed that the two have a positive association. Organizational innovation also acts as a partial mediating factor in the association between CEO narcissism and business performance. In addition, it has been shown that senior CEOs have a crucial role in enhancing corporate performance, making decisions related to entrepreneurial strategies, and company growth, and this has been confirmed by many studies. The CEO and senior management make the majority of decisions related to the company's strategy. CEO characteristics influence how the CEO interprets data and assesses risk, both critical processes in organizational innovation and entrepreneurship. The echelons idea states that a company's

CEO's traits are linked to its actions and success. Wilken (2023) aimed to demonstrate in his research how 263 listed firms' performance was impacted by the narcissism of their CEOs between 2016 and 2021. The study's findings demonstrated that extreme performance in a firm is not much impacted by the narcissism of the CEO.

After analyzing 848 speeches made by American CEOs between 2010 and 2019, Tailab et al. (2023) discovered that CEO narcissism had an impact on both companies' performance and the CEO's upbeat rhetorical tone. The findings indicate that performance modifies the association between positive tone and CEO narcissism to some extent. This suggests that some narcissistic CEOs' optimism is motivated by increased performance rather than being a result of opportunism. According to the reported data, a narcissistic (i.e., opportunistic) CEO is responsible for approximately 75% of optimism, whereas a quarter of the CEO's positive remarks can be explained by constant performance.

Finally, Manullang et al.'s (2024) study used sound corporate governance as a mediating variable to examine the relationship between CEO narcissism and financial performance. via online surveys completed by 150 Indonesian customers, 100 employees in the banking sector, and 50 CEOs of small and medium-sized businesses in the country. The findings demonstrate that effective governance can increase the influence of the CEO variable on a company's financial performance, and that there is a positive correlation between the CEO narcissism variable and financial performance.

5. Conclusions and recommendations.

Previous research suggests that CEO narcissism may have a variety of effects on a firm's financial performance, both positive and negative. The CEO's narcissism may lead to making risky financial decisions that are not based on reality to achieve personal goals. That is, the CEO's narcissistic behaviors may affect the confidence of investors and employees in the company, which reflects negatively on the company's financial performance on the one hand.

Or the CEO's narcissism may lead to enhancing the company's financial performance on the other hand. Researchers recommend the need to periodically evaluate the CEO's personality and management style to identify any potential negative effects. As well as enhancing the culture of accountability and transparency within the company to reduce the negative effects of the CEO's narcissism. These results and recommendations show the importance of understanding the effects of CEO narcissism on financial performance and taking the necessary measures to maintain the health and stability of the company by enhancing its financial performance.

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