# Narcissistic CEOs and financial performance

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Narcissism, considered by some as the "dark side of the executive personality," may actually be a good thing when it comes to certain financial measures, with companies led by narcissistic CEOs outperforming those helmed by non-narcissistic executives, according to recent research co-authored by faculty at the USC Marshall School of Business.

The study, "CEO Narcissism and Accounting: A Picture of Profits," published in *The Journal of Management Accounting Research*, by Professor of Accounting Mark Young, who holds the George Bozanic and Holman G. Hurt Chair in Sports Entertainment and Business at Marshall, Professor of Accounting Kelsey Kay Dworkis, Ph.D. '13, University of Melbourne, and Kari Joseph Olsen, doctoral student of accounting, Marshall, found that companies led by narcissistic CEOs reported higher earnings-per-share and share price than those with non-narcissistic CEOs. However, the methods such CEOs may employ to boost these indicators of financial soundness can jeopardize the long-term health of their organizations.

"Certain traits of narcissists, such as charisma and risk-taking, can make them successful leaders. They are innovative and committed to action," said Young. "These qualities could be critical factors in helping their companies succeed and have higher EPS and stock price. But when other facets of narcissism, such as vanity and exhibitionism, are present, a positive impact is less likely."

Researchers studied the accounting-related outcomes of 283 CEOs from

235 unique Fortune 500 firms from 1992-2009. Narcissistic CEOs were identified through a composite score based on the size and composition of the CEO's photograph in the annual report and the CEO's relative and non-relative cash pay benefits to that of the next highest company executive. The more prominent the photo and the greater the discrepancy in benefits, the more strongly the CEOs were identified as narcissistic leaders.

Researchers examined the relationship between CEO narcissism and earnings-per-share, the company's most visible accounting number, and share price, to which CEO compensation usually is tied. Results indicate that companies headed by narcissistic CEOs had higher EPS after controlling for factors related to the CEO, firm and industry. These CEOs achieved this partially through real activities manipulations that increase EPS.

"Narcissistic CEOs make operational decisions such as lenient credit terms, sales discounts and overproduction that in the short term boost earnings," said Young.

"However, this behavior can be detrimental to a company in the long-term. Our research shows a positive impact of higher earnings-per-share and stock price, but that 'positive' may come at a high cost."

Provided by USC Marshall School of Business

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