Narcissistic CEOs are bad for share value but good for company inertia, says study

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Narcissistic leaders are bad for share value, unless they are seen to stimulate innovation and growth at companies suffering from corporate inertia, according to research that analyzed how CEO narcissism affects stock recommendations from securities analysts.

The study, by Nottingham Business School, Middle Tennessee State University, and the University of Leeds and published in *Strategic Organization*, is the first to explore the relationship between CEOs who are linked to excessive risk taking and their value to a company.

Securities analysts provide investors with performance forecasts and recommendations on the attractiveness of investing in company stock. Existing research has shown that these recommendations can affect a company's market performance by influencing the price people are willing to pay for the company's shares.

The study analyzed data from the Standard & Poor (S&P) 100 index and covered 75 CEOs from 66 S&P 100 firms over a 10 year period. Researchers adopted widely used unobtrusive methods to measure narcissistic tendencies, including those that are under the CEO's control along with aspects of narcissistic personalities such as arrogance, entitlement and self-absorption.

This included exploring the use of photos in annual reports, first-person singular pronouns in shareholder letters, and cash and non-cash compensation compared to the second-highest paid executives.

The research also looked at whether firm age, size and reputation were mitigating factors against the impact of CEO narcissism, as well as taking into account variables which may affect securities analyst recommendations, including CEO age and tenure, and return on assets, shareholder returns, R&D intensity and institutional ownership of stock.

Narcissistic CEOs were shown to have a negative impact on recommendations, with analysts issuing weaker stock recommendations. This was especially so for larger firms where narcissistic leadership could clash with bureaucracy.

However, the findings also revealed that securities analysts will announce less pessimistic stock recommendations when the firm has an established reputation and appears to be prone to corporate inertia, signaling that they believe a brash leadership style and inclination towards risk-taking could improve its performance by stimulating change and innovation.

Dr. Feray Adıgüzel, senior lecturer in marketing at Nottingham Business School, part of Nottingham Trent University, said, "Previous research has focused on the firm level consequences of a narcissistic leaders. Our study is one a few that considers their impact on external parties—in this case securities analysts, whose expectations and predictions can have an adverse effect on the legitimacy of a company in financial markets.

"While there are some mitigating circumstances, overall securities analysts do not consider CEO narcissism to be of value to a company and this can have an impact on its strategy and performance. This reinforces the view that narcissism as a CEO personality trait has downsides and underlines the importance of being mindful when boards appoint, monitor and reward a CEO—as many leaders with this trait may lack self-awareness and do not have the necessary oversight to protect the company from its harmful consequences.

"This task seems especially urgent now, at a time of great expectations regarding the role well-led companies and institutions can play in tackling the grand challenges society currently faces."

More information: Karynne Turner et al, Chief executive officer narcissism, corporate inertia, and securities analysts' stock recommendations, *Strategic Organization* (2023). DOI: 10.1177/14761270231218096

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