

IS THE CEO'S EGO DRIVING PROFITS? UNCOVERING THE RELATIONSHIP BETWEEN NARCISSISM AND EARNINGS MANAGEMENT

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Abstract

Globalization intensifies competition, pressuring profit margins and challenging companies to outperform competitors. This demands precise decision-making by Chief Executive Officers (CEOs), whose personalities influence their perceptions and strategies. This research investigates the influence of CEO narcissism and tenure on earnings management in 180 manufacturing firms listed on the IDX from 2015 to 2019. Using Generalized Least Square regression, the findings reveal that CEO narcissism, measured through photographs in annual reports, positively affects earnings management, while tenure length has no significant impact. By analyzing visual elements in annual reports as a proxy for narcissistic traits, this research offers a novel lens to explore how CEO psychology drives financial decisions. The results suggest narcissistic CEOs are more likely to manipulate earnings to gain recognition and validation. Investors should therefore assess management personalities through annual reports alongside financial metrics to make informed investment decisions.

Keywords: CEO Narcissism; Earnings Management; Photo; Real Earnings Management.

Introduction

Market competition is intensifying due to the loss of trade barriers as a result of globalization (Chen et al., 2020). Companies in the same industry compete with each other to win market share, maximize profits, and obtain limited funds in the capital market (Laksmana & Yang, 2014; Yung & Nguyen, 2020). When companies reduce profits aggressively to win market share and increase revenue, competition intensifies (Dou et al., 2021). Intense competition, which is also reflected in fluctuations in earnings, is a concern for investors who prefer stability and growth (Baskaran et al., 2020; Dou et al., 2021). The pressure to meet investor expectations causes companies to engage in earnings management (Baskaran et al., 2020). This happens because earnings are considered

very important for investors to invest so managers in competitive industries face pressure to keep up or match competitors' performance by doing earnings management (Laksmana & Yang, 2014; Lemma et al., 2018).

Companies use earnings management as a strategy to increase profits in order to meet predetermined targets and produce financial reports that look positive (Baskaran et al., 2020). Earnings management practices are carried out through the selection of accounting principles/methods/estimates or management decisions on business operations to increase the nominal reported profit (Gunny, 2010; Zang, 2012). Through earnings management, companies appear to be able to meet targets and thus provide good signals about their performance to

financial statements users (Gunny, 2010). However, earnings management practices may become manipulative when top management uses its power for personal gain, such as increasing compensation based on earnings (Harris et al., 2019).

The Chief Executive Officer (CEO) as the top manager is responsible for making decisions and policies in the company (Javeed et al., 2021). In making decisions, the CEOs has limitations in understanding every aspect of the company and its environment hence they act based on their personality, experience and understanding of the situation (Hambrick, 2007; Hambrick & Mason, 1984). This aligns with the upper echelon theory, which suggests that a company's performance reflects the characteristics of its managers (Hambrick & Mason, 1984). The CEO personality that can influence corporate decisions is narcissism (Chatterjee & Hambrick, 2007, 2011). Narcissism are classified into constructive and destructive/reactive (de Vries, 2004; Lubit, 2002). Individuals with constructive narcissism have considerable confidence in their abilities, empathetic, and radiate positive energy (de Vries, 2004). Although they may enjoy power and admiration, individuals with constructive narcissistic are not obsessed with those things (Lubit, 2002). On the other hand, destructive/reactive narcissism include arrogance, excessive need for praise, feeling entitled to have whatever they want, and lack of empathy (de Vries, 2004; Lubit, 2002). Individuals who have destructive/reactive narcissism are only concerned with fulfilling their need for admiration and support from others (Lubit, 2002). Therefore, destructive/reactive narcissism leaders usually are concerned with power, status, prestige, and superiority (de Vries, 2004).

Narcissistic CEOs often leverage their power to influence corporate strategy to serve their personal interests (Ingersoll et al., 2017), such as praise and recognition from others (Chatterjee & Hambrick, 2007;

Gerstner et al., 2013). To capture public attention, narcissistic CEOs make decisions such as making large acquisitions, going overboard on Corporate Social Responsibility (CSR), and meeting corporate targets through earnings management (Al-Shammari et al., 2019; Chatterjee & Hambrick, 2007; Lin et al., 2019). Narcissistic CEOs also tend to be optimistic and misjudge the performance of their business operations (Chen, 2010), resulting in inappropriate decision-making. Thus, CEOs with destructive/reactive narcissism tend to show that the decisions taken are influenced by the desire to gain attention from others.

The purpose of this study is to examine how CEO tenure and narcissism affect earnings management. This study adds to the body of knowledge in accounting and finance about how manager personality affects earnings management. The incorporation of CEO tenure factors and the use of REM as a technique for calculating earnings management make this study distinctive.

Literature Review and Hypothesis Development

According to upper echelon theory, a company's success reflects its characteristics of its management (Hambrick & Mason, 1984). When faced with complex situations, managers use their knowledge and preferences to make decision choices with consequences (Hambrick & Mason, 1984). The personality, principles, and experiences that executives have in dealing with certain situations also become the basis for action (Hambrick, 2007). The CEO's knowledge and personality shape his understanding of certain situations so that he can make decisions for the company (Plöckinger et al., 2016). Thus, the CEO's personality reflected through the decisions taken can provide an overview of the company's future performance (Wang et al., 2016).

Personality traits related to leadership style and decision-making are

narcissistic characteristics (Chatterjee & Hambrick, 2007; Resick et al., 2009) and overconfidence (Berry-Stölzle et al., 2018). Individuals with narcissistic characteristics tend to emerge as leaders (Rovelli & Curnis, 2021) because they have high self-confidence and social skills so they are able to influence others (Brunell et al., 2008). Individuals with narcissistic characteristics also believe themselves to be special and unique so that they deserve praise and admiration (Judge et al., 2009). In addition, narcissistic individuals also rate themselves higher than others and seek ways to be recognized so as to reaffirm their importance (Olsen et al., 2014; O'Reilly et al., 2014).

Narcissistic individuals are busy seeking opportunities to gain attention, praise and admiration from others to maintain their exaggerated self-image (Campbell et al., 2011). The desire to be admired and the need for power can be fulfilled through leadership positions (Campbell & Campbell, 2009). Within the company, the CEO occupies a leadership position as the top manager (Javeed et al., 2021). By becoming CEO, narcissistic individuals can improve their self-image by getting praise for the positive performance of the company they lead (Olsen et al., 2014).

In making decisions, narcissistic CEOs are influenced by personal preferences and motivation to gain praise and admiration (Chatterjee & Hambrick, 2007; Gerstner et al., 2013). Public praise for leadership and achievements can strengthen the self-image of individuals with narcissistic characteristics (Chatterjee & Pollock, 2017). The need for praise and recognition makes the CEO use the company as a tool to fulfill his desires (Rijsenbilt & Commandeur, 2013). Narcissistic CEOs may use quarterly and yearly company earnings that are disclosed to the public as a means of satisfying their desire for approval and acknowledgment from others (Amernic & Craig, 2010; Rijsenbilt & Commandeur, 2013). To meet

and even exceed targets, narcissistic CEOs will carry out earnings management so as to bring praise and attention to themselves (Olsen et al., 2014).

Financial reports containing information about company performance reflect the ability and effectiveness of managers (Harris et al., 2019). To avoid reporting poor performance, managers tend to perform earnings management (Al-Shattarat et al., 2018). Earnings management is also done to increase profit-related compensation, in addition to giving good signals to investors (J. S. Choi et al., 2014; Harris et al., 2019). There are two approaches to managing earnings, accruals and real activities (Gunny, 2010). Real activity earnings management affects the business's operational operations by cutting back on overproduction, discretionary cost, and offering sales discounts (Gunny, 2010). In contrast to real activities, accrual earnings management is carried out by managers through their discretion to choose accounting methods/estimates used in financial statements (Kothari et al., 2016). The time of usage is another difference between the two earnings management strategies. While accruals can be completed at the conclusion of the accounting year, real activity earnings management must be completed throughout the current year (Zang, 2012).

By doing earnings management, managers get personal benefits which include compensation and reputation (Wu et al., 2016). Therefore, narcissistic CEOs carry out earnings management so that they can get a good reputation by meeting company targets (Lin et al., 2019). Narcissistic leaders tend to make decisions that can have a good impact on their reputation (Judge et al., 2009). Narcissistic CEOs will gain admiration from stakeholders by enhancing the company's financial condition (Buchholz et al., 2020).

Prior studies have discovered a favorable correlation between CEO narcissism and accrual models' estimates of

earnings management (see for example Buchholz et al., (2020); Capalbo et al., (2017)). However, the accrual measurement model only takes into account changes in credit sales during the current quarter (Dechow et al., 1995). Therefore, this study uses the REM measurement model developed by Roychowdhury, (2006) because it is able to estimate earnings management by considering three business operation activities which include discounting, overproduction, and discretionary cost reduction. Through the provision of limited discounts, companies can accelerate the increase in sales, causing abnormal operating cash flows and sales manipulation (Olsen et al., 2014; Roychowdhury, 2006). In addition, companies can also produce more than necessary to reduce fixed overhead costs per unit of production (Roychowdhury, 2006). That way, the Cost of Goods Sold (COGS) per unit value decreases and the reported profit increases (Olsen et al., 2014; Roychowdhury, 2006). Discretionary cost reductions can also be made by companies when expenses do not generate revenue in the near future (Roychowdhury, 2006). By reducing reported discretionary expenses, companies can increase earnings (Roychowdhury, 2006). Therefore, the hypothesis in the study is:

H1: Narcissistic CEOs positively impact earnings management.

Tenure is another aspect of the CEO that may have an impact on earnings management decisions (Ali & Zhang, 2015). The longer the CEO serves, the more his personality and experience will be reflected in the company through the decisions made (Hambrick & Fukutomi, 1991). The length of tenure can also reduce supervision from the board of directors and increase the CEO's personal benefits through his power over the company (Shiah-Hou, 2021). Therefore, the CEO encouraged to engage in earnings management by the rewards.

Based on the upper echelon theory, tenure can affect manager performance (Hambrick & Mason, 1984). As his tenure continues, the CEO's knowledge of his duties increases (Hambrick & Fukutomi, 1991). However, CEOs with long tenure rely too much on their past experience in making decisions and more conservative towards change (Hambrick & Fukutomi, 1991; Musteen et al., 2006). These actions can degrade company performance, leading CEOs with long tenures to engage in earnings management (Hsieh et al., 2018). Previous studies have found that CEOs with longer tenure tend to engage in earnings management because they have limited time left for personal gain (Fang et al., 2018). In addition, the Sani et al. (2020) study discovered that long-serving CEOs frequently boost earnings management in order to keep up their time at the company. Therefore, the hypothesis in the study is:

H2: CEOs with long tenure positively influence earnings management

Research Method

This study using data from company annual reports and the OSIRIS database. The sample in this study consists of manufacturing companies listed on the Indonesia Stock Exchange (IDX) consisting of basic materials, consumer cyclicals, consumer non-cyclicals, health care, and industrials subsectors for the period 2015-2019 (n = 180). These subsectors are manufacturing sector that has the largest contribution to national economic growth (Kemenperin, 2019) and their business competition is increasing (KPPU, 2019). The year 2015 was chosen because the Asean Free Trade Area (AFTA) officially began, which increased global competition due to the removal of trade barriers (Kemenkeu, 2015). The 2019 boundary was chosen because it was the year before the Indonesian economy declined due to COVID-19, which resulted in 88% of companies experiencing

operational losses (Kemnaker, 2020), potentially resulting in data outliers.

The independent variable examined in this study is the narcissism of the CEO. Chatterjee & Hambrick (2007) have developed a scale of CEO narcissism tendencies. According to the scale, the CEO receives four points if the photo is taken alone and takes up more than half the page, three points if the photo is taken alone and takes up less than half the page, two points if the CEO is photographed with other executives, and one point if there is no CEO photo. A high degree of narcissism is indicated by a score of 4 (Agnihotri & Bhattacharya, 2019). If there is more than one photo of the CEO, the photo with the highest score is used because the more visible the CEO is in the photo, the higher his or her confidence in his or her abilities (García-Meca et al., 2021). In addition, narcissistic CEOs tend to display more visible photos to emphasize their leadership and importance (Zhu & Chen, 2015). To assist with the coding procedure, the researcher created a codebook that contains the steps to rate the CEO's portraits presented in the annual report. The researcher conducted a data coding reliability test by analyzing 20% of the photo data, assuming it represented the research sample, with an independent coder (Chong et al., 2019; Felton et al., 2008). The coding results showed a kappa value (0.92) that exceeded the acceptable level (0.81) and the coding of all CEO photos could be continued.

Another independent variable is CEO tenure. CEO tenure is calculated using a dummy variable to compare CEOs with long tenure and CEOs with short tenure (Ali & Zhang, 2015). CEO tenure in the sample year used is calculated as the median to categorize CEOs with long tenure and short tenure. CEOs with a tenure equal to or exceeding the median are assigned a value of 1, while those with a tenure below the median are assigned a value of 0. Number 1 indicates that the CEO has a long tenure, while 0 is for CEOs with a short tenure.

The dependent variable in this study is earnings management, represented by REM as its proxy. Roychowdhury (2006) develops REM measurements through the value of abnormal operating cash flow (*AB_CFO*), abnormal production costs (*AB_Prod*), and abnormal discretionary costs (*AB_Exp*). There are four steps taken to estimate the REM proxy. First, equation (1) is used to determine anomalous operating cash flow. The residual value (ε_{1t}) in equation (1) will produce the value of abnormal operating cash flow (*AB_CFO*). The equation model is as follows:

$$\frac{CFO_t}{Assets_{t-1}} = \alpha_0 \frac{1}{Assets_{t-1}} + \alpha_1 \frac{Sales}{Assets_{t-1}} + \alpha_2 \frac{\Delta Sales_t}{Assets_{t-1}} + \varepsilon_{1t} \quad (1)$$

where t is the year indicator, CFO is operating cash flow, Assets refer to total assets, Sales represent net sales, and Δ Sales denotes the change in sales compared to the previous year.

Second, abnormal production cost is calculated using equation (2). The residual value (ε_{2t}) in equation (2) will generate the value of abnormal production cost (*AB_Prod*). The equation model is as follows:

$$\frac{Prod_t}{Assets_{t-1}} = \alpha_0 \frac{1}{Assets_{t-1}} + \alpha_1 \frac{Sales_t}{Assets_{t-1}} + \alpha_2 \frac{\Delta Sales_t}{Assets_{t-1}} + \alpha_3 \frac{\Delta Sales_{t-1}}{Assets_{t-1}} + \varepsilon_{2t} \quad (2)$$

where Prod represents the total Cost of (COGS) and changes in inventory.

Third, abnormal discretionary costs are calculated using Equation (3). The residual value (ε_{3t}) in equation (3) will produce an abnormal discretionary cost value (*AB_Exp*). The equation model is as follows:

$$\frac{DisExp_t}{Assets_{t-1}} = \alpha_0 \frac{1}{Assets_{t-1}} + \alpha_1 \frac{Sales}{Assets_{t-1}} + \varepsilon_{3t} \quad (3)$$

where DisExp is a discretionary cost calculated through the total of advertising, research and development, as well as sales and administrative expenses. After

obtaining the values of AB_CFO, AB_Prod, and AB_Exp, the three residual values are summed to achieve the combined impact of REM (Ge & Kim, 2014). AB_CFO and AB_Exp are multiplied by minus one (-1) so that a high value indicates the level of REM performed (Cohen & Zarowin, 2010; Zang, 2012). AB_Prod is not multiplied by minus one (-1) because high production costs indicate REM through overproduction (Ge & Kim, 2014). The further the residual value deviates to the right from zero, the higher likelihood the firm is engaged with REM. The comprehensive REM model used is as follows:

$$REM_{i,t} = (AB_{CFO} x - 1) + AB_{Prod} + (AB_{Exp} x - 1) \quad (4)$$

This study uses the control variable market to book ratio (MTB) because companies with high growth opportunities want to look different so they engage more in earnings management (Lakhal & Dedaj, 2020). MTB is determined by dividing the market value of equity by the book value of equity. The gender variable is added because female CEOs tend to perform earnings management at a lower level than male CEOs (Gull et al., 2018). The gender variable is measured by giving the number 1 to female CEO and 0 if male CEO. The dividend variable is also used because companies that pay dividends tend not to carry out earnings management so that they can build a credible reputation (He et al., 2017). The dividend variable is measured by giving the number 1 for companies that pay dividends and 0 otherwise. The following is the regression equation used in this study.

$$REM_{i,t} = \alpha_0 + \alpha_1 MTB_{i,t} + \alpha_2 Gender_{i,t} + \alpha_3 Dividend + \varepsilon_{i,t} \quad (5)$$

$$REM_{i,t} = \alpha_0 + \alpha_1 Narcissism_{i,t} + \alpha_2 Tenure_{i,t} + \alpha_3 MTB_{i,t} + \alpha_4 Gender_{i,t} + \alpha_5 Dividend + \varepsilon_{i,t} \quad (6)$$

Description:

$REM_{i,t}$ = real earning management

i = companies

t = year

α_0 = constant

α_{1-5} = regression coefficient

ε = error

Because the data is not normal and has symptoms of heteroscedasticity, this study uses the Generalized Least Squares (GLS) regression model. GLS was chosen because it can be more efficient in estimating data that experiences heteroscedasticity problems (Gujarati, 2004). Hypothesis testing is done using the F and t test (Hair et al., 2019). A p-value <0.05 in the F test indicates that the model fits the regression equation. Meanwhile, a p-value <0.05 in the t-test indicates that the null hypothesis can be rejected, and vice versa (Gujarati, 2004).

Results and Discussion

Based on Table 1, 92.74% of CEOs have narcissism points of 3 or 4, indicating that the manufacturing sector is dominated by narcissistic CEOs. This result demonstrates that the company's annual report has at least one picture of the CEO by themselves. Since CEO images are not required by regulations governing the content of annual reports (OJK, 2016), this study suggests that narcissistic CEOs utilize photos in annual reports to highlight their significance to the business (Chatterjee & Hambrick, 2007). The usage of static photographs in the company's annual report may also be the reason why 83 out of 180 (46.10%) organizations had constant narcissism scores throughout a five-year period. With a total of 14 images, PT Ateliers Mecaniques D'indonesie's 2018 annual report has the most photos of the CEO's face. This might be due to the company's increased sales and the accolades it received from Forbes Indonesia. The CEO has the chance to highlight the company's potential and his accomplishments as its leader by including

his portraits in the annual report (Chatterjee & Hambrick, 2007).

Tabel 1. CEO Narcissism

Photo Indicator	Poin	N	%
No photo	1	51	5.76
Photographed with other executives	2	15	1.69
Photographed alone, size < 1/2 page	3	476	53.79
Photographed alone, size > 1/2 page	4	343	38.76

Source: Author's Calculation

Table 1 also shows that 50 annual reports (5.67%) do not include a portrait of the CEO. The CEO is seen as having minimal narcissistic traits as the annual report's users are unaware of the firm leader's face due to the lack of a photo. In addition, there are 14 annual reports (1.59%) that only contain photos of the CEO together with other executives. A photograph featuring the CEO alongside other executives can highlight leadership,

organizational hierarchy, and the leader's engagement with the team (Davison, 2010).

Table 2 panel A shows that 452 out of 885 CEOs (51.10%) have a long tenure or more than 7 years. This is because there are quite a number of CEOs who are also company founders. This finding illustrates that CEOs who are also founders of the company are different from other executives as they do not have retirement restrictions (Souder et al., 2012) so they can have a long tenure.

Tabel 2. REM Based on CEO and Company's Characteristics

	N	%	Mean	Median	Z	p-value
Panel A. Tenure						
<7 tahun	433	48.90	0.029	0.110	-0.403	0.687
>7 tahun	452	51.10	0.042	0.122		
Panel B. Gender						
Male	832	94.00	0.043	0.120	-2.611	0.009**
Female	53	6.00	-0.087	0.037		
Panel C. Dividend						
Paying	423	47.80	-0.051	0.037	-10.125	0.000***
Not Paying	462	52.20	0.116	0.192		

Notes: Significant at *p < 0.05, **p < 0.01, *** p < 0.001, t-test using the Mann-Whitney U Test.

Source: Author's Calculation

There are fewer female CEOs than male CEOs (see Table 2 Panel B). This finding illustrates that it is still difficult for women to achieve leadership positions. The stereotypes about the incompatibility of women's roles and abilities are one of the challenges in achieving leadership

positions (Arvate et al., 2018). Compared to men, women are less suitable for leadership roles because they are considered less ambitious, dominant, and independent (Brescoll, 2016).

Based on Table 2 Panel C, 47.80% of companies pay dividends, of which 59 out of 180 companies (32.77%) regularly

pay dividends for 5 consecutive years. Through dividend payments, the company can demonstrate its commitment to fulfill the wishes of shareholders and thereby build a good reputation (He et al., 2017). Earnings are the determinant of the company in distributing dividends (Dewasiri et al., 2019). Therefore, companies that carry out earnings management will find it difficult to distribute dividends because the reported profits are insufficient for dividend payments (Pathak & Ranajee, 2020).

Table 2's Mann-Whitney U Test findings show that there is no difference in earnings management between the CEO groups with long and short tenures. However, there are differences in companies led by male and female CEOs. Because the female CEO are more cautious, risk-averse, and closely monitored than males, companies with female CEOs are less likely to manipulate earnings (Bouaziz et al., 2020). In addition, there are differences in earnings management

practices in companies that distribute dividends and not. By distributing dividends, companies can limit managers' opportunities for earnings management because there is cash that needs to be paid out (He et al., 2017).

Table 3 displays a positive average REM value, indicating that companies are inclined to engage in earnings management (Lin et al., 2019). Nonetheless, the average value of MTB is positive indicating that most companies have growth opportunities as the share price is valued higher than the book value by investors. This finding indicates that companies disclose diverse information to reduce information asymmetry with investors (Girella et al., 2019). The existence of information about the company's prospects helps investors in making investment decisions (Girella et al., 2019). Thus, the demand for shares is high and causes the stock market price to increase.

Tabel 3. Descriptive Statistics

Variabel	N	Mean	Std. Dev.	Min	Max
Y-REM	885	0.036	0.275	-0.535	0.341
C ₁ -MTB	885	1.439	1.190	0.237	3.875

Source: Author's Calculation

Model 2 is the best fit since it has a lower AIC value than Model 1, and Table 4 displays the significance value of the F test, indicating that the regression model is good and feasible to use (Schermer & Martin, 2019). The favorable impact of CEO narcissism on earnings management is confirmed by the t-test results. According to this impact, CEO narcissism tends to improve profitability management

(Buchholz et al., 2020; Capalbo et al., 2017). Control variables, such as gender and dividends, negatively impact earnings management. This finding indicates that companies led by female CEOs are less likely to engage in earnings management, as they exercise stricter supervision and ensure higher-quality financial reporting (Mnif & Cherif, 2020).

Tabel 4. Regression Analysis Result

Variable	Model 1		Model 2	
	Koef	p-value	Koef	p-value
X ₁ -Narcissism			0.041	0.000***
X ₂ -Tenure			-0.002	0.903
C ₁ -MTB	-0.060	0.000***	-0.064	0.000***
C ₂ -Gender	-0.108	0.002**	-0.109	0.002**
C ₃ -Dividend	-0.132	0.000***	-0.134	0.000***
Constant	0.192	0.000***	0.066	0.090

<i>Wald chi²</i>	175.670	191.860
<i>F</i>	0.000***	0.000***
<i>AIC</i>	78.654	69.240

Notes: Significant at *p < 0.05, **p < 0.01, ***p < 0.001

Source: Author's Calculation

From Table 4, it is also known that companies that distribute dividends do not carry out earnings management. This happens because companies that distribute dividends often have more stable cash flow so they are able to produce good earnings quality (Nguyen & Bui, 2019). Meanwhile, MTB is also found to negatively impact earnings management. This finding suggests that companies with high growth opportunities are less likely to engage in earnings management (Li & Kuo, 2017). However, CEO tenure length does not appear to have any significant effect on earnings management.

CEO Narcissism's Impact on Earnings Management

Table 4 shows the positive impact of CEO narcissism on earnings management where CEO narcissism tends to increase earnings management by 4.1% so that hypothesis 1 cannot be rejected. This finding supports previous research which also shown that CEO narcissism improves earnings management (Buchholz et al., 2020; Capalbo et al., 2017; Lin et al., 2019). Narcissistic CEOs manipulate earnings because they need recognition and praise for their achievements in leading by showing their ability to meet company targets (Lin et al., 2019; Olsen et al., 2014). Public praise for leadership and achievements can reinforce a narcissistic CEO's self-image (Chatterjee & Pollock, 2017).

Narcissistic CEOs seek to appear, among other things, through photos in the annual report as a form of arrogance and a desire to show that they are the most important in the company (Chatterjee & Hambrick, 2007). The presence of the CEO's photo in the annual report can also be used to build a good impression and be

one of the keys in assessing the company's potential (Davison, 2010). Therefore, narcissistic leaders are also likely to make decisions that can impact their reputation (Judge et al., 2009). Narcissistic CEOs are driven to use their leadership position to influence financial decisions (Lin et al., 2019). Through earnings in periodically published financial statements, narcissistic CEOs can fulfill their need for constant praise and recognition (Amernic & Craig, 2010; Rijsenbilt & Commandeur, 2013).

The findings of this study support Graham et al. (2005) who discovered that most executives preferred to reduce discretionary costs to enhance reported earnings. Based on the research data, 75% of companies reduce discretionary costs. The high percentage indicates that CEOs tend to make decisions to increase profits. The results of this study corroborate Olsen et al., (2014) who found that narcissistic CEOs were associated with greater levels of REM.

The study's findings support the upper echelon theory, which holds that manager characteristics have an impact on business performance (Hambrick & Mason, 1984). CEO personality (narcissism) influences the decision-making process, impacting company strategy and performance (Hambrick, 2007). CEOs with narcissistic characteristics use their power to control corporate strategy so as to fulfill their personal interests (Ingersoll et al., 2017), such as gaining praise and admiration (Gerstner et al., 2013; Chatterjee & Hambrick, 2007). The opportunity to receive admiration from stakeholders is earned by narcissistic CEOs through improving the company's financial condition (Buchholz et al., 2020). Thus, narcissistic CEOs make decisions to perform earnings management that can

bring praise and recognition to themselves (Olsen et al., 2014).

Long CEO Tenure's Impact on Earnings Management

The null hypothesis could not be rejected because the study's findings showed no relationship between CEO tenure and earnings management. The findings of this study are similar to those of studies by Mohammad & Wasiuzzaman (2020) and Buchholz et al. (2020). Long-serving CEOs are more committed to enhancing the company's circumstances and fostering its expansion and advancement (Bouaziz et al., 2020). In addition, any indication of earnings overstatement may lead shareholders to doubt the credibility of the reported financial performance and damage the reputation of the long-serving CEO (Hsieh et al., 2018). Meanwhile, newly appointed CEOs do not have sufficient knowledge about the company it is challenging to implement earnings management (Choi et al., 2014). Thus, CEO tenure has no bearing on managing earnings.

Based on data, it is known that there are more CEOs who have more than seven years of tenure from 2015 to 2019. This finding suggests that CEOs with long tenure gain the trust of shareholders to continue their leadership because they are more experienced and understand the company's business operations. (Baatwah et al., 2015). The trust earned by the CEO along with his tenure can improve his reputation (Ali & Zhang, 2015). Therefore, CEOs who have been in office for a long time do not carry out earnings management which can reduce stakeholders' trust in their credibility and reputation (Hsieh et al., 2018).

As the top executive, the CEO serves as the ultimate decision-maker (Le et al., 2022). However, in leading the company, the CEO works closely with the rest of the board of directors to make decisions. The involvement of the board is crucial in ensuring that decisions align with

stakeholders' interests (Hooghiemstra et al., 2019) thus it can prevent the CEO from doing earnings management. The existence of a Chief Financial Officer (CFO) who is responsible for preparing financial statements also minimizes the opportunity for the CEO to engage in earnings management (Baker et al., 2019). In addition, an internal audit system serves as a monitoring mechanism that can further mitigate opportunistic behavior by management (Ismael & Kamel, 2020).

The earnings' reporting process is controlled by internal corporate governance mechanisms, as they are in charge of ensuring the credibility of financial statements within the company, prior the information is published for external stakeholders (Nikulin et al., 2022). The internal auditor has ability to detect material misstatement and tendencies to report such misstatements to audit committee or external auditor (Abbott et al., 2016). The audit committee serves as a monitoring and controlling body that handles earnings quality for companies in both developed and developing countries (Kapoor & Goel, 2017; Katmon & Al Farooque, 2017; Alzeban, 2020; Chaudhry et al., 2020) Thus, the presence of strong corporate governance mechanisms, such as audit committees, can limit the CEO's ability to engage in earnings management (Nikulin et al., 2022). Hence, strong governance can reduce CEO's opportunistic behavior, including the implementation of earnings management practices (Ali & Zhang, 2015). For this reason, the existence of an audit committee as one of corporate governance function restricts the CEO's power to execute earnings management, although the CEO has served the company for a long time. Instead, long tenure will enhance CEO's experience and expertise on areas with false report and this will increase the capabilities for discovering and preventing any type of misconduct (Baatwah et al., 2015).

The results of this study have not been able to confirm the upper echelon

theory, which holds that a CEO's decisions can have an impact on the performance of the organization (Hambrick & Mason, 1984). Company performance is the result of strategies or policies taken by top management (Hambrick & Mason, 1984), one of which is the decision for earnings management. Although the CEO has been in the company for a long time, decision-making is done together with other directors (Li & Roberts, 2017) hence reducing the opportunity to carry out earnings management. The present of strong corporate governance can also prevent the CEO from acting opportunistically when manipulating earnings (Hooghiemstra et al., 2019). Therefore, CEO tenure has no effect on earnings management.

Conclusion

The purpose of this study is to determine how tenure and CEO narcissism affect earnings management in Indonesian manufacturing companies between 2015 and 2019. The results showed that CEO narcissism as measured by photos in the annual report have a favorable impact on earnings management. Narcissistic CEOs can receive praise and recognition from stakeholders by reporting positive earnings so that they are encouraged to carry out earnings management. However, CEO tenure does not impact earnings management, which can be due to the supervision of the board of directors, thereby reducing the opportunity to carry out earnings management. Furthermore, dividends, CEO gender, and MTB as a control variables have a negative impact on earnings management. These results imply that businesses with significant room for expansion, female CEOs, or dividend payments are less likely to manipulate earnings.

This study helps business management understand how CEO narcissism affects the degree of earnings management practiced. In order to make a positive impression on investors, managers

must take into account the use, proportion, and size of CEO images while creating annual reports. This study also provides insight for investors to consider the personality of the company's management team because the CEO can take advantage of positive earnings presentation in the annual report to enhance his reputation and existence. Investors can take advantage of the findings of this study by assessing the level of CEO narcissism through observable indicators such as excessive self-referencing in corporate reports. By identifying these traits, investors can make more informed decisions about the sustainability of reported earnings and the potential risks associated with aggressive earnings management. Companies may implement proactive measures to mitigate the risks associated with narcissistic leadership. By encouraging a culture of ethical decision-making, promoting balanced executive teams and strengthening strong governance, they can help offset the influence of narcissistic CEOs on financial reporting practices.

This study contributes to the accounting and finance literature and confirms the upper echelon theory through research results that find that manager personality (narcissism) positively affects earnings management. However, this scope of this study is limited to manufacturing companies. Hence, the samples may be expanded to include variety of industries.

In conducting data processing, this research removes missing values. Future research can use other methods, such as filling in missing values with replacement values so that all data can be used in the analysis. In order to quantify CEO narcissism, supporting data is required because the majority of the CEO images in the company's annual report from 2015 to 2019 have the same layout and size. Therefore, future research can use additional sources, such as social media and company websites. We measured narcissism through the photographs size. Given the numerous methods for measuring

narcissism, we suggest that future studies incorporate additional narcissism proxies, such as the Narcissistic Personality Inventory or composite measure, to ensure the robustness of the models. For example, the relative compensation of the CEO to the second-highest paid executive could be used to calculate the composite measure. Additionally, future studies may employ textual analysis of the CEO letter to assess narcissism. Future research may also incorporate the duration of the CEO's employment with the organization.

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