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Research Paper

The Effect of Narcissism and CEO Power on the Investment Efficiency and Consistent Earnings Growth[1]

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Introduction

Maximizing the value of the company requires making correct investment decisions, and any effort to create value and optimal use of investment opportunities is affected by the behavioral aspects and personal characteristics of the company's CEO. Managers with productive narcissism (positive type) when they become non-productive (negative type) and unrealistic, can be dangerous, and by choosing inappropriate investment options, they only tend to magnify that will affect the performance of the company. In other words, narcissistic managers may be overconfident but suffer from other behavioral issues that lead to excessive risk-taking and poor investment decisions. On the one hand, the power of the CEO increases the invested efficiency and the optimal use of the company's resources to increase transparency and ensure the interests of all interested groups, on the other hand, due to the reduction of supervisory mechanisms, it may facilitate opportunistic behavior and increases agency costs. Coordination and leadership power to increase transparency and optimal use of the organization’s resources leads to more profitable investment decisions which, as a consequence, will increase the companies’ profit as well as its performance. In other words, due to the high power and influence managers have, they will have more freedom of action in choosing accounting procedures and methods, which provides the basis for opportunistic actions and profit smoothing, and as a result, hiding substandard performance to achieve personal goals, which provides the efficiency of actions and as a result determines organizational performance under the influence. The current research has investigated the effect of narcissism and CEO power on investment efficiency and sustainable profit growth.

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MATERIALS AND METHODS

To test the hypotheses, a sample consisting of 110 companies admitted to the Tehran Stock Exchange, which was selected by random elimination sampling method, was chosen from 2012 to 2019 by multivariate regression method. In terms of its purpose, the current research is a part of applied research using the post-event approach.

RESULTS AND DISCUSSION

The results showed that narcissism has a negative and positive effect on investment efficiency and sustainable profit growth, respectively. That is, narcissism reduces investment efficiency and increases agency costs. Therefore, self-obsessed managers pursue high investment risk and cause excessive investment. Also, the positive effect of narcissism on the sustainable growth of profits indicates that providing opportunities for self-reliance and self-promotion for managers in the company not only motivates managers to work hard and show off their skills, but also motivates other people in the organization too. It will be a double effort that may be the result of the efforts of other organizational people and will be considered as the result of the desired performance of the narcissistic manager. Also, the CEO's power has a significant positive effect on investment efficiency and sustainable profit growth, respectively. Managers with high power can better identify profitable projects and improve performance and investment due to more accurate forecasts, personal knowledge, and high analytical power. However, as the power and influence of the CEO increase, it will be more difficult for the board to supervise and control his behavior.

CONCLUSION

Based on the paper's results, when narcissism turns into an unproductive and unrealistic type can be dangerous. Suspicion and exaggeration caused by such behavior will reduce the efficiency of investment. The influence and power of the CEO lead to the establishment of friendly and stable relations with audit groups, and as a result of receiving audit services at a lower cost, the CEO with high power and influence can easily manage profits and perhaps increase profits to achieve his short-term goals. In this regard, strengthening the corporate governance tools and increasing the supervisory power of these tools can be helpful. In other words, it is necessary to qualitatively assess the profit reported by such managers more carefully by auditors so that any opportunistic behavior to justify the output of financial reports to achieve personal goals is reduced as much as possible. In other words, profit and its behavior should be more reliable as an effective tool to reduce the unproductive narcissism of managers. It is better to use a critical and psychological attitude in the organization to reduce its negative effects.

Keywords: CEO's Narcissism, CEO's Power, Investment Efficiency, Sustainable Profit Growth.

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