

The Role of CEO Narcissism in Creating Firm Value

(Study on BUMN Companies Listed on the Indonesia Stock Exchange 2015-2019)

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Abstract:- This study aims to analyze the role of CEO Narcissism in increasing company value. The measure used in measuring CEO Narcissism is the measure of the hand of CE and to measure the value of the company used the Tobin's Q ratio. This research was conducted on state-owned companies listed on the Indonesia Stock Exchange.

This type of research is hypothesis testing research. The data used are secondary data in the form of annual reports and company financial reports from 2015 to 2019. The data analysis technique used in this research is simple linear regression analysis. Based on the results of calculations and data analysis, it can be concluded that CEO Narcissism as measured using the CEO signature size has a significant negative effect on firm value where the significance value is $0.038 < 0.05$.

Keywords:- CEO Narcissism, Firm Value.

I. INTRODUCTION

Investors in investing based on the success of the company. Firm value is the investor's perception of the company's success rate. Maximizing company value is very important for a company, because maximizing company value means maximizing the company's main objective. The increase in company value is an achievement in accordance with the wishes of the company owners, because with the increase in company value, the welfare of the owners will also increase.

The value of the company is said to be good if the company has good financial performance. Financial performance is an achievement that the company has achieved in a period which is reflected in the financial statements. To get a good performance, a company must pay attention to aspects that can affect financial performance, one of which is the character of the Chief Executive Officer (CEO). The character that is currently developing is the character of narcissism.

Narcissism is a specific personality trait, which can be found among many groups of people, including CEOs (Ahn et al., 2020). The term narcissism itself is a term to describe the personality of someone who has an excessive level of self-confidence, a feeling of personal superiority and rights, a desire for power and recognition, a desire to manipulate others for personal gain (O'Reilly et al., 2018). According to O'Reilly et al., (2018) if there are individuals who influence

the organization, most likely the person responsible is the CEO of the company.

There are many views regarding the importance of the character of a CEO in increasing company value. According to Ahn et al., (2020) the character of narcissism introduces several interesting behavioral dimensions that can have a direct or indirect impact on results related to company performance. Someone who has a narcissistic character tends to maximize performance to increase the value of his company in order to get recognition and praise.

The results of research conducted by Kim (2018) explain that the CEO of Narcissism is able to play an important role in improving the financial performance of BUMN companies in South Korea. Likewise the results shown by Wales et al., (2013) which provide empirical evidence that CEO Narcissism is able to increase the entrepreneurial spirit which will have an impact on company value.

In contrast to the results of research conducted by Ham et al., (2017) which explains that CEO Narcissism reduces financial performance. Meanwhile, the results of Yook and Lee's (2020) study found that CEO Narcissism has no relationship to company value. The difference in the results of research conducted by previous researchers makes this research interesting to be reviewed. In addition, the issue of narcissism in Indonesia is still very little researched. Therefore, this research is very important to do.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

1. Theory of Upper Echelons

Hambrick and Mason (1984) are the first researchers to examine the impact of a person's personality on management decision making. According to them, the company's strategic choices reflect executive values and perceptions, which are partly based on limited rationality and cognitive bias.

The literature on upper echelon theory has increasingly focused on chief executive (CEO) narcissism as part of an ongoing effort to explain executive decision-making processes (Chen et al., 2019).

2. Firm Value

Most investors assess financial statements before investing, such as in valuing companies. Firm value can be

considered as a description of the company's performance from a market point of view, which is calculated based on several items contained in the financial statements. Research by Ang et al. (2013) and Yusoff et al. (2015) used Tobin's Q ratio in measuring firm value.

Tobin's Q is a measure of the market valuation premium, which is defined as the ratio of market value to the replacement value of a company's assets. A value higher than one indicates that the company is using its resources efficiently. For the long term, this ratio can be interpreted as market expectations of the economic returns generated by the company's assets. Therefore this ratio can be used as a measure of the company's long-term market valuation.

3. CEO Narcissism

CEO is someone who has the responsibility to manage a company. There are several factors that influence the CEO in making a decision, namely based on power and based on his personality (Doho and Santoso, 2020). CEO Christian character is a character that is often highlighted lately. Narcissism is a. Narcissistic CEOs can increase their personal prestige and fulfill their desire for positive praise through the attributions they receive for their role in entrepreneurial initiatives run by their companies (Wales et al., 2013).

4. Hypothesis

According to Chatterjee and Hambrick (2007), CEOs who have narcissistic characteristics have the ability to increase or decrease company value. The results of research conducted by Kim (2018) explain that the CEO of Narcissism is able to play an important role in improving the financial performance of BUMN companies in South Korea. In contrast to the results of research conducted by Ham et al., (2012) which explains that CEO Narcissism reduces financial performance. Meanwhile, the results of Yook and Lee's (2020) study found that CEO Narcissism has no relationship to company value. CEO Narcissism is considered as one of the factors that can influence company value.

Hypothesis: CEO Narcissism Affects Firm Value

III. RESEARCH METHODS

This research is a hypothesis testing research. Hypothesis testing research is a study that aims to analyze the effect of one variable on another. This research was conducted to obtain data that shows a description of the influence of CEO Narcissism on company value.

1. Data Sources

Sources of data in this study are secondary data, namely data obtained from other parties in the form of published reports. The data used in this study are in the form of annual reports and financial reports on state-owned companies listed on the Indonesia Stock Exchange from 2015 to 2019. Data is obtained via the internet, namely www.idx.co.id.

2. Operational Definition of Variables and Measurement

- The value of the company. Firm value is measured using the Tobin's Q ratio. Tobin's Q is a comparison of the sum of the market value of all outstanding stock and market value of all debt with the replacement value of all production capacity;

$$Tobin'sQ = \frac{MVE + DEBT}{TA}$$

- CEO of Narcissism. CEO Narcissism is defined as a company leader who has a strong self-love character and constantly expects recognition of his performance. The size used in this study follows measurements by Ham et al., (2017), namely a rectangle is drawn around the signature of each CEO, where each side of the rectangle touches the end point of the signature. The area affected by the signature is then determined by multiplying the length and width (in centimeters) of the rectangle to determine the area of the signature.

3. Analysis Technique

The data analysis technique used in this study is a simple linear regression analysis technique which aims to examine the relationship of influence between one variable and another. The regression analysis equation in this study is as follows:

$$YFP = \alpha + \beta X + \varepsilon$$

Information

Y = Firm Value

α = Constant

β = Coefficient

X = CEO of Narcissism

The Classical Assumption Test aims to determine the results of the regression that are carried out completely free of any symptoms that can interfere with the accuracy of the analysis. A multiple regression model can be said to be a good model if the model is free from classical assumptions. The classical assumption test used in this study is the data normality test, multicollinearity test and heteroscedasticity test. This study did not use the autocorrelation assumption test because this study used cross section data. Autocorrelation testing is used when the research data uses time series (Ghozali, 2011).

IV. RESULTS AND DISCUSSION

1. Normality Test

Based on the P-P Plot graph and histogram below, it shows that the data used in the study have been normally distributed. This is indicated by a pattern that follows a diagonal line. To be more convincing, it can be seen in the Kormogolov Smirnov table which shows the results of 0.2, far above 0.05.

P-P Plot and Histogram Graph

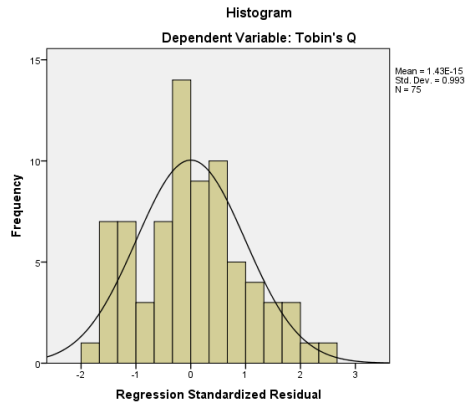
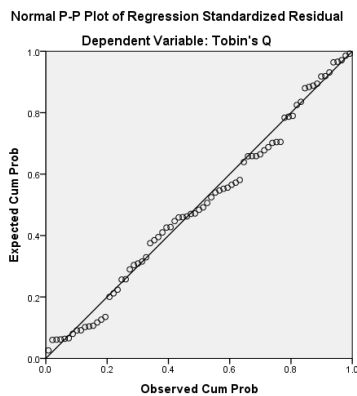


Table Kormogolov Smirnov

One-Sample Kolmogorov-Smirnov Test		
N		Unstandardized Predicted Value
		75
Normal Parameters ^{a,b}	Mean	4.3198813
	Std. Deviation	.21913629
Most Extreme Differences	Absolute	.085
	Positive	.041
	Negative	-.085
Test Statistic		.085
Asymp. Sig. (2-tailed)		.200 ^{c,d}

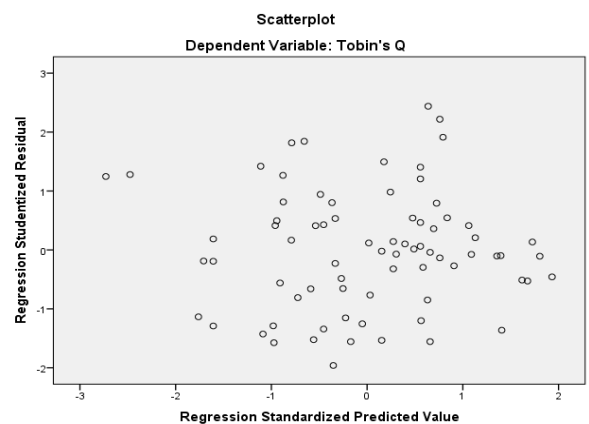
2. Multicollinearity Test

It can be seen in the multicollinearity test table below which shows the Tolerance value which is above 0.1 and the VIF value which is below 10. This means that there is no multicollinearity in the regression model.

Variabel	Collinearity Statistics	
	Tolerance	VIF
CEO Narsisme	1.000	1.000

3. Heteroscedasticity Test

It can be seen in the scatterplot graph below which shows that the pattern formed by the regression model does not form a certain pattern. So it can be concluded that the regression model does not occur heteroscedasticity.



4. Hypothesis Testing

The coefficient of determination table below shows that 5.8% of the CEO Narcissism variable explains the variation in firm value, while the excess of 94.2% was explained by other factors that were not examined. The very small coefficient of determination indicates the limitations of the independent variable in explaining variations on the dependent variable.

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.240 ^a	.058	.045	.8917554	.505

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.885	.287		17.050	.000
	CEO Narsisme	-.074	.035	-.240	-2.114	.038

a. Dependent Variable: Tobin's Q

The coefficient table above explains the research hypothesis testing. Based on the results of the t test in the table above, the regression model is as follows;

$$Y = 4,885 - 0,74X + \varepsilon$$

A constant of 4.885 indicates that if there is no influence from the independent variable, namely CEO Narcissism, then the company value has increased by 4.885. The CEO Narcissism variable has a beta coefficient of -0.074 with a t-value of -2.114 and significant at the 5% level, namely 0.038. This means that CEO Narcissism has a significant negative effect on company value. So it can be concluded that the hypothesis that has been formulated in the study is accepted.

These results are in line with the research of Ham et al., (2017) which explains that CEO Narcissism can reduce the company's financial performance. These results are not in line with research conducted by Wales et al., (2013) and Kim (2018) which states that CEO Narcissism has a positive effect on the company's financial performance.

There is a negative influence caused by companies led by narcissistic CEOs investing more in "high exposure" areas such as R&D and M&A spending, and reducing more routine capital expenditures for daily business productivity. Ham et al., (2017)). This makes investors think longer in investing their shares in the company, resulting in a decline in the value of the company.

V. CONCLUSIONS AND SUGGESTIONS

Based on the results of the analysis that has been done, it can be concluded that the CEO's narcissism character is able to reduce the company's value. CEOs who have a high level of narcissism generally prefer risky business activities such as conducting mergers and acquisitions without paying attention to the main business activities. This makes the investor response to the company less and less.

Future research is expected to include intervening variables that can be used as a driving factor for the relationship between CEO Narcissism and firm value. Further research is also expected to be carried out in the manufacturing sector because there are many manufacturing companies that have good corporate values.

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