

CEO Narcissism, Executive Compensation and Firm Performance: Insight from Malaysia

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CEO Narcissism, Executive Compensation and Firm Performance: Insight from Malaysia

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DECLARATION

The thesis has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.

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ABSTRACT

In recent years, there is a growing interest among researches on how narcissistic CEOs impact the firms that they lead. Research has suggested that narcissistic leaders with characteristics of dominant, self-confident, grandiosity, and low empathy can both positively and negatively influence organizations. Interestingly, CEO personality relates to executive compensation as well. Further, previous psychology research suggested that firms with relatively higher compensated CEOs are more likely to make positive outcomes in the firm. Therefore, this research aims to examine the compensation mediation effect on the relationship between narcissism and firm performance for the 441 public listed companies in Malaysia. Thus, by examining particularly CEO's narcissism, this research aims to deliver new approaches to scholars and regulators about the significance of CEO's narcissism on firm performance. For the theoretical frameworks, Upper Echelons Theory and Agency Theory have been used in this research to measure the impacts of CEO narcissism and compensation towards firm performance. This research uses several measurements such as prominence of CEO's photograph in the annual report, CEO's prominence in the company's press release and CEO's publicity, CEO's relative cash pay as proxies of CEO narcissism as the independent variable to determine firm performance, whereby firm size, firm age and leverage are the control variables and executive compensation acts as the mediator variable in this study. Meanwhile, the dependent variable is firm performance which is measured by accounting-based and market-based measures of firm performance. Using two approaches: TSLS and instrumental panel regression, the results show that executive compensation is partially mediating the relationship between CEO narcissism and firm performance.

Therefore, this study proposes that narcissism does truly predict firm performance, however the relationship between narcissism and firm performance is mediated by an important aspect, which is executive compensation. This study also offers pathways on the selection of CEO personality trait in the contemporary business environment in Malaysia. In conclusion, the importance of CEO narcissism as a significant indicator of executive compensation and firm performance is certainly remarkable given its presumed dominance as a personality characteristic among the globe's most influential executives and leaders.

Keywords: Narcissism, executive compensation, firm performance, upper echelon theory

CEO Narsisisme, Kompensasi Eksekutif dan Prestasi Firma: Perspektif dari Malaysia

ABSTRAK

Dalam tahun-tahun kebelakangan ini, terdapat minat yang semakin meningkat di kalangan penyelidik mengenai bagaimana CEO narsisistik memberi kesan terhadap firma yang mereka pimpin. Penyelidikan telah mencadangkan bahawa para pemimpin narsisistik dengan ciri-ciri yang dominan, percaya diri, kecemerlangan, dan empati yang rendah boleh mempengaruhi organisasi secara positif dan negatif. Menariknya, personaliti CEO berkaitan dengan kompensasi eksekutif juga. Tambahan lagi, penyelidikan psikologi sebelumnya mencadangkan bahawa firma dengan CEO yang lebih tinggi kompensasi lebih cenderung untuk menghasilkan hasil positif di firma itu. Oleh itu, kajian ini bertujuan untuk mengkaji kesan mediasi kompensasi ke atas hubungan antara narsisisme dan prestasi firma bagi 441 syarikat tersenarai awam di Malaysia. Oleh itu, dengan meneliti terutamanya narsisisme Ketua Pegawai Eksekutif, penyelidikan ini bertujuan untuk menyampaikan pendekatan baru kepada para ulama dan pengawal selia mengenai kepentingan narsisisme CEO terhadap prestasi firma. Untuk rangka kerja teoritis, Teori Eselon Atas dan Teori Agensi telah digunakan dalam penyelidikan ini untuk mendapatkan kesan narsisisme dan pampasan CEO terhadap prestasi firma. Penyelidikan ini menggunakan beberapa ukuran seperti keterangan gambar Ketua Pegawai Eksekutif dalam laporan tahunan, Ketua Pegawai Eksekutif dalam siaran akhbar syarikat dan publisiti Ketua Pegawai Eksekutif, gaji tunai Ketua Pegawai Eksekutif sebagai proksi narsisisme Ketua Pegawai Eksekutif sebagai pembolehubah bebas untuk menentukan prestasi firma, di mana saiz firma, umur firma dan leverage adalah pemboleh ubah kawalan dan kompensasi eksekutif bertindak sebagai

pemboleh ubah dalam kajian ini. Sementara itu, pemboleh ubah bergantung adalah prestasi firma yang diukur oleh ukuran prestasi firma berasaskan perakaunan dan berasaskan pasaran. Menggunakan dua pendekatan: TSLS dan regresi panel instrumental, hasil menunjukkan bahawa kompensasi eksekutif sebahagiannya mengantara hubungan antara CEO narsisme dan prestasi firma. Oleh itu, kajian ini mencadangkan bahawa narsisisme benar-benar meramalkan prestasi firma, namun hubungan antara narsisisme dan prestasi firma ditengahi oleh aspek penting, iaitu kompensasi eksekutif. Kajian ini juga menawarkan laluan kepada pemilihan ciri keperibadian CEO dalam persekitaran perniagaan kontemporari di Malaysia. Sebagai kesimpulan, kepentingan narsisisme CEO sebagai penunjuk penting kompensasi eksekutif dan prestasi firma pastinya luar biasa memandangkan dominasinya dianggap sebagai ciri keperibadian di kalangan eksekutif dan pemimpin dunia yang paling berpengaruh.

Kata kunci: *Narsisisme, kompensasi eksekutif, prestasi firma, teori eselon atas*

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CHAPTER 1

INTRODUCTION

1.1 Introduction

The economy turbulence in nowadays world has taught us that performance of a firm might change through times. For instance, before deep depression on 1930, the performance of firms rose exponentially due to the industrialization. Then, oil boom came on 1970s gave good profit for firms in developing countries. Yet, 1980s the banking crisis crushed it again. Before 1997s, trading and export-based firms were the new rising tiger due to cheap labor and increasing middle class. However, the monetary crisis 1997 swept all the performance of those companies.

Interestingly, companies with good CEO survive through those hard times. For example, after Steve Jobs rejoined Apple as CEO in 1997 when the company was in dreadful shape, he delivered a massive 3,188% industry-adjusted return (34% compounded annually). Apple's fair value increased by $150 billion from that period until the end of September 2009 (Hansen et al., 2010).

In psychology literature, this can be explained via personality theory. This means that CEO with better personality will perform better than CEO with worse personality. According to Big Five Model (McCrae & Costa, 1987), personalities may influence one's job performance in an organization. Studies done by Mount et al. (1998) state that emotional stability, agreeableness and conscientiousness are positively associated with job performance which

needing interpersonal interactions. Emotional stability and agreeableness are more intensely related to job performance that requires teamwork than in those that depend more on mutual interaction. Besides, Chatterjee and Hambrick (2007) show that narcissistic CEO can influence firm performance variance and strategy-making individually. Some prior studies (Tosi et al., 2004; Resick et al., 2009; Kaplan et al., 2010) tend to propose a positive relationship between the personality characteristics of CEO and firm performance.

Interestingly, CEO personality relates to the compensation as well. For example, according to "Narcissistic CEOs and CEO compensation" by O'Reilly et al. (2014), it is stated that CEO's narcissism might have an impact on the forms of CEO compensation. Though majority of the study on CEO compensation has presumed an agency theory model (Tosi & Gomez-Mejia, 1989; Bebchuk & Fried, 2004) to guarantee that the interests of the executives are in line with the shareholders, an extended practice of research has proved that CEOs are also able to affect the board to develop policies that benefit the CEO (Tosi & Gomez-Mejia, 1989; Wade et al., 1990; Westphal & Zajac, 1995). Additionally, CEO's compensation also plays role on firm performance. Belliveau et al. (1996), Brick et al. (2006) and Ozkan (2007) discover a strongly positive association between CEO's compensation and firm performance.

Douglas Mattern (2001) mentions that CEOs of main organizations in US generate 42 times of the average workers' salary in 1980. The amount has increased to 85 times by 1990. In 2000, the average CEO pay hits an incredible 531 times that of the average workers' salary. In the year of 2010, research has been conducted on S&P 500 US corporations and average CEO pay is reported at $11.4 million per year in 2010. The High Pay Commission declares that it has a harsh influence over the economy and the public is aware of this matter over the

past decades (BBC, 2011). This matter impacts the competencies, performance, and efficacy of the workforces in the business world and correspondingly social gap rises due to CEO's pay whether too high or even too low is established on salary, bonuses such as worker benefit, short-term incentive, insurance and paid expenditures.

As CEO compensation has turned out to be a contentious public subject recently, Bebchuk and Fried (2004) realises that CEO compensation is not closely related to firm performance. Moreover, Bebchuk and Grinstein (2005) reports that CEO compensation has increased too high beyond the boundary that can be explained by the increase in firm size and firm performance through their study for the period of 1993-2003. The findings observed by Bebchuck and Grinstein (2005) show that while CEO compensation in public corporations amounted to as much as 10% of business earnings in 2001-2003, only 20% of the increase in CEO compensation can be well-defined by the growing in firm size and firm performance. Other people like Brandes et al. (2008) response to the notion of Bebchuck and Grinstein (2005), suggesting that prominent investors observe that corporate executives are being disproportionately paid. Thus, this matter will make several institutional investors to abandon their old-style passive role and aggressively practise their power over CEO compensation decisions in the business corporations.

The primary purpose of this research is to deliver empirical evidence in relation to CEO's personality and firm performance. CEO's personality is perceived as the influential mechanism that observes and guides the company in practising their obligation to safeguard the shareholders' interest. Thus, by examining CEO's personality characteristics particularly

narcissism, this research aims to deliver new approaches to scholars and regulators about the significance of CEO's personality on firm performance. Additionally, prior researches indicate that CEO's personality characteristics are able to positively influence the CEO compensation. To reconfirm the observation from the previous studies, this research investigates the relationship between CEO's narcissism, CEO compensation and firm performance for the 441 public listed companies in Malaysia.

The introduction provides a general view about the CEO in Malaysia and how the personality characteristic of CEOs in Malaysia influence the firm's performance of Malaysian listed companies. The following part of chapter one introduces the background of study in regards of explaining further about narcissism of CEO and its impact to firm's performance. Following that, problem statement is defined, while research questions and research objectives are stated. The chapter is ended with the scope of study and the organizational of study.

1.2 Background of Study

In recent years, Malaysia, as a developing country in Asia, has successfully transformed itself from an exporter of raw materials into a diversified-economy country. Services is the largest segment of the economy which accounts for around 54% of GDP. Manufacturing industry has been rising in recent years and currently constitutes 25% of GDP and more than 60% of total exports. Mining and quarrying founds 9% of GDP which is the same as agriculture 9%. Malaysia is a middle-income country, and has converted itself from a

manufacturer of raw materials since 1970s into an evolving multi-industry economy. Malaysia government has been continuously putting efforts to increase domestic demand in order to halt the economy from its reliance on exports. However, exports, particularly of electronics, still remain as a substantial driver of the economy.

Yusoff (2005) states that Malaysia has gone through a rapid process of trade liberalization and globalization and the trade of import and export of USA, Japan and Singapore have greater impact towards the economic growth of Malaysia. Although household spending is probable to be influenced by the newly-implemented Goods and Services Tax (GST), and consequently leads to lower earnings in the commodity-related sectors, its influence will, however, to some extent being offset by government measures to help the targeted groups, the extra disposable incomes from lower oil prices and the encouraging workforce market situations.

Furthermore, Malaysia is an open economy that export account about 118% of the gross domestic product. According to Datuk Seri Mustapha Mohamed, Malaysian country is a relatively small domestic market, so the international trade is the one that can support the economic growth of the country. As can see in the figure 1.1 below, during the year of 2009, Malaysia has undergone the lower growth rate, which is -7.6% because there was a global crisis in 2009 that affected the growth rate reduced around average -1.675. In year 2010, Malaysia GDP growth rate has recovered back to the normal rate and average of GDP annual growth rate is around 7.55%. In the year 2011, the average of GDP Malaysia is around 5.625%. To increase more of the GDP growth rate, government will expand the Malaysian

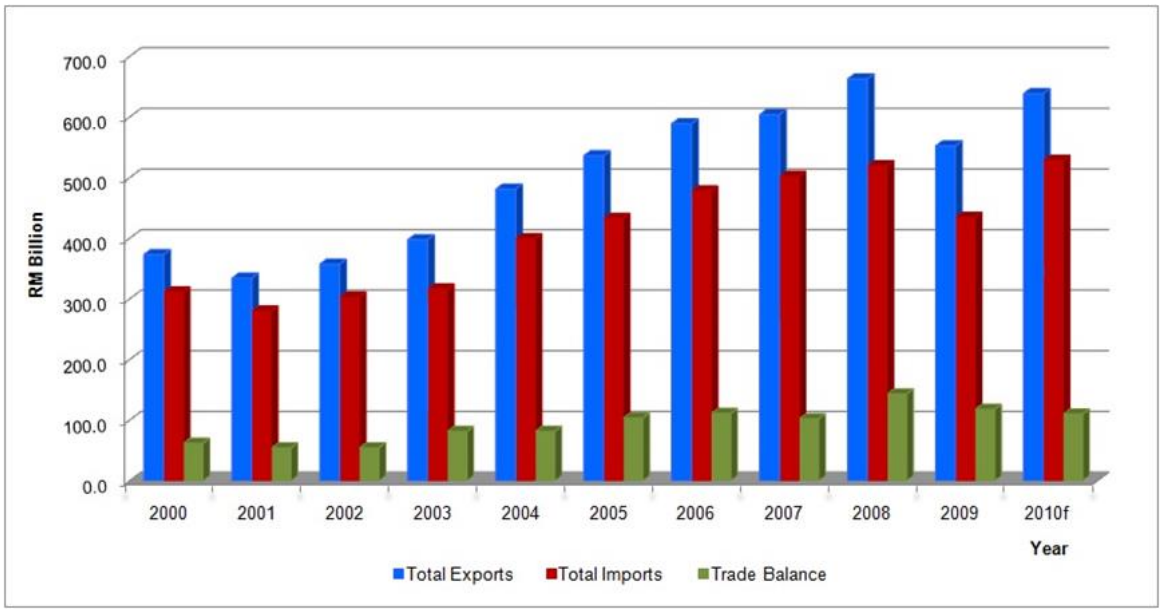
firm into export markets that can improve international branding of leading exporters and build capacity.



Source: Department of Statistics Malaysia (2015).

Figure 1.1: Malaysia GDP Annual Growth Rate

From 2000 to 2015, Gross Domestic Product (GDP) Annual Growth Rate in Malaysia has reached an average of 4.77%, where the highest record attains a continuously high of 10.3% in the first quarter of 2010 and a lowest record of -6.20% in the first quarter of 2009. Malaysia's Gross Domestic Product (GDP) expands 4.90% in the second quarter of 2015 over the same quarter of the previous year.



Source: The Official Portal of Malaysia External Trade Development Corporation (2013).

Figure 1.2: Malaysia Trading

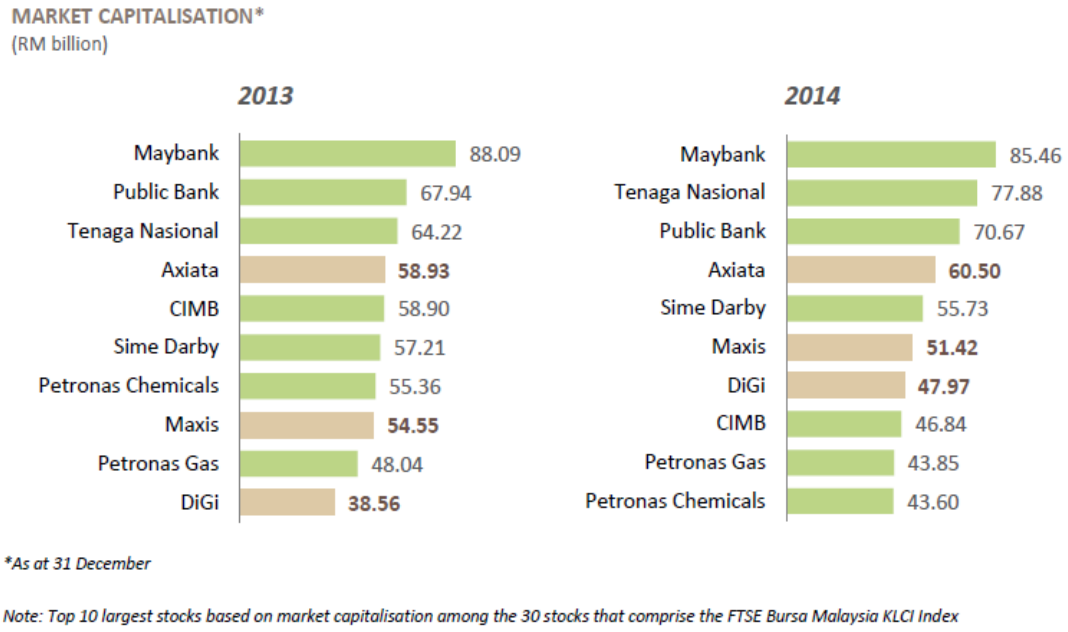
The performance of Malaysia economy is followed by its capital market. Malaysia's government debt-to-GDP ratio has risen vividly since the global financial crisis (GFC) as a result of significant flexible fiscal impetus. In spite of the outsized and increasing presence of foreign investors in the Malaysia's bond market, Malaysia has been prominent among financially open-peer countries for its capability to hold out external shocks with comparatively low bond market fluctuation. Malaysia's open capital account and expanding capital market liquidity have enhanced the complexity of the country's financial system, but a few of state-linked investment companies uphold a key role in price determination and credit distribution. Malaysia's preceding success segregating its bond market from volatility in global risk appetite is not warranted in the future, especially if domestic reserves continues to decrease and developed country rate increases lead to more instable capital flows (Kim et al., 2011).

Malaysia's companies are making steps towards an interrelated and digitalized economy where business settings are persistently moving and improving the way they attempt to. Nonetheless, drastic action of becoming market follower during the time of uncertainty merely to fulfil customer's demand without supporting business best practice may lead to excess spending.

Generally, Bursa Malaysia performance is connected to external concerns that influencing the Malaysian economy such as severe decrease in crude oil prices and a weaker Ringgit Malaysia, which causes some capital outflow. ICT infrastructure will face drastic decline, slow progression, disinclination on additional investment owing to long-term uncertainty as a result of economic instability.

During the recessive economic period, the aggression of the environment becomes a battle arena between different divisions fighting for the existing scarce resources have made the businesses decaying. A lot of outmoded businesses slip into sluggish mode during the recession period.

Nevertheless, Axiata, Sime Darby and Maxis have been ranked the fourth, fifth and sixth, respectively, in the top 10 market capitalisation list among the highest market capitalisation firms in Bursa Malaysia in year 2014.



Source: Bloomberg, MCMC (2015)

Figure 1.3: Top 10 Market Capitalisation 2013-2014

The GCI record for Malaysia from 2010 to 2015 is shown in the Figure 1.4. According to GCI 2014 – 2015 report, Malaysia improves its score and ranking from 24th position to 20th position. Malaysia is ranked the highest among developing Asian economies with ranks not below 60th place in any of the 12 pillars of GCI. Malaysia scores great in financial market development at the 4th position and efficient and competitive market for goods and services at the 7th position. Malaysia is transiting towards innovation-driven advancement that requires high technical readiness and skilful talent. Thus, Malaysia is in a crucial need for continual investment in infrastructure and capacity building. Companies such as Axiata and Maxis hold an important role in developing ICT infrastructure in the country.

GCI Report	Rank/Total Countries	Score (Range 1-7)
2014 – 2015	20/144	5.16
2013 – 2014	24/148	5.03
2012 – 2013	25/144	5.06
2011 – 2012	21/142	5.08
2010 – 2011	26/139	4.88

Note: Score range from 1 to 7, with 7 as the highest score

Source: World Economic Forum, Global Competitive Report (2015)

Figure 1.4: GCI for Malaysia

O'Reilly et al. (2014) describe personality traits as the patterns of thinking, sentiment, and conduct that are fairly constant over period and across circumstances. They mention that behavioural consistencies can be described with familiar words such as "responsible" or "joyful" in addition to more specific terms for example "narcissistic" or "conscientious." Rokeach (1973) states that personality traits are persistent personal judgments or perceptions on what is perceived as important that reveal elementary characters. Parks and Guay (2009) further explains that personality represents one transformation of natures into situational inclinations. For instance, the personality characteristic of extraversion inclines an individual to be outgoing and sociable. This personality may also make an extraverted person to desire or favour environments that allow social interaction. Intrinsically, personality is an important originator of patterns of manners, person-situation similarity and condition selection (Meglino & Ravlin, 1998). Personality characteristics have been revealed to impact performance and job directions (Mount et al., 1994; Schneider & Hough, 1995; Furnham, 2002). McShane and Von Glinow (2008) describe personality as 'the relatively stable pattern of behaviours and consistent internal states that explain a person's behavioural tendencies'.

Numerous studies show that personality characteristics have an impact or can be used to foresee future job status or earnings (Stagner, 1976). It is noted that personality traits can well predict the income status of graduates. Mount et al. (2005) suggests that personality traits are one of the foremost non-cognitive domains in the area of psychology that affect several results related to success in career and life. Personality affects behaviour through inspirational procedures and this might influence on the person's career and life success. They affect the selections an individual make about which jobs and events to involve in, how much effort to put forth on those duties, and how long to carry on with those jobs.

Several studies have been conducted on the personality characteristics of CEOs and five different traits amongst them are found. The five traits include locus of control, need for achievement, Type-A personality, risk-taking propensities and tolerance of ambiguity (Hornaday & Aboud, 1971). For instance, Marc Benioff, the founder, chairman and CEO of Salesforce started cloud-computing giant Salesforce.com before cloud computing came to the mind of anyone else. Marc Benioff is undoubtedly a risk taker, and also shows to be very tolerant of ambiguity and encouraged by accomplishment. Credit to his own precise forecasts, it suggests that he has a real internal locus of control, beholding his success in his own correctness. Additionally, in year 2002, Priceline.com was taken over by Jeffery Boyd, who took over a failing business with a promising product and revolving it into the market leader. He tried out a daring new strategy for a failing business, so he is obviously having strong tolerance of ambiguity. His aspiration to just about independently turn things around proposes a competitiveness that is aligned with a Type-A personality and an internal locus of control.

CEOs shape their specific personalities and leadership style on the firm while confirming the precision and comprehensiveness of information delivered to the public. Placing the CEO as the positive representation of the firm provides more competitive advantage than a safe investment. Asian conservative perception may command the CEO to stay a low-profile figure rather than go into the public platform in the campaign of the firm. In countries such as Philippines and Indonesia, it is feared that high-key CEOs may possibly place their personal safety at risk. Conventional Asian tycoons have preferred to stay at the back stage, inaudibly establishing their business territories away from the attention of social media. A good representation of this type of CEO in Malaysia is Tan Sri Syed Mokhtar Albukhary who is recognized as the "mystery man" because he totally avoids the glare and spotlight of media.

In a progressively more globalised business world, it is compulsory for Malaysian companies to revolute with the trends. The businesses in Malaysia nowadays must need to look beyond these shores when they are looking for capital raise. Therefore, it is important to have an international profile if they intend to attract worldwide investors. The introduction of the internet and satellite television has accelerated abundant possibilities of international communications. Firms such as well-known Air Asia and YTL are in outstanding positions to leverage on their famous CEOs. Ironically, YTL Corporation has just made an acquisition on the UK's Wessex Water from Enron Europe (Bloomberg, 2016).

In order to survive through the economic recession, Asian firms need vibrant and vigorous CEOs who can lead the firm during stormy period and direct it to better circumstances. It is

an appropriate time for Asian firms to utilize their CEOs to achieve competitive advantage. By conveying both the firm's primary values and the financial information competently, the reliable CEO can attract the investors, keep valuable customers and retain its best employees. There has been some arguments about the level of compensation and the incentives given to a CEO in the recent years so people starts to wonder if the compensations are being justified. Thereafter query arises that are those CEOs being compensated for their performance or is it merely a trend that everybody is following. It is realized that CEOs compensation have been increased in the past without being justified by their performances.

Ferri and Maber (2009) note that some countries like Britain has established new regulations such as "say on pay" to regulate the compensations of the CEO and affect it through the shareholders' voice. Firm boards primarily attempt to use compensation contracts to align CEOs' actions with firm success. The concept is that CEO performance delivers value to the company. "Pay-to-performance" is the method most firms are using when they try to describe their compensation policies. While one and all is supporting the concept of paying for performance, it indicates that CEOs are undertaking the risk that their destinies would rise and fall with firms' destinies. Agency theory states that shareholders fix executives' compensations. The principal (shareholder) prepares a contract and makes an agreement to the agent (CEO). However, in practice, the compensation committee of the board decides the compensation on behalf of shareholders. CEO compensation enhances a moral hazard issue arising from low-ownership firm. Shareholders encourage the CEO to maximize firm value by offering incentives such as stock options, restricted stock, and long-term contracts as motivations. The failures of giant corporations and financial institutions have highlighted

the problem rising from the way in which CEO are compensated. Sigler (2011) mentions that there is a positive and significant relationship between CEO compensation and firm performance measured by return on equity (ROE).

Table 1.1: Comparison of Major Listed Companies in Bursa Malaysia

Source: Bursa Malaysia (2015)

Company's Name	Chief Executive's Name	CEO compensation	Group's Revenue	Net Earnings
Sime Darby Berhad	Tan Sri Dato Seri' Mohd Bakke Salleh	RM7,088,000	RM43.9 billion	RM3.35 billion
Maxis	Morten Lundal	RM18,000,000	RM8.2 billion	RM1.7 billion
Axiata Group Berhad	Dato' Sri Jamaludin Ibrahim	RM8,200,000	RM18.7 billion	RM2.34 billion
Shell	Amir Hamzah bin Abu Bakar	RM681,000	RM14.3 billion	(RM1.19 billion)
YTL	Tan Sri Dato' (Dr) Francis Yeoh Sock Ping	RM7,768,000	RM425 million	RM195 million

Table 1.1 listed out five major listed companies in Bursa Malaysia and shown a comparison between the CEO compensation, group's revenue and net earnings. According to the table above, Axiata's group earnings performance in 2014 was RM2.34 billion while Maxis's net earnings was RM1.7 billion only. However, the CEO of Axiata received a total compensation of RM8.2 million only while the CEO of Maxis received more than double compensation of RM18 million in 2014. Besides, Sime Darby Berhad had performed even better in year 2014 with a net earnings of RM3.35 billion, but the CEO of Sime Darby received the lowest CEO compensation with RM7 million only compared to the CEOs of Maxis and Axiata Group Berhad. YTL had made a net earnings of RM195 million only in

2014 but the CEO compensation of YTL group was even slightly higher than Sime Darby Berhad.

Therefore, it is claimed that CEO's compensation influences the economy market and there is a distinction among the CEOs where some are being paid too high or too low. For instance, in the United States, Jamie Dimon, the CEO of J.P Morgan Chase received a compensation of $18.7 million in 2012 (Huffington Post, 2014). However, Vikram Pandit, the CEO of Citigroup received only US$1.75 million (Financial Post, 2012) and Brian T. Moynihan, the CEO of Bank of American Corp, received US$8.09 million yearly (Forbes, 2012), which are much lesser compared to the first one.

Then again, in Malaysia, Dato Nazir Razak, the CEO of CIMB Bank, has been reported receiving the compensation from RM8.7 million in 2011 increased to RM10 million in 2012 (The Star, 2013). At the meantime, Tan Sri Lee Shin Cheng, the CEO of IOI Corporation, received a compensation of RM56.3 million in year 2010 (Yatim, 2012). Whereas Tan Sri Lim Kok Thay, the CEO of Genting, received RM86.5 million in 2007, who is the highest paid CEO in Malaysia (Fong, 2009).

The subject in which CEO personality characteristics influence the firm performance has recently arisen to be an interesting topic in academic research. Literature of why firm failed has been discussed further by not limiting only on market failure, but also the market's player. Several prior studies have concluded that firm performance is not always in line with rational decision of board of directors, where it sometimes is about personality

characteristics (Papadakis & Barwise, 2002; Zhang et al., 2008). In the academic field, the study of how CEO's personalities influence the strategic decisions and firm performance have increasingly monopolized the attention of researchers to explain the performance of a company. Solomon (2010) argues that behaviours of CEO should be recognized as an important element in explaining the poor performance of companies. Further researches have focused on the effect of the personalities of CEO as a factor supporting the performance of the company. In this context, several researches seem to propose a positive relationship between the personalities of CEO and firm performance (Tosi et al., 2004; Resick et al., 2009; Kaplan et al., 2010).

According to Charreaux (1996), an understanding on the mental models of CEO needs to be conducted before analysing the effects of the role of CEO on firm performance. Thus the behavioural factors have been introduced to offer a more substantial justification to analyse the impact of CEO on firm performance. A lot of researches put the emphasis on the importance of CEO in a company for firm's decisions and performance, but less was discovered about which individual traits and experiences can explain the variations in organization that lead to the differences in firm performance. Therefore, there is a crucial need to discover and scrutinize the role of the personalities of CEO in influencing the firm performance and incentive decisions.

Among all the studies, upper echelons theory has most evidently described the importance of CEOs for firm performance. As stated by upper echelons theory, CEO is the most influential and also the key decision maker in the organisation, hence the organization that

they lead will be intensely influenced by their personality, preferences and leadership style (Hambrick & Mason, 1984; Hambrick, 2007). Few prior studies have investigated the relationship between the personalities of dynamism and grandiosity, and it leads to extreme volatility of organizational performance. The narcissist's tendency to pursue dynamic, grandiose strategies will be reflected in the company's performance. However, on the negative side, narcissistic leaders may violate integrity standards (Blickle et al., 2006), and have unhappy workplaces (Blair et al., 2008). Ham et al. (2014) have shown that more narcissistic CEOs are more likely to control decision procedures, look for superfluous acknowledgement and attention, and neglect feedback from others and even their own prior decision consequences.

Further, Chatterjee and Hambrick (2011) find that CEOs' narcissism is positively related to the number and size of acquisitions that the firm made. The large acquisitions are preferred by narcissists to increase performance variance (Lubatkin, 1987; Fowler & Schmidt, 1988). However, some have argued that narcissistic CEOs are not that sensitive to objective signs of their performance and are likely to pay more for acquisitions. Resick et al. (2009) study the CEOs of major club baseball organizations over a 100-year period and note that more narcissistic CEOs are less concerned about fair rewards. However, researchers conclude that some of the CEOs' overconfidence and grandiosity in fact can improve firm performance. On account of their role, CEO personality traits are not only revealed in their own preferences and actions but also in the strategies, structure, and performance of the firms that they lead (Hambrick & Mason, 1984; Schneider et al., 1995; Schein, 2004). In short, several research conclude that narcissism may closely relate with the firm performance. In the past few decades, a lot of research has accumulated convincing evidence that personalities are

related to a range of important outcomes such as job satisfaction, performance and so on (Barrick & Mount, 1991; Judge et al., 1999; Ozer & Benet-Martinez, 2006).

Hence, this thesis concerns if personality traits has played important role to firm performance, do they earn more? The issue of CEO and top management compensation has been raised again during the financial crisis in 2008-2009. Scholars start to raise concerans about the corporate governance particularly in the unreasonably high compensation which is unjustified at all by the performance. As studies by Hoskisson et al. (2009) and Bebchuck et al. (2010) show, in the years leading up to the crisis in the financial and the banking sectors in 2008-2009, there is large scale failure on the part of boards to fulfil this fiduciary responsibility. Though short lived, the overwhelmingly high levels of CEO compensation, unjustified, even remotely, by financial performance of companies, highlighted by the "occupy wall street" movement, left a mark on the consciousness of management thought process. The boards of companies across countries are under increasing pressure to ensure that CEO compensations are within the bounds of reason.

Research has recognized the immense power CEOs of companies are able to exercise on the choice and continuance of individuals on the boards of companies (Adams et al., 2005; Combs et al., 2007; Baldenius, et al., 2014). Citing the Enron affair, Perel (2003) argues that focus essentially on stock market based performance measures coupled with poor oversight by the boards (due to capture by CEOs) have resulted in proliferation of unethical practices to enhance performance to justify excessive compensations to CEOs. A research done by Green et al. (2015) finds that after controlling for executive and firm characteristics, as well

as firm fixed effects, extraverted executives receive 6 to 11 percent higher pays. Extraverted CFOs tend to be promoted to CEO, and extraverts are more likely to be new CFOs and CEOs at a younger age. CEO compensation has increased ridiculously by 725% in the past three decades, which is 127 times more than employee salary (Huffington Post, 2014). The average CEO received 26 times more than the average employee in 1978, and it is now 210 times more. CEOs of S&P index corporations earn 354 times more than the average worker.

Generally, the study on CEO compensation has presumed an agency theory model (Bebchuk & Fried, 2004) and discovered the mechanisms through which compensation structures can be invented by shareholders and represented by board of directors, to make sure that the interests of the executive are in line with those of the shareholders. Though a lot of predictions resulting from agency theory are generally supported by the researches, an extended practice of study has proven that CEOs can also impact the board to change the policies that benefit themselves (Bebchuk & Fried, 2004; O'Reilly et al., 2014). It is claimed that narcissistic CEOs can constantly give positive impressions to the board of directors and shareholders, and thus they are able to request for higher compensation regardless of their performances (Nevicka et al., 2011). There are numerous mechanisms through which it could go on, yet very few has been done to determine whether the CEO personality is a factor in manipulating how compensation decisions are made. Hence, this research aims to explore the role of personality traits of CEO on firm performance and CEO compensation. Upper echelons theory suggests that the personality characteristics of the firm's top management will be at least partially reflected in organizational choices (Hambrick & Mason 1984; Hambrick, 2007).

1.2.1 Narcissism

Narcissism has been used frequently to explain behavior in firms particularly in describing the destructive behaviors of CEOs. The extra attention given by the public on narcissism has corresponded with a growth of research attention about narcissism from those in organizational behavior. Narcissism is considered as a personality trait comprising of self-love, grandiosity and inflated self-views (Morf & Rhodewalt, 2001; Campbell et al., 2006). Narcissism is a term originated from the Greek myth of Narcissus, the story of a young man who fell in love with his own image. According to Freud's (1914) original notion, narcissism is defined by the psychologists as a comparatively stable personality characteristic (Campbell et al., 2005) characterized by the feeling of own superiority (John & Robins, 1994; Campbell et al., 2005), dominance and desire for power (Emmons, 1987), grandiosity (Morf & Rhodewalt, 2001), and seeking for attention to ensure their preeminence (Bogart et al., 2004). Narcissists are less empathy and more likely to be manipulative, taking credit from someone else's achievements and putting the fault on others (Lubit, 2002; Brunell et al., 2008; Rauthmann, 2012). They are destructive and aggressive while facing criticism or unfavorable opinion (Exline et al., 2004; Vazire & Funder, 2006).

In order to resolve the positive and negative features of narcissism, the construct of narcissism has been divided into "bright side" and "dark side" of personality traits (Hogan & Kaiser, 2005; Campbell et al., 2011). This construct has its origin in clinical psychology as healthy and unhealthy narcissism. For instance, the aspects of narcissism related to positive self-confidence are considered to be healthy or bright and those related to entitlement are claimed to be unhealthy or dark (Paunonen et al., 2006). Focus on the

constructive aspects, researchers find that a lot of the prominent leaders can be characterized by high self-confidence, self-efficacy, internal locus of control, and able to control someone's emotions. This aspect has been displayed to be positively related to job performance (Judge & Bono, 2001; Khoo & Burch, 2008; Resick et al., 2009). For instance, a study examining on the effectiveness of U.S. presidents has found that narcissism is related to perceived charisma and esteemed effectiveness (Deluga, 1997). Goncalo et al. (2010) show that narcissists are more creative in teams. Gupta and Spangler (2012) claim that the effects of extraversion and dominance elements in narcissism are positively related to firm performance in fluctuating circumstances. Under certain conditions, other elements of narcissism like vision and dominance have been shown to have positive impacts as well (Harrison & Clough, 2006; Chatterjee & Hambrick, 2007; Campbell & Campbell, 2009).

However, there are a lot of evidence documenting the negative impacts of narcissism against the potentially positive effects of narcissism (Lubit, 2002). Prior researches have revealed that narcissistic executives rarely involve in pro-social organizational behavior and favor to cheat and disrupt integrity principles (Blickle et al., 2006; Judge et al., 2006; Chen, 2010). Narcissistic executives tend to have unsatisfactory workers and build unhappy working environments (Maccoby, 2007; Padilla et al., 2007; Blair et al., 2008; Thompson, 2011). Furthermore, narcissists have been pointed to constrain the information exchange in the companies (Nevicka et al., 2011) and refuse any negative opinion (Kernis & Sun, 1994). A critical issue that has been missed out is that the same personality trait can consist of both bright and dark side. For instance, Hogan and Kaiser (2005) mention that "… people with high scores on the bold scale (narcissism) initially seem confident and charismatic. Over time, however, these features turn into a sense of entitlement and an inability to learn from

mistakes." Consistent with the view of Hogan and Kaiser, Maccoby argues that constructive narcissist can simply become non-productive when they have been overwhelmed with the senses of grandiosity and fascination (Maccoby, 2003). Therefore, narcissism becomes uncontrollable as the positive side of narcissism is identified easily and exposed in early communications, but the negative side usually appears later.

The approach of narcissism in this thesis is consistent with Hogan's (2005) bright and dark side model. Narcissism is considered as a "mixed blessing" or "trade-off" that is associated to the outcomes that can be both positive and negative (Paulhus, 1998; Campbell & Campbell, 2009). Generally, narcissism predicts good outcomes for the narcissists especially those who feel great about themselves but worse for the ones who are intimate to the narcissist (Miller et al., 2007). Narcissist in the longer run also generates negative outcomes such as having poor relationships, caused failure as they never learn from mistakes, or ruining the resources that are needed for long term success (Campbell et al., 2005). According to McCleskey (2013), narcissistic leadership is found to be at the dark side of narcissism. However, it may not be all destructive and to certain extent they are able to provide both constructive and destructive traits to the firm (McCleskey, 2013; O'Reilly et al., 2014). This idea is supported by Godkin and Allcorn (2010) stating that companies can have both positive narcissists and negative narcissists. On one side, their personality demonstrates self-esteem and interactive skills that fascinate the followers to admire them (McMahon & Rosen, 2009; O'Reilly et al., 2014). Yet on the other side, they are more likely to violate ethical values and regulations that people depend on (McMahon & Rosen, 2009; Godkin & Allcorn, 2010; Rijsenbilt & Commandeur, 2013; O'Reilly et al., 2014).

Narcissism is found to score highest in individualism (Foster et al., 2009) whereby it is related positively to independent self-construal and negatively to interdependent self-construal (Konrath et al., 2007). According to the findings above, narcissist shows more specifically to be highly focusing on self but low on the others. Some researches indicate this group of narcissists as isolated. Narcissists are more likely to enhance themselves on agentive traits such as intelligence and power rather than common personalities such as compassion (Ladd et al., 1997; Paulhus & John, 1998; Campbell et al., 2002). Narcissists also apply more first person singular pronouns and lesser first person plural pronouns than people who are less narcissistic (Raskin & Shaw, 1988). Other studies have also demonstrated that narcissism is more selfish in a resource-dilemma harvesting game (Campbell et al., 2004; Campbell et al., 2005), and very aggressive under ego threat (Kernis et al., 1989; Bushman & Baumeister, 1998; Stucke & Sporer, 2002; Campbell et al., 2004).

All at once, narcissistic leaders are usually appeared to be attractive and interactively skilled (Deluga, 1997; Chatterjee & Hambrick, 2007). Their feeling of self-assurance leads others to admire them, whereas their sense of dominance makes them to motivate themselves and look for conditions to control (Hogan et al., 1990). Since they present an image to be effective leader, with a strong sense of self-efficacy and capability, they often emerge as a leader (Judge et al., 2006). Narcissists are always perceived to be appealing and attractive since the first impression. For example, Young and Pinsky (2006) show that celebrities are more narcissistic than the normal people, and the most narcissistic personalities are shown in television personalities. Back et al. (2010) examine why people are more attracted to narcissists and find that more narcissistic people make a better impression during the first meeting and are more famous than those who are less narcissistic. Their self-assurance

associated with body languages make a good impression to those who meet them for the first time. Unexpectedly, it is also the sense of entitlement of narcissists and a disposition to manipulate others that makes them charismatic (Back et al., 2010).

1.2.2 Firm Performance

In recent years, considerable attention has been given in the psychology and finance literature on the impact of top management on firm performance. This increased attention has been motivated by the 1997/1998 Asian financial crisis that badly affected most of the Asian countries which has changed the landscape of the countries including Malaysia. Most of the company executives especially CEOs, are having significant power over the structure and destiny of companies (Chandler, 1962; Finkelstein & Hambrick, 1996). Researchers has long been interested to discover the relationship between personality and firm performance in industrial psychology in the past few decades (Barrick et al., 2001). Therefore, it has always been interesting to discover their personality traits and find out how those personalities are revealed in organizational outcomes.

In developing countries such as Malaysia it is important to examine if CEO characteristics directly affects firm performance. Hambrick (2007) suggests that a senior executive's strong personal desire to deliver performance is an important moderator of the relation between executive characteristics and firm outcome. A lot of studies extend upper echelon theory by characterizing CEO personality as a formal trait to describe firm approach and performance. Chatterjee and Hambrick (2006) claim that CEO narcissism is positively associated with strategic dynamism and grandiosity, and it creates extremely unstable organizational

performance. Hambrick and Mason (1984) state that the personalities of top management teams have an impact on the strategic behavior and performance. Other researches have also been conducted to scrutinize how the characteristics of CEOs can influence the performance of the firms (Zajac & Westphal, 1996; Finkelstein & Boyd, 1998; Sanders, 2001).

In the Tenth Malaysia Plan (10MP), Malaysia Prime Minister has focused on national key economics area that include palm oil & related product, oil & gas, wholesale & retail, financial services, education, tourism, electrical and electronic, information and communications technology, business services, private healthcare, agricultures and larger Kuala Lumpur (Tenth Malaysia Plan 2011-2015, 2010). Malaysian's companies provide services are gaining recognition among the global business community and a foothold in foreign countries from securing and completing projects ranging from highways to bridges.

While the firm performance in Malaysia is growing remarkably, the companies that are listed in Bursa Malaysia are increasingly focusing in the top management behavior in order to improve their companies' return. This research attempts to determine the relationship between CEO personality and firm performance that are listed in Bursa Malaysia.

1.2.3 CEO compensation

In the past few decades, researchers have been often studying the topic of CEO compensation, both in the academic field and in popular journal. Are CEOs being compensated too high by the shareholders, or is that necessary to pay such amount in order to recruit and retain

managerial talents? Are the pay schemes designed reasonably, or are the incentive packages shaped the way in the ease of facilitating more than manipulation?

The total salary package for chief executive officers (CEOs) and key top management staff is on the rise as more organizations here are shifting to performance-linked incentives and long-term rewards for the compensation mix. "The era of fixed salaries for firms operating in Malaysia is waning," noted Hay Group Malaysia director Shahrizal Suffian. "Bonuses too are seen as incentives which are too short-term focused, whereas longer term rewards are better at driving sustainable value creation for the organization." And contrary to public perception, CEO total salary benchmarks aren't always linked to an outfit's profitability, said Shahrizal.

The main reason why many local firms have had to review the total pay package for chief executive officers (CEOs) was the adoption since 2006 of International Financial Reporting Standards (IFRS) in reporting their earnings. With IFRS, stock options – which were previously seen as "free" rewards that cost the company nothing with such issues – became an expense item with an impact on revenue and profit. Given the vagaries of external factors which could impact a firm's operations, the challenge in crafting any CEO salary package had to include incentives for both short-term and long-term performances.

Key targets were set out to drive the right behaviour, balancing between risk-taking and conservative measures in growing an organization's value – and also to ensure decisions made today do not affect the organization in future years after the CEO leaves. Studies have also shown that organizations with employee share option scheme (ESOS) or other form of

long-term incentives seeking to motivate the right behaviour to drive shareholder value ended up with the CEOs, in many cases, not being able to create the conversion to shareholder value as expected.

The situation may be worsened by the construct of organizational compensation structures. The compensation levels of top management teams including the CEOs of public listed firms are high visible, makes the value of CEOs relatively clear and easier to compare with the other CEOs (O'Reilly et al., 2014). If a CEO is grandiose about personal contributions yet less concerned about equity and fairness, it is expected that the CEO may probably try to control internal compensation structures to strengthen reinforcement and visibility of the significance of the CEO's contributions compared to the others (O'Reilly et al., 2014).

CEOs are more risk-averse to their individual firm equities because their fortune is knotted substantially to the company and they are not able to evade the risk as much as the general shareholders do. Thus, CEOs should lay down their positions in the firm whenever they are able to. Regular agency theory proposes equity pay in order to ensure that the executives' interests are in line with shareholders. Nevertheless, there are incentives for the executives to unwind their positions in considering about their risk aversion because they value the plain cash more than their equity portfolios.

The sensitivities of CEOs on option portfolio value to stock prices are positively linked to crash risks because CEOs have more inducements to possibly manipulate equity prices and thus negative news are likely to be gathered together in order to bring price crashes (Kim et al., 2011). Earning management is merely one of the methods that CEOs employ to control

equity prices and bring price crashes. CEOs as the key decision maker of the company are claimed to concern more in a lot of firm policies, for example debt-to-equity ratio, cash balances and investment decisions especially when the compensations for CEOs matter more in earnings management activities (Chava & Purnanandam, 2010; Jiang et al., 2010).

Previous CEO compensation study emphasizes on the general pay-to-performance link, which basically asks about how much compensations a CEO should receive in order to attain the anticipated outcomes required by the shareholders (Jensen & Murphy, 1990). Recently, there have been a growing researches that examine the association between CEO personality characteristics and firm policies in overall. This research integrates the personal traits and incentives defined as managerial portfolio decisions related to compensations.

1.3 Problem Statement

Literature shows better personality might give better performance compared to worse personality. This relationship is postulated in the theory of Big Five Model (McCrae & Costa, 1987), personalities may influence one's job performance in an organization. Chatterjee and Hambrick (2007) also examine the impact of CEO narcissism on corporate performance and show that narcissistic CEOs exhibit stronger performance volatility. According to upper echelons theory particularly in strategic management study, CEO personality traits are significantly determining factors of corporate performance (Hambrick & Mason, 1984; Hambrick, 2007). Upper echelons theory asserts that CEOs are the most dominant as well as the key decision makers in their companies, therefore, their preferences, characteristics, and leadership behavior tend to have significant impact on the firms that they

lead (Hambrick & Mason, 1984; Hambrick, 2007). This research is going to be more comprehensive in terms of the multiplicity of firms being studied. Prior research findings in psychology have indicated that more narcissistic CEOs tend to pursue high attention and acknowledgment, eager to make decision, and ignore opinion from the others and even their personal previous decision outcomes (Ham et al., 2014).

Besides, better personality of CEO might give better compensation as well. Studies such as "Narcissistic CEOs and CEO compensation" by O'Reilly et al. (2014) state that narcissism of CEOs may influence CEO compensation patterns. Additionally, studies also show that compensation significantly relates with corporate performance. Several researches evidently demonstrate a strong and positive relationship between CEO compensation and firm performance (Belliveau et al., 1996; Brick et al., 2005; Ozkan, 2007).

However, the dossiers show interesting fact. For instance, Axiata group earnings performance in 2014 was RM2.34 billion while Maxis net earnings was RM1.7 billion only. But the CEO of Maxis received a much higher annual compensation of RM18 million while the CEO of Axiata received a total compensation of RM8.2 million only. Interestingly, not much research investigates this triangle relationship. This means that not many research findings investigate the mediating role of compensations on the correlation between CEO personality and firm performance. This research will extend the research to examine whether more narcissistic CEOs are paid in a different way. The positive association between CEO narcissism and firm performance might assume that more narcissistic CEOs are compensated higher than less narcissistic CEOs. Prior research reports that narcissists have inflated self-images and hence might claim for higher compensation. Nevicka et al. (2011) have evidently

proved that narcissists favored group decision-making framework. Therefore, it becomes an open empirical question that whether CEO compensation for a more narcissistic CEO is higher or lower.

There is a positive relationship between CEO compensation and firm performance because when the firm performance increases, the CEO compensation will increase too mainly due to the fact that CEO compensation and firm profitability are directly linked to each other. Sigler (2011) claims that a significant and positive relationship found between CEO compensation and firm performance as measured by return on equity (ROE). However, there are very few researchers perform study on this topic in Malaysia (Ismail, Yabai and Hahn, 2014). For this motive, it is possible that Malaysia may have a completely different research outcome compared to the other findings. Build on the ambiguity, it is strongly motivated to conduct this research in order to explore the exact impacts of CEO compensation on firm performance.

Malaysia offers a unique background of study (Yatim, 2012). Malaysia offers an outstanding setting to conduct research on firm performance due to its mixed-economic structure that comprises of control-based and market-based system. It has been argued that CEO's compensation influences the economy system in Malaysia and the compensation of CEOs may differ that it is sometimes too high or too low. Yatim (2012) states that CEO compensation has attracted an undesirable attention from researchers, practitioners and mass media for more than a decade that large sum of compensation paid to the CEOs are being

focused. Consequently, attention towards Malaysian CEO's compensation has been subjected to higher attention.

Meanwhile, it is rarely found a research gauging psychological background as the determinant of firm performance and CEO compensation (O'Reilly et al., 2014). A field that has not been well discovered is the level to which the CEO narcissism may influence the forms of CEO compensation. It is noteworthy that the personality traits of narcissistic CEO can influence both a firm's policies and operations in significant ways. For example, Chatterjee and Hambrick (2007, 2011) have illustrated that CEO narcissism is positively associated with their companies' strategic dynamism as in the extent to which a firm's strategy adapts to fluctuating environments, and also the amount and size of acquisitions an organization makes. However, narcissistic CEOs seem to be less sensitive to neutral indicators of their performance, and are more likely to overpay for acquisitions.

1.4 Research Questions

Therefore, this thesis aims to answer those problems by proposing six research questions:

(i) Does CEO's narcissistic personality influence firm performance?

(ii) Is CEO's compensation affecting the firm performance?

(iii) Does CEO narcissism influence the CEO compensation?

(iv) Does firm size have an effect on firm performance?

(v) Is there any significant relationship between firm age and firm performance?

(vi) Does debt-to-asset ratio (leverage) have an impact on firm performance?

1.5 Research Objectives

The general objective of this research is to examine the mediation effect of executive compensation on the relationship between narcissism and firm's performance.

The specific objectives of this thesis include:

(i) To evaluate the relationship between CEO's narcissism and firm performance of Malaysian listed companies.

(ii) To assess the influence of CEO compensation on firm performance of Malaysian listed companies.

(iii) To analyze the impact of CEO's narcissism on CEO compensation of Malaysian listed companies.

(iv) To evaluate the effect of firm age on firm performance of Malaysian listed companies.

(v) To assess the influence of firm size on firm performance of Malaysian listed companies.

(vi) To analyze the impact of leverage on firm performance of Malaysian listed companies.

1.6 Scope of Study

This research will examine the relationship between CEO narcissism, CEO compensation and firm performance through the measurement of Tobin's Q and return on assets (ROA).

1.6.1 CEO Narcissism

Resick et al. (2009) define narcissism as an inflated yet fragile self-idea of own significance prominence. A lot of the current researches recently has explored the negative implications of narcissism particularly in the phenomenon of individualistic operation and leadership (Kets De Vries & Miller, 1985; Judge et al., 2006). On the other hand, prior study also shows that many CEOs who are viewed as narcissistic effectively lead the firms to higher success (Maccoby, 2000). However, CEO narcissism itself is inadequate to completely justify such firm performance extremes in the achievement of outstanding performance. Assuming that CEO narcissism has been linked to firm performance, this research will try to determine whether there is any relationship between the personality traits of CEO particularly in narcissism and the performance of Malaysian listed firms.

1.6.2 Executive Compensation

Board of directors in Malaysia's firms generally consist of non-independent executive (CEO or Managing Executive Director), independent non-executive directors, non-independent executive directors and institutional investor. Executives' compensations are mostly displayed in companies' annual reports. Therefore, CEO compensation data in this thesis will be retrieved from firms' annual reports, specifically for the financial years of 2010-2014. CEO compensation generally comprises of basic salary, allowances, bonuses, incentives and stock option benefits. The average level of CEO compensation is defined as total cash pay which is also known as salaries and other direct compensation whereas total direct compensation is total salary, bonus, and share options. Prior researches state that the level

of CEO compensation will significantly influence the performance of Malaysian listed firms (Bebchuck and Fried, 2004).This research will further examine this topic and find out the true effects of CEO compensation on firm performance.

1.6.3 Firm Performance

In comparison to the other topics, it is relatively less research conducted in this topic to study the effects of CEO narcissism on firm performance. Therefore, this research takes account of three broad domains stated in the firm performance literatures: firm size, firm age and financial leverage. Performance of the firm is measured by Tobin's Q and return of assets (ROA) in this thesis. Tobin's Q is defined as the ratio of the market value of a company's replacement costs of its asset. ROA is the net income divided by total assets and is used to show firm's efficacy of making profits from each unit of the asset. The performance of a firm is determined by many factors such as the economy as a whole, inflation, industry from which the company belongs, but ROA remains the most important.

1.7 Setting of Study

This research has been organized as follows: Firstly, this thesis reviews the theory of narcissism in psychological literature. Next, this thesis discusses the significance of narcissism particularly among executives, proposing six hypotheses to discover how CEO narcissism influences CEO compensation and also firm performance. This research is going to discover substantial supports for the hypotheses and also evidences to prove that CEO

narcissism is significantly and positively related to executive compensation and firm performance.

The rest of this research is organized as follows. Chapter 2 discusses the appropriate models to be employed to measure the narcissism level of CEO, CEO compensation and firm performance together with the theories that support the hypotheses. Chapter 3 collects and elaborates the data, and deliberates on the adopted methodology. Chapter 4 analyses the relationship between CEO narcissism, compensation and firm performance through the sample statistics and comes out with a report of findings. In Chapter 5, there will be a discussion of implications and suggestion on the future research directions and provide some recommendations followed by a conclusion.

1.8 Summary

This thesis is a significant form of research that emphasizes the impact of a narcissistic CEO on organization's decisions and outcomes, and how an individual's traits can clarify the difference in management styles that lead to variances in firm performance.

Chapter 1 of this research discovers the prospect that CEO's personality helps to drive firm outcomes. In chapter 2, this thesis reviews prior researches on the impacts of CEO personality traits particularly in narcissism on firm performance. This study investigates the mediating role of executive compensation in influencing firm performance. In chapter 3, this study uses secondary data to validate a measure of CEO narcissism initially proposed by O'Reilly et al. (2014) and examine the relations between CEO narcissism, executive

compensation and firm performance of Malaysian listed firms. In chapter 4, comprehensive summaries of the statistical results found from the research support the relationship between CEO's personality characteristic and firm performance. The last chapter describes how the findings align with the prior research studies and answer all the research questions in this thesis. Significance of study and several implications will be explained as well. Chapter 5 addresses the limitations of study observed throughout the research and provides some recommendations for future research in order to have a broader and comprehensive understanding on this topic.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

There is a growing stream of research observes the contributing factors of firms' abilities that impact firm performance. Majority of the research in this area studies the influence of firm characteristics on firm performance (Jensen & Meckling, 1976; Mintzberg, 1979; Chen & Hambrick, 1995). However, upper echelons theory suggests that personality characteristics of the firm's top management are at least partially reflected in their organizational decisions (Hambrick & Mason 1984; Hambrick, 2007). Therefore, this thesis extends research on executive personalities by examining how CEOs' narcissistic tendencies impact on the firm performance.

CEOs affect their firm's direction, associations with key stakeholders, and overall reputation by founding a united purpose, collaborating vision and mission, managing cultural perspective, and creating adaptive capabilities (Ireland & Hitt, 1999; Boal & Hooijberg, 2001; Zaccaro, 2001; Vera & Crossan, 2004). Due to their role and responsibility, CEO personality traits are not only reflected in their personal preferences and behaviours but also in the organization's strategies, structure, and performance (Hambrick & Mason, 1984; Schneider et al., 1995; Schein, 2004).

Since organization executives especially CEOs, have significant control over the practises and destinies of the firms, researchers are always interested in examine their personality characteristic and determine how those personalities impact the firm's performance (Chandler, 1962; Finkelstein & Hambrick, 1996). While some researchers have assess CEO's personality through psychoanalytic direction by giving the explanation and examples of various executives' personality syndromes (Zaleznik & Kets de Vries, 1975; Kets de Vries & Miller, 1985), other researchers have examined the CEO's specific personality dimensions from psychometric aspects, including need for achievement (Miller & Droge, 1986), tolerance for risk (Gupta & Govindarajan, 1984), and locus of control (Miller et al., 1982). Those researchers ware capable of providing evidence to prove that there is significant relationship between executive personality dimensions and organizational performance. Some scholars measured CEO personalities by relying on content analysis of biographies or other historical data about executives (House et al., 1991). For example, Peterson et al. (2003) examined the relationship between CEO personality (in terms of "Big Five" dimensions) and top management team dynamics by using the content analysis of biographies.

Despite a lot of studies have been contributed in understanding the importance of executive personality, many crucial traits have yet to be scrutinised, and the psychological dimensions connecting CEO personality to organizational influence and performance remain underexplored (Boal & Hooijberg, 2001; Avolio et al., 2003). An affluent attention has been paid to CEO personality recently but the studies that have concerned about CEO or executive narcissism are very limited (Kets de Vries, 1994; Lubit, 2002). Now, it is supposed that there is a need and chance to integrate current concept about narcissism as a personality measure

and to employ it to comparatively large-scale quantitative study of narcissistic characteristic among CEOs.

This thesis expands work in the area of executive personality (Peterson et al., 2003; Hiller & Hambrick, 2005) by suggesting narcissism to provide insights into firm performance in Malaysia. This thesis examines CEO narcissism using a panel of CEOs from 805 Malaysian listed companies over the period from year 2010 to year 2014. This thesis adopts an unobtrusive measure by using prominence of CEO's photograph in the company's annual report as proxy of CEO's narcissism (Chatterjee & Hambrick 2007; Olsen et al., 2014). According to O'Reilly et al. (2014), CEO's narcissism is the primary measure of firm performance.

2.2 Narcissism

In the current study, an emergent stream of research has begun to emphasize on CEO narcissism—the personality trait of interest. Researchers are interested in examine how CEO narcissism can influence organiqzation's operational and accounting decisions, financial performance, and CEO compensation. Chatterjee and Hambrick (2007) discover that the there is a relationship between the number and size of firm acquisitions and the CEO narcissism where both are inconstant and variable in organizational performance. According to O'Reilly et al. (2014), narcissistic CEOs get higher compensation in comparison to other executives at the same organization. In addition, companies with narcissistic CEOs have

greater earning per share and stock prices in comparison to other firms, and they involve in higher level of real earnings management (Olsen et al., 2014). This thesis contributes to and extends this literature by investigating how CEO narcissism influences a firm's performance.

The term narcissism originates from the Greek mythology, where a young man, Narcissus, fell in love with his own image. Based on the original conception that was introduced by Freud's (1914), psychologists have thought that narcissism is a relatively stable personality characteristic (Campbell et al., 2005) which is characterized by supremacy and need for power (Emmons, 1987), a sense of individual superiority (John & Robins, 1994; Campbell et al., 2004), grandiosity (Morf & Rhodewalt, 2001), and desire for attention and agreement of their superiority (Bogart et al., 2004). They seek for acknowledgement and compliment as self-enhancement prospects to support their grandiose senses of superiority (Wallace & Baumeister, 2002; Campbell et al., 2004). Narcissists are lack of true sympathy and thus can be manipulative, taking credit for others' endeavours and putting blame to others (Lubit, 2002; Brunell et al., 2008; Rauthmann, 2012). When they are being criticized or opposed with negative feedback, they can be aggressive and violent (Exline et al., 2004; Vazire & Funder, 2006).

Authority, superiority, entitlement, vanity, exhibitionism, exploitativeness, and self-sufficiency are seven sub-components that are categorized as narcissism (Raskin & Terry, 1988). It is a stable but multidimensional personality characteristic that has been considered to be associated with a sense of superiority and a tendency to involve in doubtful behaviour (Blickle et al., 2006; Judge et al., 2006). Some scholars also discovers that narcissists are

exploitative, lack of moral awareness, and extremely aggressive in following what they trust is theirs, and think that they are beyond the law (Twenge & Campbell 2003; Exline et al., 2004; Roberts, 2007; Campbell et al., 2011).

Simultaneously, narcissistic individuals are frequently perceived as attractive and interpersonally skilled (Deluga, 1997; Chatterjee & Hambrick, 2007). Individuals with sense of self-confidence often leads them to be followed by others, and their own sense of self-importance let them know how to promote themselves and look for conditions where they can control (Hogan et al., 1990). Narcissistic individuals are always arise as leaders since they always bring an image of capable leader with a strong sense of superiority and self-efficacy (Judge et al., 2006).

Narcissistic individuals always deliver an image of charming and charismatic at the first impression. According to Young and Pinsky (2006), famous persons are more narcissistic compared to the normal people and that reality television characters are the most narcissistic. Back et al. (2010) who study why narcissists usually attract other people, discover that more narcissistic individuals create a more positive impression during first meeting and are more popular than those who are less narcissistic due to their self-confidence and assured body movements. Unexpectedly, it is also the narcissists' sense of entitlement and a tendency to control others that followers find attractive.

In the psychological literature, researchers constantly found support for the assertion that narcissists are more sensitive to the rewards of risk taking (Campbell et al., 2004; Foster et al., 2009; Foster et al., 2011). Narcissists exhibit strong enthusiasms to achieve desired result with less incentive to avoid negative outcome (Foster & Trimm, 2008) since they believe that they will do better in the future if they face failure now and therefore are more willing to take risk than others (Campbell et al., 2004; Chatterjee & Hambrick, 2011). It is founded that narcissists are continuously desire for accomplishment with little fear of failure since it creates attention and recognition that they strive for (Elliott & Thrash, 2001).

Chatterjee and Hambrick (2007) present that narcissistic CEOs have higher possibility to take courageous actions such as the number and size of firm acquisitions than the other CEOs. These actions draw the attention that narcissists desire for, but meanwhile also lead to the huge volatility of performance from big wins to big losses. Although narcissism has always been categorized as forming part of the dark side of personality due to the possession of negative characteristics such as being arrogant, boastful, and self-confident (Paulhus & Williams, 2002; Resick et al., 2009), the are more often to be succeeded in the business hierarchies since they are also characterized by positive traits such as charisma, confidence and achievement-driven (Maccoby, 2000; Rosenthal & Pittinsky, 2006; Campbell & Campbell, 2009).

Narcissistic Personality Inventory (NPI) originated by Raskin and Hall (1979) has drawn a lot of attention. Raskin and Hall (1979) initially established a 220-item instrument for evaluating narcissism by using the DSM-II (Diagnostic and Statistical Manual of Mental

Disorders; American Psychiatric Association, 1968) behavioural criteria as a template but it has been gradually removed to less items through a series of internal consistency test (Raskin & Terry, 1988; Campbell et al., 2004), which have formed the basis for extensive subsequent tests and applications. In a factor analysis of the NPI, Emmons (1987) recognizes four factors and categorizes them as (1) Exploitativeness /Entitlement (2) Leadership/Authority (3) Superiority/Arrogance and (4) Self-absorption/Self-admiration. Besides, Emmons (1987) also confirms that they adhere as a unitary personality structure. In other researches (Raskin & Terry, 1988; Watson & Biderman, 1993; Judge, LePine & Rich, 2006), it is also founded that narcissism is a consistent, but multi-faceted personality characteristic, which can be considered as the extent to which a person has an exaggerated feeling of self that is reflected in the sense of dominance, privilege, and a continual desire for admiration and attention (Bogart et al., 2004).

Narcissism has been demonstrated to be positively related to biased self-enhancement (John & Robins, 1994); highly emotional (mood swings) (Emmons, 1987), particularly oppose criticism (Rhodewalt et al., 1998); self-confidence (Emmons, 1984; Morf & Rhodewalt, 1993); and use of singular personal pronoun in speech (Raskin & Shaw, 1988). Several researches founded that individuals who get high NPI score will be angrier and more aggressive when received negative feedback than individuals who score low NPI (Kernis & Sun, 1994; Rhodewalt & Morf, 1998). Emmons (1987) indicates that NPI score are also considered to be negatively related to the differences between one's sense of self and sense of ideal-self. It means that individuals who get high score in narcissism are satisfied with what they perform and seems to have little room for improvement.

Narcissism contains both cognitive and motivational elements as a personality characteristic. In terms of cognitive element, narcissism demands a certainty in one's superior qualities. Narcissists evaluate themselves greatly on a range of agentic aspects, including creativity, competency, intelligence and leadership skills (John & Robins, 1994; Farwell & Wohlwend-Lloyd, 1998). Therefore, narcissists are very assured whether they have the capability of accomplish the task, to the extent of being demonstrably over-confident (Campbell et al., 2004).

In terms of motivational element, narcissism holds a strong desire to have one's superiority reiterated. Ironically, the self-admiring narcissist longs for further admiration. "Narcissistic supply" (Kernberg, 1975), which is also referred to as the energy for an armoured self-image, can be originated to a certain extent through self-exhibitionism or diminishment of others (Bogart et al., 2004). It is more important to note that narcissistic supply must derived from the applause, admiration and affirmation from others (Wallace & Baumeister, 2002).

Narcissists are continuously desired for admiration (Morf et al., 2000). For example, according to Morf and Rhodewalt (2001), the narcissist has "long-lasting goal of acquiring continuous external self-admiration." Therefore, the narcissist needs a firm stream of self-image support but not occasional acknowledgement (Kohut & Wolf, 1986). The narcissist is not satisfied with being ultimately applauded for an achievement long-in-the-coming, but instead requires to be applauded regularly (Buss & Chiodo, 1991). In order to be applauded frequently, the narcissist must often embark on challenging or daring tasks which are highly noticeable to respective audience (Wallace & Baumeister, 2002). Those tasks must be able

to let them gain glorification either for self-assurance or offer them a strong sign of success. According to Wink and Donahue (1997), narcissists are sometimes inclined with boredom and therefore involve in numerous practices of "sensation-seeking" to change the typically fundamental nature of day-to-day life (Kernberg, 1986). Hence, narcissists favour in grandiose, colourful, and extreme type of actions.

2.3 Narcissistic Personality of CEOs

Although previous research has produced an affluent insights about how executive personalities are demonstrated in firm's outcomes, a few attention has been paid to one of the most intense qualities observed in some CEOs' narcissism. There are numerous reasons why it is assumed that CEO narcissism will have a substantial influence on firm's performance. Narcissists own strong sense of superiority and are exploitative. Their sense of superiority makes them feel that they are beyond the law, are entitled to special treatment, or are exception to rules (Exline et al., 2004). Moreover, narcissists are keen on controlling people and circumstances to obtain personal advantages.

Prior research shows that narcissistic CEOs has higher possibility to pursue incentives or anticipated outcomes while they are being relatively weakly motivated to prevent negative consequences (Foster et al., 2009). Moreover, narcissists also feel greatly entitled and are aggressive in chasing what they think belongs to them (Twenge & Campbell, 2003). In addition, narcissistic CEOs over-recognises themselves with the firms that they lead, even

jutting themselves as a representation of the firm (Amernic & Craig, 2010). Lastly, narcissists are commonly lack of moral sensitivity due to a continuous obsession with themselves (Roberts, 2007; Campbell et al., 2011). Therefore, it has been revealed that they are more likely involve in fraud compared to other individuals (Blickle et al., 2006; Judge et al., 2006).

Due to the aspect that narcissism leads people to assume positions of power and impact (Kernberg, 1975), and since their professional advancement can be supported by the self-confidence in narcissism (Raskin et al., 1991), it can expect that CEOs, on average, will likely to be more narcissistic than others. However, their degree of narcissism will still be varied just as they have shown to be different on other personality aspects (Gupta & Govindarajan, 1984; Miller & Toulouse, 1986). Although there may be a very small number of CEOs who are absent of, or having very little narcissism, it can still be presumed that the level of narcissism presented in executives are thoroughly medium, high or very high.

Rosenthal and Pittinsky (2006) said that, “There is a large number of world leaders have a magnificent belief systems and leadership style, in which their good and bad desires, judgments, and decision-making are motivated by indomitable self-importance and self-absorption.” Maccoby (2007) also characterizes Steve Jobs in his book Narcissistic Leaders, as a “prototypical productive narcissist” who has also been described as “the perfect CEO for the twenty-first century” in a Fortune Magazine article in 2006 (Vogelstein, 2006). Based on Maccoby's (2007) opinion, narcissistic leaders tend to “suit their opinion of how things should be by changing the world, with little or no sense of remorse to limit them to engage

in radical, risky business which can be constructive or destructive at either a high or low level of moral reasoning." This indication shows that narcissistic CEOs are not competent, and over a period of time, are less likable than non-narcissistic CEOs (Brunell et al., 2008).

However, why does narcissist often emerge as a leader? Three explanations may be applicable to answer this question. First, narcissists consist of various personalities associated with a perfect leader. Prior researches have indicated that individuals possess implicit theories on the characteristic of a perfect leader (Offermann et al., 1994; Epitropaki & Martin, 2004). Based on these assumption, whether an individual matches the prototype of a leader, depending on whether they possess some characteristics such as attractiveness, charisma, and strength. Narcissists present many of these characteristics upon the first impression and hence many people including business journalists, investigators and other leaders, characterise them as owning the necessary attributes to be a perfect leader. Based on numerous researches of individual differences suggested to be related to effective leadership, Hoffman et al. (2011) find that seven personalities are significantly related to leader effectiveness. Among these, self-confidence, charisma, energy, and dominance are the personalities relevant to narcissism.

Second, as reflected somewhat from first explanation, many studies have founded that narcissists have higher possibility to be selected as leaders than non-narcissists (Paunonen et al., 2006). In the studies of emergence of a leader, Brunell et al. (2008) come out with the same conclusion that that narcissists are more likely to come out as leaders than non-narcissists. Remarkably, this form of findings is consistent for both student and working

executives' samples. Brunell et al. (2008) explain their findings suggesting that narcissists crave to take up a leadership role along with their extroverted personality accounted for their evolving leadership. Narcissists are more likely to exclaim and express their views persuasively and confidently. Nevicka et al. (2011) also find that narcissists are more appropriate to be elected as leaders than non-narcissists regardless of the form of task being accomplished.

Lastly, third explanation provides a perspective in which since leadership is most desirable, narcissists are more suitable to become leaders than non-narcissists. In some circumstances, the features of the narcissist such as lack of empathy, charisma, and grandiosity may prevail over the disadvantages (Rosenthal & Pittinsky, 2006). During periods of bedlam and crisis, leaders who are self-esteemed and confident will stress a point of view to fight for success, and those who are more timorous, indecisive, and self-reflective may not be success in this situation. Indeed, many successful narcissists succeed under these situations, such as Napoleon, MacArthur, and Churchill who are in period of war or Ellison, Jobs and McCaw who are in the eras of prodigious technological change (Maccoby, 2007). Under these environments, narcissistic leader's grandiosity and vision are seen to be attractive to the supporters who are seeking for new ideas and solutions for a cyclical problem (Post, 1986; Padilla et al., 2007). Campbell et al. (2011) state that, when these situations happen, "There are strong evidence that points to the tendency for narcissists to arise as leaders and there are natural association between narcissism and leadership."

In conclusion, narcissistic CEOs are probably to be fascinated by various kinds of strategic decisions than other CEOs. Their extravagant self-view and extreme desire for attention will influence their decision and assessment of strategic options. They will find for the unique and dramatic ones, which are more preferably chosen for their firms' purposes, and also their own personal purposes. Thus, it is now argued, narcissistic CEOs tend to favour strategic dynamism and grandiosity rather than strategic progressivism and robustness. Consecutively, narcissistic CEOs are likely to bring extreme and unstable performance, either big wins or big losses for their firms. Narcissistic CEOs can be assumed to favour strategic dynamism through valiant strategic initiatives that they can participate in exhibitionism that will gather a lot of attentions from the audience. Therefore, narcissistic CEOs will favour strategic fluctuation or dynamism, so that they can deliver a drama that will get attention in a way that strategic steadiness cannot.

Narcissistic CEOs who engage in grandiose and ever-changing strategic activities will not only generate extreme performance, but also extensive fluxes in performance. Vast and dramatic initiatives will immediately attract many followers but meanwhile, different and large-scale activities will lead to relatively unsteady performance patterns (Bromiley, 1991; Wiseman & Gomez-Mejia, 1998). A narcissistic CEO, then, is more likely not a consistent performer, to it be high or low, but instead prone to be swinging widely in performance, or instability, from time to time. In contrast, non-narcissists that favour more persistent strategic approaches will produce more stable and consistent business outcomes.

To further define narcissism, different implications for its existence in firms have been discussed. For instance, O'Reilly et al. (2014) explain why individuals with these features usually emerge as leaders in firms. Godkin and Allcorn (2010) claim that organizational structure changes in response to narcissistic leadership behaviour. According to Yukl (2006), narcissistic leaders surround themselves with faithful and uncritical subordinates. Yukl (2006) also states that narcissists are more likely to make risky decisions that may lead to failure. In addition, Duchon and Drake (2009) argue that firms that take narcissistic propensities as a whole can undermine the firm's ethical identity. Likewise, McMahon and Rosen (2009) claim that narcissistic leaders are more likely to blame others for failure rather than taking the responsibility may cause potential organizational chaos (Yukl, 2006; McMahon & Rosen, 2009). Narcissists also favour to hold on to the power compared to other leaders that retire graciously (Yukl, 2006).

2.4 The "Bright Side" and the "Dark Side" of Narcissistic CEOs

Researchers have differentiated what is raised as the "bright side" and "dark side" of the traits in order to reconcile the positive and negative traits of narcissistic leadership (Hogan & Kaiser, 2005; Campbell et al., 2011). Emphasize on the positive aspects, researchers have found that many successful leaders have the following attributes such as high self-esteem, internal locus of control, self-efficacy, and having control over one's emotions. This concept, labelled as Core Self-Evaluation, has been revealed to be linked to job performance, satisfaction and transformational leadership (Judge & Bono, 2001; Khoo & Burch, 2008; Resick et al., 2009). Many features allied to core self-evaluation are also related to narcissism. For instance, Deluga (1997) states that narcissism is related to perceived charisma and rated

effectiveness. Goncalo et al. (2010) claim that narcissists can enhance the creativity in groups. Gupta and Spangler (2012) claim that some elements in narcissism (e.g.: dominance and extraversion) can positively impact on firm performance in stormy environments. Other studies also discover that under certain circumstances, supremacy and vision in narcissism have constructive effects (Harrison & Clough, 2006; Chatterjee & Hambrick, 2007; Campbell & Campbell, 2009).

In contrast to the potential positive impacts of narcissism, there is a lot of evidence claiming its negative effect (Lubit, 2002). Based on prior researches, it is founded that narcissistic leaders are more likely to violate and cheat integrity principles with less participation in pro-social organizational conduct (Blickle et al., 2006; Judge et al., 2006; Chen, 2010). Moreover, narcissistic leaders are more probable to have unsatisfied employees in negative workplaces (Maccoby, 2007; Padilla et al., 2007; Blair et al., 2008; Thompson, 2011). It is also argued that narcissists constrain the information exchange within organizations (Nevicka et al., 2011) and refuse negative feedback (Kernis & Sun, 1994).

According to upper echelon theory, organizational leaders are likely to appraise highly on their own value (Hiller & Hambrick, 2005), because high level of self-assurance and self-esteem are required to lead risky organizational endeavours. However, Hiller and Hambrick (2005) state that some CEOs may build a strong self-concept constructed on a right sense of self-confidence, while others may have a more delicate self-view which is disguised by show of grandiosity and arrogance.

Self-confidence in narcissism is consistent with the "bright side" of personality as referred to Hogan and Kaiser (2005), which reflects the impressions people have on narcissists when they are purposefully thriving at their best. Tendencies of grandiosity and self-admiration are consistent with Hogan and Kaiser's (2005) finding of the "dark side" of personality, which reflects the image narcissists create when they relax their vigilance. The bright-side and dark-side of personality characteristics have implications at the executive levels in organizations (Conger, 1990; Hayward & Hambrick, 1997).

Narcissism as a dark-side personality trait is especially significant to the study of CEO leadership (Kets de Vries & Miller, 1997; Lubit, 2002; Maccoby, 2003; Judge et al., 2006; Chatterjee & Hambrick, 2007). The term "narcissism" originated from the Greek mythology, where a young man called Narcissus, fell in love with his own image. Freud (1914/1957) explained that narcissism is a personality disorder. According to American Psychiatric Association (2000), a person with narcissistic personality disorder shows a "common type of grandiosity" together with "lack of sympathy and desire for admiration".

Narcissism has also been regarded as a set of attributes allied to "normal" personality (Lasch, 1979; Raskin & Hall, 1981). Patterns of behaviour of narcissistic personality consist of obsession of power and victory, magnificent sense of self-importance, enmity toward criticism, propensity to overstate attainments, intolerance toward compromise, and overmuch self-admiration (Raskin & Hall, 1981; Deluga, 1997; Lubit, 2002; Judge et al., 2006). According to Kernberg (1989), narcissists have an exaggerated self-view, which is developed through a desire for acknowledgement and a high degree of self-esteem when interacting with others. Arrogance is a basic nature of narcissist and this characteristic is

normally most obvious to others (American Psychiatric Association, 2000; Rosenthal & Pittinsky, 2006).

The aspects of a narcissist for example developing grandiose ideas and showing certain tendencies such as arrogant, aggressive, and superior (Hogan et al., 1990; Maccoby, 2000, 2004; Rosenthal & Pittinsky, 2006), often benefit them to be promoted through the management levels or taken on leadership positions (Hogan & Kaiser, 2005). Nevertheless, narcissistic leaders may devote major time and effort improving their public image and growing followers instead of achieving organizational objectives (Conger, 1990; Bass & Steidlmeier, 1999). The need of power and superiority motivate narcissistic leaders to achieve and uphold leadership positions (Kets de Vries & Miller, 1997; Rosenthal & Pittinsky, 2006). Therefore, narcissistic leaders usually bring substantial long-term costs for the firms or activities they lead. Chatterjee and Hambrick (2007) who conduct the empirical studies of CEO narcissism notice that narcissistic CEOs are likely to initiate extremely dynamic and grandiose strategic activities, causing extensive fluctuations in organizational performance. The grandiose and arrogant character of narcissistic leaders may diminish top executive's capability to construct long-term effective relationships and to achieve commitment to the vision of the organization, or build a positive organizational culture (Conger, 1990; Hogan et al., 1990; Lubit, 2002).

Also, narcissistic leaders are unlikely to encourage fair exchange between staff. Instead, narcissistic leaders may act like they deserve the efforts and loyalty of their followers. Further, Bass (1998) states that it is not likely for narcissistic leaders to openly allow followers to question the ways of doing things because of their tendencies to be arrogant and

self-centered. Alternatively, it is more likely for them to engage in the conducts that generate insecurities and dependencies among followers (House & Howell, 1992).

McCleskey (2013) finds that narcissism is at the heart of dark leadership. Yet, narcissistic leadership is not all negative and can be both positive and negative to a firm (McCleskey, 2013; O'Reilly et al., 2014). This view is supported by Godkin and Allcorn (2010) stating that organizations can have both constructive narcissists and destructive narcissists. On one hand, their behaviour exhibits confidence and interpersonal skills that attract followers (McMahon & Rosen, 2009; O'Reilly et al., 2014). However, on the other hand, they are more likely to break moral ethics and rules that people count on (McMahon & Rosen, 2009; Godkin & Allcorn, 2010; Rijsenbilt & Commandeur, 2013; O'Reilly et al., 2014).

O'Reilly et al. (2014) discover that confidence plays a significant role in fascinating followers. This perception is supported by McMahon and Rosen (2009) indicating that narcissists "can charm and convert people with their rhetoric". O'Reilly et al. (2014) also find that narcissistic leaders normally give a positive first impression and are seen as charismatic and attractive. Unfortunately, narcissistic leader's sense of entitlement and their manipulative tendency, to some extent, can also be viewed as charming to followers (O'Reilly et al., 2014). With regard to compensation, in the study of O'Reilly et al. (2014), it is found that CEOs with narcissistic characteristics normally get higher "total direct compensation (salary, bonus, and stock options)" than other less narcissistic executives and also "have more money in their total shareholdings, and have larger discrepancies between their own (higher) compensation and the other members of their team" (O'Reilly et al., 2014).

Moreover, narcissistic CEOs will involve in exhibitionism through intrepid strategic initiatives to gather attentive audiences. Simply sustaining the status quo, or refining and expanding on existing strategies may seem reasonably as course of action for a CEO with medium level of narcissism; such CEO is willing to follow what Miles and Snow (1978) called as a defender strategy, or what Levinthal and March (1993) defined as an exploitation strategy. However, incrementalism as so is too invisible or too ordinary to satisfy the need of a highly narcissistic CEO. Narcissists need attentive audiences, which can only be delivered by drama to gather the attention of audiences. Therefore, narcissistic CEOs will favor strategic fluctuation or dynamism, in order to present a drama to obtain the attention in a way that strategic stability cannot. This hypothesis documents further note as to some extent it is probable with the interpretation, by some authors, describe narcissists as visionaries (Maccoby, 2003; Deutschman, 2005). To certain degree that visionaries favor the bold, then narcissists are seemed to be qualified. Nevertheless, to the extent that visionaries must be persistent and firm in pursuing their course of action, and content to go without consent until their goal is accomplished, then narcissists are not qualified. Narcissists desire constant attention and applause that they will engage in highly noticeable actions, maybe even draw back their own prior decisions, to deliver the necessary drama.

Globalized commerce and unprecedented technological advances have brought rapid cultural changes across the world. To study diachronic effects of social changes on human functioning, researchers often take a cross-sectional approach. In particular, researchers test whether the outcome variables of interest vary among persons who differ in dimensions that mark societal changes (Greenfield, 1997). A further complication is that the term narcissism

is used as a clinical entity as well as a way of denoting cultural trends, as in Lasch's book "The Culture of Narcissism" (1979), describing a cultural phenomenon in the 1970s in which the growing role of the media promoted a lack of substance and depth in the culture.

In recent decade, it is in the midst of another cultural awakening as the constant interaction with technology and social media is impacting the cultural perspective of the self. Members of the millennial generation live in a constantly connected, technologically visible, self-oriented public space. Time captured this cultural moment by referring to the "Me Me Me Generation". Turkle (2011) described how the smartphone generation is populated by people who are losing the art of human interaction. A radical new self is emerging, one that is shaped by what we want others to see. One can receive validation, praise and self-esteem enhancement within seconds after pressing "send" or posting a "selfie".

In a study by Stinson et al. (2008), there were nearly three times the number of persons in their twenties meeting criteria for narcissistic personality disorder than in the age group over 65. However, it must question the idea that the current generation is developing such a vastly higher number of narcissists. The overlap between cultural shifts and individual pathology must be more complex than simply following a list of diagnostic criteria. Moreover, the constant connection to social media has also led to altruism in this new generation. Indeed, they are dedicated to service projects, are socially aware and contribute to charity at a higher rate than their elders. Not only it is needed to consider the false dialectic between narcissism and altruism in individuals; the research must also consider it more broadly in the culture.

Finding from USA suggest that increases in individualism contribute to increases in narcissism (Twenge & Foster, 2008, 2010). There are two subsets of individualism, horizontal and vertical (Singelis, Triandis, Bhawuk, & Gelfand, 1995). Persons high on horizontal individualism think of themselves as similar to others and endorse equality. In contrast, persons high on vertical individualism think of themselves as different from others and endorse inequality. Vertical (but not horizontal) individualism is predictive of individual differences in narcissism (Le, 2005; Konrath, Bushman, & Grove, 2009). In light of this distinction, it is expected that vertical individualism would be associated positively with narcissism.

Collective narcissism extends the concept of individual narcissism onto the social level of self. It is a tendency to exaggerate the positive image and importance of a group the individual belongs to ingroup (Zavala et al., 2011). While the classic definition of narcissism focuses on the individual, collective narcissism asserts that one can have a similar excessively high opinion of a group, and that a group can function as a narcissistic entity (Zavala et al., 2011). Collective narcissism is related to ethnocentrism; however, ethnocentrism primarily focuses on self-centeredness at an ethnic or cultural level, while collective narcissism is extended to any type of ingroup, beyond just cultures and ethnicities (Bizumic, Boris & John, 2008).

2.5 Narcissistic Leadership

In the past few decades, scholars have dedicated substantial attention to high hierarchy executives and their impacts on strategy decision and firm performance. Child's (1972) concept has embedded upper echelon theory that top executive's choices and selections affect firm performance. Hambrick and Mason (1984) further developed this theory in their assertion and is broadly cited and extended since then under the title of strategic leadership (Finkelstein & Hambrick, 1996; Canella & Monroe, 1997).

The core of this concept is that strategic choices denote "weak circumstances" (Mischel, 1977) as the available incentives have always been sophisticated and uncertain. The choices of decision-makers can differ broadly in that situations. Weak circumstances let decision-makers to present their personal traits such as leadership abilities while making decisions (Finkelstein & Hambrick, 1996; House & Aditya, 1997). Hambrick and Mason (1984) realize that the restrictions of contextual variables and demographic may encompass more noise than pure psychological assessments. In other words, psychological assessments resulting from leadership or personality appraisals are perceived to be more accurate indicators of CEO principles, perceptions and behavioural dispositions related to strategy decision and firm performance.

Several studies on leadership begin with the exploration of characteristics that distinguish followers from leaders, and it still maintains as a significant part of research (House et al., 1996; Judge et al., 2002). Cowley (1928) notes that the research of leadership approach has always been and maybe must generally be through the research of personal characteristics.

Several journals have proposed a huge influence of leadership on firm performance. Thomas (1988) asserts in his study stating that the performance variance rises as much as 50% in certain cases. Thomas (1988) specially claims that even though leadership does not justify much of the change between firms, leadership may probably influence a lot of change inside the firms.

As noted by Hogan and Kaiser (2005), "who we are determines how we lead". It is important to note that personality traits are one of the significant factors of leadership effectiveness, and it is somewhat another knowledge such as through what procedures personality will have an influence on leadership effectiveness. Leadership patterns are prospective to be predominantly useful instruments to understand the effectiveness of the relations between personality and firm performance (Waldman et al., 2004; Hogan & Kaiser, 2005; Kaiser et al., 2008).

With the progresses in measurements and theory of personality, several researches have been developed stating that personality is an indicator of the categories of people who arise to the top management level and that personality supports to clarify the way these people lead their firms when they are recognized in these positions (Hogan et al., 1990; Judge et al., 2002; Peterson et al., 2003; Giberson et al., 2005).

The long history of narcissism has begun with a psychological theory, there are often individuals who propose that narcissistic personality is a main element to leadership success.

For instance, Freud (1921) states that the leader does not need to love anyone else, and he himself may be kind of a controlling character, completely narcissistic, independent and self-assured. Scholars have also disputed that because narcissists are often emerged as leaders, for example CEOs of the organizations and U.S. presidents (Maccoby, 2000; Rosenthal & Pittinsky, 2006), to some degree it ought to be something related to narcissism that gives prospects for leadership.

Several researches have reinforced the assertion claiming that narcissism is positively related to leadership (Davies, 2004; Judge et al., 2006; Galvin et al., 2010; Harms et al., 2011). For instance, in a research of military school cadets, Harms et al. (2011) predict a positive relationship between leadership growth and performance. Besides, Judge et al. (2006) find that narcissism is positively associated with transformational leadership based on superior's reports (Trzesniewski et al., 2008). In addition, through the idealistic confidence element of charisma and the aspect signifying the disposition to challenge and be inspiring and stimulating, narcissism is found to be positively related to charismatic leadership (Galvin et al., 2010).

Previous hypothesizing on leadership findings of narcissism has demonstrated that narcissism is associated with leadership development (Padilla et al., 2007). As noted by Judge et al. (2002), a narcissistic individual somehow is often regarded as a leader by others, even they generally have very limited info about that person's performance. According to Bass and Stogdill (1990), leadership is a communication between two or more participants of a team that always engages an organizing and re-organizing of the circumstance and the

opinion and anticipation of the participants. Rosenthal and Pittinsky (2006) further claim that narcissistic leadership takes place when leaders' actions are primarily inspired by their personal egocentric desires and values, prevailing the desires and interests of the followers and organizations that they lead.

Implicit leadership theory proposes that individuals elect their leaders based on how good one's personality traits match their idea of a perfect leader (Lord et al., 1984; Shondrick et al., 2010). It is identified that numerous traits of narcissism are "leader-like," for example, they are socially prevailing, extraverted, and self-assured (Judge et al., 2002; Ensari et al., 2011). In line with these traits, narcissism is related to interpersonal skills and attractiveness under negligible associate conditions (Brunell et al., 2008; Back et al., 2010; Paulhus et al., 2010; Nevicka et al., 2011). In a discussion without group leader, narcissist is more likely to develop as leader irrespective of his/her personal performance on group tasks and tend to be selected as possessing leadership potential (Brunell et al., 2008; Nevicka et al., 2011). For instance, in a survey of executives take part in a leaderless group discussion practice, Brunell et al. (2008) find that narcissists emerge as leaders even if they are appraised by a team of professional experts who have gone through appraiser training as a minimum of 20 hours.

Referring to the process models of social findings such as realistic accuracy model (RAM) is fairly important in order to well understand the practice that leads to the appearance of narcissists' charisma at minimal associate situations. (Funder, 1995). Realistic accuracy model (RAM) suggests that it is necessary to have related, apparent behavioural exhibitions that people can properly clarify in order for others to precisely evaluate a personality characteristic (Funder, 1995). The behavioural exhibitions of narcissism that lead to positive

first impression consists of the disposition to be stylish, come with appealing facial expressions, show confident body languages, and engage oral humour (Vazire et al., 2008; Back et al., 2010). These attributes are pertinent as they are relevant to four valued characteristics of aims in general: competence, attractiveness, humour and interpersonal warmth (Berscheid & Reis, 1998; Back et al., 2010). Additionally, narcissists are likely to have high level of extraversion (Emmons, 1984; Paulhus, 1998; Trzesniewski et al., 2008) and extraversion is one of the most apparent and most precisely observed personality characteristics among all (Connolly et al., 2007; Borkenau et al., 2009). High degree of extraversion is significant as extraversion is a prominent display of leadership appearance (Judge et al., 2002; Ensari et al., 2011). Given the considerations of them all, Grijalva et al. (2015) note that narcissism is positively associated with leadership appearance.

Models of narcissistic leadership are illustrated throughout the history. For example, Napoleon Bonaparte was an army and political inspiration in 18th century in Europe during the French revolution. Also, there were manufacturing tycoons in the United States such as Andrew Carnegie, Nelson Rockefeller and Henry Ford in the early 19th century during the economic explosion of the industrial revolution. The current technological revolution at the late 1990's linked personality traits to the impact of people such as Steve Jobs and Bill Gates all around the world. Although the usual discussion seems to support the destructive side of narcissism, latest opinions have opposed this perception. Maccoby (2003) notes that narcissists is visionary to transform the world. The present investigation of certain personality traits, particular behaviours and particular values related to narcissistic leaders is significant but short-sighted. By way of revealed all over the past, the attentive probability for positive influence of narcissistic leaders should be taken into consideration.

2.6 Upper Echelons Theory

Upper echelons theory has been extended in this research by presenting CEO narcissism as a formal concept to explain firm strategy and performance. According to psychological study, narcissism is treated as a personality measurement instead of just a pathological disorder. It is stated that CEO narcissism is positively associated with strategic grandiosity and dynamism, and it causes risky and unstable firm performance. As asserted in the presentation of upper echelons theory, Hambrick and Mason (1984) claim that "organizations become reflections of their top executives." As a result, beyond the extremely direct individual impacts that narcissistic CEOs may have on the ones who work closely together with them as mentioned in the previous psychological research (Kets de Vries, 1994; Lubit, 2002), this thesis should expect strategic outcomes as well.

It is supposed that individual CEOs are able to influence firm performance and other firm strategies through two ways. The first is an indirect way through placing the "tone at the top" within a firm. The indirect method is theoretically built on upper echelons concept, which suggests that personality traits of the organization's top executives would at least partially reflected in organizational decisions (Hambrick & Mason 1984; Hambrick 2007). Given to the findings of this research, upper echelons theory might reasonably presume that when a narcissistic CEO makes a decision on organizational strategy, it would be at least a part of the reflection of that CEO's behavioural tendencies.

An alternative way that a narcissistic CEO can influence company's strategy and decision is through direct participation in an organization's operation. In line with this notion, researcher evidently claims that CEOs are playing a progressively dynamic role in planning and assessing the organizations' strategies. For example, through a survey, Ernst and Young (2004) find out that more than half of the tax directors of U.S. organizations are getting increased instruction from their CEO, whereas one third of the tax directors document that ultimate decisions concerning tax policies and processes are eventually made by board of directors or the CEO.

Hambrick and Mason (1984) have suggested leadership matters in their upper echelons perspective. Even though they are not the first to propose this view, they do provide interpretations in respect of why and how leadership differs across the firms, specifically within the similar industry. This theory asserts that the personality traits of executives help to screen and distort information through a three-stage procedure: executives' beliefs, characteristics and experiences influence their area of vision, selective viewpoint and understanding (Hambrick, 2007). This perspective is built on binary measures that are mutually dependent. Firstly, this concept proposes that the responses of top executives to different circumstances are based on their personal interpretation. Second, the executives encompass the comprehension of situations based on a combination of personal experiences, individual beliefs and type of personality trait (Hambrick & Mason, 1984; Hambrick, 2007).

The determinants influencing how choices are made include an executive's cognitive base, beliefs and understanding, restricted area of vision, executive insight, selective viewpoint, and lastly strategic decision (Hambrick & Mason, 1984). Strategic decisions is opposed to

operational decisions for example credit strategies and inventory choices that give themselves a more predictable resolution. (Hambrick & Mason, 1984).

Every part of the strategic decision procedure plays a correspondingly significant role in deciding the way an executive will respond and consecutively, affect the firm performance. Firstly, an executive's cognitive base might be assumed as in term of "givens" which is a personalised construct of how individual advances and progresses knowledge at a specific situation. Individual's cognitive base is shaped and founded on both inside and outside experiences of the firm (Hambrick & Mason, 1984), and the executive's cognitive base are working along with their beliefs. These beliefs are values for ordering sequences or substitutes based on individual's personal preference (Hambrick & Mason, 1984). Even though individual's cognitive base and beliefs may vary throughout the life progress, they tend to be difficult to change as they signify the base of how an executive's personal experience forms their opinions in certain situations. The last aspect which is fundamental to the response that an executive will make to the information within the firm is individual's type of personality. Precisely, these are the reasons that they maintain fairly steady irrespective of what kind of circumstances occur.

Hambrick and Mason (1984) define limited field of vision as the areas where the executive's attention is focused. The above viewpoint claims that no executive is proficient of observing each facet of a firm and is likely to screen the sectors that match with the "givens" as mentioned before (Hambrick & Mason, 1984). The procedure of the selective viewpoint is associated with the limited area of vision which the executives merely perceive those are allowed in their range of vision and then out of the things that they see, they only select those

matters that seem important from their personal point of view (Hambrick & Mason, 1984; Hambrick, 2007). The circumstance is therefore being understood purely within the range of the executive's cognitive base and also their own beliefs. The executives' final opinions of the circumstances integrate with their beliefs to offer the foundation for strategic decision. (Hambrick & Mason, 1984).

On top of the process of making strategic decision, upper echelons theory recommends that the major emphasis in defining an executive's behaviour, where consecutively turns out to be a reflection within the firm, is stated as apparent executive traits which grow to be indicators as to the 'givens' that an executive may carry to a managerial condition (Hambrick & Mason, 1984). This view proposes that certain demographics such as educational background, age, socio-economic foundation, tenure with the firm and others can be considered as an influential determinant as to understand how an executive may react under specific circumstance. As noted by Hambrick and Mason (1984), the main core of this perception is the interpretation of upper echelon aspects as determining factors of strategic decisions and through these decisions, influencing firm performance.

According to upper echelons theory, it is stated that organizational outcomes in terms of strategic policies and efficiency are the reflections of cognitive bases and values of dominant leaders (chief executive officers) in the organizations (Hambrick & Mason, 1984; Carpenter et al., 2004). In other words, this theory suggests that the insights of top executives of their organization settings influence their strategic decisions which ultimately impact firm performance. Furthermore, it is claimed that due to their limited field of vision, the results

of their insights of the situation are limited by executive's cognitive bases and beliefs. More precisely, the limited capability of humans has constrained the attentional procedure to process information at any specific time and consequently, the choice to respond to specific aspects in the situation is influenced by personal preferences and inclinations. That is, personality traits of top executives influence the facets of the situation that they observe and what they perceive lead them to make their decisions in regard to strategic decisions which eventually impacts the ground floor of the organization. Carpenter et al. (2004) revise the theory by adding moderators and mediators of top management team impacts to the model, for example, authority, team procedures, incentives, incorporation, and decision. They have as well re-hypothesized both firm performance and strategic decisions as organizational outcomes, where originally were treated as the mediators in the first version of theory.

Since its publication few decades ago, Upper Echelons Theory (Hambrick & Mason, 1984) has become one of the central tenets of strategic management research. The core assumption proposed by UET is that "executives' experiences, values, and personalities greatly influence their interpretations of the situations they face and, in turn, affect their choices" (Hambrick, 2007). However, opening the black box of corporate leaders' minds and exploring their characters and personalities has shown to be highly challenging. In fact, methodological advances in psychometric and unobtrusive measures to capture executives' characteristics (e.g., narcissism (Chatterjee & Hambrick, 2007), personalities (Nadkarni & Herrmann, 2010) and political ideologies (Chin, Hambrick, & Treviño, 2013) have so far gained insights into executives' minds. In this vein, some UET scholars have turned towards such unobtrusive

approaches, to study concept such as top managers' narcissism (Chatterjee & Hambrick, 2007).

Only recently have researchers in psychology proposed that narcissism could be measured on a continuum, using a scale developed by Emmons (1987). However, as for hubris research, gaining access to CEOs for assessing their narcissistic tendencies is unfeasible. Chatterjee and Hambrick (2007) resorted to unobtrusive measures in order to gauge the level of narcissism of CEOs in the hardware and software industries, and proposed an innovative operationalization of Emmons' scale. They used (1) the prominence of the CEO's photograph in annual reports, (2) the CEO's prevalence in the company's press releases (number of times the CEO is mentioned by name in press release / number of words) (3) the CEOs' use of first-person singular pronouns relative to the use of first-plural pronouns in interviews (4) the CEO's relative cash compensation (in comparison to the cash compensation of the second highest paid officer in the company), and (5) the CEO's relative non-cash compensation (in comparison to the non-cash compensation of the second highest paid officer in the company). These indicators were aggregated to form a general narcissism index and were able to demonstrate that CEO narcissistic tendencies positively influence the dynamism of a company's strategy, the number and size of acquisitions made, and the extremeness of the company performance. Reaching important results, the study about narcissism pioneered a new way of measuring psychological constructs and opened new research possibilities for upper echelons scholars.

2.7 Agency Theory

When there are two parties in a relationship where one of the parties acts as the principal and another one acts as an agent, it is defined as agency relationship. The agent is obliged to deal with the third party on behalf of the principal. Agency relationship is generated when an agent is appointed by the principal to represent the principal to accomplish the responsibility of service or business deal. Agency theory is adopted by researchers in finance (Fama, 1980), accounting (Demski & Fetham, 1978), marketing (Basu et al., 1985), economics (Spence & Zeckhauser, 1971), organizational behavior (Kosnik, 1987; Eisenhardt, 1988), political science (Mitnick, 1986) and sociology (White, 1985; Eccles, 1985). A lot of scholars have discovered that a conflict of interest is always existed between shareholders and executives in agency relationship.

In a study of Jensen and Meckling (1976), the discussion concerning the conflict between the shareholders' interest and executives' interest is consistent with the prior research done by Fathers of Economics, Adam Smith's (1776). In corporate setting, agency relationship is generally between shareholders and executives as well as between shareholders and debt holders. This sort of relationship is usually not so content mostly due to the presence of conflict of interest. Conflict of interest is able to influence the corporate governance as well as moral judgment of the executives.

Motivation to encourage the executives to perform at the best interest of shareholders can be done through the additional incentives or bonuses. Few prior studies claim that agency relationship can be controlled by the use of CEO compensation in form of restricted stock, stock options and bonuses to the performance of firm (Haugen & Senbet, 1981; Lewellen et al., 1987; Agrawal & Mandelker, 1989; Abowd, 1990). Nevertheless, the conflict of interest between shareholders and executives is still lingered as a concern between the organizations. When executives work hard to improve the firm performance, they are not able to obtain full benefit from the firm's profit. In this situation, executives would not consider at the interest of the shareholders but their own each and every time they need to make decision or there is a financial request (Jensen & Meckling, 1976). Thus, it is proposed that the conflict can be reduced by offering incentives such as stock options, bonuses and restricted stock to the executives which are well presented in the corporate finance literature by Jensen and Meckling (1976), Watts and Zinmmerman (1978), Miller and Rock (1985).

The compensation packages may motivate executives to perform at the shareholders' interest and put in more efforts to increase profitability and values of the companies. In addition, prior studies indicate that agency theory has offered numerous indirect methods to reduce the agency cost. These methods comprise the internal control systems such as ownership of CEO (McConnell & Servaes, 1990), boards in smaller size (Yermack, 1996), highly independent board (Rosenstein & Wyatt, 1990). Agency theory, as the main clarification of CEO compensation (Baker et al., 1988; Jensen & Murphy, 1990), has been criticized for its incapability to examine cross-country inconsistency (Bruce et al., 2005; Filatotchev &

Allcock, 2010) as well as confronted by the practices of company compensation (Mintzberg, 2009).

On the other hand, Jensen and Ruback (1983) argue that the managers may make use of the surplus cash flow available in the organization at their own interest by investing them in particular investments that may not contribute constructive outcome to the organizations (e.g.: maximize the profit and wealth of shareholders) but their own benefits instead. The surplus cash flow can be used in a better approach for example to distribute dividends to the corporation's shareholders rather than to invest in unbenefited projects. It is stated that through the increase of financial leverage (debt-to-equity ratio), the shareholders of the organization can confirm that the executives are doing on the interest of shareholders and managing the company more effectively where the surplus cash flows created from business operations will be distributed to the shareholder as a yield once the debts have been settled, and preventing negative net present value (NPV) investments (Lubatkin & Chatterjee, 1994). The major two parties of the corporate governance are shareholders and lenders. Therefore, if the executives unable to fulfil the shareholders' goal as well as debt holders' responsibility, the executives can be substituted by someone else that will serve well to maximize shareholders' wealth and accomplish debt holders' responsibility.

A study done by Berle and Means (1932) discusses about the possible conflict between shareholders and executives in a diffusely-owned firm. It is stated that a firm that owns a large number of shareholders but hold little shares each will generate a potential conflict of interest. The executives possibly will accept projects or decisions that do not add value to

the firms but instead bringing advantage for executive, for example consumption of privileges, sales increase, magnificent building, evasion, and executive entrenchment. Baumol's (1959) asserts in his model claiming that executives maximize sales but not profits, and the growth of sales relates positively to CEO compensation. Executives tend to offer the least satisfaction to shareholder (Simon, 1959; Baumol, 1967). On the contrary, company's profits are forfeited to increase the efficacy of management. Williamson (1964) perceives executives as maximizing the purpose of profits and a number of variables that usually relate to size.

The role of personal performance in contradiction of the agency control is to obtain the personal effort and job performance. If there is an opportunity to obtain personal effort, then agency control should have the same effects across every person. Conversely, if there is no opportunity, agency control should have different effects between individuals. There are monitoring on performance and incentives alignments of performance in order to obtain the chance between individuals. Prior researches have proposed two effects. First, the defaulting agent behavior is not one of the speculations and secondly, both incentive monitoring and alignments are not direct structures for regulating agent's performance (Conlon & Parks, 1990; Dalton et al., 1998; Dalton et al., 2003). Additionally, individuals' personal experience may possibly influence the approaches of control whether they are able to meet the requirements on performance or not.

Based on the performance perspective, the performance will be poor if the agency control has a low scrupulousness. Conversely, if the agency control has great effect on

scrupulousness implying to individual, then it can generate extraordinary performance no matter there is monitoring or incentives or not. Among the problems of agency theory, monitoring is a critical issue. Shareholders' monitoring will influence the decision-making of executives. Executive acts as an agent to represent the shareholders and therefore the choices decided by executive should simultaneously maximize shareholder's wealth as well as executive's benefits. Through monitoring, an optimum decision can be made to achieve the equilibrium and increase the value of the organization in the long run.

2.8 Measurement of Firm Performance

To measure the firm performance, both financial and non-financial tools can be used. In order to determine how resources can be better managed and distributed to the appropriate channels, performance measurement tools are employed to help corporates to evaluate their resource allocation processes (Chen et al., 2005). Tobin's Q and return on assets (ROA) are the primary performance measures. This thesis estimates Tobin's Q as the market value of total assets divided by the replacement cost of assets. Return on assets is calculated by using net income scaled by the book value of total assets.

Kwan (2003) mentions that the firm normally use the financial statement to measure the financial health of the firm over the specific period of time. Moreover, the financial statement can also be used to compare with similar firms in same industry or to compare with industry or sectors in aggregation. Indeed, financial performance can be measured in different ways

such as accounting based technique, which includes return on asset (ROA), return on equity (ROE) and return on investment (ROI). With these results, the data must be collected in collective way in order to see what impact it can contribute in measuring firm performance. These measures includes revenues from every single department and operations units available within the firms.

According to Pandya and Rao (1998), the researchers would choose to use different accounting based techniques to measure firm performance. ROA and ROE are the most common variables used by researchers. The use of ROA can help the management to evaluate the managerial performance on how well a firm's management is by using the assets to generate the returns. Bram Handkar et al. (2007) have tested on several alternatives by gathering data on return on assets (ROA), return on equity (ROE), return on investment (ROI) and founded that return on assets (ROA) is the most commonly reported figure, revealing less gaps in the data set. Mahoney and Roberts (2002) follow Waddock and Graves (1997) measure a firm's financial performance by using return on assets (ROA) and return on equity (ROE) separately. A one-year lag between financial performance and all independent variables are used to acquire the ROE and ROA from the Standard and Poor's Research Insight database. Chen et al. (2005) also use total asset yield (ROA) to measure the firm performance.

Venkatraman and Ramanujam (1986) restrict the concept of firm performance. In the narrowest conception of firm performance, financial indicators such as sales growth, ROA and ROE have been emphasized. In the broader concept of firm performance, the use of non-

financial indicators or market-based performance indicators have been focused on. Based on above reviews, it illustrates that various researchers conduct relevant research to this particular study and these researches present past and recent literatures on characteristics of firm and firm performance. Following the prior researches, one of the measurements that is applied in this thesis is return on asset (ROA). Return on asset measures the profitability of a firm by comparing the ratio between the revenue generated and the company total asset. The use of ROA allows all business asset to be included in the analysis of firm performance in this thesis.

The study of Al-Matari et al. (2014) indicates that there are many ways to measure the firm performance which includes the return on assets (ROA). ROA acts as an accounting-based measurement which can analyze the operating and financial performance of the firm. The higher of the ROA reflects the effective use of company's assets to the interests of the shareholders. Thus, the higher ROA illustrates the positive performance of the company and the achievement of prior planned high performance. The computation of ROA is as follow:

$$\textbf{Return of Assets (ROA)} = \frac{\boldsymbol{Net\ Income}}{\boldsymbol{Total\ Assets}}$$

However, many researchers disclose that ROA can only be used to determine short-term firm performance. Meanwhile, the measurement for market-based performance of the firm such as Tobin's Q can evaluate the future long-term firm performance. Therefore, the combination of ROA measurement and Tobin's Q can provide a clearer picture of firm

performance. As a result, another measurement that is used to measure the firm performance in this thesis is Tobin's Q.

According to the research of Tan (2012), Tobin's Q acts as a market-based measurement in many financial interactions is used to analyze the firm performance. Wolfe and Sauaia (2014) define Tobin's Q as a measurement to indicate the effectiveness of a firm from an investment perspective. Tobin's Q measures the firm performance by calculating the ratio of the market value of a firm's assets to the replacement cost of the firm's assets.

If the result of Tobin's Q shows the Q is higher than 1, it means that the firm's market value is greater than the replacement cost of its assets. Therefore, the investors can make the decision to invest this firm because the market expects that increase in market value will exceed the amount of invested and gains the profitability. However, if the Q is lower than 1 which is indicates the market expects that the profit on investment is less than the amount invested and there is no opportunity for the firm to achieve the profitability investment. An equation of Tobin's Q is derived to measure the firm performance as follows:

$$\textbf{Tobin's Q} = \frac{\textbf{(Market Capitalization + Debt)}}{\boldsymbol{Total\ Assets}}$$

As a conclusion, in order to identify the relationship between CEO narcissism, CEO compensation and firm performance in this thesis, the dependent variable is measured by both Tobin's Q and return on asset (ROA). The effectiveness of a firm achieved which

include the combination of financial and operational performance is known as the firm performance.

2.9 Proposed Theoretical/ Conceptual Framework

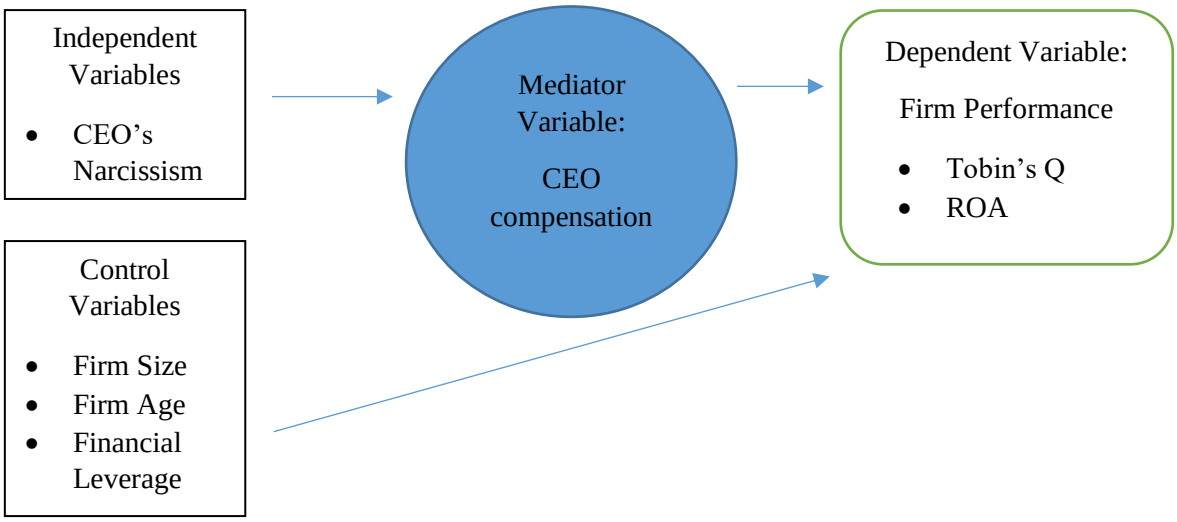


Figure 2.1: Conceptual Framework of CEO Narcissism on Firm Performance of Malaysia Listed Companies

Figure 2.1 shows the conceptual framework of CEO narcissism, CEO compensation and firm performance of Malaysia listed companies. By referring to the research done by Drakos and Bekiris (2010), this thesis will use the variables as stated in the framework to determine whether CEO narcissism influences firm performance of Malaysia listed companies. Besides, this thesis would also like to find out whether CEO compensation affects firm performance of Malaysia listed companies. Based on this research model, this thesis would like to investigate the relationship between CEO narcissism, CEO compensation and firm performance, while several control variables such as firm size, firm age and financial leverage are controlled.

This research proposes the framework which is slightly different from the past research. Drakos and Bekiris (2010) include the variables of dividend and market risk in their research. However, this thesis has only included firm size, firm age and financial leverage as control variables rather than dividend and market risk. This is because Villalonga and Amit (2006) include firm age to their model in order to control in all of the regressions that follow. Besides, Prescott and Vischer (1980) illustrate a positive relationship between firm size and profitability resulted from the implementation of larger differentiation and strategies of specialization, which hence lead to higher productivity. Furthermore, Mwangi et al. (2014) explore the linkage between capital structure and performance of Kenya non-financial listed firms and discover that high debt-to-equity is negatively related to firm performance. Therefore, this research includes these three variables to determine whether other control variables also generate some impacts to firm performance.

2.10 Hypotheses Development

2.10.1 CEO Narcissism and Firm Performance

Narcissistic CEOs are predicted to impact firm performance. Hambrick and Mason (1984) asserts upper echelons theory (UET) in their study to explain strategic decision and firm performance as a reflection of executive's personality traits. Upper echelons theory claims that as top executives are fronting a lot of unclear stimuli, their experiences, values, and personality significantly influence their interpretation of situations, choices, and decisions

(Finkelstein & Hambrick, 1996; Hambrick, 2007). However, empirical researches have always applied proxy as measure of psychological variables for theoretical concern, because it is practically difficult to attain self-reported information from executives (Cycyota & Harrison, 2006; Hambrick, 2007). For instance, in a study of Chatterjee and Hambrick (2007), the prominence of CEO's picture in the company's annual report and the comparison of the compensation of CEO with the second highest compensated executive are used as proxies or indicators for CEO narcissism. Even though proxy measures offer important insights, yet they provide less theoretical transparency and technical explanation than a more comprehensive measure of fundamental personality traits does (Tosi, 1992; Finkelstein, 1992; Priem et al., 1999; Hogan & Kaiser, 2005).

In the meantime, numerous researches have tried to explain how CEO personality traits influence strategic decisions and firm performance (Finkelstein & Hambrick, 1996). Hogan and Kaiser (2005) asserts in their study that "who we are determines how we lead". Therefore, leadership patterns are expected to be relatively valuable aspects to explain the association between individual personality and organizational outcomes (Waldman et al., 2004; Hogan & Kaiser, 2005).

Narcissism are predicted to influence the allocation of CEO of individual possibilities to different consequences. Narcissists' inflated self-esteem at the most fundamental stage will make them to be comparatively positive and confident about optimistic results, moving expectation of compensation, basically for all options in an escalating position (Shapira, 1995; Sanders, 2001). Therefore, particular actions which are viewed as impossible or

infeasible by majority of the CEOs, would probably be perceived in an optimistic way by a more narcissistic CEO. Out of this predisposition, in order for narcissistic CEOs to maintain their estimations of results in general, it will particularly colour the CEO's estimations of the compensations from valiant or exceptional movements, or the ones who parallel with their narcissistic intentions. Given to this selective interpretation, CEOs "see what they want to see," "hear what they want to hear" (Postman et al., 1948; Weick, 1979) and attain prospect estimations consequently. Besides, an alternate way to nourish narcissists' desire for attention is to be ranked higher than the other executives, in ways of the prospect of financial remuneration.

Additionally, according to the "behaviour channelling" as proposed by England (1967), narcissism might affect CEOs' decisions through the direct effect of ordering preference. Thompson (1967) further explains the way CEOs manipulate their firms as mechanisms to satisfy their individual desires. From the organizational objectives perspective, CEOs prefer to choose the options that suit their own preferences the most while facing several choices that look equally desirable. This might be an alternate way to provide the best "narcissistic supply" (Kernberg, 1975), or the best opportunity to gain applause and attention for the narcissist.

Raskin and Terry (1988) describe that narcissists are attention-seekers. In order to attract admiration and attention from followers, they ought to involve in valiant, exhibitionistic actions (Wallace & Baumeister, 2002). Silent, unnoticeable movements are not able to gain attention from followers as if how the grandiose or dynamic initiatives do. In business world,

certain strategic actions are more dynamic and attractive, and hence able to impress the audiences more. Acquisition, especially a bold acquisition, is the most noticeable actions among all a CEO can undertake. Haspeslagh and Jemison (1991) claim that acquisition represents a dramatic action, and it can attract a lot of attentions based on its nature. With a big knock, the CEO is able to magnify the scope as well as the size of the firm. Even though acquisition does not usually bring in encouraging feedbacks (Shleifer & Vishny, 1991; Sirower, 1994), yet it is very much apparent, and able to attract the attention from people which is highly desired by the narcissists, to fulfil their desire to be viewed as courageous and bold (Wallace & Baumeister, 2002). Comparatively, other actions for example product quality improvements, new distributors' listings, and cost reductions are less visible, they are not able to get much attention or applause. Incremental strategies may lead to competitive achievement, however they are not favored by narcissistic CEO as the major route taken.

Roll (1986) presents the idea of "hubris hypothesis" as an explanation to which CEOs have faith in their ability to manage the acquired firm greater than the existing board. It helps to clarify why CEOs favor acquisitions even if such actions mostly destruct shareholder's value. After that, Hayward and Hambrick (1997) apply this concept as the factor that influencing the amount of considerations that the CEO pays for acquisition. The study of Hayward and Hambrick (1997) has led to the interpretation that hubris is perceived as a psychological trait that caused by a combination of individual's intrinsic narcissism and some external aspects. Narcissists prefer to make acquisitions mainly for the reason that they are very assured with their capability to outperform the existing executives and also due to the grandiosity that brought by acquisitions is able to gain attentions. Hence, narcissism is assumed as the deep-

rooted aspect that integrated with hubris, and thus the hubris hypothesis of acquisitions has to be complemented with the more essential "narcissism hypothesis."

The tendency of narcissist to initiate bold and dynamic strategies is reflected in the performance of firm. The bold, dynamic actions that are favored by narcissistic CEOs are subject to high risks, high rewards (Eisenhardt, 1989; D'Aveni, 1994). Most remarkably, it is expected that narcissistic CEOs are more likely to show extreme performance, either big gains or big losses. The dynamic actions engaged by the narcissistic CEOs are either gaining huge profits from primary-mover benefits (Lieberman & Montgomery, 1988) or suffering huge losses for misinterpreting the situation (Finkelstein, 2003). For instance, the grandiose acquisitions preferred by narcissistic CEOs are identified to increase performance discrepancy (Lubatkin, 1987; Fowler & Schmidt, 1988). Other forms of bold actions that are favored by narcissists for example increase expenditure in research & development, extensive new product induction and increase global expansion will likewise create more extreme consequences than more mediate or gentle strategic actions do (Agrawal & Mandelker, 1987; Shapira, 1995; Wiseman & Gomez-Mejia, 1998). However, the continuing strategic fluctuation that is favored by the narcissistic CEO will lead the organization to be always at the leading advantage of new chances or anticipated new tracks to success, rather than struggling to improve current methods. The strategy of constant innovation will generate extreme performance that every new pathway is likely to either be a huge success or a huge failure (Finkelstein & Hambrick, 1990). Therefore, this thesis hypothesizes:

Hypothesis 1:

(i) The narcissistic tendencies of a CEO will greatly impact the firm's performance.

2.10.2 Executive Compensation and Firm Performance

Is the compensation of a chief executive officer influencing the firm performance? Several studies have tried to find out the answer, but the findings are ambiguous and in some circumstances completely different from each other. Over the years, it is broadly argued that top executives have been overpaid (Gomez-Mejia, 1994). Researchers start to pay a lot of attention on the topic of CEO compensation whereas it becomes one of the main concerns of corporate governance (Felton, 2004). Over the past two decades, it indicates that the growing disbursement in CEO compensation generates a number of impacts to the corporate sector. Bebchuk and Fried (2004) claimed that CEO compensation is not significantly related to the performance of firm. Several researches also argue that CEO compensation is often unfavorable. It is reported that the stock-based compensation will motivate CEO to involve in undesirable conduct or fraud (Devers et al., 2007). As the stock-based compensation is heavily used, it consequently generates strong incentives for CEOs to maximize their personal wealth, and the CEO generally perceives more benefits on boosting company's accounting profit which sometimes lead to illegitimate actions. For some other motives, CEO may try to control the company and henceforward able to reach a decision that benefits CEO's compensation.

Several studies have suggested that the behavioral tendencies of a CEO may be controlled if there is a significant linkage between CEO compensation and firm performance (Haugen & Senbet, 1981; Lewellen et al., 1987; Agrawal & Mandelker, 1989; Abowd, 1990). Compensation components like restricted stock, stock options and bonuses will motivate executives to perform the goals of the firm by linking compensations directly to firm performance. Nonetheless, Sigler (2011) claims that the compensation elements such as incentives schemes, cash bonuses, restricted stock incentives and stock options rewards may also encourage CEOs to involve in actions that may create troubles to the company. Cash bonuses that is linked to the accounting profits may stimulate CEO to manipulate the actuality of incomes and expenses in order to maximize their payoffs. Paying cash bonuses obviously displays an incentive for executives to conduct an unfavorable manner. CEO may concentrate on the short-term outcomes which could be destructive to the long-term condition of the firm (Sigler, 2011).

Jensen and Meckling (1976) indicate the significance of aligning CEO compensation with firm performance. Several studies mention that aligning the interests of CEOs and shareholders may be achieved through the ownership of firm stock which principally makes the executives themselves as the owners of the company. It is noted that executives with low stock ownership of the company are more likely to engage in activities that decrease the value of the company.

In general, the sensitivity of pay to performance has been examined in several prior researches. The sensitivity of pay to performance is the change in CEO's compensation that

is related to a certain performance of the organization that she/he leads. The sensitivity of pay to performance is measured in various ways. According to Clementi et al. (2009), it can be defined as the dollar increase in CEO's compensation related to one thousand dollar increase in firm's market capitalization. Principally this notion means to motivate the CEO to act at the interests of shareholders. Hengartner (2006) mentions that pay-to-performance sensitivity is normally measured by following present variations of the financial performance of a firm (usually the sum of shareholders' return) to variations in CEO compensation. Based on this notion, organization that relies on providing the incentive compensation will stand firmly and survive well in the competition of capital markets. Organizations that fail to compensate executives in this method may suffer higher cost and thus are not able to compete effectively with organizations with executives that act at best interests of shareholders.

Several prior researches have demonstrated that CEO compensation is positively associated with firm performance (Lewellen et al., 1992; Sigler & Haley, 1995). In addition, Sigler and Haley (1995) find an important association between the amount of firm's common stock held by the CEO and firm performance. According to the findings that present to be significant, it is stated that CEO compensation can be used to align shareholders' interest with executives' interest and thus decrease firm's agency cost. Additionally, it is discovered that 1% growth in CEO compensation may lead to 10% growth in firm value (Coughlin & Schmidt, 1985; Murphy, 1985). A study done by Jensen and Murphy (1990) found that CEOs get additional USD2.59 in compensation per USD1,000 change in firm value. It is also realized that bonus and salary change by 2.2 cents for every $1,000 increase in shareholders

wealth. Moreover, total compensation increases by around 3.3 cents for every $1,000 increase in shareholders wealth. Therefore, consistent with the prior findings, it can be concluded that there is a significant and positive association between shareholders wealth and CEO compensation.

However, it is argued that the current empirical researches neglect certain aspects of compensation schemes. In fact, top executives are engaged in relationships with their organizations for many years. As a result, the relationship of CEO compensation and firm performance in a long term should be consider in order to discover the thorough pay-to-performance association (Boschen & Smith, 1995). By using the same method, the research conducted by Boschen and Smith (1995) demonstrate a more significant pay-to-performance association than the research conducted by Jensen and Murphy (1990). Likewise, Aggarwal and Samwick (1999) also investigate and predict the association between CEO compensation and firm performance and find that compensation increases with the change of firm performance.

On the other hand, it is stated that the role of compensation is to offer motivations to maximize the sales instead of maximize the profits in a regulated environment of rate of return (Smyth et al., 1975; Hirschey & Pappas, 1981). Kato and Long (2004) show that sales growth is significantly related to CEO compensation whereby executives will be punished for generating negative revenue even though they will not be punished for a deteriorating revenue nor compensated for a growing revenue as long as the revenue stays positive.

Agency theory is asserted in most of the studies concerning to CEO compensation. Agency relationship is defined as an agreement under which the principal appoint a person who is the so-called agent to execute some duty on behalf of them which engages entrusting some power to the agent to make decision (Jensen & Meckling, 1976). Besides, Jensen and Murphy (1990) have another interesting viewpoint of CEO compensation, stating that it is not the amount a CEO being paid that matters but how he is paid is more important. They realize that for every $1000 increase in the firm performance, there is a variation in compensation of only 6.7 cents in terms of salary and bonus over a period of two years. The study also discovers that CEO compensation gets worse than better when it is about pay to performance.

Prior empirical studies have shown different results on pay-to-performance relationship. From the perspective of agency theory, the relationship between CEO compensation and firm performance should offer a promising motivation for company success. Nonetheless, several prior studies have evidently showed a positive but weak association between CEO compensation and firm performance (Jensen & Murphy, 1990; Core et al., 1999; Murphy, 1999). With the role played by compensation, executives' interests are aligned with shareholders' which provides a positive pay-performance relationship by reducing agency cost. It is noted that the organizations that pay better perform better (Lewellen et al., 1992). In contrast, few studies have shown an inverse relationship of CEO compensation to firm performance. For example, Core et al. (1999) claim that extra CEO compensation is negatively related to both subsequent stock returns and operating performance. Likewise, Brick et al. (2006) also report an inverse association between additional CEO compensation

and firm performance. Nevertheless, according to the investigation of prior researches, majority of the studies describe a positive relationship of pay to performance.

Sigler (2011) indicates that one of the variables of firm performance, ROA, has a significant and positive relationship with CEO compensation. A research done by Belliveau et al. (1996) also discover a significant and strong correlation of CEO compensation to firm performance. Both are consistent with the standpoint that CEO compensation is related to how the organization performs. Moreover, a research conducted by Yatim (2012) in Malaysia show a similar outcome that CEO compensation is strongly correlated with return on assets (ROA). Additionally, Ozkan (2007) performs a study in UK and evidently suggests that CEO compensation is positively associated with firm performance. However, the result indicates that the positive link is merely for cash compensation but when total compensation is taken into consideration, the relationship is shown to be less significant. On the other hand, a research conducted by Brick et al. (2005) demonstrates a significantly negative relationship between CEO compensation and firm performance. They notice that if the company is large for the CEO to involve into cronyism then he/she is paid irrespective of the firm performance.

Several studies (Johnson, 1982; Finkelstein & Boyd, 1998; Tosi et al., 2000) find no relationship between CEO compensation and firm performance whereas some researches (Belliveau et al., 1996; Brick et al., 2005; Ozkan, 2007) discover a positive and significant relationship between the two variables. Fama (1980) notes that compensation scheme is one of the most important determinants for the success of an organization. It builds up the behavior of the executives and also assists to attract capable and great CEOs. Following the

prior studies, this thesis aims to find out if there is any relationship between CEO compensations in Malaysia listed companies and the performance of those firms.

Zhou (2000) has done a similar study on Canadian firms about CEO compensation and firm performance and discovered that CEO compensation is positively related to the size of firm and compensation depends on performance of firm. Consequently, it is expected that there will be a significant association between CEO compensation and firm performance in Malaysia. As a result, this research proposes the hypothesis as follow:

Hypothesis 2:

(ii) There is a significant relationship between CEO's compensation and firm performance.

2.10.3 CEO Narcissism and Executive Compensation

In the recent years, researchers have been arguing about the amount of compensations and bonuses distributed to a chief executive officer that people starts to query if these remunerations are justified. Subsequently, curiosity arises that are the compensations being paid to the CEOs for their performance or is it merely a movement that one and all is following? Previously we have realized that the compensation of CEOs have been increased without justification of their performances. Nations like Britain have commenced new rules like 'say on pay' to regulate the compensations of the chief executive officer and affect it through the opinion of the shareholders (Ferri & Maber, 2009). Yatim (2012) states that CEO compensation has been an unfavorable concern to practitioners, researchers and media over a decade that the high level of compensation received by CEO has been focused on. As a

result, the attention concerning CEO compensation is subject to compensation disclosures and regulations.

The personality characteristics of narcissism consist of grandiosity, self-assurance, dominance, low empathy and sense of entitlement. More and more evidences have shown that people with these traits usually develop to be leaders, however, narcissists tend to make impetuous and dangerous choices. This thesis proposes that these traits may also influence the apportionment of compensation among top management teams. A study done by O'Reilly et al. (2014) indicates that the CEO with higher level of narcissism and has a longer tenure in the company receives higher total direct compensation such as stock options, bonus, salary, hold more cash in total shareholdings, and has bigger differences in individual compensation which is generally higher than the other executives in the company.

Researchers have always been interested to discover the unexplored area which is how CEO narcissism may influence the forms of CEO compensation. The prior researches on CEO compensation has mostly presumed the agency theory model (Tosi & Gomez-Mejia, 1989; Bebchuk & Fried, 2004) to discover the aspects in which compensation schemes can be shaped by shareholders and represented by boards of directors, to make sure that executives' interests are in line with the shareholders' interests.

In general there are many supports for the agency theory's predictions, however, an extensive research has revealed that CEOs are also able to impact the board to develop the policies that benefit them (Gomez-Mejia et al., 1987; O'Reilly et al., 1988; Lorsch & MacIver, 1989; Finkelstein & Boyd, 1998; Bebchuk & Fried, 2004). There are several ways

that it could occur, nevertheless, few has been conducted to ascertain whether CEO's personality is one of the determinants to influence the compensation decisions.

The aim of this thesis is to examine the association between CEO narcissism and CEO compensation. In the previous section, most of the research on narcissism has been reviewed and in what way narcissism is linked to leadership has been explained. This thesis further emphasizes on how the personality traits of narcissists may offer chance and incentive for them to affect the decision on compensation over time. With the tendencies of being self-centred, exploitative, and less compassion, this thesis proposes that over time narcissistic CEOs tend to obtain larger amount of compensation than the executives who possess low level of narcissism. Furthermore, because of their inflated sense of entitlement, this thesis expects that CEOs who are more narcissistic will have higher ranges in compensation among other executives in the top management team.

The movements of narcissism can be well understood through a good mechanism such as CEO compensation, particularly to discover how the real competence of a narcissist is shown over time. Several researches on CEO compensation have proven that CEOs always have substantial capabilities to affect the setting of their compensation (Tosi & Gomez-Mejia, 1989; Lorsch & MacIver, 1989; Bebchuk & Fried, 2004). Numerous studies have also proven that CEOs are able to increase their compensation more than the justification of economic factors by offering incentives to the members of the board, executing social impact, and favour the board through ingratiation (Belliveau et al., 1996; Westphal, 1998; Tosi et al., 2004; O'Reilly & Main, 2010).

For example, several prior studies have demonstrated that after controlling for human resources and firm performance, the CEO that has been with the board for longer period compared to the compensation chairperson generally receives higher compensation as to 10 percent (O'Reilly & Wade, 1995). O'Reilly and Main (2010) also indicate that CEOs receive more compensation when they have higher chances to affect the board. As noted by Conyon et al. (2009), CEOs usually involve in hiring pay advisor who is in charge of setting the compensation of CEO, and therefore the pay advisor is in the concern to safeguard CEO's pay. It is evidently showed that CEOs gather more favourable compensation contracts with their positional power with their boards (Westphal & Zajac, 1995; Wade et al., 1997; Shin, 2013).

Narcissists are expected to perceive the motivation to impact their individual compensation in a longer time. Primarily, narcissistic CEO fits the ideal label of a leader who is dynamic, self-assured and has high vision, and is prospectively to have positive appraisal. Research states that the superiority of the narcissists that has been supported at the beginning may intensify their tendencies. When they possess the power and authority, narcissists' tendencies of being less compassionate, exploitative and dominant may be adequately sustaining and influencing that power, especially if they can attract the ones that are in the higher hierarchy. It is claimed that narcissists generally have better performance when there are high chances for self enhancement (Wallace & Baumeister, 2002). Hence, narcissists' positive first impression may help them to be emerged as leaders, and their willingness and self-assurance to manipulate may assist them to obtain their individual interests.

Besides, narcissists' aptitude in promoting their thoughts may provide chances and incentives for them to affect the compensation decision of the board. Additionally, narcissists' strong sense of entitlement makes them aggressively pursue what they think belongs to them (Twenge & Campbell, 2003; Exline et al., 2004; Bogart et al., 2004). In the long run, their self-confidence in judging and showing their personal capabilities, ignoring negative opinion, refuse to accept criticism, and disposition to exploit others (Kernis & Sun, 1994; Higgs, 2009; Chatterjee & Hambrick, 2011) help them to form the opinions of the board and in the end affect the compensation policies.

Based on prior research findings, this thesis predicts that more narcissistic CEOs tend to control the decision-making procedures, ignore opinion from the others and also the results from their previous decisions, and pursue superfluous acknowledgement and attention. Bad decision leads to extra investment in unprofitable activity and overall firm performance in present and future may decrease. However, narcissistic CEOs are able to give positive impression to the shareholders and the boards, even though they tend to make bad decisions, thus letting them to request more compensation (Nevicka et al., 2011). Furthermore, prior study demonstrates that executives who apply popular management skills obtain higher compensation, regardless of their real performances have no difference than others (Staw & Epstein, 2000). As a result, it is supposed that narcissists' compensation may not correspond to their performance.

Prior study states that narcissistic CEO is likely to undervalue the risks and overvalue the returns (Dittrich et al., 2005). Consequently, narcissistic CEO is usually related to greater innovation and willing to take risk (Galasso & Simcoe, 2011; Hirshleifer et al., 2012). On

the down side, they are also prone to overinvest, often in extremely risky projects (Malmendier & Tate, 2005 & 2008; Kolasinski & Li, 2013). While this thesis supposes that compensation schemes might vary for narcissistic CEOs, the nature of these differences is not apparent. Instead, narcissistic CEOs may receive a compensation scheme with poor compensations in the type of restricted stock or stock options. It is because narcissistic executives are likely to have a higher possibility to achieve a successful outcome compared to rational executives. With their excessively positive viewpoint of firm value in the future, lesser equity stake may be enough to attract narcissistic executives to perform the desired effort and do the suitable decision. That is also possible for good compensations to be counterproductive, since such compensations could worsen risk-taking by an existing narcissistic executive.

However, Gervais et al. (2011) claim that it is ideal to provide better compensation schemes to narcissistic CEO. Their perception is that if a narcissistic CEO puts an adequately high possibility on positive results, then it is somewhat not expensive for the company to provide a compensation structure with high stock option intensity. Therefore, marginally, the purpose of offering a compensation scheme with high equity intensity is to take advantage of the CEO's misjudgement instead of offering compensations. It is referred to as exploitation incentive, which predicts a positive relationship between narcissism and incentive intensity of compensation schemes (Gervais et al., 2011).

Narcissists tend to overvalue their own contributions and undervalue others' contributions because of their personal sense of superiority (Campbell et al., 2011). Narcissistic CEOs tend to be less concerned with upholding justice and fair policies within their firms than less

narcissistic executives, since they are also low on empathy (Resick et al., 2009). The study that uses common dilemma games which put self-interest in short term on contrary to overall group interest is consistent with this perception.

In the study of Resick et al. (2009), individuals are characterized as the owners of wood firms to compete with other firms to crop the trees in the forests of same country. The dilemma in this status quo is that the forest will be depleted if firms put their personal interests in short term as primary and use up the resources. Campbell et al. (2005) state that narcissists tend to use more of the resources for themselves at the cost of others in long term and to the commons than others do. The inclination of taking advantage of others is directly related to the traits of narcissism which is grandiosity (Miller et al., 2011). This predisposition might be intensified by the form of organization's compensation structures.

The compensation levels of top executives including the CEO of the public-listed companies are often highly visible, therefore it makes the "value" of the CEO compared to the other executives in the company explicit and also eases an informal comparison between the executives. The grandiosity of narcissistic CEOs makes them to concern more on their personal contribution but less on the equality and fairness. Therefore, it is predicted that CEO will try to intervene the compensation structures within the firm in order to strengthen and make apparent the significance of the contributions of the CEO comparative to some other executives. Therefore, this study hypothesizes that:

Hypothesis 3:

(iii) Narcissistic CEO will significantly influence own executive compensation.

2.10.4 Firm Size and Firm Performance

Both theoretical discussion and empirical research have highlighted the importance of firm size and its influences on the performance of firm. At empirical level, prior researches have shown a positive association between firm size and firm performance (Wiklund & Shepherd, 2005). Under this framework, size is considered as an important variable to explain profitability of firm and numerous researches have examined the impacts of firm size on the profitability of firm (Wu, 2006; Serrasqueiro et al., 2008). However, various studies have shown different outcomes that the effects of firm size to firm performance can be positive or negative (Serrasqueiro et al., 2008).

Maury (2006) defines firm size by measuring the logarithm of the total assets in the firm. This thesis uses firm size as one of the variables to explore the effect of the 'value-maximizing size of the firm'. Firm size is an important determinant to influence the outcome of firm's performance because when the firm size is larger, there will be more problem of agency costs, difficulty of adapting to new economic environment and more government bureaucracy.

A study done by Barzegar and Babu (2008) indicates that there is a significantly negative association between firm size and firm performance at 90% level. Ng et al. (2009) conduct a study of 4,315 firms in China for the period of 1996-2003 and the findings indicate that there is a negative association between firm size and firm performance. It is consistent with the result of the study done by Kapopoulos and Lazaretou (2007) where it is claimed that

there is a negative and insignificant association between firm size and firm performance. Bouzgarrou and Navatte (2013) also find a similar result that firm size has a significant but negative impact on a firm's long-term performance. However, the association between firm size and firm performance becomes significant when the research excludes financial institutions and utilities from the total sample size of firms.

On the other hand, an empirical research conducted in Arab countries has found that the bigger the firm size, the better the performance of the firms (Omran et al., 2008). It is because firms in larger size are usually facing less competition compared to smaller firms and therefore they can perform better than those smaller firms. For example, manufacturing firms are one of large-size firms and they normally perform better than the small-size firms such as financial institutions. This result shown to be consistent with Kumar (2003) where it is stated that firm age and firm size have a positive impact on the firm performance.

Some researchers claim that larger firms have certain advantages with their firm size such as in a greater position of taking advantage of economies of scale which leads to a higher productivity (Fiegenbaum & Karnani, 1991; Hardwick, 1997), better bargaining power with distributors and suppliers or customers, take advantage of experiencing curve impacts and fitting prices higher than the competitive level (Fiegenbaum & Karnani, 1991). In addition, Ravenscraft and Scherer (1987) describe that bigger firms are more steady and stable that they are able to produce higher revenues due to a better capacity in production and thus lead to capital cost savings through economies of scale.

With a huge sample of 1000 UK listed companies over the period of 2000-2004, Florackis et al. (2009) use firm size as independent variable in their study to examine the relationship with firm performance. Alasadi and Abdelrahim (2007) state that firm performance is measured by firm size (number of employees) and sales growth, indirectly proves that firm size is a significant influential determinant. Takahashi (2009) notes that bigger firms can enjoy economies of scale as they can exploit existing resources better than smaller firms. Attaining economies of scale indicates that large firms are able to produce more number of outputs at cheaper costs because they own the capacity to obtain scarce resources like corporate finance. Consequently, it leads to competitive advantage and better performance (Takahashi, 2009).

Due to the lack of managerial and technical skills, empirical study claims that small firms have generally suffered from shortage of expertise that constrains their performance in this evolving economy (LiPuma et al., 2011). Hall and Weiss (1967) have conducted an empirical research of Fortune 500 Industrial Corporations for the period of 1956–1962 to examine the association between profitability and other suitable variables for example financial leverage, firm size, firm growth and concentration. The empirical evidence suggests that firm size which is proxied by the logarithm of total assets shows a positive association with firm profitability [measured by return on assets (ROA) and return on equity (ROE)]. Therefore, it can be said that big firms possess all the opportunities that the small firms have, in addition to the competency of achieving economies of scales and enter to capital markets whereby the small firms are unable to, as a result lead to higher profit margins.

Prescott and Vischer (1980) mention that the positive relationship between firm size and firm profitability generated from a better implementation of strategies in specialization and differentiation, as a result leads to greater efficacy. Other researches also propose that bigger firms can leverage on economies of scale (Montgomery, 1979; Sidhu & Bhatia, 1993). An empirical research has examined the linkage between firm structure, firm size, and firm profitability and discovered that firm size has a positive relationship with firm profitability (Collins & Preston, 1969). A study conducted by Serrasqueiro and Nunes (2008) examines the association between firm size and performance of small-medium enterprises in Portuguese for the years of 1999-2003 and their results indicate that firm size is significantly and positively associated with profitability of SMEs. Additionally, Lee (2009) also investigates the impacts of firm size on firm performance over 7000 US publicly-owned companies for the period of 1987-2006 and discovers that there is a positive association between firm size and firm performance. Therefore, this thesis hypothesizes that:

Hypothesis 4:

(iv) Firm size is positively related to firm performance.

2.10.5 Firm Age and Firm Performance

In recent years, a lot of attentions have been paid to the role of firm age on firm performance (Coad et al., 2013). Empirical evidence suggests that firm age is able to help the firms to be more competent and they will realize their strengths and improve from their weaknesses over time (Arrow, 1962; Jovanovic, 1982; Ericson & Pakes, 1995). The literature of Smith and

Ricardo (1817) stated that firms seek for the ways to specialize, standardize, organize, and accelerate their procedures of production, and also to diminish costs and enhance the quality. Several studies have been conducted in this field to examine the impacts of age on young companies (Stam & Wennberg, 2009), firm age and compensation level (Brown & Medoff, 2003), and firm performance and behavior of various ages (Coad et al., 2013). Prior researches evidently show that firm performance is a multifaceted involvement. Delmar et al. (2003) state that the patterns of firm performance are associated with firm-level characteristics for example firm age. In a study of private Chinese firms in China, Hu and Zhou (2008) use firm age as independent variable in their study to examine the association with firm performance and the result indicates that both variables are positively related.

Firm age can be measured by the logarithm of number of year of firm establishment (Arosa et al., 2010). As noted by Davis and Harveston (2002), well-established firms are more likely to integrate information about international operations and build up infrastructure to enter international markets. Firm age should have a positive relationship towards business diversification (Chen & Yu, 2012). Younger firms have fewer chances and less competence to enter new industries (Bernardo & Chowdhry, 2002). Mikkelson et al. (1997) mention that firm age has a significant proportion of post listing performance. Amran and Ahmand (2010) state that older firms run in the industry tend to have higher firm value and thus lead to a superior firm performance. Therefore, it is concluded that firm age is positively related to firm performance.

Older firms possess more experience in the industry and are more recognized by the existing customers. The longer the period a firm has established, the stronger personal bond it has than the new firms. And so, Majumdar (1997) concludes that older firms create higher profitability because of the greater management to meet customer's demand. Besides of this, Kumar (2003) notes that older firms are more experienced on economic of scale, and therefore, they can perform better than the younger firms. As a result, he concludes that firm age has a significant and positive effect on firm performance. Galenda and Fuente (2003) also support that firm age defines the experience and knowledge of a firm and thus bring about a superior management. This implies that firm age has a positive relationship toward firm performance.

Firm age signifies the experience of a firm in the particular industry which is a significant determinant for firm success (Takalashi, 2009). Numerous studies have pointed out that firm age is an influential factor of firm performance because new entries are underprivileged in relation to older firms due to the lack of experience, short of external ties and no legitimacy. There are plenty of empirical evidences support the liability of newness (Stinchcombe, 1965). In relation to performance persistence, older firms have more experience and knowledge in their business setting, and therefore are more likely to have smoother emerging pathways with less bumps and shocks. Older firms can be expected to have a good connection with trade customers and corporate partners, strong association with financial institutions and a respectable reputation built in the market. Learning-by-doing models (Arrow, 1962; Sorensen & Stuart, 2000; Chang et al., 2002) recommend that older

companies with better corporate experience may be benefited, and thus bring about a greater level of performance persistence than younger companies.

A number of researches on organizational behavior literatures document that life prospect grows with age (Dunne et al., 1989), and better firm's survival (Baker & Kennedy, 2002). Under possible assumptions, Hopenhayn (1992) indicates that older firms are subject to more value and profits. Several prior researches (Ericson & Pakes, 1995; Ismail et al., 2010; Gaur & Gupta, 2011; Coad et al., 2013) have supported the positive relationship between firm age and performance, stating that experience through age assists the firm to achieve better performance. Hence, they conclude that older firms are experiencing higher degrees of production and profitability, better financial leverage and bigger size. Based on the previous studies, this thesis proposes the following hypothesis:

Hypothesis 5:

(v) Firm age has a positive and significant impact on firm performance.

2.10.6 Leverage and Firm Performance

An et al. (2006) measure the leverage by using the ratio of total debt to equity, the formula is consistent with the measurement done by Wei and Varela (2003). This measurement is also consistent with Maury (2006) who measures the leverage by using total debt divides total assets. Barzegar and Babu (2008) claims that the firms with higher debt to asset ratio (leverage) have lower yield of earnings. As a result, there is a significantly inverse relationship between debt to asset ratio (leverage) and firm performance. Due to the interest

rate of bank's borrowing that a firm needs to pay, this debt-to-equity ratio decreases the firm performance. Therefore, Kapopoulos and Lazaretou (2007) consistently conclude that there is an inverse relationship between leverage and profitability.

A study done by Ng et al. (2009) show a similar result that the higher the leverage, the worse the firm's performance in China because most of the China firms are facing the issue of debt servicing costs and heavy financial risk. Bouzgarrou and Navatte (2013) also conduct a research by using a sample of 239 listed companies in French from 1997 to 2006 and consequently conclude that firm leverage ratio is negatively related to long-term performance of firms.

Akhtar et al. (2012) investigate the association between financial leverage and firm's financial performance, using the sample of fuel and energy segment in Pakistan. Their findings show that there is a common view that an association occurs between financial leverage and firm's financial performance, for instance: most of the financial performance indicators have positive relationship with leverage. However, when it is compared to debt-to-equity ratio, the gearing ratio shows negative relationships with the leverage indicators. The gearing ratio also considers about the effect of capital with return numerator which is not only accommodating the debt but also the outstanding shares of preferred stock. The result enhances that gearing ratio may vary from debt to equity ratio because debt to equity ratio takes into consideration of the long term debt.

Additionally, a research conducted by Rehman (2013) has examined the relationship between financial leverage and financial performance in listed sugar companies of Pakistan. The result indicates positive relationships of debt-equity ratio with return on asset and sales growth, but negative relationships of debt-equity ratio with earning per share, net profit margin and return on equity. The negative relationship between debt equity ratio and earnings per share (EPS) provide the fact that when debt rises, the interest payment will also increase, and so EPS will decrease. Akinmulegun (2012) studies the effect of financial leverage on certain indicators of firm performance in Nigeria and discovers that financial leverage significantly influences firm performance in Nigeria.

Rajin (2012) investigates the impact of financial leverage on shareholders return and market capitalization, evidence from the firms of telecommunication industry in India. The result of the nature of relationship and the state of impact of the financial leverage on shareholder's return and market capitalization separately indicates that there is a positive relationship between financial leverage and shareholder return but a negative relationship between financial leverage and market capitalization. Ujah and Brusa (2013) argue that financial leverage and cash flow influence the levels of which firms manage their earnings. They further mention that the degree and extent of yield of earnings may vary depends on which economic group or industry a firm belongs to.

It is notable that when the indication of financial leverage is positive, it means that more leveraged firms have higher profits averagely even though it is not significant on statistic. Nazir and Saita (2013) have conducted an empirical study in Pakistan on financial leverage and agency cost. The evidence shows that general and admin expense to sales ratio is

inversely related to all four leverage ratios. Besides, Taani (2012) examines the effect of working capital management policy and financial leverage on financial performance, and so the result shows that firm's working capital management policy, financial leverage and firm size are significantly related to net income but there is no significant effect on return on equity (ROE) and return on Assets (ROA).

Akbarian (2013) also studies the impact of financial leverage and environment risk on performance of listed companies in Tehran stock exchange. The result illustrates a negative association between financial leverage and cash flow per share but a significantly positive relationship between variables market risk and economic risk with free cash flow per share. It further indicates that financial leverage, market risk and economic risk have a significantly positive relationship with return of equity. Furthermore, a research done by Gleason et al. (2000) of European countries finds a significantly negative relationship between financial leverage and return on assets (ROA) and profit margin. Deesomsak (2004) also conducts a similar study in Malaysia and finds a consistent result of negative relationship between financial leverage and net profit margin.

Pandey (2010) mentions that the variance, covariance and beta depend on three important elements which are the nature of corporate, the operating leverage and the financial leverage. Nasrollah et al. (2013) examine the impact of financial leverage and investment diversification on income-increasing earning management. Empirical evidences show that financial leverage coefficient is meaningful at level of 95% of confidence, as a result, it can be concluded that financial leverage is significantly correlated with income-increasing earnings management.

In addition, Huang and Song (2004) examine on Chinese companies and find a negative relationship between long-term debt and return on assets (ROA), and also between all the liability and return of assets (ROA). Berger and Bonaccorsi (2006) claim that both high level of financial leverage and small capital of firm are not related to higher efficiency of firm performance. A study done by Rao et al. (2007) also confirms the negative relationship between leverage and performance outcome. Besides, Jelinek (2007) investigates the impact of financial leverage and free cash flow and firm growth on earnings management. The results show that firm that experiences a slow increase in financial leverage in a period of five years has less earnings management compared to those which have high degree of leverage in the same period. Hence, this thesis hypothesize:

Hypothesis 6:

(vi) There is a significantly inverse relationship between financial leverage (debt-to-equity ratio) and firm performance.

2.11 Summary

In conclusion, this chapter provides a brief overview relating to the CEO narcissism, CEO compensation and firm performance of non-financial listed firms in Malaysia. The overall perceptions towards CEO narcissism are outlined. In addition, the theoretical frameworks, Upper Echelons Theory and Agency Theory that are used to measure the impacts of CEO narcissism and CEO compensation towards firm performance have also been discussed.

Moreover, conceptual framework has been developed along with the hypothesis development. In the following chapter, research methodology will be discussed.

CHAPTER 3

METHODOLOGY

3.1 Introduction

This research aims to investigate how the personality trait of a CEO particularly narcissism affects the level of CEO compensation and firm performance of non-financial public listed companies in Malaysia. The methodology of this research is described in this chapter in order to achieve the objectives. There are nine sections in this chapter where Section 3.1 is research design, which explains the type of research used to conduct this thesis. Section 3.2 presents the models that analyze the relationship between independent variable, mediator variable, control variables and dependent variables. The models include baseline model, narcissistic model and full model and the relationship is explained by the formulated functions which are commonly used to measure firm performance

Dependent variables and control variables are defined in Section 3.3 and 3.4 respectively where mediator variable is explained in Section 3.5. Section 3.6 is narcissism proxy selection which describes the decision on choosing narcissism proxy and Section 3.7 explains independent variable. Section 3.8 discusses the method of data gathering and further describing the data. Section 3.9 discusses the statistical analysis which includes the descriptive statistics, normality test, Breusch Pagon LM test for time series, Hausman test and also some diagnostic tests such as heteroskedasticity test, multicollinearity test and

autocorrelation test. Panel data regression, mediation analysis with regression and two stage least square are included in this section as well. The last part of Chapter 3 is the summary, which summarizes the operationalization of dependent variables, mediator variable, control variables and independent variable used in the study.

Several measurements are used in this thesis as proxies of CEO narcissism to determine firm performance. The unobtrusive measurements include prominence of CEO's photograph in the annual report, CEO's prominence in the company's press release and CEO's publicity, CEO's relative cash pay. Firm size, firm age and leverage are the control variables and executive compensation acts as the mediator variable in this thesis. This study explores the relation between CEO narcissism and firm performance of public firms in Malaysia. The research conducts a time-series cross-sectional analysis using accounting and market measures of firm performance. This analysis also investigates the relationship between CEO compensation and firm performance. Lastly, this thesis examines the impact of other firm characteristics on firm performance.

For investigation, this research uses public listed firms in Bursa Malaysia from 2010 to 2014 as study sample. Since it is difficult to calculate Tobin's Q for financial institutions and banks, and due to the government regulations which potentially influence firm performance, this research follows Ghazali and Weetman (2006) to exclude financial industries. Firm-characteristics control variables are calculated with data drawn from the companies' financial statements. Data is manually collected from individual firm's annual report

retrieved from Bursa Malaysia or company's website, ranging from 2010 to 2014 on 441 non-financial firms, yielding 2,205 firm-years or observations.

3.2 Research Design

Quantitative research refers to the systematic empirical investigation that employs empirical methods and empirical statements to explain the phenomena (Cohen, 1983). According to Cohen (1983), empirical statement is a descriptive statement about what is the case in the real world rather than what ought to be the case. Normally, empirical statements are stated in numerical form. Moreover, Creswell (1994) defines quantitative research as a type of research that is 'explaining phenomena by gathering quantitative data in numerical form that are analyzed using mathematically based methods (in particular statistics)'. Therefore, this research is conducted in quantitative method to identify the relationship between the CEO narcissism, CEO compensation and firm performance in Malaysia. This research conducts a statistical analysis on narcissism and investigate how it influences the CEO compensation and firm performance of Malaysian public listed companies. Various sources of data are collected in order to ensure the accurateness of data.

According to Castellan (2010), quantitative study is conducted to identify the cause and effect relationship between the variables. This research also emphasizes on causal relationship which known as causal research. On condition that the study has been carefully designed, causal research can be employed to estimate causal effects from observational data

(Rubin, 2008). In this thesis, the relationship of independent variable, control variables and mediator variable on firm performance are evaluated individually and overall using regression model.

In addition, secondary data is used in this thesis in order to answer the research questions and the data is interpreted based on numerical tools. According to Johnston (2014), secondary data is the readily available data that had been collected by other researchers for some other primary purpose. It can include any data that is examined to answer a research question other than the questions for which the data was initially collected (Vartanian, 2010). Therefore, the quantitative data is more efficient in testing the hypothesis accurately. This research is using available data in firms' annual reports that can be retrieved from Bursa Malaysia website. The sample size of this research consists of the public listed companies from all industries listed in Bursa Malaysia, except financial industry and unavailable data. Lastly, 441 non-financial listed companies are included in this research, where it consists of multiple industries such as construction, consumer products, industrial products, hotels, ETF, REITs, plantation, properties, technology, trading-services, mining, IPC and SPAC. The sample period for this research is 5 years which is from 2010 to 2014.

Besides, descriptive research is used in this thesis. Zikmund et al. (2010) describe descriptive research as the research that emphasizing attributes of objects, people, groups, organizations, or environment to define a situation. In this thesis, independent variable (CEO narcissism), mediator variable (CEO compensation) and firm-level control variables (firm size, firm age

and leverage) are used to explain the level of influence on firm performance (Tobin's Q and return on assets).

In order to understand the impact of CEO narcissism on firm performance, CEO's compensation is acting as mediator variable to guide on this relationship. Besides of CEO narcissism, firm performance in Malaysia also affected by other characteristics of the firm itself such as firm size, firm age and leverage. These control variables are also included in this thesis in order to have a better insight on firm performance. It is important to forecast possible regression that will affect firm performance apart from solely CEO narcissism. Therefore, firm size, firm age and financial leverage are held as control throughout this study. In this research, the numerical measurement is important for the uses of statistical calculations and hypothesis testing.

3.3 Estimation Model

In this thesis, panel regression model is used to form the regression model of the variables. The estimation model of this thesis is based on the commonly used model of firm performance. Following the research by O'Reilly et al. (2014), this research uses narcissism as main independent variable to determine firm performance, while CEO compensation acts as a mediator variable. There are three control variables which are firm size, firm age, and financial leverage to explain the dependent variable - firm performance, which is measured by Tobin's Q and return on assets (ROA).

3.3.1 Baseline Model

Firm size, firm age and leverage are considered as firm characteristics. The first control variable which is firm size is suggested by prior research of Cao et al. (2011). Another control variable which is firm age is similar to the previous research of Abed et al. (2014). Besides, this research includes financial leverage as control variable, which is adopted by the prior study of Kim (2011). The study of Santos and Brito (2004) states that firm size can significantly affect the firm performance. Kipesha (2013) documents that firm age has influence on the firm performance. Besides of that, research of Alexander et al. (2009) also claims that financial leverage affects the firm performance.

Therefore, the function is given as below:

Functional Form

Firm Performance = *f* (Firm Size, Firm Age, Leverage)

The function can be estimated under the following model:

$$FirmPerformance_{i,t} = \alpha + \beta_1 SIZE_{i,t} + \beta_2 AGE_{i,t} + \beta_3 LEV_{i,t} + \varepsilon_{i,t}$$

3.3.2 Narcissistic Model

Literatures show that CEO narcissism has significant influences on firm performance. For instance, the study of Charterjee and Hambrick (2006) find that CEO narcissism is positively and significantly influencing firm performance. The empirical model aims to develop a

model to test the relationship between the independent variable (CEO narcissism) and dependent variable (firm performance). The empirical model also includes the other three control variables which are firm size, firm age, and financial leverage.

Based on the previous discussion, in order to examine the effect of CEO narcissism on firm performance, this thesis estimates the following regression model:

$$FirmPerformance_{i,t} = \alpha + \beta_1 NARC_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 AGE_{i,t} + \beta_4 LEV_{i,t} + \varepsilon_{i,t}$$

3.3.3 Full Model

This thesis proposes that CEO compensation is partially mediating the relationship between CEO narcissism and firm performance. Prior studies on CEO compensation reveal that narcissistic CEOs can significantly influence their own compensation settings (Bebchuk & Fried, 2004). According to Sigler (2011), CEO compensation is positively and significantly related to firm performance. Aggarwal and Samwick (1999) also test and predict that the increase in relationship between compensation and performance results in the discrepancy in firm performance.

Therefore, the full model to test the relationship of CEO narcissism, CEO compensation and firm performance is shown as below:

$$CEO\ Compensation_{i,t} = \alpha + \beta_1 NARC_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 AGE_{i,t} + \beta_4 LEV_{i,t} + \varepsilon_{i,t}$$

$$Firm\ Performance_{i,t} = \alpha + \beta_1 COMP_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 AGE_{i,t} + \beta_4 LEV_{i,t} + \varepsilon_{i,t}$$

The multiple regression model uses symbols of "*i*" and "*t*" to indicate the cross sectional and time series data respectively. This research combines and develops the cross-sectional data and time series data into the panel data. Meanwhile, symbol of "α" indicates the expected y-intercept when all independent variables are equal to zero. The symbols of "β1", "β2", "β3", "β4", "β5" and "β6" are the coefficient of the independent variables. These symbols indicate the slope or the coefficient of correlation between all the independent variable to the dependent variable respectively. The magnitude of the correlation between the independent and dependent variables are depending on the value of the coefficient. Thus, "β1", "β2", "β3", "β4", "β5" and "β6" set as the parameter to measure the change in the value of dependent variable (y), as to the changes in the independent variables (x).

Furthermore, NARC denotes narcissism, which is assessed by the pictures of CEO appeared in the annual report of every firm in the industry every year, prominence of CEO press release and CEO's publicity. SIZE denotes firm size, which is logarithm of total assets. AGE refers to firm age which is calculated by the number of year the firm has operated. LEV is leverage variable which is obtained by division of total debt by total equity. COMP is the compensation which includes the total compensations CEO receives from the organization. Lastly, the symbol of epsilon "ε" indicates all other possible variables that might affect the firm performance of non-financial firms in Malaysia.

3.4 Dependent Variable

3.4.1 Tobin's Q

In order to assess the performance of a company, this thesis adopts a measure that is commonly employed in the literatures to measure firm performance, which is Tobin's Q. Tobin's Q has a significant role in a lot of finance studies and it is defined as the ratio of fair value of a firm's cost of replacement to its assets. Q is being used to clarify numerous different occurrences for example cross-sectional variances in decisions and diversification of investments (Jose et al., 1979), and the correlation between CEO ownership and value of firm (McConnell & Servaes, 1990).

As noted by Wei and Varela (2003), the method used to calculate Tobin's Q is the total amount of book value of short-term liability, book value of long-term liability and fair value of equity, divided by the book value of total assets. This calculation is consistent with Lcxiere and Martinb (1997) and Barzegar and Babu (2008). Several prior researches like Demsetz and Lehn (1985), Maury (2006) and Barzegar and Babu (2008) adopt Tobin's Q as a measurement of firm performance to find the correlation between top management and organization's performance because this ratio can demonstrate the capability and efficacy of the management team to create income from their asset base.

The rules of Tobin's Q are shown as follows:

• When Q is larger than 1, it represents that the fair value of the company is higher than the cost of replacement of its assets, thus the company shall invest as the growth in the fair value will be more than the investment; as a result the choice to invest is profit-making.

• When Q is smaller than 1, it represents that the market presumes the profits generated from the investment is lower than its cost and the company does not have prospect for profit-making investment.

In this thesis, Tobin's Q (market-based performance) is calculated as follow:

$$\text{Tobin's Q} = \frac{\text{(Market Capitalization + Debt)}}{\text{Total assets}}$$

3.4.2 Return on Assets (ROA)

According to Villalonga and Amit (2006), return on assets (ROA) is calculated as the ratio of operating profits after depreciation divided by total assets. This calculation is consistent with An et al. (2006). ROA shows the amount of profit earned on each dollar of assets. Therefore, the higher value of return on assets indicates the greater profitability of the company. ROA demonstrates firms' efficiency in using total assets. It is seen as an indicator of profitability of the firm as well as the indicator of overall firm performance.

ROA is comparing net profit over total assets in the company. Investors or prospective investors can apply this measure to assess the efficacy of a firm's leadership and the profitability a firm has made from each dollar of assets. This accounting-based measure for performance is widely acknowledged as a valid measure of firm performance in general (Core et al., 1999). ROA offers value-added information to the firm that lead to greater firm performance. Nevertheless, it is suggested to use this ratio to compare the firms in identical industry only, owing to the facts that some firms in certain industries are not sensitive to asset, which means that these firms need to purchase costly machine and equipment to generate revenue for the firms in comparison to other industries. Certainly, their ratios tend to be lower than those firms which are sensitive to asset.

3.5 Control Variables

Although it is believed that narcissism is a distinct psychological construct, other firm characteristics that may affect the relationship between CEO narcissism and firm performance have been controlled. In the multivariate tests, this thesis controls a number of firm-level characteristics that may affect the association between CEO narcissism and firm performance. This thesis controls for firm size using the natural logarithm of the book value of total assets. Firm age is measured as the natural log of the number of years since the firm operated. Besides, this research controls for financial leverage by using the ratio of debt to equity.

3.5.1 Firm Size (SIZE)

One of the control variables in this study is firm size. Firm size is a factor that has always been included in research when determining the firm performance. Firm size reflects the total assets that a firm is presently holding to support the business operation (Dang & Li, 2015). Firm size can be measured in many ways, it can be either measured by the natural logarithm of total assets (Chemmanur et al., 2013) or by the natural logarithm of employment (Alexander et al., 2009). Larger firms may have more production resources and bigger pool of internal managers to achieve the efficiency and effectiveness of firm performance. Previous research by Blease et al. (2010) had also used the number of employee as to measure the size of the firm. However, in this thesis, firm size is obtained by calculating log value of total assets held by a firm to operate its business. This formula has been used by Berger et al. (1997), Maury (2006) and Abed et al. (2014). The model for measurement of firm size is as follow:

Firm Size = Log of Total Assets

According to Santos and Brito (2004), when the firm increases its size, it leads to an increase of firm's absolute profit and cash generation even though they are in the same level of profitability. As total asset is proxy of firm size, rise in total asset may cause rise in firm size. Conversely, drop in total asset will cause a drop in firm size too. Large firm may pay higher managerial incentives for the proportionally greater efforts contributed by the CEO. Larger size of firm can drive the economic growth and market power which increase the future

profitability. Thus, the market value that increases through the growth of firm size indicates the expectation of future firm performance.

Table 3.1: Journals Related to Firm Size

No	Author (Year); Journal	Measurement
1	Abed et al. (2014); International Journal of Economics and Finance	Firm Size = Log of total assets
2	Berger et al. (1997); Journal of Finance	
3	Maury (2006); Journal of Corporate Finance	
4	Chemmanur et al. (2013); Journal of Financial Economics	

3.5.2 Firm Age (AGE)

Besides of firm size, firm age also brings the impacts to the firm performance in term of the efficiency, sustainability, profitability and revenue generation capacity (Kipesha, 2013). Firm age is another control variable in this thesis. Firm age refers to the number of years a firm has operated since establishment. Firm age illustrates the total experiences of a firm over the years. The computation is cumulative, which means additional year will be added on top of previous year. This has been supported by Loderer and Waelchli (2010) in which firm age is calculated by number of years passed since the offering of the company's Initial Public Offering (IPO). Delaney and Huselid (1996), Lin et al. (2011) and Abed et al. (2014) have also used this formula in their studies. The measurement of firm age is done by taking a logarithm to the firm age as measured cumulatively since establishment. Hence, this

research uses number of years a firm has operated to indicate firm age. The following formula is used to measure age of firm:

Firm Age = Number of years firm operated

Firm that established since early year shows higher firm age. As number of years firm operated is used as proxy, increase in number of years firm operated defines increase in firm age. In converse relationship, reduction in number of years the firm operated shows smaller firm age. The growth in age has an influence on firm profitability because of the cumulative experience of the firm and the generation of a purchasing and negotiating power. According to the experience curve, the firm benefits from the economies of scale and experienced performance among its life. So older firms are expected to be more profitable because managing the licensing process yields significant experience in pre-empting market capacities, which can then yield superior profitability because of market capture (Majumdar, 1997).

Table 3.2: Journals Related to Firm Age

No	Author (Year); Journal	Measurement
1	Abed et al. (2014); International Journal of Economics and Finance	Firm age = Number of years firm operated
2	Delaney and Huselid (1996); Academy of Management Journal	
3	Lin et al. (2011); Journal of Comparative Economic	

3.5.3 Leverage (LEV)

Leverage is another factor that may affect the performance of a firm. Leverage is borrowing through external or internal sources in order to finance the company. Nwude (2003) describes debt to equity ratio as a measure of the proportion of debt to shareholders funds (i.e Net Worth) in the firm's total financing. Enekwe (2012) states that debt to equity ratio, an indicator of financial leverage, is a financial ratio that used to measure the relative proportion of debt and equity used to finance a company's assets. Debt to equity ratio is calculated by division of total debt by shareholders' equity. Debts and shareholder's equity are often obtained from the firm's statement of financial position (Balance Sheet). When calculating a company's financial leverage, the debt usually includes only the total debt. This measure is useful to help the investor to see the way management has financed operations.

The company that is aggressive in financing its growth with debt usually has a high debt to equity ratio. This can result unstable earnings due to the additional interest expenses and volatile cash flow as principal on borrowed fund come due. If the company uses a large amount of debt to finance its growth, which leads to high debt to equity ratio, the company could potentially gain more earnings per share than it would have without external financing. If earnings that gained by the company is greater than the interest on debt, then it would increase shareholders' wealth as more earnings are being spread among the same amount of shares. However, as mentioned above, additional interest expenses and the need to repay the principal payment on debt can possibly outweigh the shareholders' benefit, it is used to measure the net worth of the organization.

According to Bowman (1980), leverage is a crucial variable to consider in the issues regarding the risk of a firm. A firm with high ratio of debt may affect the liquidity of a firm and may lead to higher risk of default. High, mediate and low leveraged firm are used to study their relationship with firm performance. The study of Adrian and Shin (2007) state that the leverage is defined as the ratio of total debt to total equity and evidently proved that the leverage is negatively related to the total assets. According to Ramadan (2012)**,** leverage refers to the financing methods of a firm and its ability to meet the financial obligations. His research had shown four methods to measure the leverage of the firm which include the ratio of total debt to total assets, the ratio of long-term debt to total assets, the ratio of total debt to equity and the ratio of long-term debt to equity. However, in this thesis we only use the ratio of long-term debt to total equity to measure the firm leverage. The formula has been widely adopted by Ben-Zion and Balch (1973), Dopuch and Ronen (1973), McKean and Kania (1978), and Bowman (1980). Hence, the formula that measures leverage is shown below:

Leverage= Total Debt/Total Equity

The measure of firm leverage is to control the firm's financial constraints. High leverage or low liquidity of firm will lead to the increase of the possibility of bankruptcy and the threat of bankruptcy may affect the firm performance (Alexander et al., 2009). Leverage will increase if long-term debts increase, and total equity reduces or both. The higher the debt at given equity value, the higher the leverage ratio while the lower the debt with same equity value, the lower the leverage ratio. Highly leveraged shows uncertainty environment of firm which will lead to decrease in firm performance due to the uncertainties.

Table 3.3: Journals Related to Leverage

No	Author (Year); Journal	Measurement
1	Ben-Zion and Balch (1973); The Quarterly Journal of Economic	Leverage= Total Debt/Total Equity
2	Dopuch and Ronen (1973); Journal of Accounting Research	
3	McKean and Kania (1978); Journal of Business	
4	Bowman (1980); Journal of Business Finance and. Accounting	

3.6 Mediator Variable

This thesis also incorporates CEO compensation measure into the analysis because of the relation between CEO compensation and firm performance. Therefore, CEO compensation acts as the mediator variable in this thesis. CEO compensations are approvable and obligatory expenses by related authorities to executive position because of binding agreement with executive position to perform duties. In other words, past duties of executive position influences the level of CEO compensation.

Jensen and Meckling (1976) demonstrate the importance of aligning CEO compensation with firm performance. According to the researches done by Lewellen et al. (1992) and Sigler and Haley (1995), they consistently prove that there is a positive relationship between CEO compensation and firm performance. Besides, firm performance is significantly related to the percentage of company common stock owned by the CEO (Sigler & Haley, 1995). Total compensations paid to CEO is used by Rappaport (1983), Cornett et al. (2007) and

Ortiz-Molina (2007) in determining the CEO compensations. Therefore, the formula used to determine CEO compensations is as follow:

CEO compensation = Total compensations to CEO

CEO compensation is calculated by summing CEO's compensation which includes short-term incentives (bonuses) and long-term incentives (stock options and right and others incentives which exclude stock related incentives). Therefore, total compensation includes salary, bonus, other annual awards, total value of restricted stock units (RSUs) granted, total value of stock options granted (calculated using the Black-Scholes methodology), long-term incentive payouts, and all other remuneration. High compensation provides motivation to CEO to contribute more effort in managing company. However, low compensation fails to attract or attain CEO which may subsequently lead to low productive CEO. O'Reilly et al. (2014) stated that narcissistic CEOs get larger direct compensation and exhibit greater discrepancies in compensation compared to other top managers at the CEO's firm.

Table 3.4: Journals Related to Executive Compensation

No	Author (Year); Journal	Measurement
1	Cornett et al. (2007); Journal of Banking & Finance	CEO compensation = Total compensations to CEO
2	Ortiz-Molina (2007); Journal of Accounting and Economics	
3	Rappaport (1983); Journal of Business Strategy	

3.7 Narcissism Proxy Selection

Measures of Narcissism

Ideally, CEO narcissism should be measured by using the Narcissistic Personality Inventory (NPI) (Raskin & Terry, 1998). It is self-reported psychometric inventory which may capture the psychological traits more precise rather than unobtrusive procedure. However, it is hard to convince CEOs to participate such obtrusive surveys, and would yield low response rate (Cycyota & Harrison, 2006). Therefore, the Narcissistic Personality Inventory (NPI), which act as the main instrument to measure narcissism, was not viable for this research.

Since it is difficult to obtain self-report data from executives in practical (Cycyota & Harrison, 2006; Chartterjee & Hambrick, 2007), alternative measures of the psychological variables of conceptual interest has often been used in empirical research. This is in-line with Webb et al. (1966) who addresses that social science should use unobtrusive method such as physical trace, non-participant observation, documentary sources, and written spoken words as ways to learn behaviour and personalities. Such unobtrusive method eliminates the problem of reactivity, social desirability, and other respondent errors that can harm the entire scientific procedure of a research. In fact, most of CEO's narcissism studies employ unobtrusive method as the way to collect the personality information. For example, Chatterjee and Hambrick (2007) use the prominence of a CEO's photo in the annual report and comparison of the CEO's compensation with the next highest paid executive as indicators (or proxies) for CEO narcissism.

There are also empirical research findings using unobtrusive method for personality measures. For example, word usage has been used to detect individual differences (Pennebaker et al., 2003); offices and bedrooms have been studied as physical manifestations of personalities (Gosling et al., 2002); personal websites have been examined as indicators of identity claims (Vazire & Gosling, 2004); and consumption patterns have been used as carriers of personality constructs (Aaker et al., 2001). Unobtrusive indicators of overconfidence and power have been used in management literature (Finkelstein, 1992; Malmendier & Tate, 2003). Therefore, this thesis empirically measures CEO narcissism using the unobtrusive method employed in prior studies that is to use the prominence of a CEO's photo in the annual report, CEO's prominence in press release and CEO's relative cash pay as indicators (or proxies) for CEO narcissism (Chatterjee & Hambrick, 2007, 2011; Olsen et al., 2014).

This research uses four indicators of narcissism, which are:

i. The prominence of CEO photographs;
ii. CEO's prominence in the company's press release, and
iii. CEO's publicity;
iv. CEO's cash compensation divided by that of the second-highest paid executive

The measures listed above are adapted from previous research such as O'Reilly et al. (2014), and Olsen et al. (2013). However, this research modifies it due to three reasons. First, this research does not use the "first-person singular pronouns in interview" due to the variance

issue. Most of CEO does not have this item in interview or shareholder's letter. Second, this research combine press release (item no.2) and news (item no.3). However, there is lack of data for item no.2, and this research initiated to find other methods in capturing press release. There are several empirical researches use publicity as the measure of narcissism and or overconfidence such as Chatterjee and Hambrick (2007). Therefore, this research includes item no.3, and combine it with item no.2 as a second-order dimension. Note that the preliminary result of this research found high correlation between item no.2 and no.3, which is consistent with Sohn et al. (2009). Lastly, this research does not take "non-cash compensation" as narcissism measure as what O'Reilly et al. (2014) did due to data unavailability.

3.8 Independent Variable

The selection for narcissism criteria is based on two categories. First, each indicator needed to reflect the CEO's decision. This means that CEO's personality has to be in individual unit and not representing the institution or other external entities. Second, the indicator has to reflect at least two aspect of narcissism personality. Following the seminal research of narcissism traits by Emmons (1987), narcissism trait consists of arrogance, entitlement, self-absorption, and authority. Due to the scope of study, this research does not see the best fit of an indicator to cope all narcissism dimensions. Instead, the indicators can be aligned partially of the traits (Edwards, 2001).

The prominence of CEO photographs

As discussed earlier, narcissists possess grandiose senses of self-importance, strong desires for recognition, and inflated self-concepts, and they frequently seek opportunities for personal glory. Prominence of CEO photographs cater the authority, self-admiration, and entitlement characteristics of narcissism (O'Reilly et al., 2014). Following previous research, this thesis attempts to capture these dimensions of narcissism using the size and prominence of the CEO's photograph in the firm's annual report. The firm's annual report does not only provide a chance for the CEO to report on the company's progress and prospects, but also provide a platform for CEO to show himself or herself as the firm's leader. While CEO's photographs in the firm's annual report are standard features, they are not universal or of uniform prominence. Several corporate communications executives state that CEOs are always paying close attention to the content and design of annual reports, and they mostly have strong ideas and control over how they themselves are presented. It can be expected that the narcissistic CEO will seek a lot of visibility in the annual report in order to show that he or she is more important than all others in the firm meanwhile as an exercise of vanity. The annual reports are obtained from Bursa Malaysia websites.

In particular, this study follows Chatterjee and Hambrick (2007) and Olsen et al. (2014) to rate each CEO's photograph on a scale from one (1) to five (5) as follows:

(1) The annual report does not contain a photograph of the CEO;

(2) The CEO was photographed with other executives;

(3) The CEO was photographed alone and the photograph occupies less than half of a page;

(4) The CEO was photographed alone and the photograph occupies at least half of a page, and the photograph shares the page with text;

(5) The CEO was photographed alone and the photograph occupies the entire page.

Press Release, News, and Publicity

The definition for this item is every information related to company's issues such as earnings results, new products, new project contracts, restructuring and acquisition, major new hires, government related issues and more. This item covers the authority, self-admiration, and entitlement characteristic of narcissism (O'Reilly et al., 2014). The news and press release are taken from bursa Malaysia following the procedure of Brahmana et al. (2015). This item takes robust procedure to construct it. Firstly, the research collects all the news and press release related to companies. Following O'Reilly et al. (2014), narcissistic CEO would be insisted to be mentioned in the news and press releases. Discussions conducted by Chatterjee and Hambrick (2007) with communications specialists revealed that each CEO had very stringent guidelines for external announcements and personally reviewed all but the most routine issues. The findings from the study of Chatterjee and Hambrick (2007) resulted in the assumption that all press releases included in this sample were reviewed by and under the control of the CEO. Therefore, the press release ratio is calculated as number of CEO name in press releases in year t divided by number of press releases in year t. Meanwhile, the publicity ratio is done by google news search. Similar with press release, number of CEO mentioned in news in year t divided by total company news in year t is the publicity ratio. Lastly, this research takes the total value from this two ratio as the measure for this item.

CEO's cash compensation divided by that of the second-highest paid executive

Relative pay is the most common unobtrusive method for narcissism. Theoretically, CEO has control over the compensation of executive board. Narcissistic CEO believes company should compensate them much higher than anyone else in the company because he/she is more valuable. This postulation captures two narcissistic characteristics, which are arrogance and entitlement. Hence, this research calculate this item by following Hayward and Hambrick (1997) and O'Reilly et al. (2014) whereby the ratio is equal to cash compensation (Salary and Bonus) of CEO in year t divided by the second-highest paid executive in the companies in year t.

Table 3.5 portrays how the indicators used in this research align with the elements of narcissism as articulated by Emmons (1987). This table is modified version from O'Reilly et al. (2014).

Table 3.5: Unobtrusive Indicators of Narcissism in CEOs

Conceptual Elements of Narcissism (from Emmons, 1987)				
	Leadership/Authority	Self-absorption/ self-admiration	Superiority/ Arrogance	Exploitativeness/ Entitlement
Illustrative items from Narcissistic Personality Inventory (NPI)	I really like to be the center of attention. I like having authority over other people.	I like to look at myself in the mirror. I am an extraordinary person.	I usually dominate any conversation. I am a born leader.	I insist on getting the respect that is due to me. I am envious of other people's good fortune.
Interpretive Alignment with Elements of Narcissism				
Unobtrusive Indicators of narcissism in CEOs				
Prominence of CEO's photograph in annual reports	I am the central figure in this company	I enjoy the visibility that comes with being CEO		I deserve to be show-cased.
CEO's prominence in press release	I am the central figure in this company	I enjoy the visibility that comes with being CEO		I deserve to be show-cased.
CEO's relative cash pay			I am, by far, the most valuable person in this organization	I deserve more compensation than anyone else in this organization

Validity Test for CEO's Photograph, Press Release and Relative Cash Pay

This thesis performs a factor analysis on the three components discussed above (relative cash pay, press release prominence rating, and the photograph prominence rating). Specifically, the narcissism measure in this thesis is a composite index based on the CEO's relative cash pay and CEO's prominence of press release in addition to the prominence of CEO's photograph in the firm's annual report. Following Olsen et al. (2014), this thesis uses the factor weightings along with standardized values of the prominence of CEO's photograph to create a continuous summary measure of CEO narcissism. Besides, CEO's prominence of press release considers the number of CEO name mentioned in the press releases and google news based on the total number of press releases and news related to company. This thesis defines relative cash pay as the ratio of the CEO's salary and bonus to that of the second-highest paid executive at the CEO's firm. In support of the use of this relative pay measure to capture CEO narcissism, O'Reilly et al. (2014) state that narcissistic CEOs receive greater direct compensation and display greater discrepancies in pay compared to other top executives in the same company. As discussed earlier, multiple previous studies used and validated the unobtrusive measure in measuring the CEO narcissism. This research directs the interested reader to Chatterjee and Hambrick (2007, 2011) and Olsen et al. (2014) for a more detailed discussion of the narcissism measure.

Considering about the validity of the data analysis, this thesis has done the NPI test with 10 CEOs from different public listed companies in Malaysia to find the coefficient correlation between NPI values with the three components which are the prominence of CEO's photograph in the annual report, CEO's prominence of press release and CEO's relative cash

pay. Consistent with the notion that the three components are all capturing some aspect of the same construct (i.e., narcissism), all of the components show high coefficients with NPI (Coefficient correlation > 0.70). Table 3.6 shows the results of the coefficient correlation where photo prominence is correlated at 0.85 with NPI, 0.71 between press release prominence and NPI, and 0.83 between relative cash pay and NPI. These results evidently prove that they are highly correlated. Therefore, it is reliable to use these unobtrusive indicators in the annual report as a measure of CEO narcissism.

Table 3.6: Coefficient Correlation of Photo, Press Release and Relative Pay with NPI

No	Company's Name	CEO's Name	Photo	Press Release	Relative Pay	NPI
1	BINTULU PORT	Dato Mior Ahmad Baiti Bin Mior Lub Ahmad	5	12	4	80
2	CAHYA MATA SARAWAK BERHAD	Y A M Tan Sri Dato' Seri Syed Anwar Jamalullail	4	12	4	82
3	KIM HIN INDUSTRY BERHAD	Chua Seng Huat	1	4	2	48
4	NAIM HOLDINGS BERHAD	Datuk Amar Abdul Hamed Bin Haji Sepawi	3	8	3	70
5	PANSAR BHD	Dato' Cheong Tai	4	8	3	78
6	SARAWAK OIL PALMS BERHAD	Tan Sri Datuk Ling Chiong Ho	2	4	2.5	56
7	SHIN YANG SHIPPING	Chiong Ho Ling	1	3	2	64
8	SUBUR TIASA HOLDINGS BERHAD	Tiong Kiong King	3	2	3	68
9	TA AN HOLDINGS SDN BHD	Datuk Tiah Thee Kian	3	4	3.5	72
10	ZECON BHD	Datuk Haji Zainal Abidin bin Haji Ahmad	4	4	3.5	68
	Correlation Coefficient		0.85	0.71	0.83	

3.9 Data Description

In this thesis, the secondary data such as CEO narcissism, firm size, firm age, leverage and CEO compensation are collected from the annual reports of the listed companies in Bursa

Malaysia. This thesis uses only the non-financial sector's companies listed in Bursa Malaysia. All non-financial companies is chosen because this thesis aims to solve the common and popular issues about misalignment of stockholders and CEO's interests aroused from CEO compensation and firm performance in companies. Furthermore, according to Ghazali and Weetman (2006), financial sector which is subjected to varieties of rules and conducts as well as varieties types of operation is not suitable to be studied. Therefore, this thesis excludes all financial sector's companies.

As the population in this research is too large, financial industry and unavailable data are excluded as well, therefore, judgment sampling method is adopted in this thesis where the sample of this thesis consists of a period of 5 years from year 2010 to 2014. Judgment sampling method is a non-probability sampling method in which samples are chosen by the judgment of researcher. This method is explained by Black (2010) that researchers believe they can gain representative sample by using sounding judgment, which will result in time and cost saving.

All dependent, mediator, control and independent variables data within this period is obtained from companies' annual reports retrieved from Bursa Malaysia's website to examine the performance of the firms in Malaysia. Although this thesis does not comprise of all years that the companies started their operation, the result is reliable. Furthermore, the duration of this thesis covers five years from 2010 to 2014, which is considered as the most recent period. Therefore, the interpreted result will be useful and applicable in current phenomenon. Hence, based on the judgment sampling method, a total number of 441

companies from different sectors (except financial sector) listed under Bursa Malaysia is selected as the sample for this thesis. After gathering all the data, several tests will be used to analyze the data. The data in this thesis is analyzed by using the STATA 14 software.

3.10 Statistical Analysis

This research is relied on content analysis approach. The study intends to analyze the relationship between CEO narcissism and CEO compensation and firm performan/ce. Bryman (2012) says content analysis is an approach where at first, data of sample is obtained and then the data is transformed into useful information by categorizing the data into a systematic structure based on subject of study. In this thesis, the data is obtained from companies' annual reports. Retrieved data is recorded in a systematic way and the information is proceeded with statistical tests through STATA 14 software.

The main objective of this thesis is to investigate the relationship between CEO narcissism, CEO compensation and firm performance of listed companies in Malaysia. Apart from that, other objectives that are intended to be examined in this thesis include the impact of firm size, firm age and leverage on firm performance. These variables are treated as control variables in this thesis.

In order to test the relationship between the independent variable, moderator variable and control variables with firm performance in Malaysia, a few tests are applied in this thesis.

All the variables are tested by various diagnostic tests in order to verify their relationship with firm performance. In this thesis, the diagnostic tests used are normality test, autocorrelation test, multicollinearity test, heteroscedasticity test, Breusch-Pagan LM test and Hausman test, and the data is analyzed by panel data regression, mediation analysis by regression and two-stage least square (2SLS).

3.10.1 Normality Test

Normality test is applied while identifying the data group or sample fits to the standard normal distribution. It means that normality test is a statistical test that used to compute the normal distribution sample. Normality test measures the random variable that is underlying the data set to be normally distributed. Furthermore, normality test is a form of model selection that is suitable to interpret one's interpretation of probability. Since the data set comes from the normally distributed population, the normality test can aid in testing the null hypothesis.

The use of normality test is to determine whether a data set is normally distributed. The computation of this test also shows how closely the random variable is to be normally distributed under the data set. The use of normality test in descriptive statistics of this thesis is to measures the goodness of fit of the model. The null hypothesis and alternative hypothesis for this thesis is as below:

H_o: The error term is normally distributed

H_1: The error term is not normally distributed

In the case of rejection of the null hypothesis under the significance level, it shows that the random variable for this thesis is not normally distributed and thus may cause biasness in result. Furthermore, normality test can be used to determine whether the sample size is sufficient to justify the population. Larger sample size can achieve significance normality even in the presence of small deviation, thus the results of parametric test will not be affected by the small deviation. A significant result would be derived for a large sample sizes even in the case of a small deviation from normality since the results for parametric test will not be influenced by the small deviation.

Jarque-Bera (JB) Test

According to Gujarati and Porter (2009), one of the normality tests is JB test. Study that uses large sample are encouraged to use JB test. Computation of kurtosis and skewness that defines the distribution of ordinary least squares (OLS) residuals are the first step to conduct JB test. Kurtosis refers to measurement on thickness or heaviness of the tail of the distribution while skewness measures symmetrical of a distribution. A normally distributed of random error terms have index of 3 kurtosis and 0 for skewness.

The computation of kurtosis and skewness of distribution is used in forming test statistic to interpret the result.

$$\mathbf{JB = n\left[\frac{S^2}{6} + \frac{(K-3)^2}{24}\right]}$$

Based on the above formula, "n" is the sample size, "S" is the coefficient of skewness, and "K" refers to coefficient of kurtosis (Gujarati and Porter, 2009). This test is using 5% significance level and in order to test the normality distribution of study, the null and alternative hypothesis are used in the study as follows:

H_0 : The error term is normally distributed.

H_a : The error term is not normally distributed.

3.10.2 Multicollinearity Test

One of the classical linear regression model (CLRM) assumptions describes that there is no perfect multicollinearity between explanatory variables. Value of coefficients unable to be estimated precisely if either explanatory variable has high collinearity problem with other variables (Gujarati & Porter, 2009). One of the ways to detect multicollinearity problems is simple correlation coefficient test. Simple correlation coefficient (r) between two explanatory variables shows severity of multicollinearity problem in the study (Gujarati & Porter, 2009).

The second ways to detect multicollinearity problem is variance-inflation factor (VIF). VIF measures the inflated variance of estimator when multicollinearity problem arouse. High VIF shows seriousness of multicollinearity problem. Rule of thumb under VIF states that

when VIF is more than 10, multicollinearity problem is seriously faced in study (Gujarati & Porter, 2009). VIF formula is as follows:

$$\text{VIF} = \frac{1}{(1 - r_{2\,3}^{2})}$$

The existence of the exact or inexact linear relationship among explanatory variables is referred by multicollinearity. When occurs highly correction among two or more predictor variables in a multiple regression model also known as multicollinearity. This also means that one predictor variables can be linearly predicted from the others with a considerable degree of accuracy. There are two types of multicollinearity which are perfect multicollinearity and the imperfect multicollinearity. Increasing of standard errors of the coefficients can be caused by the multicollinearity. Multicollinearity makes some independent variable statistically insignificant when they should be significant by overinflating the standard error.

If the multicollinearity exists among the explanatory variables, the OLS estimation procedure will not be able to distinguish one variable from the others. Thus, the regression coefficients are indeterminate. Multicollinearity will cause by improper use of dummy variables such as fail to exclude one category of data. The greater the multicollinearity, the greater the standard errors. When high multicollinearity exists, confidence intervals for coefficients will become wider and t-statistics will be smaller. The larger the coefficients represents the statistically significant of value. Thus, rejecting the null hypothesis tend to be harder as the present of the multicollinearity.

According to Grewal et al. (2004), a good measurement of reliability is a model which has a strong explanatory power and a large sample size. These two characteristics will be effective in protection against the effect of multicollinearity unless the case of multicollinearity is severe. Normally, it won't be too problematic if there is an existence of multicollinearity but having several multicollinearity between variables will cause a bias in the regression and causes huge problem in analysis. High level of multicollinearity between variables will cause the regression coefficients to be unstable and the variance to be widely dispersed. Higher variance in the model cause the interpretation of coefficients to be more difficult. If multicollinearity problem provokes in study, there is a need to reduce multicollinearity in the coefficient of the regression. Remedies such as doing nothing, dropping repeating variable and increasing sample size of study can be used in study (Gujarati & Porter, 2009). Besides, one of the methods is to remove the highly correlated predictors from the model. This can be done by comparing the Variance Inflation Factor (VIF) and remove one factor that has high VIF.

3.10.3 Autocorrelation Test

CLRM assumes that there is no autocorrelation between error terms. Autocorrelation is a situation where the study violates this assumption. One of the tests used in the study for detecting autocorrelation problem is Durbin-Watson d Test. First step to compute d test is to obtain the error terms from OLS regression model. Then, Durbin-Watson d statistic is computed. The formula of d statistic is as follows (Gujarati & Porter, 2009):

$$d = \frac{\sum_{t=2}^{t=n}(\widehat{\varepsilon_1} - \hat{\varepsilon}_{t-1})^2}{\sum_{t=1}^{t=n}\hat{u}_1^2}$$

After computed d-statistic, critical value of d_L and d_U are retrieved from table of d-statistic which determined by the sample size and number of parameters. The final step is rule for decision making. In order to determine the rejection rule, hypothesis of the study are as follows:

H_0 : There is no positive autocorrelation.

H_a: There is positive autocorrelation.

H_0^* : There is no negative autocorrelation.

H_a^* : There is negative autocorrelation.

As correlation coefficient (r) lies between -1 to 1, hypothesis is developed for two conditions. When the r is positive or equal to zero, H_0 and H_a are hypothesis of the variables. Meanwhile, when the r is negative, H_0^* and H_a^* are hypothesis of the variables. As usual, the rejection rule of null hypothesis depends on the probability value and level of significance of study, which is 5% (Gujarati & Porter, 2009). According to Gujarati and Porter (2009), d value falls within the range of 0 to 4. Extreme positive serial correlation (d=0), extreme negative serial correlation (d=4) and no serial correlation (d=2) are rule of thumb of Durbin Watson d test.

Autocorrelation is a test to identify the correlation of a series with respect to its own past and future values. As the case which the error term in a time series is correlated with the error term in any other time series, the case is known as the autocorrelation or serial correlation. Autocorrelation describes the correlation between the error term of a series and others from the same series separated from them by a given interval. Autocorrelation means that adjacent observations are correlated. Standard error of the coefficients has been underestimated by

least-squares regression and the predictors shows the significant when they may not be if the error terms are correlated. The objective of autocorrelation test is to identify the non-randomness in data set and examine the appropriate time series model if the data are not random. Positive autocorrelation show a system tend to remain in similar state from one observation to another meanwhile negative autocorrelation shows a system tend to differ in state. The existence of autocorrelation violates the assumption of independence as stated in the OLS regression and show that there is a dependency of data. Positive autocorrelation may be considered as a specific form of "persistence" which tend to retain in the same state from one observation to another. Besides that, autocorrelation complicates the application of statistical tests by reducing the number of independent observations. The identification of significant covariance or correlation between time series also can complicated by the autocorrelation. The standard error will be miscalculated if the coefficient of the standard error are correlated, which then may cause the predictors appear to be significant when it is not. An autocorrelation test is used to test and review the non-randomness in data and identify a proper time series model if the data are not random select.

In order to test for autocorrelation, the Breusch-Godfrey serial correlation LM test is adopted. The residuals from the regression will be tested to verify the existence of autocorrelation. Autocorrelation test can be used to plot against lags when time series regression model is implemented. The hypothesis for autocorrelation is

H0: There is no autocorrelation between variables

H1: There is autocorrelation between variables

If null hypothesis is rejected at the specified significance level, it shows that there is an existence of autocorrelation in the model. In the case of existence of autocorrelation, the lagged dependent variables can be adopted to solve the autocorrelation problems.

3.10.4 Heteroscedasticity Test

The statistical test is proceeded with heteroscedasticity test. Heteroscedasticity is a condition that violates one of the CLRM assumptions: error term has equal variance. White-test is used in this thesis to detect heteroscedastic problem. White test is used to identify the consistency of standard error of a regression model, which is whether a residual variance is constant in a model (homoscedasticity). First step of white test is obtaining error term from estimated regression equation. By using a heteroscedasticity robust standard errors, the standard error will be adjusted to be valid in a regression even there is a presence of heteroscedasticity of unknown form. Error term acts as dependent variable in auxiliary regression in second step (Gujarati & Porter, 2009). Then, the model is tested for overall significance. Null and alternative hypothesis are expressed to determine the significance of the error term as follows:

$H_{0:}$ The error term is homoscedastic.

$H_{a:}$ The error term is heteroscedastic.

The test statistic "$NR^{2"}$ and critical value of chi-square distribution with degrees of freedom (number of parameters) are computed. Lastly, decision rule on whether null hypothesis is rejected or not depends on value of test statistic (NR^2) and crirtical chi-square value. If NR^2

exceeds critical value, null hypothesis is rejected and therefore concludes that the error term is heteroscedastic (Gujarati & Porter, 2009).

Heteroscedasticity is identified since there has no constant variance of the unobservable error, μ and conditional on independent variables. The presence of the heteroscedasticity and the analysis of variance is concerned for the application of regression analysis. By the existing of heteroscedasticity, the significance of statistical tests that predict the modelling errors are not related and normally distributed and the effects being modelled as the variances do not vary can be reduced. Heteroskedastic error indicates that the error with different variance for different observation. There are two forms for heteroscedasticity which are the conditional and unconditional heteroscedasticity. Conditional heteroscedasticity is used to identify non-constant volatility when high and low volatility cannot be recognized in future period whereas unconditional heteroscedasticity is used when high and low volatility can be recognized in future period.

The presence of heteroscedasticity is one of the main concern in the analysis of regression. Heteroscedasticity exists when there is no consistency in the variance of the unobservable error and independent variables. When the high and low volatility of future periods cannot be identify, a conditional heteroscedasticity happens. In the case where high and low volatility of future periods can be identified, an unconditional heteroscedasticity is used. Existence of heteroscedasticity will possess serious effect on the Ordinary Least Square (OLS) estimator even though it does not cause the standard error to be distort from normal distribution. In this case, OLS is still unbiased but is not efficient as lower variance is

observed in the linear estimators and estimated standard error will be inaccurate. Therefore, by re-weighting the data appropriately by taking into consideration of the amount of heteroscedasticity can develop an efficient estimators to be test in a regression model.

3.10.5 Hausman Test

According to Gujarati and Porter (2009), Hausman test is a test to signify the appropriateness of random effects model (REM) in panel data. REM assumes that constant term no longer to be fixed (constant term consists of mean value of own coefficient and random error term) while the error term is recognized as composite error term (cross-section error term and combination of cross-section and time-series error term. In other words, constant term and error term are not fixed in random effect models (Gujarati & Porter, 2009).

This test determines the appropriateness of REM by comparing this model with fixed-effect model (FEM). The following are hypothesis for Hausman test:

H_0 : The estimators of FEM and REM do not differ substantially.

H_a: The estimators of FEM and REM differ substantially.

The rejection rule depends of probable value of chi-square statistic (3 degrees of freedom) and level of significance, which is 0.05 in this thesis. If the probability value is lesser than level of significance, null hypothesis is rejected and it can be concluded that FEM and REM differ substantially. When there is difference between FEM and REM, if REM model is inappropriate then FEM model will be used in the study (Gujarati & Porter, 2009).

The Hausman test is also known as the Durbin-Wu-Hausman test. This test is a statistical hypothesis test in which the consistency of an estimator is evaluated when compared to an alternative which is known to be less efficient but consistent. This test is adopted to check for endogeneity of variable, in which the independent variable is estimates to the ordinary least squares (OLS) estimates. Thus, Hausman test is an essential test to determine whether a loss in efficiency will be worth to remove the bias and inconsistency of OLS estimators. In other word, Hausman test is adopted to test for a more efficient model against a consistent but less efficient model to ensure that consistent results can be produced by the more efficient model.

Hausman test can also be used in panel data analysis to distinguish between fixed effects and random effects in the model. Due to greater efficiency, the random effect is preferred over the fixed effect under the postulation of null hypothesis. In the case when H_0 cannot be rejected, in which there is no correlation between regressors and effects, both estimators of fixed and random effects are consistent but only random effect is efficient. When H_0 is rejected, in which there is correlation between the regressors and effects, the fixed effect estimator is consistent but the random effect estimator is not. The summary of the description of Hausman test for panel data is as follow.

	H0 is true	**H1 is true**
b1 (Random effect estimator)	Consistent and efficient	Inconsistent
b2 (Fixed effect estimator)	Consistent but not efficient	Consistent

3.10.6 Breusch-Pagan LM Test

Langrange Multiplier (LM) test is a test derived by Breusch and Pagan's study (as cited in Baltagi, 2005) and used to detect random two-way error component in model. Breusch-Pagan LM test is easy to compute because this test is only need the OLS residuals in processing the test. Besides that, Breusch-Pagan LM test also aid in the explanation for the popularity. The alternative hypothesis of LM test can be negative or positive but must not equal to zero. The assumption of this test works well in condition when estimation of variance components in less than zero (Baltagi, 2005). Breusch-Pagan LM test performs well since the values of σ_{μ}^2 and σ_{λ}^2 is larger than zero.

During the processing of Breusch-Pagan LM test easily appears the negative estimates of the variance components. When the variance components are positive, assumption for the Breusch-Pagan LM test for the alternative hypothesis still in two-sided which is become the problem of the Breusch-Pagan LM test. This is because the alternative hypotheses should be in one-sided as the variance components are positive. During the one-sided LM test, it may be occurs a weak statistic for the large samples. This is because the larger of the number of regressors and the higher of intraclass correlation in several regressors.

The Breusch Pagan LM test is used in this thesis in order to understand which model is more suitable for this thesis. Since panel data will be adopted in this thesis, it is important to select the appropriate model for analysis. Breusch Pagan LM test is applicable to determine whether a Pooled Ordinary Least Square (OLS) model or a Fixed Effect (FE) model will be more appropriate. According to Gujarati and Porter (2009), this test can be used to show that

there are no random effects in the model. The hypothesis for Breusch Pagan LM test is as follow:

H0: The model will run under Pooled OLS regression

H1: The model will run under panel regression

From the hypothesis stated above, if the null hypothesis of this test is rejected, the model will be conducted under panel regression. Meanwhile, if the null hypothesis cannot be rejected, thus the model will be running under pooled OLS method.

3.10.7 Panel Data Regression

Panel data, which is referred to as longitudinal or cross-sectional time-series data, is a data set in which the entities' behaviour are observed across time. Panel data are repeated measures of one or more variables on one or more person (repeated cross-sectional time-series). Panel data allows the researchers to control for variables that are unobservable or unmeasurable such as difference in business practices or cultural factors across companies; or variables that change over time but not across entities. In other words, it accounts for individual heterogeneity. With panel data, variables at different levels of analysis appropriate for multilevel or hierarchical modeling can be included (Cameron & Pravin, 2005).

The panel data are most useful when the researchers suspect that the outcome variable depends on unobservable explanatory variables but correlated with the observed explanatory variables. Panel data estimators are able to constantly estimate the outcome of the observed explanatory variables if such omitted variables are constant over time (Stock & Mark, 2008).

This thesis analyses a variety of estimation models through panel data regression. Broadly, they can be arranged as follows:

(i) Pooled Regression: If z*i* contains only a constant term, then ordinary least squares provides consistent and efficient estimates of the common α and the slope vector β.

(ii) Fixed Effects: If *zi* is unobserved, but correlated with x*it*, then the least squares estimator of β is biased and inconsistent as a consequence of an omitted variable. However, in this instance, the model shows as follow:

$$yit = x'it\beta + \alpha i + \varepsilon it,$$

where $\alpha i = z'i\alpha$, embodies all the observable effects and specifies an estimable conditional mean. This fixed effects approach takes αi to be a group-specific constant term in the regression model. The term "fixed" as used here indicates the correlation of *ci* and x*it*, not that *ci* is non-stochastic.

(iii) Random Effects: If the unobserved individual heterogeneity, however formulated, can be assumed to be uncorrelated with the included variables, then the model may be formulated as:

$$\begin{aligned} yit &= \mathbf{x}'it\boldsymbol{\beta} + E[\mathbf{z}'i\boldsymbol{\alpha}] + \{\mathbf{z}'i\boldsymbol{\alpha} - E[\mathbf{z}'i\boldsymbol{\alpha}]\} + \varepsilon it \\ &= \mathbf{x}'it\boldsymbol{\beta} + \alpha + ui + \varepsilon it, \end{aligned}$$

That is, as a linear regression model with a compound disturbance that may be consistently, albeit inefficiently, estimated by least squares. This random effects approach stipulates that *ui* is a group-specific random element, similar to *εit* except that for each group, there is but a single draw that enters the regression identically in each period. The differences between fixed and random effects is not whether these effects are stochastic or not, but whether the unobserved individual effect embodies elements that are correlated with the regressors in the model. After this basic formulation has been examine, an extension to a dynamic model will then be considered.

3.10.8 Mediation Analysis with Regression

In this research, multiple regression has been used to describe mediation analysis using. A mediator variable represents an intervening variable, in which a dependent variable is able to be influenced by an independent variable through mediator variable (Baron & Kenny, 1986; Peyrot, 1996). A mediator explains how or why there is a relationship between the predictor and dependent variable, and it is often an attribute or an intrinsic characteristic of individuals (Lindley & Walker, 1993; Peyrot, 1996; Holmbeck, 1997).

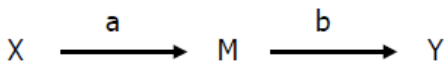
In contrast to moderating effects which are most commonly used when the relationship between predictor and dependent variable is unexpectedly weak, a mediating effect will be tested only when the relationship between the predictor and the dependent variable are significant (Baron & Kenny, 1986). Mediation analysis can help to understand how treatments work, and guide development and modification of treatments to make them more

effective. Donaldson (2001) provides a brilliant argument of applications of mediation and moderation analysis in treatment development.

Among the methods that are available for testing hypotheses about intervening variable effects, the causal steps approach which is popularized by Baron and Kenny (1986) is the most widely-used method in testing the intervening variable effect. This approach evaluates each of the paths in the model and then determine whether a variable works as a mediator by seeing if certain statistical criteria are met. This research describes mediation analysis using multiple regression.

According to Baron and Kenny (1986), a mediator must fulfil the following criteria. First, the predictor must be significantly correlated with the hypothesized mediator. Second, the predictor must be significantly correlated with the outcome. Third, the mediator must be significantly correlated with the outcome. Lastly, the impact of the predictor on the outcome is no longer significant after controlling for the mediator. This mediated effect are known as indirect effect in path analysis.

Mediation is a hypothesized causal chain in which one variable affects a second variable that, in turn, affects a third variable. The intervening variable, M, is the mediator. It "mediates" the relationship between a predictor, X, and an outcome. Graphically, mediation can be illustrated in the following way:

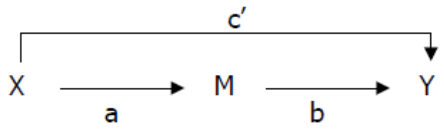


Paths *a* and *b* are known as direct effects whereas the indirect effect is the mediational effect, in which X leads to Y through M. The indirect effect represents the portion of the relationship between X and Y that is mediated by M. A test that has intuitive appeal is simply to test both path a and b. Mediation exists if both path a and b are statistically significant. It is relatively easy to explain to a nontechnical reader by using this approach to assess mediation. As mentioned before, the preferred method for testing the statistical significance of the mediation effect is with bootstrapping, which does not require assumptions of normality.

It is required to examine the Pearson correlation among variables in the model before path analytic regression techniques has been used. The predictor X must be significantly related to the dependent variable Y and with the mediator M. Furthermore, the mediator M must be significantly related the dependent variable Y. After the establishment of significant correlations, three multiple regression analyses are conducted (Cohen & Cohen, 1983).

In the first regression, the significance of the path from X to M is examined. In the second regression, the significance of the path X to the dependent variable Y is examined. Finally, the significance of the path M to Y is examined in the third regression by using X and M as predictors of Y. In the third equation, instead of using hierarchical entry, simultaneous entry is used. By using simultaneous entry, the effect of X can be controlled while examining the effect of M on Y, and the effect of M can be controlled while examining the effect of X on Y (Baron & Kenny, 1986; Holmbeck, 1997). The results of the effect of X on Y when M is controlled and the effect of X on Y when M is not controlled are then compared. If the path X to Y (when M is controlled) is reduced to zero, it can be proved that a single, dominant mediator exists. If the residual path X to Y is not zero, it indicates that there might have multiple mediating factors.

A four-step approach has been proposed by Baron and Kenny (1986) in which numerous regression analyses are carried out and significance of the coefficients is examined at each step. A measure of the mediation effect is the difference between **c** and **c'**. This difference is equal to the product of the paths to and from the mediator. Thus, **c - c'** = **ab**. The total effect of X on Y (**c)** can be decomposed into a direct component (**c'**) and an indirect component (**ab**), **c** = **c' + ab**.



3.10.9 Two-Stage Least Squares (2SLS)

Kmenta (2011) asserts that Two-Stage Least Squares (2SLS) estimator is the most efficient IV estimator. This method is used to fit models that include instrumental variables. 2SLS is used in econometrics, statistics, and epidemiology to provide consistent estimates of a regression equation when controlled experiments are impossible. The 2SLS estimator is obtained by using all the instruments simultaneously in the first stage regression. 2SLS includes four types of variables: dependent, exogenous, endogenous, and instrument. They are defined as follows:

Dependent Variable: This is the response (or *Y*) variable that is to be regressed on the exogenous and endogenous (but not the instrument) variables. This is the variable to be predicted by the independent (X) variables.

Exogenous Variables: These are variables determined outside the system or autonomous. These independent (*Xex*) variables are contained within both the first and second stage regression models. These variables are not correlated with the random error values in the second stage regression.

Endogenous Variables: These are variables determined within the system of equations which represent the real world. Each endogenous (or *Ven*) variable becomes the dependent variable in the first stage regression equation. Each is regressed on all exogenous and instrument variables. The predicted values from these regressions are then used in the second stage as predictors of the dependent variable along with any exogenous variables. Endogenous variables are correlated with the random error component.

Instrument Variables: Each endogenous variable becomes the dependent variable in the first stage regression equation. Each is regressed on all exogenous and instrument (Xiv) variables. The predicted values from these regressions replace the original values of the endogenous variables in the second stage regression model.

Consider a simple regression model in the 2SLS model, which is:

$y = \alpha + \beta x + u$ (1)

where y is the dependent variable

x is the independent variable

α and β are estimable parameters

u is the error term

The assumption of regression framework is violates if x and u are correlated. If the standard ordinary least squares (OLS) is applied to equation under these circumstances, it will lead to inconsistent estimates, which is, the estimates of parameters on average will not equal the population estimates even if the sample size approach infinity. In order to solve this problem, 2SLS, which is also known as the instrumental variable procedure is applied. Before implementing 2SLS, it is required to identify one or more instruments for x. These instrument (for example z) must fulfil two criteria. First, z must be uncorrelated with u. Second, z must be correlated with x.

Given that x is the independent (explanatory) variable and z is the instrumental variables, this method will produce consistent parameter estimates even given the correlation between x and u. The only condition for identification is that the number of instruments is greater than or equal to the number of independent variables. Since the sample size approaches infinity, in selecting the number of instruments to apply in 2SLS asymptotically, the larger the number of instruments, the better in terms of efficiency. However, the increased number of instruments may cause the small sample bias of the estimator getting worse. When more instruments are applied, the power of statistical tests will be weakened due to the loss of degree of freedom.

Two-stage least squares (2SLS) is widely used in econometrics to estimate parameters in systems of linear simultaneous equations and to solve problems of omitted-variables bias in single-equation estimation. Researches show that 2SLS can also be used to estimate the average causal effect of variable treatments. The average causal effect is a conditional expectation of the distinction between the outcomes of the treated and what these outcomes

would have been in the absence of treatment. Given mild regularity assumptions, the probability limit of 2SLS is a weighted average of per-unit average causal effects along the length of an appropriately defined causal response function.

3.11 Summary

In conclusion, this chapter discusses the various methodology that is used in this research in order to understand the relationship between CEO's narcissism, CEO compensation and firm performance. This chapter also explains the definition of all the dependent, independent, mediator and control variables that is included in this thesis.

Cross-sectional analysis and panel data regression method are conducted in this research to identify the relationship between all the variables in this research. This thesis covers a sample of 441 companies in non-financial sectors listed in Bursa Malaysia from 2010 to 2014. Content analysis is employed in the study where certain data in annual report are retrieved from Bursa Malaysia website. Various diagnostic tests are conducted in this thesis. These tests include the normality test, heteroscedasticity test, multicollinearity test, autocorrelation test, Hausman test and Breusch and Pagan Langrange Multiplier test.

Empirical results of the tests are analyzed and discussed in the following chapters. The last chapter of this thesis provides an overall conclusion of this research, with statement of limitation and recommendation for improvement for future research and policy.

Table 3.7: Operationalization of Variables

Variable	Abbreviation	Measurement	Type of Scale	Hypothesis Direction
Firm performance	Tobin's Q / ROA	Tobin's Q $= \frac{(\text{Market Capitalization + Debt})}{Total\ Assets}$ Or Return of Assets (ROA) $= \frac{Net\ Income}{Total\ Assets}$	Ratio	-
CEO Narcissism	NARC	Prominence of CEO's photograph in the annual report, CEO's prominence in the company's press release and CEO's publicity, CEO's relative cash pay	Linear	Positive
CEO compensation	COMP	Total Compensations to CEO (Relative cash pay & relative non-cash pay)	Linear	Positive
Firm Size	SIZE	Total Assets = Total Equity + Total Liabilities Or Firm Size = Log of Total Assets	Ratio	Positive
Firm Age	AGE	Firm Age = Number of year operated	Ratio	Positive
Firm Leverage	LEV	Leverage = $\frac{Total\ Debt}{Total\ Equity}$	Ratio	Negative

CHAPTER 4

RESULTS AND DISCUSSION

4.1 Introduction

The analysis of the relationship between CEO narcissism, compensation and firm performance is reported in this chapter. The purpose of this study is to examine the mediation effect of executive compensation on the relationship between CEO narcissism and firm performance. The data has been collected from the annual report of 441 public listed companies, listed in Bursa Malaysia, for year 2010 – 2014. This research uses several methods to access the relationship between CEO narcissism and firm performance. Before application of the panel regression analysis, descriptive analysis was interpreted and several diagnostic tests such as variance inflationary factor (VIF), Breusch-Pagan test and Wooldridge tests have been applied to check the stationary of the data and to resolve the problem of multicollinearity, heteroscedasticity and autocorrelation, if exist. Moreover, mediating effect is identified through instrumental and Two-stage Least Square (2SLS) method.

Descriptive analysis is used to describe the data sets as measure of central tendency and measure of spread. Meanwhile, 2SLS is used to provide consistent estimates of a regression equation when controlled experiments are not possible. Next, this thesis runs the normality tests. Then, multiple regression analysis is tested and this research is considered as panel

data analysis. A number of diagnostic tests is used to check issues such as multicollinearity, heteroscedasticity, serial correlation and normality. Finally, the analysis chooses Stata commands and options that produce robust standard error estimates for linear panel models to rectify the existing problems.

4.2 Descriptive Results

Descriptive statistics include information such as central tendency, measure of spread, normality of this research sample is documented. Central tendency measures the value of the sample mean and median while measure of spread assesses how far the number are spread out (variance) and how much variation exists from the mean (standard deviation). Normality test has been conducted by adopting the three-sigma rule of thumb (68–95–99.7 rule) to determine the symmetry of the distribution of variables and this research indicates as normal distribution if it is distributed at 68.26%.

4.2.1 Summary of Descriptive Statistics

Table 4.1 presents the summary of descriptive statistics for independent, mediator, control and dependent variables that are used in the multivariate analysis. Simple descriptive statistics such as minimum, maximum, median, mean, standard deviation and observations are used in this thesis. There is a total observation of 2185 firms-years which covers 441 non-financial public listed companies in Bursa Malaysia over the years of 2010 to 2014. For

narcissism, this thesis uses proxies by considering the prominence of CEO's photo in the annual report, prominence of CEO's press release, CEO's publicity and CEO's relative pay as indicators for narcissism. This research finds that the mean rating of the prominence of the CEO's photograph in the firm's annual report is 2.07 on a scale of 1.00 to 5.00 and the standard deviation is 1.32055. At the meantime, similar to Leone et al. (2006), the mean value of CEO compensation is 13.5 with standard deviation of 1.28. It is founded that within 2010 to 2014, the CEO compensation of 441 companies that are listed in Bursa Malaysia has an average compensation of RM 13.5 million.

With regards to firm performance, due to the global financial crisis, it is not surprised that the sample firms earned low but positive returns as indicated by their Return on Assets with mean of 4.4% and standard deviation of 10%. Besides, the sample mean for Tobin's Q is 26.2% with standard deviation of 20.67% for the period of 2010-2014. The control variables that correspond to the firm performance both Tobin's Q and Return on Assets also tend to be in line with Kipesha (2013). This research sample includes firms that are larger, older, seldom report negative returns, have a higher ratio of cash flows from operations to sales, and are more stable in investment and cash flows. These differences are expected because this thesis restricts the sample to all the non-financial public listed companies in Malaysia.

With reference to the results shown, the descriptive analyses for control variables such as firm size, firm age and leverage ratio are obtained as well. The firm size in terms of total assets ranges from RM3.99 billion to RM7.86 billion, while the mean and the standard deviation of the sample is RM5.59 billion and RM0.60 billion respectively. With regards to

leverage, the sample firms have an average debt to equity ratio with mean of about 29.3 and standard deviation of 28.20, ranges between -82.26 and 213.52. In terms of number of years operated, the mean of firm age in the sample is 1.43 with standard deviation of 0.29 and ranges between 0.30 and 3.30.

Table 4.1: Summary of Descriptive Statistic

Variable	Mean	Standard Deviation	Min Value	Max Value
Tobin's Q	0.261977	0.206734	0	1.42455
Return On Assets	0.043578	0.100093	-0.64486	0.998552
Firm Size	5.588929	0.596605	3.992111	7.863253
Firm Age	1.434686	0.289456	0.30103	3.304275
Financial Leverage	29.30469	28.19742	-82.2644	213.5154
Narcissism	2.072311	1.32055	1	5
Compensation	13.50683	1.278167	8.853665	18.54816

N = 2185

n = 441

T = 5

4.2.2 Correlation Matrix

Pearson correlation analysis is applied in this thesis to check the correlation among the independent variable (CEO's Narcissism), mediating variable (CEO's Compensation), control variables (Firm Size, Firm Age, Financial Leverage) and dependent variables (Tobin's Q, Return of Asset), which assume equality if variances of the two non-paired

groups, cannot be used. The null hypothesis for this test is the two group means are the same but with different variances. There is a strong positive or negative relationship between variables if the absolute value of correlation coefficient (r) = ± 0.70. If the correlation coefficient value is zero (r = 0.00), it indicates that there is no linear relationship between variables whereas the correlation coefficient value of r = ± 1.00 indicates that there is a perfect positive or negative linear relationship. The result of Pearson correlation analysis is shown in Table 4.2.

Table 4.2 reports the bivariate statistical correlations for the 441 non-financial public listed companies' data collected in Bursa Malaysia for the period of 2010 to 2014. Consistent with the idea that these measures capture some component of the same underlying construct, the variable components are all marginally significant and positively correlated (all $p < 0.05$). According to Table 4.2, the coefficients indicate that proxy for CEO narcissism is significantly and positively correlated with the dependent variables, Tobin's Q and Return on Assets, both at 1% significance level. However, the relationship between CEO narcissism with Tobin's Q and Return on Assets show a weak positive relationship with correlation coefficient of $r = 0.17$ and $r = 0.13$ respectively. Besides, CEO's narcissism is also positively correlated with firm size and leverage, but is negatively correlated with firm age. Lastly, narcissism is significantly positively correlated with CEO compensation at 1% significance level with correlation coefficient of $r = 0.28$. None of the variables has correlations higher than 0.70. Most of the variables show a weak correlations below 0.30 except the correlations between narcissism and firm size show a moderate correlation of $r = 0.38$.

Moreover, the Pearson correlations for variables in the model suggest that generally the firm performance variable in terms of Return of Assets is positively correlated with all the variables except leverage. The correlation sign for leverage is negative. Return on assets show a weak relationship with all the variables that none of the variables has a correlation greater than 0.30, but all indicate a significance level of 1% ($p < 0.01$) except firm age. Another performance variable, Tobin's Q show a positive correlation with all the variables except firm age. Tobin's Q also indicate a weak relationship with all the variables except leverage at a moderate correlation of $r = 0.36$. Consistently, all the variables indicate a significance level at 1% ($p < 0.01$) except firm age.

It is found that there is a significant positive relationship between CEO compensation with all the variables including narcissism, firm age, firm size, leverage, Tobin's Q and Return of Assets with significance level at 1% ($p < 0.01$). The relationship between CEO compensation with all the variables show a weak positive relationship with correlation coefficient less than 0.30 except for firm size at a moderate positive correlation of $r = 0.442$. Therefore, it can be said that, Pearson correlation provides logical approach to succeeding analysis of the data. This findings are consistent with the findings conducted by O'Reilly et al. (2014), Olsen et al. (2014) and Charterjee and Hambrick (2007), who also indicate that there is a relationship between narcissism, compensation and the performance of an organization.

Table 4.2: Summary of Correlation Matrix's Test by Each Variables

Variable	Code	TQ	ROA	FS	FA	FL	NARC	COMP
Tobin's Q	TQ	1.0000						
Return of Asset	ROA	-0.1856* (0.0000)	1.0000					
Firm Size	FS	0.2020* (0.0000)	0.1623* (0.0000)	1.0000				
Firm Age	FA	-0.0020 (0.9268)	0.0105 (0.6230)	0.1972* (0.0000)	1.0000			
Financial Leverage	FL	0.3571* (0.0000)	-0.0893* (0.0000)	0.1603* (0.0000)	0.0214 (0.3182)	1.0000		
Narcissism	NARC	0.1676* (0.0000)	0.1327* (0.0000)	0.3817* (0.0000)	-0.0452* (0.0345)	0.1206* (0.0000)	1.0000	
Compensation	COMP	0.1412* (0.0000)	0.1379* (0.0000)	0.4424* (0.0000)	0.1382* (0.0000)	0.0862* (0.0001)	0.2793* (0.0000)	1

Note: The figures in the parenthesis are P-values and * indicates the significance level at 5%.

4.2.3 Normality Results

In this section, the three-sigma rule of thumb (68–95–99.7 rule) is used to determine the normality of the population. To calculate the normality of a given set of data, normal distribution calculator is used to test the normality. In mathematical notation, these particulars can be articulated as follows, where X is an observation from a normally distributed random variable, μ is the mean of the distribution, and σ is its standard deviation:

$$\Pr(\mu - \ \sigma \leq X \leq \mu + \ \sigma) \approx 0.6827$$
$$\Pr(\mu - 2\sigma \leq X \leq \mu + 2\sigma) \approx 0.9545$$
$$\Pr(\mu - 3\sigma \leq X \leq \mu + 3\sigma) \approx 0.9973$$

From the normality results shown in Table 4.3, data sets of this thesis indicate normal distribution at 68.26% or sometimes called as Gaussian distribution and increased accuracy and chances of finding significant results.

Table 4.3: Results of Normality Test

Variables	**Results**
Tobin's Q	P (0.007<X<0.5268)=0.6826
Return of Asset	P (−1.0388<X<1.0690)=0.6826
Firm Size	P (4.9698<X<6.1930)=0.6826
Firm Age	P (1.1458<X<1.724)=0.6826
Financial Leverage	P (0.6563<X<57.4251)=0.6826
Narcissism	P (0.7497<X<3.3881)=0.6826
Compensation	P (12.2254<X<14.7774)=0.6826

4.3 Diagnostic Analysis Result

This section determines the right estimator and analyses the problems by using several tests. Two basic tests are used in this thesis to choose the right decision. The basic tests are Breusch

and Pagan LM test and Hausman test. After obtaining an appropriate model, various diagnostic checks are performed. Problems that may exist include multicollinearity, heteroscedasticity, and autocorrelation. In this thesis, robust fixed effect model is preferred and heteroscedasticity and autocorrelation problems are eliminated.

4.3.1 Pooled against Panel (Breusch and Pagan LM Result)

In this thesis, Breusch - Pagan LM test is applied to discriminate between the pooled OLS model and the random effect model. The pooled model is chosen when $\sigma_{\lambda}^{2} = 0$ and OLS would be BLUE as there would be no autocorrelation. Otherwise, the random effect model is the most appropriate model. The null hypothesis in the LM test is that variances across entities is zero. It means that there is no significant difference across units (i.e. no panel effect).

This thesis uses data from firm's annual report obtained from Bursa Malaysia over the period 2010-2014 to model the CEO narcissism effects on firm performance. Here, the research has restricted the sample to a balanced panel where the data are observed in each of the relevant years. This gives a panel data set with 5 years of data on 441 companies for a total of 2185 observations. The variables used to model the decision of whether or not CEO narcissism influences firm performance are proxies of CEO Narcissism (NARC), CEO compensation (COMP), firm size (SIZE), firm age (AGE) and leverage (LEV). The results of estimated the restricted pooled OLC model and the random effects model are reported in Table 4.4.

Based on the results from the Breusch and Pagan LM test, Table 4.4 shows that the P-value for all the five models simultaneously indicate a chi-square probability value of 0.0000 at 1% significant level. The computed value of the LM test is 2841.07, 1216.33, 3416.15, 2828.1 and 1210.99 respectively, which clearly rejects the null hypothesis of no random effects. Therefore, the null hypothesis is rejected and the random effect model is more appropriate compared to pooled model. In other words, there are country-specific effects in the data. As a conclusion, all the five models should opt for random effects model than pooled OLS regression.

Table 4.4: Results of Breusch and Pagan LM Test

Results from Breusch and Pagan LM test for narcissism, compensation and firm performance. TQ(B) represents Tobin's Q of baseline model, ROA(B) is return on assets of baseline model, COMP(N) is compensation of narcissistic model, TQ(F) represents Tobin's Q of full model and ROA(F) is return on assets of full model. Prob>chi2 is the P values to determine statistical significance in a hypothesis test. P values greater than 0.05 considers as not to reject the null hypothesis and pooled model is more appropriate than random effect.

	TQ(B)	ROA(B)	COMP(N)	TQ(F)	ROA(F)
Chibar2(01)	2841.07	1216.33	3416.15	2828.1	1210.99
Prob>chibar2	0.0000	0.0000	0.0000	0.0000	0.0000

Note: $H_0 : \sigma_{\lambda}^{2} = 0$

4.3.2 Random Effect against Fixed Effect (Hausman Test Result)

Hausman test is used in applied panel data analysis to determine whether random or fixed effects model is chosen. Rejections of the null hypothesis favors fixed effect model. From Table 4.5, the P-value for all the five models are less than 1% thus reject the null hypothesis which has no correlation between λ_i and X_{it}. The computed value of the Hausman test is 47.69, 32.65, 40.58, 58.39 and 38.05 respectively, which clearly rejects the null hypothesis. The number of degrees of freedom for the statistic is the rank of the difference in the variance matrices. When the difference is positive definite, this is the number of common coefficients in the models being compared. Overall, it shows that the fixed effects model is the more appropriate model than the random effect model. In this thesis, fixed effect model is the most appropriate model for all the variables with dependent variables (ROA and Tobin's Q) and mediator variable (compensation), then various diagnostic checks are performed to examine the result accuracy. Under the current specification, the null hypothesis that the narcissism effects are adequately modeled by a random-effects model is rejected. This result is based on the rest of our model specification, and fixed effects might be more appropriate for all the five models in this research.

Table 4.5: Results of Hausman Test

Results from Hausman test for narcissism, compensation and firm performance. TQ(B) represents Tobin's Q of baseline model, ROA(B) is return on assets of baseline model, COMP(N) is compensation of narcissistic model, TQ(F) represents Tobin's Q of full model and ROA(F) is return on assets of full model. Prob>chi2 is the P values to determine statistical significance in a hypothesis test. P values greater than 0.05 considers as not to reject the null hypothesis and random effect model is more appropriate than fixed effect model.

	TQ(B)	ROA(B)	COMP(N)	TQ(F)	ROA(F)
Chibar2(01)	47.69	32.65	40.58	58.39	38.05
Prob>chibar2	0.0000	0.0000	0.0000	0.0000	0.0000

Note: H_0 : Cov (λ_i , X_{it}) = 0

4.3.3 Multicollinearity Results

The variance inflation factor (VIF), the method that used to measure the multicollinearity, is applied to determine how much the variance of an estimated regression coefficient increases if the predictors are correlated. The usual rule of thumbs is that if mean value of variance inflation factor (VIF) greater than 10, then there is a problem of multicollinearity. There is no multicollinearity among factors if the result shows that VIF is equal to 1. However, if the VIF is higher than 1, the predictors may be moderately correlated. If the VIF higher than 5 but less than 10, it indicates that the predictors are highly correlated and it may be problematic. If the VIF goes beyond 10, it can be assumed that the regression coefficients are poorly estimated due to multicollinearity. To test for multicollinearity, the VIF was calculated for each independent variable and by each estimation. Table 4.6 shows the mean values of variance inflation factor obtained from Multicollinearity test for narcissism, compensation and firm performance. The results show that all the five models obtained the VIF values of less than 2 (1.04, 1.04, 1.14, 1.15, and 1.15 respectively), which indicate some

correlation, but not enough to be overly concerned about. Therefore, there is no problem of multicollinearity in this research. This is consistent with the advantage of using panel data that minimizes multicollinearity.

Table 4.6: Results of Multicollinearity Test

Table 4.6 shows the value which mean of variance inflation factor obtain from Multicollinearity test for narcissism, compensation and firm performance. TQ(B) represents Tobin's Q of baseline model, ROA(B) is return on assets of baseline model, COMP(N) is compensation of narcissistic model, TQ(F) represents Tobin's Q of full model and ROA(F) is return on assets of full model. If mean value of variance inflation factor greater than 10, then there is a problem of multicollinearity.

	TQ(B)	ROA(B)	COMP(N)	TQ(F)	ROA(F)
Mean VIF	1.04	1.04	1.14	1.15	1.15

4.3.4 Heteroscedasticity Results

To diagnose heteroscedasticity problem, modified Wald test is measured for group wise heteroscedasticity in the fixed-effect regression models. The null hypothesis for this test is homoscedasticity which signifies constant variance. That is, the variance of the error term is constant. If the variance of error terms is not constant, it can be considered as heteroskedastic. If the error term is heteroscedastic then one solution is to use correct formulas for variances and standard errors (heteroscedasticity-robust standard errors). Table 4.7 documents the heteroscedasticity results. The results show that the chi-square probability value is 0.0000 for all the five models, which is statistically significant at 1% level. As a result, the null hypothesis is rejected. Besides, a large chi-square indicates that heteroscedasticity is present. According to Table 4.7, the chi-square value for all the five models is large (1.10E+09,

3.30E+08, 3.40E+07, 2.80E+09 and 2.50E+07 respectively), indicating heteroscedasticity is a problem in these models. Heteroscedasticity is frequently encountered in cross-sectional regression models. One reason for this is that the conditional distribution of *y* has different degree of variability at different levels or layers of population. In these models, the non-constant variance observation exists and rectification for the regression is needed. The null hypotheses of each test are decisively rejected. The errors exhibit groupwise heteroscedasticity problem, and to be fit by heteroscedasticity-robust standard errors and inference procedures. Heteroscedasticity causes standard errors to be biased. Under OLS, it is assumed that errors are both independent and identically distributed. However, robust standard errors relax either one or both assumptions. Therefore, when heteroscedasticity exists, robust standard errors is preferred since it is more trustworthy than OLS.

Table 4.7*:* Results of Heteroscedasticity Test Results

Table 4.7 presents the chi2 values and P-values Heteroscedasticity test for narcissism, compensation and firm performance. TQ(B) represents Tobin's Q of baseline model, ROA(B) is return on assets of baseline model, COMP(N) is compensation of narcissistic model, TQ(F) represents Tobin's Q of full model and ROA(F) is return on assets of full model. Prob>chi2 is the P values to determine statistical significance in a hypothesis test. P values greater than 0.05 considers as not to reject the null hypothesis and there is no problem of heteroscedasticity.

	TQ(B)	ROA(B)	COMP(N)	TQ(F)	ROA(F)
chi2	1.10E+09	3.30E+08	3.40E+07	2.80E+09	2.50E+07
Prob>chi2	0.0000	0.0000	0.0000	0.0000	0.0000

Note: H_0 :sigma(i)^2 = sigma^2 for all i

4.3.5 Autocorrelation Results

It is essential to identify serial correlation in the idiosyncratic in panel data model since the serial correlation in linear panel-data models cause standard errors to be bias and lead to a less efficient result. Serial correlation causes the standard errors of the coefficients to be smaller than they actually are and higher R-squared. To detect on autocorrelation problem, Wooldridge test is run in panel data. The null hypothesis is that there is no serial correlation in this specification. Based on Table 4.8, the results show that the chi-square probability value in all the five models is less than 0.01, which means statistically significant at 1% level. Thus, it is noted that the null hypothesis of no serial correlation is strongly rejected. Also, the output from the panel regression includes standard errors that account for clustering within the panels. If there is serial correlation in the idiosyncratic error term, clustering at the panel level will produce consistent estimates of the standard errors, and as discussed by Baltagi (2001) and Wooldridge (2002), other estimators will produce more efficient estimates. Thus, this thesis rejects the null hypothesis and diagnoses that there is a problem of autocorrelation in all the models. In other words, the error terms are correlated with each other.

Table 4.8: Autocorrelation Test Results

Table 4.8 presents the F values and P-values of autocorrelation test for narcissism, compensation and firm performance. TQ(B) represents Tobin's Q of baseline model, ROA(B) is return on assets of baseline model, COMP(N) is compensation of narcissistic model, TQ(F) represents Tobin's Q of full model and ROA(F) is return on assets of full model. Prob>F is the P values to determine statistical significance in a hypothesis test. P values greater than 0.05 considers as not to reject the null hypothesis and there is no problem of autocorrelation.

	TQ(B)	ROA(B)	COMP(N)	TQ(F)	ROA(F)
F	100.271	9.638	46.136	101.380	9.170
Prob>F	0.0000	0.0020	0.0000	0.0000	0.0026

Note: H_0 : no first order autocorrelation

Therefore, in this thesis, fixed effect model with heteroscedasticity and autocorrelation problem are applied. Next, the use of cluster option helps to rectify the model for both with heteroscedasticity and serial correlation standard error problems. The results shown in the findings below.

4.4 Findings

As discussed earlier, the results of multivariate hypothesis tests provide preliminary support for the prediction of a positive association between CEO narcissism and firm performance that CEO's narcissism influences the firm performance. In the multivariate hypothesis tests, a number of other factors that may affect the association between CEO narcissism and firm performance has been controlled. Specifically, this research controls for firm size, firm age, and financial leverage along with the CEO's compensation.

Based on the previous discussion, to examine the effect of CEO narcissism on firm performance, this thesis estimates the following regression model:

$$CEO\ compensation_{i,t} = \alpha + \beta_1 NARC_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 AGE_{i,t} + \beta_4 LEV_{i,t} + \varepsilon_{i,t}$$

$$Firm\ Performance_{i,t} = \alpha + \beta_1 COMP_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 AGE_{i,t} + \beta_4 LEV_{i,t} + \varepsilon_{i,t}$$

Where narcissism is defined as the prominence of CEO's photograph in the annual report, CEO's prominence in the company's press release, CEO's publicity and CEO's relative cash pay, all variables are as defined earlier and in the Table 3.3. This research employs firm/year fixed effects in alternative specifications. Throughout this research, this research omits firm and year subscripts for financial listed companies. The hypothesis predicts a positive coefficient on Narcissism, $\beta 1 > 0$.

As discussed earlier, this research uses the level of the firm's ROA as a percentage of return on total assets (ROA) and the firm's market's expectation about future performance (Tobin's Q) as alternative specifications to validate the results of firm performance. This research estimates the above model using ROA and Tobin's Q as the dependent variable. By adopting the proxies of CEO narcissism, this thesis expects a positive association between CEO narcissism and ROA. Finally, if the positive association between CEO narcissism and ROA yields better performance to the firm in terms of accounting measure, this research expects to observe a positive association between the measures of CEO narcissism and Tobin's Q as well in terms of market measure of firm performance.

There are two important key points in this section. First is P-value, the value of each term tests the null hypothesis that if P-value less than 0.10 then rejects the null hypothesis. Secondly, regression coefficients represent the mean change in the dependent variable, where for one unit of change in the dependent variable while holding other variables in the model constant and if the coefficient is equal to zero, it means there is no effect between each other. This section shows the interpretation of the P-values and regression coefficients for the regression analysis.

4.4.1 Baseline Model

In this section, there are two models including baseline model of Tobin's Q and baseline model of Return on Assets to explain the association between Tobin's Q with control variables and Return on Assets with all the control variables Table 4.9 records the results of panel data analysis with coefficients and P-values for fixed effects with cluster. Note that ***, ** and * indicate the 10%, 5% and 1% significance levels for the P-values respectively. Generally, regression analysis results are interpreted through three ways including coefficients, standard errors and P-values.

Table 4.9 presents the results of baseline model for both the market-based measure (Tobin's Q) and accounting-based measure (Return on Assets). In Hypothesis 4, this thesis proposed an interaction such that firms with larger size would have higher levels of corporate performance than firms in smaller size, thus vice versa. As shown in Table 4.9, after

controlling for firm size, firm age, and leverage, model 1 shows that the main effect of firm size on overall firm performance is significantly positive (β =0.0542, $p < 0.01$). Model 2 consistently shows a significant positive interaction term (β =0.0312, $p < 0.01$).

In Hypothesis 5, it is predicted that firms with older age are more likely to have higher performance, thus vice versa. However, the results illustrated in Table 4.9 show a converse findings as hypothesized. The major effect of firm age on firm performance as in Tobin's Q is marginally significant but negatively related (β = -0.0285, $p < 0.05$). It evidently proves that profitability declines by approximately 3% as the firm getting older. Loderer and Waelchli (2009) markedly show that Tobin's Q declines and the profits reduce as the firm's age increases. This is because the firm lose the ability to compete with other competitors in the same industry when the firm gets older. Besides that, the cost of a firm will increase, the margin becomes small, firm growth becomes slower, the assets in the firm becomes obsolete and the investment and R&D activities become less. Hence, the increase of firm's age will weaken the firm performance. However, there is no significant interaction of firm age on Return on Assets but a negative relationship in between (β = -0.0082, not significant).

In Hypothesis 6, the effect of leverage is subject to the significant positive interaction between debt-to-equity ratio and firm performance (β = 0.0024, $p < 0.01$). The form of this interaction shows that higher leverage has significantly higher level of Tobin's Q but results also indicated a significant negative coefficients between leverage and Return on Assets (β = -0.0004, $p < 0.01$.).

Table 4.9: Fixed Effects Regressions of Baseline Model

Variable	**DV= Firm Performance**	
	Tobin's Q	ROA
Firm Size	0.0542***	0.0312***
	(0.0075)	(0.0050)
Firm Age	-0.0285**	-0.0082
	(0.0141)	(0.0092)
Leverage	0.0024***	-0.0004***
	(0.0002)	(0.0001)
_cons	-0.0718	-0.1067***
	(0.0401)	(0.0251)
Fixed Effects	Firm/Year	Firm/Year
Observations	2185	2185
R2	0.1506	0.0405
Adj. R2	0.1494	0.0392

4.4.2 CEO Narcissism and Executive Compensation

The results of narcissistic model have been reported in Table 4.10. This thesis finds significantly positive coefficients on CEO narcissism and CEO compensation ($\beta = 0.1342$, $p < 0.01$) in the firm fixed effects model, which is consistent with the predictions. In terms of economic significance, it indicates that after controlling a numbers of firm characteristics including firm size, form age and leverage, firms with relatively high narcissism CEOs are 13.42 percent more likely to engage in pursuing higher compensation as compared to firms with relatively low narcissism CEOs. These findings are consistent with the notion that narcissists are more likely than other individuals to influence their compensation based on their exploitative natures and senses of superiority and entitlement. This research also finds that the result generalizes to a broader sample of firms. Thus, the regression results are supportive of Hypothesis 2 and indicative of a positive relation between CEO narcissism and

CEO compensation, highlighting narcissistic CEOs' strong motivation to pursue rewards or desirable outcomes (salary & bonus).

Among control variables, it is noted that firm size, firm age and leverage are all positively associated with compensation in firm fixed effects regressions. The results reveal a positive and significant association between firm size and CEO compensation. The coefficient estimate on firm size is 0.8019, significant at 1% level. It indicates that larger firm tends to compensate 80% more on total compensation to the CEO compared to smaller firm (as measured in log of total assets). Besides, the coefficient estimate for firm age is 0.3111 and significant at 5% level. These results can be interpreted as evidence that firm with older age compensates 31% higher to the CEO compared to the newer firm. Lastly, there is a positive coefficient of leverage and CEO compensation ($\beta = 0.0004$, n.s.) but there is no significant association found.

Table 4.10: Fixed Effects Regressions of CEO Narcissism on CEO compensation

Variable	**DV= CEO compensation**
Narcissism	0.1342***
	(0.0194)
Firm Size	0.8019***
	(0.0498)
Firm Age	0.3111***
	(0.0803)
Leverage	0.0004
	(0.6822)
_cons	8.2897***
	(0.2614)
Fixed Effects	Firm/Year
Observations	2185
R2	0.2148
Adj. R2	0.2133

4.4.3 Executive Compensation and Firm Performance

In Hypothesis 3 this thesis proposed that firm with highly compensated CEO would generate better firm performance as measured by Tobin's Q and Return on Assets. Table 4.11 reports the results for the regressions regarding CEO compensation and firm performance as measured in Tobin's Q and Return on Assets. Both results provide further evidence in support of Hypothesis 3.

The coefficient estimates of CEO compensation measure is significantly positive ($\beta = 0.0098$) and significant at 1% level, resembling the results for the growth of firm performance as measured in Tobin's Q. As hypothesized, there is a significant interaction between CEO compensation and firm performance (Tobin's Q). The magnitude of the difference for CEO

compensation is 1%, that is, firm with comparatively higher compensated CEO will increase 1% in firm performance as measured by Tobin's Q.

Table 4.11 ROA reports the results of re-running the test, replacing the dependent variable Tobin's Q with the alternative measure of firm performance, Return on Assets. The point estimate of 0.0068 for the coefficient on CEO compensation in ROA implies an increase of around 0.7% in the amount of return on assets for an increase in the amount of CEO compensation by one within-firm standard deviation. The result indicates a significant effect of CEO compensation on the amount of return on assets in firm performance, significant level at 1%.

Regarding control variables, consistent with the expectations, this thesis finds positive and significant coefficients on firm size in fixed effects specifications ($B = 0.0452$, $p < 0.01$). Given that Ghafoorifard et al. (2014) correlate firm size with actual instance of Tobin's Q, this research interprets this result as generally supporting the hypothesis of a positive association between firm size and Tobin's Q. Besides, the coefficient on firm age in the firm fixed effects specification indicates that firms with relatively older age, on average, perform 3% (-0.0308) worse as measured in Tobin's Q compared to the newer firm, statistically significant at 5% level. Moving to leverage, the coefficient estimate in the firm fixed effects model shown in Table 4.11 indicates a positive and significant relationship ($B=0.0024$, $p < 0.01$).

Finally, ROA in Table 4.11 presents the results of re-estimating Model 3, replacing the dependent variable Tobin's Q with the firm performance alternative measure, Return on Assets. With the exception of firm size in the firm fixed effects specification, this research finds that firm age and leverage are negatively associated with Return on Assets. In terms of economic significance, the coefficient on firm size in the firm fixed effects specification indicates that firms with relatively larger size generate average return on assets that are 2.5 percent higher than the firms with relatively smaller size, significant at 1% level. In overall, this thesis concludes that larger firms yield economically significant return benefits to the firm. The coefficient of firm age indicates a negative association with Return on Assets but no significant relationship found. Regarding leverage, consistent with Jameel (2013), this thesis finds that there is a negative association between leverage and Return on Assets, coefficient estimate value is -0.0004, significant at 1% level. This research interprets this result as further evidence of the relationship between leverage and Return on Assets. That is, if a firm is possessing higher debt-to-equity ratio in the company, it is expected to observe a negative association between leverage and return on assets.

Table 4.11: Fixed Effects Regressions of CEO compensation on Firm Performance

Variable	**DV= Firm Performance**	
	Tobin's Q	ROA
Compensation	0.0098***	0.0068***
	(0.0032)	(0.0019)
Firm Size	0.0452***	0.0250***
	(0.0084)	(0.0058)
Firm Age	-0.0308**	-0.0098
	(0.0141)	(0.0091)
Leverage	0.0024***	-0.0004***
	(0.0002)	(0.0001)
_cons	-0.1506***	-0.1608***
	(0.0444)	(0.252)
Fixed Effects	Firm/Year	Firm/Year
Observations	2185	2185
R2	0.1535	0.0465
Adj. R2	0.1520	0.0447

4.4.4 Instrumental Panel Regression

CEO Narcissism and Compensation

This thesis investigates whether the firm with more narcissistic CEOs receive compensation differently. Psychology research suggested that the positive relationship between narcissism and CEO compensation indicates that more narcissistic CEOs might get higher compensation since narcissistic CEOs have inflated self-images and therefore, demand for higher compensation (O'Reilly et al., 2014). Moreover, Nevicka et al. (2011) also proves that observers view narcissists more favourably in a group decision-making context. Thus, whether compensation for more narcissistic CEOs is higher or lower is an open empirical question. This research examines whether more narcissistic CEOs are compensated differently using the following model specification:

$$Compensation_{i,t} = \alpha + \beta_1 NARC_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 AGE_{i,t} + \beta_4 LEV_{i,t} + \varepsilon_{i,t}$$

This research examines CEO's compensation by capturing CEO's total compensation as reported in the firm's annual report. The executive's current year salary, bonus, stock option grants, restricted stock grants, and long-term incentive pay-outs have all been included in the total compensation. The independent variable in this model is NARC which is measured by prominence of CEO's photograph in the annual report, CEO's prominence in the company's press release and CEO's publicity, CEO's relative cash pay. As discussed earlier, narcissists possess grandiose senses of self-importance, strong desires for recognition, and inflated self-images, and they constantly seek opportunities for personal glory. Following the research conducted by Olsen et al. (2014), this research attempts to capture these dimensions of narcissism using the proxies as mentioned above.

This research incorporates several control variables which have been found in prior literatures (Gomez-Mejia & Wiseman, 1997; Tosi et al., 2000) that examines CEO compensation. SIZE is the firm's size and is defined by the total assets of the company. AGE is defined as firm age which is measured by the number of years firm has operated. LEV is the firm's leverage and is measured as total debts divided by total shareholders' equity. This test helps users to better understand whether more narcissistic CEOs require greater compensation due to their inflated self-concepts.

Table 4.12 reports the results from regression models. The coefficient on NARC is positive and significant for CEO compensation (β_1 = 0.1342, p < 0.01), suggesting that more narcissistic CEOs receive higher compensation. The firm size is also positively and significantly associated with CEO compensation (β_2 = 0.8019, p < 0.01), which indicates that larger firms do pay higher compensation for more narcissistic CEOs than smaller firm. Firm age also positively and significantly predict CEO compensation (β_3 = 0.005, p < 0.05), which suggests that more narcissistic CEOs are received higher compensation in the older firms. Although leverage is also positively associated with the CEO's compensation (β_4 = 0.0004, n.s.), it is not significantly associated with CEO's compensation. Based on the results obtained from the fixed effect with cluster estimation, the R-squared value of the estimated panel regression models are 0.2148, or 21.48%. These results are consistent with the psychology literature suggesting that narcissists are viewed more positively based on the compensation level observed (Olsen et al., 2013).

Therefore, the narcissistic model is concluded based on the estimation below:

*Compensation = 8.2897 + 0.1342*NARC + 0.8019*SIZE + 0.3111*AGE + 0.0004* LEV*

Based on the results obtained from the fixed effect with cluster estimation, the R-squared value of the estimated panel regression models are 0.2148, 0.1535, 0.0465 or 21.48%, 13.35% and 4.65% respectively to narcissistic model, full model of Tobin's Q and full model of ROA. Notwithstanding, F-test values still indicate a real relationship between the dependent variable and the response variables when R-squared is low.

CEO Compensation and Firm Performance

This research then examines whether CEO compensations turn in better performance in terms of a broader metric: Tobin's Q and return on assets (ROA). Tobin's Q is the ratio of the market value of a company's assets (stock market value) divided by the book value of company's asset. This measure is widely used to calculate the future value of a firm as perceived by the stock market. ROA, which is another dependent variable, is the firm's return on assets for the current year and is measured as net income scaled by total assets at the end of the prior year. ROA acts as a catch-all performance measure for revenues, expenses, and utilization of capital in current periods. We use the following specification:

$$Firm\ Performance_{i,t} = \alpha + \beta_1 COMP_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 AGE_{i,t} + \beta_4 LEV_{i,t} + \varepsilon_{i,t}$$

Consistent with Sigler (2011), it is predicted that there is a positive and significant relationship between CEO compensation and firm performance. Additionally, this thesis tests several interaction effects that capture the firm's operating uncertainty. It is expected that when the firm is at the different life cycle, firm's performance will be affected differently by the decision and strategic policies of CEO. During early stage, since there is a highest operating uncertainty, the narcissistic CEO's decision will likely have more influential effects to its subsidiary. When the firm is at more matured stage, it is expected that the narcissistic CEOs' decisions will bring an incremental impact on firm performance.

This research defines three indicator variables to proxy for firm characteristics. The first indicator variable is based on firm size using total assets as proxy. Since Lang and Lundholm

(1996) propose that operating performance of smaller firms are less predictable, this research uses firm size to capture uncertainty. The second indicator variable is based on firm age. Since Chen et al. (2002) indicate that operating performance of younger firms are less predictable, this research uses firm age to capture uncertainty. The third indicator variable is based on leverage. This thesis uses leverage to capture uncertainty because many empirical evidences support the view that leverage risk reduces company performance. Carson and Hoyt (1995) and Browne et al. (1999) show that operating performance is negatively associated with leverage. The indicator variables SIZE, AGE and LEV are set equal to one when the firm is in the bottom decile of firm age, total assets and market value of debt-to-equity, respectively. The interaction of these indicator variables shows how CEO compensation differentially impacts firms with higher operating uncertainty.

As suggested by previous psychology research of Bebchuk and Fried (2004), firms with relatively higher compensated CEOs are more likely to make positive outcomes in the firm (or from past decision outcomes), then it should expect to see CEO compensation positively affecting firm performance. Table 4.12 shows the results from regression models. The coefficient on CEO compensation in the first column is positive and significant ($\beta_1 = 0.0098$, $p < 0.01$), suggesting that CEO compensation is positively related to Tobin's Q. Similarly, the coefficient on CEO compensation in second column also indicates a positive and significant association ($\beta_1 = 0.0068$, $p < 0.01$), reporting that CEO compensation is positively related to Return on Assets. The result is in line with Yatim (2012), which shows that executive remuneration is significantly related to ROA in Malaysia. As a conclusion, it

supports the evidence that CEO compensation can significantly and positively impact firm performance in both market measure and accounting measure.

This thesis also expects that the beneficial effect of CEO compensation on firm performance will be greater for firms with better firm characteristics. Results show that the interaction of firm size and leverage with Tobin's Q are significantly positive while firm age is significantly negative. On the other hand, results in alternative measure indicate that there is a positive association between firm size and Return on Assets while firm age and leverage are negatively related to Return on Assets. However, the relationship between firm age and Return on Assets is not significant. Therefore, the effect of CEO compensation is more positive in the top decile of firm size and is more negative for firms in the top decile of leverage.

In general, the standardized regression coefficients show that the effect of CEO compensation is roughly as large as the effect of firm size, firm age and leverage. Taken together, the results indicate that CEO compensation has an economically significant impact on firm performance. The estimation models are indicated below:

*Tobin's Q = -0.1506 + 0.0098*COMP + 0.0452*SIZE – 0.0308*AGE + 0.0024*LEV*

*Return on Assets = -0.1608 + 0.0068*COMP + 0.0250*SIZE – 0.0098*AGE – 0.0004*LEV*

Table 4.12: Results of Panel Data Analysis of Narcissism, CEO Compensation and Firm Performance

The values reported is the coefficient value, with p-value in parentheses. The regression is performed using three control variables that affect firm performance in five models. PHOTO is the independent variable. NARC is the prominence of CEO's photo in annual report, press release and publicity representing the narcissism level of CEO in an organization; COMP is CEO compensation which acts as the mediator in the models. FA is firm age (number of year operated), FS is firm size (log of assets), LEV is financial leverage (ratio of debt to equity). TQ is Tobin's Q as the market measurement of firm performance while ROA represents Return on Assets which is the financial measurement of firm performance.

Panel Regression Model					
	Baseline Model (Tobin's Q)	Baseline Model (ROA)	Narcissistic Model	Full Model (Tobin's Q)	Full Model (ROA)
FS	0.0542***	0.0312***	0.8019***	0.0452***	0.0250**
	(0.0001)	(0.0002)	(0.0000)	(0.0033)	(0.0121)
FA	-0.0285	-0.0082	0.3111**	-0.0308	-0.0098
	(0.2719)	(0.5885)	(0.0387)	(0.2338)	(0.5092)
LEV	0.0024***	-0.0004***	0.0004	0.0024***	-0.0004***
	(0.0000)	(0.0002)	(0.8030)	(0.0000)	(0.0002)
COMP				0.0098*	0.0068**
				(0.0681)	(0.0278)
NARC			0.1342***		
			(0.0001)		
_CONS	-0.0718	-0.1067**	8.2897***	-0.1506*	-0.1608***
	(0.3277)	(0.0135)	(0.0000)	(0.0565)	(0.0003)
N	2185	2185	2185	2185	2185
R-SQUARED	0.1506	0.0405	0.2148	0.1535	0.0465
ADJ R-SQUARED	0.1494	0.0392	0.2133	0.152	0.0447

Note:

1. Figures in the parentheses are P-value. P –value less than 0.10 then rejects null hypothesis.

2. ***, ** and * indicate the respective significance level at 10%, 5% and 1%.

3. Cluster is the option to solve heteroscedasticity and serial correlation problems.

4.4.5 Robustness Check Using 2SLS Approach

In this thesis, the test of two-stage least squares (2SLS) model using an instrumental variable has been applied in order to check for endogeneity on whether firm performance significantly predicts CEO narcissism. CEO narcissism in this research is instrumented with CEO compensation to predict firm performance. Table 4.13 reports the result of this assessment. The results of 2SLS for Return on Assets (ROA) indicates the presence of endogeneity (Hausman test comparing OLS to 2SLS outcomes: chi2 = 85.47, $p < 0.01$), and the instrumented variable (Return on Assets) does predict CEO Narcissism (-0.5125, $p < 0.01$). The p-values less than threshold 0.01 indicates significance level at 1% then reject the null hypothesis.

The coefficient on firm size is negatively and insignificantly associated with ROA (β_1 = -0.0154, n.s.), which indicates irrelevance between firm size and ROA. However, firm age is negatively and significantly associated with ROA (β_1 = -0.0201, $p < 0.05$) indicates that older firms may generate worse firm performance compared to newer firms in term of Return on Assets (ROA). Simultaneously, leverage is also negatively and significantly associated with ROA (β_1 = -0.0005, $p < 0.01$), which shows that low leverage will lead to higher firm performance. Based on the results obtained from the two-stage least squares, the R-squared value is 0.1193, or 11.93%.

Moreover, the results of 2SLS for Tobin's Q also indicate the presence of endogeneity (Hausman test comparing OLS to 2SLS outcomes: chi2 = 85.47, $p < 0.01$), and the instrumented variable (Tobin's Q) does predict CEO Narcissism (-0.4404, $p < 0.01$). The p-values less than threshold 0.10 indicates significance level at 10% then reject the null hypothesis. The coefficient on firm size is negatively and significantly associated with Tobin's Q ($\beta_1 = -0.0255$, $p < 0.05$) reveals that smaller firms has better prospects as measured by Tobin's Q. Firm age also negatively associated with Tobin's Q ($\beta_1 = 0.0526$, n.s.), but it shows an insignificant relationship between firm age and Tobin's Q. However, leverage is positively and significantly related to Tobin's Q ($\beta_1 = 0.0032$, $p < 0.01$), which demonstrates that higher leverage leads to better future firm performance. Based on the results obtained from the two-stage least squares, the R-squared value is 0.3203, or 32.03%.

Robustness check using two-stage least squares approach has repeated the overall analyses including the measures of CEO narcissism, as well as CEO compensation and control variables. Overall, the pattern of results did not change as the interaction of CEO narcissism and firm performance (both ROA and Tobin's Q) remained significantly related to CEO compensation and the main effect for narcissism is consistently significant as well. As a conclusion, there is no difference between the results of instrumentation and two-stage least squares which demonstrates that the results presented in this thesis are reliable. As a conclusion, by considering the results in totality, this research concludes that compensation of highly narcissistic CEOs yields economic significance to the firm performance.

Table 4.13: Results of Two-Stage Least Squares

Two-Stage Least Squares		
	2SLS (ROA)	2SLS (Tobin's Q)
FS	-0.0154	-0.0255**
	(0.2700)	(0.0186)
FA	-0.0201**	-0.0526
	(0.0250)	(0.3179)
LEV	-0.0005***	0.0032***
	(0.0000)	(0.0000)
COMP	0.0507***	0.0670*
	(0.0000)	(0.0530)
NARC		
_CONS	-0.5125***	-0.4404***
	(0.0000)	(0.0000)
N	2185	2185
R-SQUARED	0.1193	0.3203
ADJ R-SQUARED		0.3191

Note:

1. Figures in the parentheses are P-value. P –value less than 0.10 then rejects null hypothesis.

2. ***, ** and * indicate the respective significance level at 10%, 5% and 1%.

3. Cluster is the option to solve heteroscedasticity and serial correlation problems.

4.5 Discussion

Numerous prior studies have been conducted to examine the factors that influence the performance of public listed firms in Malaysia, however there are only few focused on the CEO's personality and firm performance. This thesis applies CEO narcissism as the independent variable of the research, and moderated by CEO compensation to investigate

the influence on firm performance in both accounting-based measure and market-based measure. The other determinants such as firm size, firm age, and financial leverage are treated as control variables in this thesis in order to obtain a more accurate result. The results are shown in Table 4.12.

Scholars might have practically questioned whether CEO narcissism is associated with the extent of firm performance. This thesis proves that, as hypothesized, CEO narcissism is positively related to firm performance. In line with prior researches, there is a strong indication showing that CEO narcissism is related to both accounting-based measurement (ROA) and market-based measurement (Tobin's Q). This finding is confirmed by the result presenting that firm with more narcissistic CEO delivers better performance. In other words, it is demonstrated that the personality of top executives of the organization settings influence their strategic decisions which ultimately impact firm performance, as suggested in Upper Echelon Theory. The result is consistent with Campbell and Campbell (2009) who validated a positive relationship between CEO narcissism and firm performance. Chatterjee and Hambrick (2007) also stated that narcissistic CEO can significantly influence firm performance variance.

However, why narcissistic CEO makes better firm performance? According to Chatterjee and Hambrick (2007), narcissistic CEOs have higher possibility to take courageous actions than the other CEOs. Therefore, the dynamic actions engaged by the narcissistic CEOs are able to gain huge profits from primary-mover benefits. Furthermore, the continuing strategic fluctuation that is favoured by the narcissistic CEO will lead the organization to be always

at the leading advantage of new chances or anticipated new tracks to success, rather than struggling to improve current methods. Narcissistic CEOs are also more sensitive to the rewards of risk taking. Narcissists exhibit strong enthusiasms to achieve desired result to avoid negative outcome since they believe that they will do better in the future even if they face failure now. They are more willing to take risk than others, as a result, they are able to generate better firm performance in long term.

Besides, narcissistic CEOs continuously desire for accomplishment with little fear of failure since it creates attention and recognition that they strive for. It also turns into a motivation for them to perform better for the company in order to obtain the applause that they constantly need. In addition, prior research shows that narcissistic CEOs has higher possibility to pursue incentives or anticipated outcomes while they are being relatively weakly motivated to prevent negative consequences (Foster et al., 2009). Narcissistic CEOs feel greatly entitled and are aggressive in chasing what they think belongs to them, therefore they will strive the best to obtain greater outcomes for the company.

Although narcissism has always been categorized as forming part of the dark side of personality due to the possession of negative characteristics, they are more often to be succeeded in the business endeavours since they are also characterized by positive traits such as charisma, confidence and achievement-driven. In some circumstances, the features of the narcissist such as lack of empathy, charisma, and grandiosity may also prevail over the disadvantages. During periods of bedlam and crisis, narcissistic CEOs who are self-esteemed and confident will stress a point of view to fight for success, and those who are more

timorous, indecisive, and self-reflective may not be success in this situation. Indeed, many successful narcissists succeed under these situations, such as Napoleon in the period of war or Steve Jobs in the eras of remarkable technological change. Under these environments, narcissists' grandiosity and vision are seen to be attractive to the supporters who are seeking for new ideas and solutions for a cyclical problem. Therefore, it is found that narcissistic CEOs who prefer in pursuit of grandiose and dynamic strategies, also more likely to deliver greater performance than their less narcissistic counterparts.

Upper echelons theory has been extended in this research by presenting CEO narcissism as a formal concept to explain firm strategy and performance. As asserted in the presentation of upper echelons theory, Hambrick and Mason (1984) claim that "organizations become reflections of their top executives." As a result, it is theoretically built on upper echelons concept, which suggests that personality traits of the organization's top executives such as CEO would at least partially reflected in organizational decisions. Narcissistic CEOs affect their firm's direction, associations with key stakeholders, and overall reputation by founding a united purpose, collaborating vision and mission, managing cultural perspective, and creating adaptive capabilities.

Due to their role and responsibility, CEO personality traits are not only reflected in their personal preferences and behaviours but also in the organization's strategies, structure, and performance. Given to the findings of this research, upper echelons theory might reasonably presume that when a narcissistic CEO makes a decision on organizational strategy, it would be at least a part of the reflection of that CEO's behavioural tendencies. Narcissistic CEOs

are more likely to exclaim and express their views persuasively and confidently, hence, they are able to influence the decision making of the company and consequently affect the outcomes of the company.

As a result, narcissistic CEOs are probably to be fascinated by various kinds of strategic decisions than other CEOs. Their extravagant self-view and extreme desire for attention will influence their decision and assessment of strategic options. They will find for the unique and dramatic ones, which are more preferably chosen for their firms' purposes and also personal benefit. Therefore, it is concluded that narcissistic CEOs are able to generate better firm performance, and CEO narcissism is significantly and positively related to firm performance.

Another significant finding of this research is the exploration and recognition of the relation between CEO compensation and the growth of firm performance. Established on the 'pay-to-performance' perspective, this thesis focuses on this research gap by further emerging the validation and evidential support for a positive relationship between CEO compensation and firm performance. The finding of this thesis has confirmed that CEO compensation is positively and significantly related to firm performance in both measures (Tobin's Q and ROA). The result is in line with Yatim (2012), which shows that executive remuneration is significantly related to ROA in Malaysia. Several prior researches such as Lewellen et al. (1992) and Brick et al. (2005) also demonstrated that CEO compensation is positively associated with firm performance. As suggested by previous psychology research, firms with relatively higher compensated CEOs are more likely to make positive outcomes in the

firm, therefore CEO compensation is positively influencing the firm performance. The role of compensation is to offer motivations to maximize the firm performance. From the perspective of agency theory, the relationship between CEO compensation and firm performance should offer a promising motivation for firm success.

This thesis has also extended agency theory in the research as it is discovered that a conflict of interest is always existed between shareholders and executives in agency relationship. This sort of relationship is usually not so content mostly due to the presence of conflict of interest. When executives work hard to improve the firm performance, they are not able to obtain full benefit from the firm's profit. In this situation, executives would not consider at the interest of the shareholders but their own each and every time they need to make decision or there is a financial request. Thus, the finding of this research demonstrated that the conflict can be reduced by offering incentives such as stock options, bonuses and restricted stock to the executives. The compensation packages may motivate executives to perform at the shareholders' interest and put in more efforts to increase profitability and values of the firms. This thesis represents CEO compensation as an organizational aspect for facilitating substantial variances such as advancement in firm performance. Therefore, the inspection of pay-to-performance perspective in this thesis provides supporting evidence that higher CEO compensation will generate significant and positive influence on firm performance variances than the low compensation industry peers do.

Based on the findings, CEO narcissism is positively and significantly related to CEO compensation, suggesting that more narcissistic CEOs receive higher compensation. This

result is similar to the study carried out by O'Reilly et al. (2014), claiming that narcissistic CEOs get higher compensation in comparison to other executives at the same organization. It is mainly due to narcissists' strong sense of entitlement that makes them aggressively pursue what they think belongs to them. In the long run, their self-confidence in judging and showing their personal capabilities help them to form the opinions of the board and in the end affect the compensation policies.

Moreover, this thesis finds that CEO compensation is partially mediating the relationship between CEO narcissism and firm performance. The finding of this thesis proposes that narcissism does truly predict firm performance, however the relationship between narcissism and firm performance is mediated by an important aspect, which is CEO compensation. The compensation value of high performance is related to the narcissists' attention-seeking tendency of gaining the admiration from their followers, since their compensation figure will be displayed in the annual report and illustrated to public. This research finds that narcissist's performance is very sensitive to the change in CEO compensation. As this thesis controls for CEO compensation, it is discovered that narcissistic CEOs constantly perform better when greater performance would benefit them with higher compensation.

Overall, influences of CEO compensation have significant effects on the performance of narcissistic CEO in the company. The association between CEO narcissism and the variance of firm performance should be seen as significantly influenced by the manifestation of CEO compensation. By applying both upper echelons theory and agency theory to this thesis, it reasonably explains the relationship between CEO narcissism, CEO compensation and firm performance. In conclusion, of remarkable result, CEO narcissism is related to the CEO

compensation towards the growth of firm performance—increased returns on assets (ROA) and future market value (Tobin's Q).

The finding is also showing that firm size has a positive and significant relationship with firm performance both Tobin's Q and ROA. The result is consistent with Prescott and Vischer (1980) in which there is a positive relationship between firm size and firm performance in terms of profitability resulted from the implementation of larger differentiation and strategies of specialization, which hence lead to higher productivity. Larger firms have certain advantages with their firm size such as in a greater position of taking advantage of economies of scale which leads to a higher productivity, better bargaining power with distributors and suppliers or customers, take advantage of experiencing curve impacts and fitting prices higher than the competitive level. In addition, bigger firms are more steady and stable that they are able to produce higher revenues due to a better capacity in production and thus lead to capital cost savings through economies of scale.

However, firm age does not show any significant relationship with the firm performance either Tobin's Q or ROA. This result is consistent with Chandrasegaram et al. (2013) in which there is negative and insignificant impact between firm age and firm performance. As stated by Dechow et al. (2003), firm age does not reflect the performance of a firm. This is because no matter how old the company is, the performance of the firm is undefined. The performance is determined by many factors such as economy condition, corporate

governance, and politics. Therefore, no significant effect is shown between the firm age and performance of the firm.

Lastly, according to the result shown in Table 4.12, there is a positive and significant relationship between leverage and Tobin's Q. It indicates that higher leverage has significantly higher level of Tobin's Q. However, result also shows that there is a negative and significant relationship between leverage and ROA. The finding is consistent with Saeedi and Mahmoodi (2011) that their result shows that firm performance measured by Tobin's Q is positively affected by leverage, whereas the Returns on Assets (ROA) is associated negatively with the leverage. Deesomsak (2004) also conducted a similar study in Malaysia and found a consistent result of negative relationship between financial leverage and firm performance measured by ROA. It is probably due to the interest rate of bank's borrowing that a firm needs to pay and the firms are facing issue of debt servicing costs and heavy financial risk. The fact is that when debt rises, the interest payment will also increase. As a result, leverage decreases the firm performance.

4.6 Summary

The results show that CEO narcissism and CEO compensation are positively related to firm performance through the measurement of Tobin's Q and Return on Assets (ROA). Besides, firm size also indicates a positive relationship with firm performance while firm age and leverage indicate a negative association with firm performance. All the variables show a

significant relationship with firm performance regardless positive or negative except for firm age, which indicates no relationship with firm performance. In addition, this thesis confirms the mediating role of CEO compensation which shows a positive mediating effects between CEO narcissism and firm performance. Through the research methodology suggested, the data are able to provide statistical findings in answering the research questions and objectives intended for this thesis. Generally, the findings of this research show consistent results with prior studies. These findings are important in formulating policies and recommendations in the next chapter. The results presented here add to the body of evidence and indicate that, as predicted, more narcissistic CEOs claim more compensation and narcissistic CEOs with higher compensation generally generate better firm performance in terms of Return on Assets (ROA) and Tobin's Q.

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

A lot of studies has strong assumption in hypothesizing CEO's narcissism as to the personality of the CEO can influence firm performance (Rosenthal & Pittinsky, 2006; Padilla et al., 2007). Several empirical researches have demonstrated that how the narcissistic CEO influences firm's performance and strategies (Resick et al., 2009; Chatterjee & Hambrick, 2011). The findings disclosed in this thesis enhance the context of evidence, and indicate that as predicted, more narcissistic CEOs obtain higher compensation and generate better firm performance compared to CEOs who are less narcissistic over time. However, data collection on cross-firm informations of CEO personality has been demonstrated to be difficult.

The study extends some prior researches that concentrating on CEO personality as a determining factor of firm performances and outcomes (Simsek et al., 2010; Tang et al., 2011), and found on the prior studies that propose narcissistic leadership personalities may have both positive and negative implications to the firm (Goel & Thakor, 2008; Judge et al., 2009). For the reason that the aspect of CEO personality on its own is inadequate to completely clarify the firm performance outcomes (Simsek et al., 2010; Tang et al., 2011), this thesis investigates firm-level size, age and leverage as strategic mechanism that narcissistic CEOs might control to affect the variances in firm performance.

Referring to the psychology literature, it seems likely that individual personality, such as narcissism, could affect firm performance. However, it is not generally aware of any extant studies that examines the relation between specific CEO personality attributes and firm-level performance, probably due at least in part to the difficulty in measuring CEO personality traits. The aim of this research is to investigate narcissism by using prominence of CEO's photograph, prominence of CEO's press release and publicity, and CEO relative cash pay as proxies to explore the effects of CEO personality trait on firm performance.

This research begins by conducting an empirical study to validate the narcissism measurement through archival assessment and to verify its predicted association with CEO compensation. The findings show that prominence of CEO's photograph is positively linked to both narcissism and CEO compensation. Additionally, the mediation analysis advises that the way by which CEO's photograph is related to CEO compensation is primarily through the personal level of narcissism. Next, this thesis utilizes the sample of validated proxies to observe the relationship between CEO narcissism and firm performance. The results indicate that CEO narcissism is related to greater firm performance as per shown in the measures of Tobin's Q and return on assets (ROA), as well as higher CEO compensation. These results reinforce the importance of CEO characteristics in the domain of organizational performance.

In general, the findings in this research are consistent across a wide range of specifications in suggesting that executives' personality characteristics, such as narcissism, have potentially important effects on firms' performance. As noted in the literature review before, there is abundant array of literature focus on CEO's personality traits and firm performance outcomes. However, much less is known about the effects of executives' attributes. While it

is more difficult to gather data on high-level executives, this research findings suggest that the personal characteristics of CEO may influence important firm-level outcomes.

This chapter is split into four sections. First section is conclusion section where it describes how the findings align with the prior research studies and answer all the research questions in this thesis. Section 5.2 describes the significance of study where it elaborates the theoretical contribution of the findings in this research to the theories adopted in chapter two. Besides, several implications of study will be explained in this section as well. Next section which is Section 5.3 addresses the limitations of study observed throughout the research. Lastly, Section 5.4 proposes some recommendations for future research.in order to have a broader and comprehensive understanding on this topic.

5.2 Conclusion

This research assesses the effects of CEO narcissism on CEO compensation and firm performance, which represents a particularly aggressive form of corporate presentation. Scholars might have practically questioned whether CEO narcissism is associated with the extent of firm performance. In other words, is more narcissistic CEO performing better or worse than less narcissistic CEO? This thesis proves that, as theorized, CEO narcissism is positively related to firm performance. Narcissistic CEOs who prefer in pursuit of grandiose and dynamic strategies are also more likely to deliver greater performance than their less narcissistic counterparts (Chatterjee & Hambrick, 2006).

Related to firm performance, this thesis shows how narcissistic personality traits of CEOs can influence their firms' performance through the measurement of Tobin's Q and return on assets (ROA). In line with prior researches, there is a strong indication showing that CEO narcissism is related to both accounting-based measurement (ROA) and market-based measurement (Tobin's Q). In this case, Maccoby's (2003) statement should be considered as to which narcissism is a valuable executive characteristic especially in highly dynamic industry. This finding is confirmed by the results presenting that firms with more narcissistic CEOs deliver better performance. The findings of this thesis contribute to the ongoing theoretical work on the factors of firm performance and cross-sectional distinction in practice of firm performance by finding an aspect through which individual CEO's personality characteristics can significantly influence firm performance. This thesis also contributes to the literature of narcissism and more research on executive personality traits by offering the primary evidence that narcissistic tendencies of CEOs can influence firm outcomes. The findings of this research provide a better understanding on the approach of CEO narcissism in influencing firm performance, and also the reason of why the firms that are led by narcissistic CEOs may often be perceived as on a track to success. Therefore, the findings answer the first research question of this research, which is "Does CEO's narcissistic personality influence firm performance?" by showing that there is a significantly positive relationship between CEO narcissism and firm performance.

Another significant finding of this research is the exploration and recognition of the relation between CEO compensation and the growth of firm performance. Established on the developing 'pay-to-performance' perspective, this thesis focuses on this main research gap by further emerging the validation and evidential support for a positive relationship between

CEO compensation and firm performance. By linking CEO compensation and increased firm performance, it shows a more significant developments of 'pay-to-performance' perspective. This thesis represents CEO compensation as an organizational aspect for facilitating substantial variances such as advancement in firm performance. Therefore, the inspection of pay-to-performance perspective in this thesis provides supporting evidence that, ceteris paribus, higher CEO compensation will generate significant and positive influence on firm performance variances than the low compensation industry peers do. Therefore, the findings answer the second research question of this research, which is "Is CEO's compensation affecting the firm performance?" by showing that there is a significant and positive relationship between CEO compensation and firm performance.

Moreover, this thesis finds that CEO compensation is partially mediating the relationship between CEO narcissism and firm performance. The findings of the current research propose that narcissism does truly predict firm performance, however the association between narcissism and firm performance is mediated by an important factor: CEO compensation. The compensation value of high performance is related to the narcissists' attention-seeking tendency of gaining the admiration from their followers (Morf & Rhodewalt, 2001), since their compensation figure will be exhibited in the annual report and showcased to public. The current examination finds that narcissist's performance is very sensitive to the changes in CEO compensation. In the study that controls CEO compensation, narcissists constantly perform well when greater performance would benefit them with higher compensation than when it would not be. Overall, influences of CEO compensation have more effects on the performance of high narcissists than on the performance of low narcissists. Therefore, the affiliation between CEO narcissism and the variance of firm performance should be seen as

significantly affected by the manifestation of CEO compensation. Therefore, of remarkable result, CEO narcissism is related to the manifestation of CEO compensation towards the growth of firm performance—increased returns on assets (ROA) and future market value (Tobin's Q). Supporting the core thesis of this research, this research finds that narcissistic executives have a tendency to increase their own compensation in the firms that they lead. Therefore, the findings answer the third research question of this research, which is "Does CEO narcissism influence CEO compensation?" by showing that there is a significantly positive relationship between CEO narcissism and CEO compensation.

According to economic theory, it is prescribed that growing firm size leads to incremental benefits as the size of the firm allows it to increase the barriers of entry to prospective competitors and also to gain advantage on the economies of scale to achieve higher profitability (Chrystal & Lipsey, 1997). Consistent with prior researches, the findings of this thesis shows that firm size which is measured by the log of firm assets exhibits a significant and positive relationship with firm profitability, as measured by Tobin's Q and return on assets (ROA).It is presumed that large firms possess all the choices small firms have, as well as the competency of leveraging economies of scales and enter to capital markets from which small firms are unable to, hence contribute to higher profitability. Prescott and Vischer (1980) indicate the positive relationship between firm size and firm profitability. Some prior researches also state that larger firms can leverage on economies of scale (Montgomery, 1979; Sidhu & Bhatia, 1993). Therefore, the findings answer the fourth research question of this research, which is "Does firm size have an effect on firm performance?" by showing that there is significantly positive relationship between firm size and firm performance.

In addition, when firms get older, they have gone through a lot of transformations and revolutions. Prior literature reviews reveal that very few is identified about how firm performance changes with firm age, probably because the data on firm age is scarce. This empirical study ought to offer supporting evidence on the impacts of firm age on firm performance. For Malaysia non-financial public listed firms, this thesis analyzes the firm performance related to firm age between 2010 and 2014. This research findings oppose with prior researches that firm performance declines when the firm grows older. Older firms have lower growth rates in terms of revenues, earnings and productivity, they have lower level of firm profitability as measured by both Tobin's Q and return on assets (ROA) when other firm-level variables are controlled for. Older firms seem to be less competent to transform the growth of employment into evolution of revenues, earnings and efficiency. Consistent with the study done by Barron et al. (1994), this research shows that older firms are predicted to face higher exit threats when the other variables are controlled for. Therefore, the findings answer the fifth research question of this research, which is "Is there any significant relationship between firm age and firm performance?" by showing that there is a significantly negative relationship between firm age and firm performance.

Lastly, this thesis presents an empirical insight into the linkage between financial leverage and firm performance in Malaysian non-financial listed companies for the period 2010 to 2014. The empirical findings analyzed in this research indicate that financial leverage which is also known as debt-to-equity ratio has significant impact on firm performance especially when return on assets (ROA) and Tobin's Q are employed as the indicators of firm performance in Malaysia over the period covered by this research. Research results suggest that during the examination period financial leverage has a dominant impact on return on

assets (ROA) and Tobin's Q of the firms. It was hypothesized that highly leveraged firms have lower firm performance. Consistently, this research finds evidences to support the hypothesized negative relationship between financial leverage and both performance measures. The accounting-based profit measure, ROA in this thesis, and the market-based profit measure, Tobin's Q in this thesis, move in the same direction. Therefore, the findings from this thesis indicate that there is a strongly negative relationship between financial leverage and firm performance, which answer the last research question "Does debt-to-equity ratio (leverage) have an impact on firm performance?" in this thesis.

5.3 Significance of Study

This research provides a number of contributions both scholarly and practically. First, this thesis provides supporting evidence for the organizational literature by examining the association between CEO personality characteristic and firm performance in Malaysia. This thesis offers some ideas about the assessment of firm performance attributable to the CEO. Even though several prior researches have argued whether particular executives' characteristics drive the firm performance (Jensen, 1993; Ashbaugh-Skaife et al., 2007), most of them focus on the subjects of top management turnover (Johnstone et al., 2011) and CEO compensation (Hoitash et al., 2012). Specifically, prior researches only describe these relationships by theoretical implications due to the lack of internal control data. This research provides robust evidence to fill up this research gap, and to confirm the statement that CEO's personality significantly influence firm performance.

Second, this thesis offers pathways on the selection of CEO personality trait in the contemporary business environment in Malaysia. Prior studies in US demonstrate that increased firm performance has shown to be a significant determinant in deciding the CEO compensation (Sigler, 2011). However, the analysis results in Malaysia may tend to be various attributable to the different economic background and political policies in Malaysia. Therefore, this research investigates the relationship between CEO compensation and firm performance as well. This research uses the most recent dataset in the analysis of the corporate governance of the firms that are listed in Bursa Malaysia. Additionally, the study period of this research may provide an appropriate background on apprehending the large economic cycle. This provides a good chance to examine and analyze the effects of CEO compensation on firm performance.

5.3.1 Theoretical Contribution

The experimental results show an extension of upper echelon theory with CEO's personality traits, particularly in CEO's narcissism. Even though sometimes narcissistic personality may be harmful to firm performance, yet at other times it can be advantageous to firm performance too. This research proposes that narcissistic CEOs perform above their capabilities while the motivation is acknowledged such as higher compensation, and they generally react well to the challenges of performance.

Firstly, this thesis contributes to the upper echelon theory. The influence of CEO's narcissism on firm performance outcomes validates the perception by discovering CEO's

individual effects. The findings further confirm the interpretation of different researchers (Finkelstein, 1992; Priem et al., 1999; Boal & Hooijberg, 2000) that personality traits of top executive should be considered for a comprehensive examination of the upper echelon theory. The findings in this research reveal that upper echelon theory should be extended with narcissistic personality traits. Therefore, the results are aligned with upper echelon theory that organizational strategy decisions made by a narcissistic CEO in an organization would at least be a partial reflect of the behavioural tendencies of the CEO. In overall, it is expected that higher level of narcissism within the organization's upper echelons may generally improve firm performance.

In addition, the finding of this research also contributes to agency theory. Prior research argues that there are conflicts of interest occurred between executives and shareholders. The agency cost will generally increase when an agency relationship is formed. As a consequence, additional bonuses or incentives offered to the executives will encourage the management to act for the best interest of shareholders (Jensen & Meckling, 1976). Applying agency theory's logic, it suggests that CEO is willing to have lower employment security in exchange for higher compensation and the greater performance expectations located on them. According to several prior researches, agency relationship can be controlled through connecting the compensations of CEO for example bonuses, stock options and restricted stock to the firm performance (Haugen & Senbet, 1981; Lewellen et al., 1987; Agrawal & Mandelker, 1987; Abowd, 1990). The findings of this research empirically prove that there is a significantly positive relationship between CEO compensation and firm performance. Hence, this research findings help to extend agency theory further where higher

compensation paid to CEO actually brings positive effect toward firm performance in both accounting-based measure and market-based measure.

In conclusion, the importance of CEO narcissism as a significant indicator of CEO compensation and firm performance is certainly remarkable given its presumed dominance as a personality characteristic among the globe's most influential executives and leaders (Rosenthal & Pittinsky, 2006). While the current research only marks the starting of the anticipating new fields of examination to investigate these phenomena, it is hoped that the results in this thesis are able to encourage more researches to be conducted in academic manner connecting CEO personality to firm performances and outcomes.

5.3.2 Implication of Study

This research explores the linkage between CEO narcissism, CEO compensation, and firm performance. The empirical results of this research have implications for researchers, investors, shareholders and regulators. The focus of this thesis is on the impacts of CEO's narcissism towards CEO compensation and firm performance over time and the prospective implications of it. This thesis finds that more narcissistic CEO generally produces better firm performance, which has the implication to the industries that if general narcissism level of CEOs in Malaysian firms is rising then perhaps overall corporate performance is also increasing and consequently able to achieve economic growth over time.

This thesis generates several important implications for the industry. First, the relations between CEO narcissism, compensation and firm performance indicate that it will be

beneficial for board of directors to think through wisely the personality of CEO candidates when judging their appropriateness for the position. Given the importance of aligning organization's objectives, board of directors may choose the CEO based on the adequateness between the CEO's personality and the firm's performance orientation. Assumed that given equivalent qualifications, organizations with the direction to be more results-oriented may expect a candidate to have the personality that can lead the firm to perform better. Although the boards of the organizations may have taken personal characteristics into consideration, nonetheless, in the case of employing CEOs, this research provides precise direction on the varieties of characteristics that are connected to effective firm performance.

The second implication is that CEOs may wisely pay attention on the linkage between perspectives of their personality, which are grounded at least partially on boards' observations of their actions and behaviors across different circumstances. This thesis proposes an even more comprehensive understanding of precisely which personality traits, displayed in the related behaviors that may generate different firm performance. CEO may wish to take into consideration of developing the personalities that deliver the most effective performance for their organization, even if these personalities do not originally come from them. Build upon the findings of this research, if their personality at present is already aligned with the nature they want to create, it will be much easier to do it. Industries should choose a more narcissistic leader as the CEO of the organization in order to gain the positive effects that will be reflected in the increase of firm performance. This thesis might contribute to the industry since there are few researchers that have conducted study in this field.

In addition, owing to the fact that corporations' financial performance in overall will directly impact the stability of a country's economic system especially in today's industrial world economy, the factors that influence firm profitability definitely deserve exceptional attention from the government. The findings of this research provides important implications to the policy-makers that CEO narcissism and several firm characteristics significantly influence Malaysia's firm performance. Given the findings of this research, it is recommended that Malaysian government should relatively encourage the narcissistic culture among the firms and develop the firm characteristics that benefit the firm performance. In reference to this thesis, it is crucial for policy makers to think on how to design the relative policy that may be able to help improving the percentage of high-performance firms in Malaysia. Malaysia government's plans should take this research into consideration while setting its plan in order to achieve greater economic growth and realise vision 2020.

Moreover, the empirical findings offer potential implications to the investors as well. Given the narcissists' tendencies that prefer dynamic strategy and grandiosity, narcissistic CEOs tend to drive their firms exaggeratedly in order to pursue big gains. It may seem risky and destructive at times, nevertheless, this may lead to exceptional growth in firm performance. Investors may see the performance track of the firms that led by narcissistic CEOs to be more optimistic than pessimistic, especially when the variability in firm performance related to CEO's narcissistic personality has currently created greater performance. As suggested by the research, investors are more likely to give disproportionate credit to CEO for performance increases (Bushman et al., 1996; Kolev, 2008). As a result, investors may prefer to invest in the organization which is led by a more narcissistic CEO as it is predicted that narcissistic CEO is associated with greater firm performance.

Through this thesis, shareholders may realize that narcissistic CEOs are able to attain greater firm performance. From a theoretical perspective, this thesis suggests some necessary insights to the shareholders into the aspects by which narcissistic CEOs influence the firms that they lead, by investigating CEO personality and the following impacts on firm performance. From a practical perspective, this research offers supporting evidence that CEO personality traits and CEO compensation have significant implications on firm's outcomes. These findings are especially meaningful for the firms that are facing aggressive competition. Ultimately, those firms with ideal CEOs are more prospective to gain the competitive advantage in the industry. The findings for the mediating effects of CEO compensation and CEO narcissism are consistently revealing. Shareholders should note that, with higher compensation given, firms with highly narcissistic CEOs tend to perform more effectively than those that led by low narcissistic CEO, as indicated by the analysis of return of assets (ROA) and Tobin's Q. As a consequence, shareholder value may be increased for CEO's narcissistic personality.

Shareholders can also use the findings as a benchmark of their firm performance against their industrial competitors. The correlations analysed in this thesis are based on a large number of companies, hence this research can provide estimations of the average variance in firm performance related to different level of CEO narcissism. A positive residual for a company in this model shows that the company achieves better performance than its industrial competitor after controlling for discrepancies in the explanatory variables, whereas a negative residual shows conversely. Therefore, shareholders may employ these residuals

to explore the causes for variances in firm performance across companies or for a company over period of time.

Besides, this research helps to explain to the shareholders the motives behind the high compensation paid to CEO. Though these findings reveal that narcissistic CEOs are able to gain higher compensations than CEOs who do not exhibit that characteristic over the long time, the data in this research does not fully point out the implicit reasons for why this occurs. It is assumed that it is the personality traits of the narcissists that lets them to impact or exploit others into offering large compensation. Since CEO compensation systems are officially an obligation of the board, narcissistic CEOs may be able to form the board by affecting its procedures or moving its membership (Tosi & Gomez-Mejia, 1989; Bebchuk & Fried, 2004; O'Reilly et al., 2014) Therefore, board of directors shall consider this research findings while setting the compensation scheme of CEOs in the future.

In general, this research shows that CEO narcissism can be positive and advantageous to the organization, despite a lot of critics might have argued about its dark trait (Kets de Vries & Miller, 1997; Maccoby, 2003; Chatterjee & Hambrick, 2007). This research shall create awareness among shareholders, investors, researchers and the society on the implications of CEO personality particularly in narcissism to the CEO compensation and firm performance.

5.4 Limitation of Study

As proven all over the study, narcissism has well demonstrating the implications for CEO compensation and firm performance. This research describes the findings from the empirical research which shows that narcissism predicts CEO compensation and organizational outcomes. However, this thesis is admittedly subject to important limitations. This thesis now discusses few aspects that restrict the conclusions and generalizability of this research. The findings of this research and future research on CEO narcissism should take into consideration the setting of the limitations of this thesis.

The most important limitation in this research is that this thesis has introduced a measure of CEO narcissism as in archival test instead of psychological inventory. It pertains to the use of proxy measure of narcissism analyses. This research is not able to directly examine the level of narcissism among executives, instead, using the photograph of CEOs to proxy for their personality characteristics. The assessment of the CEO's narcissism is based on prominence of CEO's photograph obtained from company's annual report but not the personal response from the CEOs or person who are close to them in the company. Physical characteristics of the CEO, their education and upbringing, and the process of preparing the company's annual report may all affect the prominence of CEO photograph in the annual report. Unavoidably, the data restricted in the annual report contains certain degree of preparers' justifications of activities. Consequently, certain data may be prejudiced as a result of different understandings or personal prejudices of the preparers, which can influence the quality of the measures.

Moreover, due to the difficulty of getting the top executives to participate in the surveys, numerous studies have been using archival test as an alternative methodology to test the narcissism score (Waldman & Yammarino, 1999; Agle et al., 2006; Fanelli & Misangyi, 2006). It is intensely desired to find out the correlation between the narcissism measure and the well-tested NPI. However, it is very uncertain about getting CEOs to fill out the NPI. Therefore, this thesis is limited to obtain the comprehensive data of CEO's NPI but an archival analysis instead, which possibly leads to certain extent of variance of accurateness.

Besides, this research also restricts its conclusions to Malaysian CEOs and firms only, mainly because lack of data available from other nations over time. The findings of this research may not be applicable to all the firms across the world but can be seen as a reference to firms in developing countries as they are mostly fronting the identical challenges attributable to the similar prevalent economic environments as contrary to firms in developed countries. However, other developing countries may discover different effects of CEO narcissism on firm performance.

Furthermore, it is crucial to note that this research has depended on listed companies that are publicly traded only. All the private firms and small-medium enterprises are excluded from this thesis because the available data for these firms is extremely limited, especially when a large sample size is required. While it is believed that public firms listed on Bursa Malaysia are significant, it is yet ambiguous whether CEO narcissism will have the same impacts on the other private firms and small-medium enterprises. Therefore, it is possible that the findings may not generalize to private companies.

This thesis limits its data collection to non-financial listed companies only where the financial industry has been excluded from this research. Financial sector which is subjected to varieties of rules and conducts as well as varieties types of operation is not suitable to be studied. This research excludes financial industry because of its complexity in calculating Tobin's Q for financial institutions and banks, and also due to the government regulations that might potentially influence firm performance. It is hence questionably no evidence to justify considering financial industry as the same as other corporate industries that financial industry may have a different effects perceived from CEO narcissism.

5.5 Future Research and Recommendations

This thesis offers the examination of additional determinants as a significant direction of CEO narcissism for future research. Considering it as a consequence of CEO narcissism, future research may also explore potential factors that mediate the impact of CEO narcissism on firm performance. Future research may provide insight into the elements that are possible to increase or decrease the perceived influences of CEO compensation as an aspect through which CEO narcissism affects firm performance outcomes. This thesis will note just a few recommendations for future research.

First of all, future research should measure CEO narcissism by using primary source data. The measure of narcissism in this thesis requires further justification and improvement. As a process of improvement, new unobtrusive measures might be recognized, or the existing ones being disposed or reviewed. The rating index employed in this thesis maybe needs to

be retested on other samples to further validate its accuracy. The proxy for narcissism, prominence of CEO photograph in annual report, is subject to the impact from various factors. In order to limit these effects, future research shall examine the correlation between this proxy measure and NPI. Although it might be very hard to get CEOs to fill out the NPI test, it is still possible to get the ratings of NPI on CEOs from their employees, subordinates or others. Through this practice it can further validate the use of this measure.

Future research may also employ another test of valid construct to do a comparison of the narcissism score with a more psychological inner narcissism measure that is employed in psychology, such as how many times the CEO uses the terms "me, myself and I" in public rather than "us, ourselves and we". This measure is used by Aktas et al. (2009) as the only input variable to test the narcissism score. Raskin and Shaw (1988) also use the first person singular pronouns in public speaking to correlate with the direct measures of narcissism. The narcissism score in this thesis which is constructed with the prominence of CEO's photograph shall be further validated in future research by comparing it with this psychological narcissism measure.

In addition, future research can do a comparison of Malaysian CEOs and CEOs from the other developing countries in terms of narcissism score. The comparison between Malaysian CEOs and CEOs from other developing countries can provide insight into the cultural differences. The narcissism score for other CEOs may generate a different result comparing to Malaysian CEOs because of the large family-controlled corporations in Malaysia. It can be clarified through the comparison on whether large shareholders can restrain CEO

narcissism. To confirm the accuracy of the findings, future researches can examine if this narcissistic effect is restricted to Malaysia only or the narcissism score is also growing in other developing countries.

Furthermore, because of data and cost limitations, this thesis restricts its data collection to the companies which are publicly listed on Bursa Malaysia only. Owing to this, it provides an opportunity to future research that future research may observe the level of narcissism among other private firms and small medium enterprises to determine if the effects observed in this thesis spreads simultaneously in other private firms and small medium enterprises as well. Future research should study the relations across different variety of organizational sizes and industries.

Future research should also include financial industry in the sample to test its industry-effect of CEO narcissism on firm performance. Financial industry may perceive a different results in the organizational outcomes. Moreover, it can be very interesting to study particular industry with a theoretical judgement instead of just examining the generalizability. Precisely, it will be worthwhile to examine whether narcissistic CEOs are more popular in certain industries than others. If narcissistic CEOs need environments that let them to satisfy their narcissistic tendencies, they may be highly appear in high-discretion industries (Hambrick & Finkelstein, 1987), such as technology, fashion, media and entertainment; but they may not be generally discovered in low-discretion, more restricted backgrounds, such as services, finance or basic metals.

Additionally, using different context and theory, some internal corporate governance aspects such as family roles, structure of board and government-linked firms' directors can be another interesting extension of study for this research. All in all, CEO narcissism is a very encouraging topic of research. This research shows that the narcissistic tendencies of CEO can be empirically measured in large-scale samples, and these tendencies significantly influence the organizational outcomes. There is ample of research questions on executive narcissism awaiting to be explored by the researches of psychology and organizational behaviors.

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APPENDICES

Appendix A: Summary Descriptive Statistics For Sample Firms on 2010-2014

Variable	Mean	Standard Deviation	Min Value	Max Value
Tobin's Q	0.261977	0.206734	0	1.42455
Return On Assets	0.043578	0.100093	-0.64486	0.998552
Firm Size	5.588929	0.596605	3.992111	7.863253
Firm Age	1.434686	0.289456	0.30103	3.304275
Financial Leverage	29.30469	28.19742	-82.2644	213.5154
Narcissism	2.072311	1.32055	1	5
Compensation	13.50683	1.278167	8.853665	18.54816

N = 2185

n = 441

T = 5

Appendix B: Summary of Correlation Matrix's Test

Variable	Code	TQ	ROA	FS	FA	FL	NARC	COMP
Tobin's Q	TQ	1.0000						
Return of Asset	ROA	-0.1856* (0.0000)	1.0000					
Firm Size	FS	0.2020* (0.0000)	0.1623* (0.0000)	1.0000				
Firm Age	FA	-0.0020 (0.9268)	0.0105 (0.6230)	0.1972* (0.0000)	1.0000			
Financial Leverage	FL	0.3571* (0.0000)	-0.0893* (0.0000)	0.1603* (0.0000)	0.0214 (0.3182)	1.0000		
Narcissism	NARC	0.1676* (0.0000)	0.1327* (0.0000)	0.3817* (0.0000)	-0.0452* (0.0345)	0.1206* (0.0000)	1.0000	
Compensation	COMP	0.1412* (0.0000)	0.1379* (0.0000)	0.4424* (0.0000)	0.1382* (0.0000)	0.0862* (0.0001)	0.2793* (0.0000)	1

Note: The figures in the parenthesis are P-values and * indicates the significance level at 5%.

Appendix C: Summary of Panel Regression Model

	Panel Regression Model				
	Baseline Model (Tobin's Q)	Baseline Model (ROA)	Narcissistic Model	Full Model (Tobin's Q)	Full Model (ROA)
FS	0.0542***	0.0312***	0.8019***	0.0452***	0.0250**
	(0.0001)	(0.0002)	(0.0000)	(0.0033)	(0.0121)
FA	-0.0285	-0.0082	0.3111**	-0.0308	-0.0098
	(0.2719)	(0.5885)	(0.0387)	(0.2338)	(0.5092)
LEV	0.0024***	-0.0004***	0.0004	0.0024***	-0.0004***
	(0.0000)	(0.0002)	(0.8030)	(0.0000)	(0.0002)
COMP				0.0098*	0.0068**
				(0.0681)	(0.0278)
NARC			0.1342***		
			(0.0001)		
_CONS	-0.0718	-0.1067**	8.2897***	-0.1506*	-0.1608***
	(0.3277)	(0.0135)	(0.0000)	(0.0565)	(0.0003)
N	2185	2185	2185	2185	2185
R-SQUARED	0.1506	0.0405	0.2148	0.1535	0.0465
ADJ R-SQUARED	0.1494	0.0392	0.2133	0.152	0.0447

Note:

1. Figures in the parentheses are P-value. P –value less than 0.10 then rejects null hypothesis.

2. ***, ** and * indicate the respective significance level at 10%, 5% and 1%.

3. Cluster is the option to solve heteroscedasticity and serial correlation problems.

Appendix D: List of Abbreviations

TSLS	Two Stage Least Square
CEO	Chief Executive Officer
USA	United State of America
GST	Goods and Services Tax
GDP	Gross Domestic Product
GCI	Growth Competitiveness Index
ROE	Return on Equity
ROA	Return on Assets
NPI	Narcissistic Personality Inventory
DSM-II	Diagnostic and Statistical Manual of Mental Disorders, second edition
RAM	Realistic Accuracy Model
NPV	Net Present Value
EPS	Earnings Per Share
ROI	Return on Investment
IPO	Initial Public Offering
RSU	Restricted Stock Unit
2SLS	2 Stage Least Square
OLS	Ordinary Least Squares
CLRM	Classical Linear Regression Model
VIF	Variance Inflation Factor
PLS	Partial Least Square Regression
REM	Random Effects Model
FEM	Fixed Effects Model
LM	Langrange Multiplier