



Faculty of Economics and Business

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

Tong Hui-Hui

**Doctor of Philosophy
2018**

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

Tong Hui-Hui

A thesis submitted

In fulfillment of the requirements for the degree of Doctor of Philosophy

(Finance)

Faculty of Economics and Business
UNIVERSITI MALAYSIA SARAWAK
2018

UNIVERSITI MALAYSIA SARAWAK

Grade: _____

Please tick (✓)

Final Year Project Report

☐

Masters

☐

PhD

☒

DECLARATION OF ORIGINAL WORK

This declaration is made on the 15 day of Oct 2018.

Student's Declaration:

I TONG HUI-HUI, 14010176, Faculty of Economics and Business

(PLEASE INDICATE STUDENT'S NAME, MATRIC NO. AND FACULTY) hereby declare that the work entitled CEO Narcissism, Executive Compensation and Firm Performance is my original work. I have not copied from any other students' work or from any other sources except where due reference or acknowledgement is made explicitly in the text, nor has any part been written for me by another person.

15/10/2018

Date submitted

Tong Hui-Hui (14010176)

Name of the student (Matric No.)

Supervisor's Declaration:

I _____ (SUPERVISOR'S NAME) hereby certifies that the work entitled _____ (TITLE) was prepared by the above named student, and was submitted to the "FACULTY" as a * partial/full fulfillment for the conferment of _____ (PLEASE INDICATE THE DEGREE), and the aforementioned work, to the best of my knowledge, is the said student's work

Received for examination by: _____
(Name of the supervisor)

Date: _____

I declare this Project/Thesis is classified as (Please tick (✓)):

- ☐ **CONFIDENTIAL** (Contains confidential information under the Official Secret Act 1972)*
☐ **RESTRICTED** (Contains restricted information as specified by the organisation where research was done)*
☒ **OPEN ACCESS**

Validation of Project/Thesis

I therefore duly affirmed with free consent and willingness declared that this said Project/Thesis shall be placed officially in the Centre for Academic Information Services with the abide interest and rights as follows:

- This Project/Thesis is the sole legal property of Universiti Malaysia Sarawak (UNIMAS).
- The Centre for Academic Information Services has the lawful right to make copies for the purpose of academic and research only and not for other purpose.
- The Centre for Academic Information Services has the lawful right to digitise the content to for the Local Content Database.
- The Centre for Academic Information Services has the lawful right to make copies of the Project/Thesis for academic exchange between Higher Learning Institute.
- No dispute or any claim shall arise from the student itself neither third party on this Project/Thesis once it becomes sole property of UNIMAS.
- This Project/Thesis or any material, data and information related to it shall not be distributed, published or disclosed to any party by the student except with UNIMAS permission.

Student's signature

 15/10/18

(Date)

Supervisor's signature: _____

(Date)

Current Address:

4A, Lorong Ding Lit Kong 26, 96000 Sibul, Sarawak.

Notes: * If the Project/Thesis is **CONFIDENTIAL** or **RESTRICTED**, please attach together as annexure a letter from the organisation with the period and reasons of confidentiality and restriction.

[The instrument was duly prepared by The Centre for Academic Information Services]

DECLARATION

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

(Student's signature)

Tong Hui-Hui

14010176

15th October 2018

ACKNOWLEDGEMENT

I would like to express my sincere gratitude to everyone who provided me with assistance and guidance throughout this thesis. First of all, I would like to express my deepest appreciation to my supervisor, Dr Rayenda Khresna Brahmana for his professional manner of guidance in terms of comments, instructions and suggestions with regards to the ways of completing this thesis. Without his guidance, completion of the thesis would not be possible. In addition, I would like to express my gratitude to my co-supervisor, Professor Dato' Dr. Shazali Bin Abu Mansor for his opinions and advices.

Special thanks also dedicated to my friends and family for their kind sharing of information, resources and ideas during the progress of my thesis. I would also like to express my sincere appreciation to my parents for their encouragement and support given to me. Thanks for being there for me whenever I feel stressed with my thesis writing. Besides, I would like to specially thank my friend, You Hui Wei for her assistance on my thesis submission.

Last but not least, I would like to extend my thankfulness to UNIMAS and also CGS for providing good administrative and learning support to me throughout my thesis journey.

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 pemboleh ubah 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 berdasarkan perakaunan dan berdasarkan 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 narsisme benar-benar meramalkan prestasi firma, namun hubungan antara narsisme 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 narsisme 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: *Narsisme, kompensasi eksekutif, prestasi firma, teori eselon atas*

TABLE OF CONTENT

	Page
DECLARATION	i
ACKNOWLEDGEMENT	ii
ABSTRACT	iii
ABSTRAK	v
TABLE OF CONTENT	vii
LIST OF TABLES	xii
LIST OF FIGURES	xiv
CHAPTER 1: INTRODUCTION	1
1.1 Introduction	1
1.1 Background of Study	4
1.1.1 Narcissism	20
1.1.2 Firm Performance	24
1.1.3 Executive Compensation	25
1.2 Problem Statement	28
1.3 Research Questions	31
1.4 Research Objectives	32
1.5 Scope of Study	32
1.5.1 CEO Narcissism	33
1.5.2 Executive Compensation	33
1.5.3 Firm Performance	34
1.6 Setting of Study	34

1.7	Summary	35
CHAPTER 2: LITERATURE REVIEW		37
2.1	Introduction	37
2.2	Narcissism	39
2.3	Narcissistic Personality of CEOs	45
2.4	The “Bright Side” and the “Dark Side” of Narcissistic CEO	50
2.5	Narcissistic Leadership	58
2.6	Upper Echelon Theory	63
2.7	Agency Theory	69
2.8	Measurement of Firm Performance	73
2.9	Proposed Theoretical / Conceptual Framework	77
2.10	Hypotheses Development	78
2.10.1	CEO Narcissism and Firm Performance	78
2.10.2	Executive Compensation and Firm Performance	83
2.10.3	CEO Narcissism and Executive Compensation	89
2.10.4	Firm Size and Firm Performance	96
2.10.5	Firm Age and Firm Performance	99
2.10.6	Leverage and Firm Performance	102
2.11	Summary	106
CHAPTER 3: METHODOLOGY		108
3.1	Introduction	108

3.2	Research Design	110
3.3	Estimation Model	112
3.3.1	Baseline Model	113
3.3.2	Narcissistic Model	113
3.3.3	Full Model	114
3.4	Dependent Variable	116
3.4.1	Tobin's Q	116
3.4.2	Return on Assets (ROA)	117
3.5	Control Variables	118
3.5.1	Firm Size (SIZE)	119
3.5.2	Firm Age (AGE)	120
3.5.3	Leverage (LEV)	122
3.6	Mediator Variable	124
3.7	Narcissism Proxy Selection	126
3.8	Independent Variable	128
3.9	Data Description	134
3.10	Statistical Analysis	136
3.10.1	Normality Test	137
3.10.2	Multicollinearity Test	139
3.10.3	Autocorrelation Test	141
3.10.4	Heteroscedasticity Test	144
3.10.5	Hausman Test	146
3.10.6	Breusch-Pagan LM Test	148

3.10.7	Panel Data Regression	149
3.10.8	Mediation Analysis with Regression	151
3.10.9	Two-Stage Least Squares (2SLS)	154
3.11	Summary	157
CHAPTER 4: RESULTS AND DISCUSSION		159
4.1	Introduction	159
4.2	Descriptive Results	160
4.2.1	Summary of Descriptive Statistics	160
4.2.2	Correlation Matrix	162
4.2.3	Normality Results	165
4.3	Diagnostic Analysis Result	166
4.3.1	Pooled against Panel (Breusch and Pagan LM Result)	167
4.3.2	Random Effect against Fixed Effect (Hausman Test Result)	169
4.3.3	Multicollinearity Results	170
4.3.4	Heteroscedasticity Results	171
4.3.5	Autocorrelation Results	173
4.4	Findings	174
4.4.1	Baseline Model	176
4.4.2	CEO Narcissism and Executive Compensation	178
4.4.3	Executive Compensation and Firm Performance	180
4.4.4	Instrumental Panel Regression	183
4.4.5	Robustness Check Using 2SLS Approach	190

4.5	Discussion	192
4.6	Summary	200
CHAPTER 5: CONCLUSION AND RECOMMENDATIONS		202
5.1	Introduction	202
5.2	Conclusion	204
5.3	Significance of Study	209
5.3.1	Theoretical Contribution	210
5.3.2	Implication of Study	212
5.4	Limitation of Study	217
5.5	Future Research and Recommendations	219
REFERENCES		223
APPENDICES		296

LIST OF TABLES

	Page
Table 1.1 Comparison of Major Listed Companies in Bursa Malaysia	14
Table 3.1 Journals of Firm Size	120
Table 3.2 Journals of Firm Age	121
Table 3.3 Journals of Leverage	124
Table 3.4 Journals of Executive Compensations	125
Table 3.5 Unobtrusive Indicators of Narcissism in CEOs	132
Table 3.6 Coefficient Correlation of Photo, Press Release and Relative Pay with NPI	134
Table 3.7 Operationalization of Variables	158
Table 4.1 Summary Descriptive Statistic for Sample Firms by Malaysia on 2010- 2014	162
Table 4.2 Summary of Correlation Matrix's Test by Each Variables	165
Table 4.3 Results of Normality Test	166
Table 4.4 Results of Breusch and Pagan LM Test	168
Table 4.5 Results of Hausman Test	170
Table 4.6 Results of Multicollinearity Test	171
Table 4.7 Results of Heteroscedasticity Test Results	172
Table 4.8 Autocorrelation Test Results	174
Table 4.9 Fixed Effects Regressions of Baseline Model	178
Table 4.10 Fixed Effects Regressions of CEO Narcissism on Executive Compensation.....	180

Table 4.11	Fixed Effects Regressions of Executive Compensation on Firm Performance	183
Table 4.12	Results of Panel Data Analysis of Narcissism, Executive Compensation and Firm Performance	189
Table 4.13	Results of Two-Stage Least Squares	192

LIST OF FIGURES

	Page
Figure 1.1 Malaysia GDP Annual Growth Rate	6
Figure 1.2 Malaysia Trading	7
Figure 1.3 Top 10 Market Capitalization 2013-2014	9
Figure 1.4 GCI for Malaysia	10
Figure 2.1 Conceptual Framework of CEO Narcissism on Firm Performance of Malaysia Listed Companies	77

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 Bebchuk 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 Bebchuk 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.