



June 10, 2021

Investors Beware: Narcissistic CEOs Will Mislead You, Accounting Association Finds

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Not all CEOs follow generally accepted accounting principles (GAAP), and their disclosures are likely to mislead investors, according to a recent study published by the American Accounting Association (AAA) in the May 2021 edition of *The Accounting Review*.

The study is called "The Impact of the CEO's Personal Narcissism on Non-GAAP Earnings," and it was designed to assess the impact that this specific CEO personality trait might have on corporate disclosures to a company's investors. The researchers looked at data from 19,092 quarterly reports for firms led by 923 CEOs who had held their position for at least four years or longer.

The researchers evaluated CEO "narcissism" by using a well-established measure that combines three variables: the CEO's salary and bonus relative to that of the second-highest paid executive at the firm; the CEO's relative "non-cash" compensation, such as stock options; and the size and prominence of the CEO's picture in the firm's annual report.

The researchers found that the more narcissistic the CEO, the more likely that person was to exclude costs in non-GAAP statements that tended to be larger and recurred year after year—and therefore shouldn't have been excluded in the first place.

The companies that had already exhausted all of their GAAP-compliant options to improve their financial statements were even more likely to exclude costs in non-GAAP reporting, the researchers found.

"Narcissists are experts at finding ways to make themselves look good," said Kari Olsen, an associate professor of accounting at Utah Valley University and one of the authors of

the report, speaking in a news release announcing the paper's findings. "We wanted to see if narcissistic executives were using financial reporting mechanisms to aggrandize themselves. They are. And non-GAAP earning statements are one way they're doing it."

The other authors of the study are Ahmed Abdel-Meguid, associate professor of accounting at the American University in Cairo; Jared Jennings, associate professor of accounting at Washington University in St. Louis; and Mark Soliman, professor of accounting at the University of Southern California.

Founded in 1916, the American Accounting Association is headquartered in Lakewood Ranch, Fla.