

THE MODERATING EFFECT OF NARCISSISTIC CEOs ON FIRM PROFITABILITY AND VALUE



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Abstract

This study analyzes the effect of profitability on firm value and the moderating role of CEO narcissism. The research utilizes 225 financial reports from LQ45 companies, employing Moderated Regression Analysis (MRA) with the PROCESS application. Profitability is proxied by Return on Assets (ROA), firm value by Tobin's Q, and CEO narcissism by CEO photo analysis. The findings indicate that profitability has a positive and significant impact on firm value, aligning with signaling theory, which suggests that high profitability sends positive signals to investors. However, CEO narcissism weakens this relationship. Narcissistic CEOs tend to focus more on personal image and aggressive strategies, increasing information asymmetry and reducing investor trust. These results highlight that high profitability does not always enhance firm value when influenced by leadership that neglects long-term sustainability. Therefore, companies must consider governance aspects in CEO selection to maximize firm value in the long run.

Keywords: Profitability, CEO Narcissism, Firm Value

INTRODUCTION

Profitability is a key factor influencing firm value as it reflects operational efficiency and competitiveness within the industry. Firms with higher profitability generally have easier access to financing sources and demonstrate stronger financial stability (Chudy-Laskowska & Rokita, 2024). This condition may enhance investor confidence and foster positive perceptions in the capital market, which ultimately contributes to the increase of firm value (Eeckhout, 2025). Moreover, recent studies indicate that profitability can also serve as a signal for investors in assessing a firm's growth potential and risk exposure (Bafera & Kleinert, 2023). However, although this logic appears intuitive, various studies have shown that the relationship between profitability and firm value is not always linear or consistent across different research contexts (Poretti et al., 2024; Shahid et al., 2024). Rovelli et al. (2023) suggest that differences in managerial strategies, macroeconomic conditions, and leadership psychology may act as moderating variables in the relationship between profitability and firm value.

Several studies have demonstrated that profitability has a positive impact on firm value, as more profitable firms tend to have better access to capital markets and are perceived more favorably by investors (Harfani & Nurdiansyah, 2021; Lim et al., 2024; Poretti et al., 2024). Nevertheless, in certain industrial contexts, higher profitability may lead to elevated market expectations and greater pressure to maintain such performance, which could result in suboptimal managerial decisions and a subsequent decline in firm value (Elliot et al., 2018; Rahayu et al., 2020). Additionally, some studies suggest that the relationship between profitability and firm value may vary depending on external factors such as macroeconomic conditions and regulatory environments (Chen et al., 2018). In fact, certain research has found no significant relationship between profitability and firm value (Fadillah et al., 2021), implying that other variables such as corporate strategy and leadership characteristics may act as moderating factors in this relationship (Huang et al., 2020; Shahid et al., 2024). Hence, further analysis is required to identify factors that can clarify or moderate the effect of profitability on firm value, one of which is CEO characteristics, particularly narcissism (Rovelli et al., 2023).

CEO narcissism has emerged as an intriguing moderating variable to examine, as this personality trait can influence various aspects of corporate decision-making (Ham et al., 2018; Olsen et al., 2014; Turner et al., 2024). CEOs with high levels of narcissism tend to exhibit excessive self-confidence, strong ambition, and a pronounced desire for recognition and power. Such traits may shape corporate policies, including investment strategies, business expansion, and greater risk-taking (Bachrach et al., 2023; Uppal, 2020).

Furthermore, narcissistic CEOs are typically more proactive in shaping the company's image in the eyes of investors and stakeholders. They often capitalize on profitability achievements to enhance their personal reputation, which may strengthen the relationship between profitability and firm value (Yook & Lee, 2020). However, on the other hand, highly narcissistic CEOs may also engage in decisions that are not aligned with the firm's long-term interests, such as manipulating financial reports or undertaking excessive risks in order to temporarily boost firm value (Rovelli et al., 2023). Therefore, CEO narcissism may act either as a reinforcing or weakening factor in the relationship between

profitability and firm value, depending on how such traits influence business strategies and managerial decisions.

Although profitability has been extensively examined in relation to firm value, prior research findings remain inconsistent. Some studies report a positive relationship, whereas others report negative or even insignificant associations. This inconsistency indicates the existence of moderating factors, among which CEO leadership characteristics are of particular importance. CEO narcissism is a crucial factor that has not been widely explored in this context. Narcissistic CEOs may be inclined toward aggressive decision-making, projecting a dominant corporate image, or pursuing strategic maneuvers that could shape the relationship between profitability and firm value.

The present study aims to examine the effect of profitability on firm value and to analyze the role of CEO narcissism in strengthening or weakening this relationship. This study employs Signaling Theory as the grand theory (Bafera & Kleinert, 2023; Connelly et al., 2025; Shahid et al., 2024), which posits that financial information disclosed by a firm can serve as a signal to investors in assessing its value. However, the presence of narcissistic CEOs may obscure the positive signals conveyed by high profitability.

The development of hypotheses in this study is grounded in signaling theory, which explains that profitability functions as a positive signal to investors in evaluating firm value (Bafera & Kleinert, 2023; Connelly et al., 2025). Higher profitability reflects operational efficiency, financial stability, and better growth prospects, thereby enhancing investor confidence and encouraging an increase in firm value (Shahid et al., 2024). Prior research has also confirmed the existence of a positive relationship between profitability and firm value, showing that highly profitable firms tend to have higher market valuations since investors perceive them as stable and lucrative entities (Chen et al., 2018; Harfani & Nurdiansyah, 2021; Lim et al., 2024). In the investment context, strong profitability provides assurance that a firm is capable of generating sustainable earnings, reducing investment risks, and improving market valuation. In other words, the higher a firm's profitability, the greater its attractiveness to investors, which ultimately contributes to enhancing firm value.

Nevertheless, within the leadership context, CEO narcissism may act as a moderating factor that obscures such signals. Narcissistic CEOs often display excessive ambition, make self-serving decisions, and construct illusions of success through communication strategies and perception management (Ham et al., 2018; Olsen et al., 2014). Consequently, the positive signals from high profitability may become less effective in elevating firm value due to the risks of information manipulation and heightened uncertainty for investors (Bachrach et al., 2023; Rovelli et al., 2023). Therefore, this study focuses on how CEO narcissism moderates the relationship between profitability and firm value.

REVIEW OF LITERATURE

To support this research, it is necessary to review previous studies that have examined the relationship between profitability, firm value, and the role of CEO narcissism as a moderating variable. The first section discusses prior research on the effect of profitability on firm value. Profitability is a fundamental indicator in assessing a firm's financial performance. Several previous studies have shown that higher profitability contributes to an increase in firm value, as it provides a positive signal to investors regarding financial stability and better growth prospects (Chen et al., 2018; Harfani & Nurdiansyah, 2021; Lim et al.,

2024). Other studies also emphasize that Return on Assets (ROA), as a measure of profitability, is positively correlated with firm value as measured by Tobin's Q (Shahid et al., 2024). High profitability indicates operational efficiency and competitiveness in the market, thereby enhancing the attractiveness of the firm to investors (Bafera & Kleinert, 2023).

The second section reviews previous studies that have considered CEO narcissism as a moderating variable. Several studies suggest that leadership characteristics, particularly CEO narcissism, can moderate this relationship. CEOs with high levels of narcissism often exhibit strong ambition and tend to engage in aggressive decision-making, including pursuing high-risk expansion strategies (Ham et al., 2018). Other studies indicate that CEO narcissism can increase information asymmetry by creating manipulative perceptions of success, thereby obscuring the positive signals of high profitability for investors (Bachrach et al., 2023; Rovelli et al., 2023). Consequently, narcissistic CEOs may weaken the positive effect of profitability on firm value by increasing uncertainty and risk for shareholders.

RESEARCH METHOD

This study employs a quantitative method with data sources derived from secondary data. The research objects are companies listed in the LQ45 index during the period 2019–2023. The company data were obtained from the respective corporate websites or through the Indonesia Stock Exchange (www.idx.co.id). The sampling technique used is purposive sampling, with the following criteria: companies must be listed in the LQ45 index during 2019–2023, consistently publish annual reports and financial statements throughout the research period, and provide the data required for tabulation. Based on the filtering process, 225 corporate financial statements were selected as the research sample.

This study involves three variables: profitability as the independent variable, firm value as the dependent variable, and CEO narcissism as the moderating variable. Profitability is measured using the Return on Assets (ROA) ratio (Ridha et al., 2019). Firm value is measured using the Tobin's Q proxy (Widianingrum & Dillak, 2023). Finally, CEO narcissism is proxied by the CEO photo score as disclosed in the annual report (Chatterjee & Hambrick, 2007).

The data analysis technique applied is Moderated Regression Analysis (MRA), utilizing the PROCESS macro. PROCESS is an application developed by Andrew F. Hayes to address moderation and mediation models using IBM SPSS (Hayes, 2022). The PROCESS macro is more practical, accurate, and provides more interpretable results compared to manual regression methods (Hayes, 2022), making it suitable for testing the moderating effect of CEO narcissism in this study. The research model is presented as follows:

$$TQ_{it} = \beta_0 + \beta_1 ROA + \beta_2 CEONARCISSISM + \beta_3 ROA * CEONARCISSISM + e_{it}$$

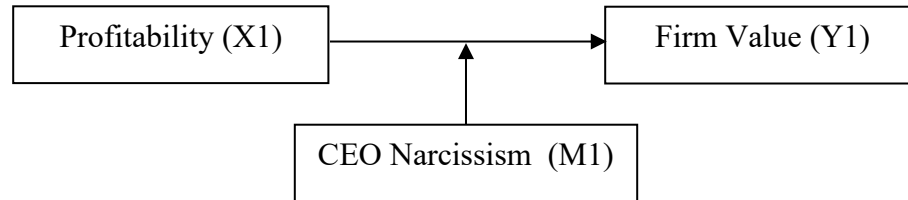
Research Hypothesis

Based on the theoretical framework and prior research findings, the hypotheses proposed in this study are as follows:

- H1: Profitability has a positive effect on firm value.
- H2: CEO narcissism moderating the effect of profitability on firm value.

Research Model

This research model describes the relationship between independent variables (profitability) to dependent variables (firm value) and the moderating effect of CEO narcissism. This model can be illustrated as follows:



RESULTS AND DISCUSSION

The descriptive statistics results indicate that firm value, as proxied by Tobin’s Q, has a relatively high mean, suggesting that, on average, firms exhibit high firm value. In contrast, profitability, as proxied by ROA, shows a low mean, implying that most firms were experiencing profitability challenges, which can be attributed to the impact of the pandemic. On the other hand, the mean value of CEO narcissism is relatively high, indicating that, on average, CEOs tend to display narcissistic traits. Table 1 presents the results of the descriptive statistical analysis, as follows:

Table 1.
Descriptive Statistic

Variable	Minimum	Maximum	Mean
Tobin’s Q	0.371	10.176	1.640
ROA	-1.673	0.454	0.062
CEONARCISSISM	2	4	3.69

Source: Data processed (2025)

The MRA results using PROCESS demonstrate robust findings. Beginning with the effect of profitability on firm value, Table 2 shows that the p-value for profitability on firm value is $0.014 < 0.05$, indicating a significant effect. Furthermore, the coefficient and t-values, 25.013 and 2.471 respectively, suggest a positive relationship between profitability and firm value. Thus, the test results confirm that profitability has a significant positive effect on firm value. In contrast, the results for CEO narcissism on firm value show a p-value of $0.117 > 0.05$, implying that CEO narcissism does not significantly affect firm value.

Finally, the moderation model is examined. The results indicate a p-value of $0.025 < 0.05$, with both the LLCI and ULCI not crossing zero, suggesting that CEO narcissism is more appropriately positioned as a moderator rather than an independent variable. Moreover, the coefficient and t-values are negative, at -5.796 and -2.255 , respectively, indicating a weakening effect. Therefore, the moderation model results reveal that CEO narcissism weakens the effect of profitability on firm value. The results of the hypothesis testing are presented as follows:

Table 2.
Hypothesis Test

Variable	Coefficient	t	p	LLCI	ULCI
ROA	25.013	2.471	0.014	5.065	44.960
CEONARCISSISM	0.426	1.573	0.117	-0.107	0.961
ROA* CEONARCISSISM	-5.796	-2.255	0.025	-10.861	-0.732

Source: Data processed (2025)

Profitability and Firm Value

The research findings indicate that profitability has a significant positive effect on firm value. The hypothesis testing results in this study show that profitability (ROA) has a coefficient of 25.013, a t-value of 2.471, and a p-value of 0.014, signifying a significant positive influence on firm value. This finding suggests that the higher a firm’s profitability, the greater the market’s appreciation of the company. High profitability reflects strong financial performance, thereby enhancing investor confidence and driving stock price increases, which ultimately have a positive impact on firm value.

These results are consistent with previous studies conducted by Chen et al. (2018) and Lim et al. (2024), which found that firms with higher levels of profitability tend to exhibit greater firm value. Similarly, Rahayu et al. (2020) confirmed that profitability is a key factor considered by investors in evaluating a company. However, other studies such as Huang et al. (2020) have shown that under unstable economic conditions, the relationship between profitability and firm value may weaken due to external factors such as monetary policy and market volatility.

Theoretically, the positive relationship between profitability and firm value is supported by signaling theory (Bafera & Kleinert, 2023; Connelly et al., 2025; Shahid et al., 2024). This theory posits that firms with high profitability transmit positive signals to the market regarding sound financial performance and favorable growth prospects. Investors and shareholders, in turn, perceive such firms as highly competitive entities with strong potential to generate optimal returns.

Profitability, CEO Narcissism, and Firm Value

The findings of this study reveal that CEO narcissism weakens the effect of profitability on firm value. The hypothesis testing results indicate that the interaction between profitability (ROA) and CEO narcissism yields a coefficient of -5.796, with a t-value of -2.255 and a p-value of 0.025. This demonstrates that CEO narcissism significantly weakens the influence of profitability on firm value.

These results are consistent with prior research by Yook and Lee (2020), which found that CEOs with high levels of narcissism tend to negatively affect firm value due to their decision-making being more oriented toward personal interests rather than the long-term interests of the company. Conversely, Uppal (2020) reported that under certain conditions, narcissistic CEOs may exert a positive effect on firm value, particularly when combined with high profitability and effective communication strategies directed at investors.

Within the framework of signaling theory, narcissistic CEOs may obscure the positive signals generated by high profitability. Such CEOs often focus more on self-image and aggressive expansion strategies without adequately considering the firm’s long-term

sustainability (Bachrach et al., 2023; Rovelli et al., 2023). As a result, investors may question the reliability of a firm's profitability and adopt a more cautious stance in evaluating its value.

The narcissistic tendencies of CEOs may also exacerbate information asymmetry between management and investors, thereby increasing market uncertainty regarding the firm's true condition (Ham et al., 2018; Olsen et al., 2014). In this case, even if a firm exhibits strong profitability, investors may not fully trust the information provided by management, weakening the positive impact of profitability on firm value.

Furthermore, in this study, given the relatively low level of profitability, CEO narcissism produces a negative effect by weakening the relationship between profitability and firm value. Therefore, leadership characteristics must be carefully considered in corporate strategy to ensure that achieved profitability can be effectively translated into sustainable firm value enhancement.

CONCLUSION

This study aims to examine the effect of profitability on firm value and the role of CEO narcissism as a moderating variable in this relationship. Using 225 financial reports from LQ45 companies and applying Moderated Regression Analysis (MRA) through the PROCESS application, the study yields several key findings.

First, the results indicate that profitability has a significant positive effect on firm value. This finding supports signaling theory, which posits that high profitability sends a positive signal to investors regarding a firm's financial stability and growth prospects, thereby enhancing firm value.

Second, CEO narcissism is found to weaken the effect of profitability on firm value. Although high profitability should theoretically increase firm value, the presence of a narcissistic CEO may reduce investor confidence due to self-serving decision-making tendencies, increased information asymmetry, and aggressive yet unsustainable expansion strategies.

The implications of these findings suggest that while profitability is a primary driver of firm value, leadership characteristics such as CEO narcissism may hinder its positive impact. Therefore, firms need to take leadership factors into account in their management strategies to ensure that achieved profitability can be effectively translated into sustainable firm value growth.

This study contributes to the understanding of the dynamics between profitability, CEO characteristics, and firm value in the context of the Indonesian capital market. Future research may explore additional moderating factors in this relationship and adopt qualitative approaches to gain deeper insights into how CEO narcissism influences strategic decision-making within firms.

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