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The Influence of ESG Practices on the Relationship between CEO Narcissism and Earnings Management

ABSTRACT

Objective: To analyze the influence of Environmental, Social, and Governance (ESG) practices on the relationship between CEO narcissism and Earnings Management (EM).

Method: Data from 101 non-financial companies were analyzed from 2011 to 2023, totaling 678 observations. Narcissism was proxied by the prominence of the CEO's photograph obtained from annual, integrated, or sustainability reports analysis. ESG practices and other variables were obtained from the Refinitiv Eikon database. Multiple regression estimated by fixed effects was used to analyze the data.

Results: The results did not allow validation of the hypotheses raised, suggesting (i) a positive relationship between CEO narcissism and EM, (ii) a negative relationship between ESG practices and EM, and (iii) an adverse moderating effect of ESG practices on the relationship between CEO narcissism and EM. Additionally, a negative relationship was found between Cooperative Governance (CG) and EM.

Originality/Relevance: Unlike previous studies that analyzed these constructs in isolation, this research investigated the influence of ESG practices on the relationship between CEO narcissism and EM, filling an identified gap. Although the hypotheses were not validated, the analysis made it possible to explore the limits of the effectiveness of ESG practices in reducing EM in companies with narcissistic CEOs.

Theoretical/Methodological Contributions: The study highlights the importance of analyzing complementary control mechanisms in the presence of narcissistic managers seeking to reduce undesirable behaviors. In addition, the segregation of the analysis based on the three ESG pillars made it possible to identify specificities. It contributed to highlighting that the governance pillar is relevant to reducing EM.

Keywords: CEO narcissism, Earnings Management, Environmental, Social and Governance, ESG Performance.

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1 INTRODUCTION

In the business context, where there is information asymmetry, the accounting information disclosed to the market serves as a mechanism to reduce this asymmetry. Asymmetry occurs when, in a transaction, one of the parties has more information than the other (Correia et al., 2017). In this sense, the interests of managers (agents) may diverge from the interests of capital holders (principals), a fact that may lead the former to act in pursuit of their objectives to the detriment of the shareholders' objectives (Jensen & Meckling, 1976).

Managers/executives have different incentives to act in their interest, such as avoiding disclosure of losses, reducing the variation in results, increasing performance-based compensation, meeting analysts' profit expectations, and achieving a specific target related to results (Beaudoin et al., 2015). To achieve these objectives, managers can implement earnings management (EM) strategies (Soschinski et al., 2021).

EM is a distorted and intentional representation of the company's economic performance within the choices allowed by accounting standards. It is not to be confused with fraud, which occurs at managers' discretion when preparing accounting reports (Lima et al., 2015). This practice is a manipulative activity, with accruals management being the most common approach analyzed in the literature (Dechow et al., 2010).

In addition to economic and financial incentives, EM can be intensified by managers' attitudinal factors (Chowdhury et al., 2018). Thus, this research is supported by the Upper Echelons Theory (Hambrick & Mason, 1984; Hambrick, 2007), which argues that executives' characteristics, such as values, beliefs, experience, and personality, are reflected in their decisions and, consequently, in organizational results.

From this perspective, studies have sought to identify factors that can lead to EM practices. It has been found that individuals with narcissistic personality traits may engage in

EM practices to achieve their individual status and power goals (Buchholz et al., 2014; Capalbo et al., 2017; Cruz et al., 2024; Frino et al., 2015; Kontesa et al., 2021; Silva et al., 2020).

Therefore, this study focuses on the narcissistic personality trait of the Chief Executive Officer (CEO). This personality trait encompasses a broad spectrum of behaviors, including excessive self-importance, the quest to be the center of attention, an inflated and unrealistic self-image, arrogance, and a constant need for praise (Morf & Rhodewalt, 2001). Managers with this personality are eager for status and recognition and may even take actions that harm the company to achieve their goals (Blickle et al., 2006). Thus, CEOs who exhibit this personality trait may be more likely to engage in EM practices to achieve their goals (Capalbo et al., 2017).

Given the conflicting interests that can lead to opportunistic behaviors such as EM, companies must implement control mechanisms to protect shareholders' interests and provide reliable information (Rahman & Ali, 2006). However, coercive or monitoring controls such as corporate governance (CG) may not be as adequate in the presence of individuals with high dark personality traits (Buchholz et al., 2014; Silva & Cunha, 2020). There is a need to seek alternatives that assist traditional mechanisms in aligning interests.

In this sense, Góis et al. (2024) found that companies with a strong reputation due to values, structures, and rules, as well as credibility incorporated into the company's culture, can mitigate the effect of dark personality traits (among them narcissism) of managers on EM. Thus, this research focuses on the potential of environmental, social, and governance (ESG) performance as an additional control mechanism capable of mitigating potential opportunistic behaviors of narcissistic managers.

There has been a growing concern about ESG issues worldwide, changing how companies conduct their operations associated with stakeholder-oriented businesses (Macedo et al., 2022). Thus, the adoption of ESG practices has the potential to reflect on corporate

reputation as well as the trust of its stakeholders (Dunn & Harness, 2018; Harymawan et al., 2021). It has been found that such practices have the potential to reduce EM (Chouaibi & Zouari, 2022; Gonçalves et al., 2021; Grimaldi et al., 2020; Velte, 2019; Velte, 2021).

Furthermore, narcissistic CEOs have incentives to make ESG investments to gain attention and recognition, as well as incentives to avoid irresponsible actions that could bring criticism from investors, employees, the media, or the general public since narcissists respond negatively to criticism (Petrenko et al., 2016).

In this sense, this research is based on the premise that CEOs with high narcissistic traits tend to engage in a higher level of EM to achieve their goals. However, this EM will be lower in companies that are more engaged with ESG practices. As far as we know, this relationship has not been analyzed in previous research.

Studies conducted from this perspective have analyzed these phenomena in isolation. Investigating, for example, the relationship between CEO narcissism and EM practices (Capalbo et al., 2017; Cruz et al., 2024; Ham et al., 2017; Silva et al., 2020), the moderating effect of variables such as CG (Silva & Cunha, 2020) and corporate reputation (Góis et al., 2024) on the relationship between dark personality traits and EM, as well as investigating the influence of ESG practices on EM (Chouaibi & Zouari, 2022; Gonçalves et al., 2021; Grimaldi et al., 2020; Tang et al., 2018; Velte, 2019; Velte, 2021).

In general, the studies above found that: i) CEO narcissism is positively related to EM; ii) in companies with managers who present high levels of dark personality, CG mechanisms, audit committees, and board of directors showed reduced efficiency in mitigating EM; iii) in companies with a strong reputation, EM by managers with dark personality traits is reduced; and iv) ESG practices are negatively related to EM.

Therefore, the study advances concerning the aforementioned studies by providing a joint analysis of these three constructs, which allows us to verify whether adopting ESG

practices can minimize the propensity of narcissistic managers to engage in EM, providing a deeper understanding of this relationship and filling an identified theoretical gap. The only research found in this sense was D'Souza (2020), who analyzed the moderation of Corporate Social Responsibility (CSR) in the relationship between the Machiavellian personality trait of the CEO and EM. This research differs from D'Souza (2020) in that it analyzes another personality trait of CEOs (narcissism) and analyzes managers of large publicly traded companies listed on the B³.

Considering what D'Souza (2020) pointed out about the importance of investigating whether CSR practices inhibit EM, the following question arises: What is the influence of ESG practices on the relationship between CEO narcissism and earnings management? In this sense, the research aims to analyze the influence of ESG practices on this relationship.

This research contributes theoretically by expanding the interdisciplinary debate by integrating contributions from accounting, finance, and psychology, which, despite the growing attention it has received in recent years, is still little explored nationally (Cruz et al., 2024; D'Souza, 2020; Oliveira & Garcia, 2024; Deconto et al., 2024). With this, the study expands UET's understanding of the impact of individual characteristics of managers on strategic decisions in companies that adopt ESG practices. In addition, it contributes to the literature by exploring the possibility that, although ESG is often associated with the reduction of EM, its effectiveness may vary depending on managers' personality traits.

Similarly, these results may benefit companies by enhancing their understanding of the challenges and limitations of ESG practices in mitigating EM. Additionally, the results could prove valuable for stakeholders and shareholders, considering the importance of knowing who holds power and how this individual may act before making short and long-term investment decisions.

2 LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Upper Echelons Theory (UET) is based on the premise of reflecting personality traits and/or aptitudes of senior managers (top managers) in organizational strategic processes (Hambrick & Mason, 1984), as they express behavioral characteristics peculiar to decision makers (Chuang et al., 2009). The central idea of this theory is based on two pillars: the interpretation of executives in the face of strategic situations they face and how the individual characteristics (expertise, values, and personality) of these executives influence these interpretations (Hambrick, 2007).

This theory assumes that managers' attributes (experience, values, and personality) significantly influence their choices when faced with problems and/or challenges required in daily activities (Hambrick, 2007). In the search for strategic alternatives, information internal and/or external to the organization associated with the demographic characteristics of executives and personality traits can impact managers' responsibilities. Thus, the organization's performance is a consequence of decision-making influenced by the characteristics of its executives.

Disclosed accounting information is affected by the different recognition and disclosure criteria permitted by accounting legislation, which allows managers and accountants to choose which to use. In this sense, EM results from manipulations in preparing and disclosing accounting information within legal limits to achieve the desired accounting results (Pain et al., 2024). Among the different permitted alternatives, managers may purposefully present an accounting event in a way that misleads stakeholders regarding (i) the achievement of profit targets, (ii) the variability of results, and (iii) current and future accounting results (Cruz et al., 2024; Healy & Wahlen, 1999).

The literature indicates that EM strategies can be applied through accounting choices or real activities. The first occurs when the manager uses the flexibility allowed by accounting

principles and standards to maximize or reduce accruals (income statements that are part of the profit calculation but do not always lead to changes in the organization's cash flow), which can increase or decrease the results (Cruz et al., 2024; Morás & Klann, 2020), modifying accounting methods or estimates within what is permitted by law (Deconto et al., 2024). These choices include inventory assessment methods, depreciation criteria, and provisions (Fields et al., 2001).

In turn, EM by real activities occurs when managers decide to change certain levels of companies' operational activities, such as, for example, discounting prices to increase sales, anticipating or postponing revenues, increasing production to reduce fixed costs, cutting Research and Development (R&D) expenses, among others (Soschinski et al., 2021).

Thus, it is observed that earnings management (EM) through real activities can be carried out throughout the company's operating cycle. At the same time, EM through accruals is typically executed at the end of the fiscal year to achieve specific objectives that could not be met during the operating cycle (Braam et al., 2015). In this context, narcissistic CEOs may be more inclined to utilize EM through accruals instead of EM through real activities due to their pursuit of recognition, direct control, and immediate influence on stakeholder perception. While EM, through real activities, involves changes in the company's operations that may carry long-term risks, accruals enable the alteration of accounting figures to fulfill specific short-term goals and uphold the narrative of a successful leader. Therefore, in this research, EM will be utilized through accruals.

Regardless of the strategy used, these practices harm the Quality of Accounting Information (QAC) by distorting the information shown in the financial statements, negatively affecting the analyses of stakeholders who use this information for decision-making (Pain et al., 2024).

CEOs may engage in EM practices for personal reasons, such as maintaining compensation, obtaining bonuses for performance, and seeking status. They may also recognize the negative potential this practice can bring to the company and its stakeholders. From this perspective, a CEO's narcissistic personality may be related to EM (Cruz et al., 2024).

The literature on narcissism documents some characteristics of a narcissistic leader, such as excessive confidence in their knowledge and skills, a need for attention and recognition of their superiority, a sense of grandiosity, and a desire for achievements, exploiting their creativity to manipulate others and the organization (Kontesa et al., 2021).

Individuals with high levels of narcissism believe they are superior to others and that the team will only be successful with their presence, overestimating their qualities and status (Paulhus, 2018). In addition, they seek to have their superiority continually reaffirmed (Chatterjee & Hambrick, 2007). This set of characteristics in individuals with this trait encourages them to adopt riskier behaviors (Campbell et al., 2004) and theoretically highlights their good work at the head of the company, contributing to the organization's success (Chatterjee & Hambrick, 2007).

From this perspective, narcissistic CEOs may seek to increase company profits through EM, providing these executives the opportunity for admiration and a sense of importance (D'Souza et al., 2019). In addition, it is worth noting that this study analyzes the subclinical trait of narcissism. The aim is only to identify possible tendencies of individuals with these traits without any intention of diagnosing personality disorders (D'Souza & Jones, 2017).

Regarding the measurement of narcissism, it is important to note that the literature has utilized various metrics, differing based on data availability in the country where the study was conducted. Metrics include the prominence of the CEO's photograph in annual reports (Araújo et al., 2021; Kontesa et al., 2021; Oliveira & Garcia, 2024; Putri & Rusmanto, 2019), managers' self-report questionnaires (Deconto et al., 2024; D'Souza et al., 2019), the proportion of

possessive and first-person singular pronouns used concerning the total number of pronouns employed by CEOs during earnings conference responses (Capalbo et al., 2017; Cruz et al., 2024), the use of first-person language in the CEO's message published in the company's annual report (Araújo et al., 2021), and signature size (Oliveira & Garcia, 2024), among others.

Thus, this study will use the prominence of the CEO's photograph as a proxy for narcissism, as it is a clear visual form of self-promotion, which is a central trait present in narcissistic individuals (Campbell et al., 2004). Unlike other metrics used in the literature that may be affected by social desirability bias (such as the self-report questionnaire) or external factors (such as using first-person pronouns), the photograph is an intentional choice by the CEO, reflecting the search for admiration and status. Research suggests that visual elements associated with the leader are related to the narcissism trait (Chatterjee & Hambrick, 2007; O'Reilly et al., 2014; Petrenko et al., 2016), reinforcing the reliability of this narcissism metric.

Furthermore, despite using different metrics and samples, the findings are typically aligned, indicating a positive effect of CEO narcissism on the level of EM through accruals (Cruz et al., 2024). For example, Ham et al. (2017) found that CEO narcissism predicts financial misreporting behavior and is related to EM. Araújo et al. (2021) found that CEO narcissism is related to tax avoidance practices.

Similar results were found by Buchholz et al. (2014), Capalbo et al. (2017), Cruz et al. (2024), Frino et al. (2015), Kontesa et al. (2021), and Silva et al. (2019), who identified a positive relationship between CEOs with high levels of narcissism and EM. D'Souza et al. (2019) established that the combined effect of the three Dark Triad traits (including narcissism) was positively related to opportunistic profit maximization. A similar outcome was reported in the research by Deconto et al. (2024). These findings underscore the significant impact of CEO personality on accounting choices. Given the above, the first hypothesis to be tested was formulated:

H1: CEO narcissism is positively related to EM.

Considering that EM harms the quality of accounting information (QAC) and causes the disclosed results not to reflect the company's economic and financial situation accurately, it is important to implement mechanisms capable of mitigating this practice, such as GC. In addition, other mechanisms—including a code of ethics, a culture based on trust, good relationships with stakeholders, ESG disclosure, and more—can be used to address such behaviors.

Research has shown that companies' sustainability performance, such as CSR and ESG practices, is negatively related to EM. Adopting sustainable practices is associated with lower EM and presents better quality accounting information (Martínez-Ferrero et al., 2015; Scholtens & Kang, 2013).

The relationship between the adoption of CSR/ESG practices and QAC is expected to the extent that greater engagement in such practices reinforces the motivation for organizations to be concerned with the transparency of information and ethical issues. Therefore, a greater QAC is expected (Kim et al., 2012).

This occurs because companies that commit to investing in this type of practice seek, among other things, to build better relationships with stakeholders, improve their reputation (Rezzae et al., 2019), meet ethical requirements (Alipur et al., 2019), and more, ensuring that such information can be reflected in the quality of financial reports.

Empirical evidence in different contexts demonstrates that the adoption of ESG practices reduces EM (Chouaibi & Zouari, 2022; Gonçalves et al., 2021; Grimaldi et al., 2020; Velte, 2019; Velte, 2021). In this context, the second hypothesis to be tested arises:

H2: ESG practices are negatively related to EM.

Considering that CEOs with high narcissistic traits tend to engage more in EM practices to achieve their goals, engagement in ESG practices, on the other hand, can minimize this

propensity since it is assumed that greater investments in ESG practices have ethical behaviors as their primary motivation. Thus, a higher QAC is expected when compared to companies with a lower level of investment in ESG practices (Kim et al., 2012).

Similarly, if investment in ESG practices is motivated to strengthen or repair the company's reputation (Barrage et al., 2014), managers would be less likely to adopt practices capable of reducing QAC, as these strategies could pose an additional threat to their reputation (Kim et al., 2012). Thus, given that narcissists respond negatively to criticism (Rhodewalt & Sorrow, 2003), they tend to avoid it (Petrenko et al., 2016).

Given the arguments that CSR practices could mitigate the propensity of CEOs with Machiavellian personality traits to practice EM (D'Souza, 2020), Góis et al. (2024) conducted a study in companies based in the United States. They found that corporate reputation moderates the relationship between the Dark Tetrad of CEOs' personalities (including narcissism) and EM, demonstrating that corporate reputation helps mitigate the opportunistic behaviors of managers with dark personality traits.

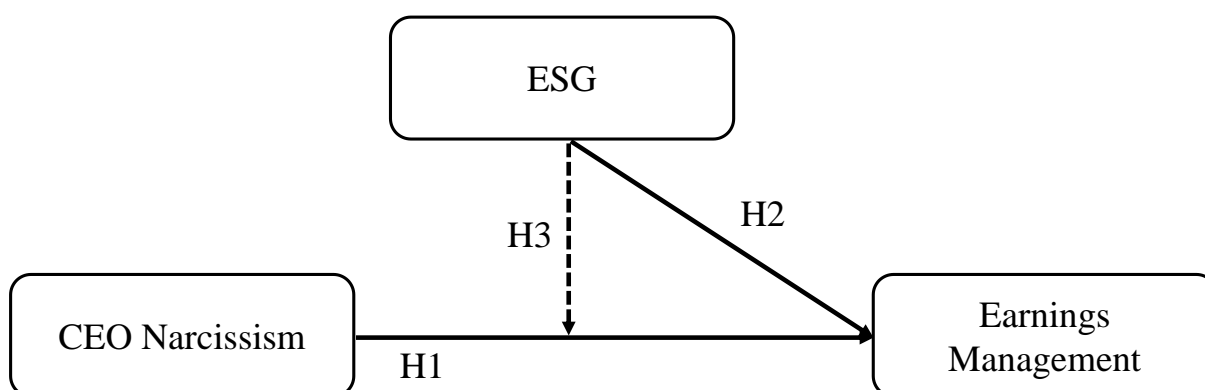
Given what was presented, the third hypothesis was formulated to be tested empirically:
H3: ESG practices negatively moderate the relationship between CEO narcissism and EM.

The research design is represented in Figure 1.

Figure 1 presents the conceptual model of the research and the proposed hypotheses. The first hypothesis of this research proposes that CEO narcissism will positively affect EM, while the second hypothesis proposes that ESG practices will negatively affect EM. Finally, the third hypothesis proposes an adverse moderating effect of ESG practices on the relationship between CEO narcissism and EM. In other words, high involvement in ESG practices is expected to minimize the increase in EM propensity of narcissistic CEOs.

Figure 1

Research design and hypotheses



3 METHODOLOGICAL PROCEDURES

The population investigated in this study included all Brazilian companies listed on Brasil, Bolsa e Balcão (B³) in 2024, totaling 333 companies. Of these, non-financial companies were excluded, given that they have different accounting characteristics from the others (Cruz et al., 2024). In addition, 232 companies that did not disclose ESG practices in any year of the period analyzed were excluded (this criterion was what led to a greater exclusion in the number of companies) and that did not present sufficient data to measure the variables in the Refinitiv Eikon® database, leaving a sample of 101 companies.

The period from 2011 to 2023 was analyzed, resulting in 678 observations. This period was chosen because, in order to measure EM by accruals, lagged variables must be used. It is impossible to use 2010 since, before this period, Brazilian companies still had no mandatory adoption of international financial reporting standards (IFRS), and 2023 because it is the last year with available information.

3.1 Research variables

The EM by accruals was estimated using the Pae (2005) model. This approach was chosen because it addresses some limitations of previous models, such as those of Jones (1991), by adding new explanatory variables. The Pae (2005) model is presented in Equation 1. The cash flow methodology (Martins, 2016) was used to measure total accruals, as per Equation 2.

$$TA_{it}/A_{it-1} = \alpha_0 + \alpha_1 1/A_{it-1} + \alpha_2 \Delta R_{it}/A_{it-1} + \alpha_3 PPE_{it}/A_{it-1} + \alpha_4 CFO_{it}/A_{it-1} + \alpha_5 CFO_{it-1}/A_{it-2} + \alpha_6 TA_{it-1}/A_{it-2} + \varepsilon_{it} \quad (1)$$

$$TA_{it} = (\text{Profit}_{it} - \text{CFO}_{it}) / A_{it-1} \quad (2)$$

Where:

TA_{it} corresponds to the total accruals of a company i in period t ;

A_{it} corresponds to the total assets of company i in period t ;

ΔR_{it} corresponds to the variation in net revenues of a company i in the period between t and $t-1$;

PPE_{it} corresponds to the fixed assets of a company i in period t ;

CFO_{it} corresponds to the operating cash flow of a company i in period t ;

Profit_{it} corresponds to the result before extraordinary items and discontinued operations of a company i in period t ;

ε_{it} corresponds to the model residuals used as a proxy for EM by discretionary accruals.

In turn, CEO narcissism was measured based on a metric already validated in the literature that reflects a sense of self-importance and desire for admiration (Olsen et al., 2014). Thus, CEO narcissism was proxy-measured by the size of the CEO's photograph, based on Olsen et al. (2014). Notably, this proxy has already been adopted in national studies (Araújo et al., 2021; Oliveira & Garcia, 2024). Thus, based on Table 1, the Narcissism metric received scores based on the photograph's presence/absence, size, and composition.

Table 1

CEO Narcissism Level

No CEO photo = 1 point
Photograph of CEO with one or more executives = 2 points
Photograph of CEO alone, taking up less than half a page = 3 points
Photograph of the CEO alone, taking up more than half a page, with the rest being taken up by text = 4 points
Photograph of CEO alone, taking up the entire page = 5 points

Source: Olsen et al. (2014).

The CEOs' photographs were obtained from the analysis of annual, integrated, or sustainability reports available on the websites of B³ and the companies themselves. These reports were chosen because they are voluntary disclosures, in which managers can intervene in the disclosure content. Following Araújo et al. (2021), the score attributed to each image was divided by 5 to create a Narcissism index. A higher index implies greater Narcissism of the CEO.

The ESG score was obtained from the Refinitiv Eikon database. This metric includes three pillars/dimensions and their respective categories: (i) Environmental pillar, which encompasses innovation, resource use, and emissions; (ii) Social pillar, which involves human rights, workforce relations, community, and product responsibility; and (iii) Governance pillar, which encompasses issues related to management, shareholders, and corporate social responsibility strategies (Jia & Li, 2021). In general, the scores obtained for each of the ESG practices are normalized into percentages ranging from 0 to 100; the closer to 100, the greater the company's engagement in ESG practices (Soschinski et al., 2024).

It is also worth noting that to minimize problems of multicollinearity that exist when interacting with narcissism and ESG scores, the approach adopted in the research by Soschinski et al. (2024) was followed. They transformed the ESG score into a dummy variable, with 1 being assigned to companies with a score above 50 and 0 otherwise. Table 2 presents the control variables and a general summary of the variables used in the research.

Table 2

Metrics for calculating research variables

Variables	Description	Metric	Authors
Dependent Variable			
Earnings management (EM)	Discretionary accruals are operationalized in absolute value.	Pae Model (2005)	da Costa Neto et al. (2023); Siqueira, Santos de Jesus, Lima e Celestino (2024).
Independent variable			
Narcissism (NARC)	An index that measures the level of CEO Narcissism	Prominence of the CEO's photograph	Araújo et al. (2021); Oliveira & Garcia, 2024; Olsen et al. (2014).
Moderating independent variable			
ESG	Dummy that measures the ESG Pillars aimed at environmental, social, and governance performance	Refinitiv Eikon's proprietary methodology	Gonçalves, Gaio e Ferro (2021)
Control Variables			
Size (SIZE)	Natural logarithm (NL) of revenue	NL of total revenue	Haga et al. (2018); Soschinski et al. (2021)
Return on assets (ROA)	Indicates the company's profitability	Operating profit divided by Total Assets	Schuster e Klan (2019)
Debt Level (DEBT)	Indicates the company's level of debt	Total Liabilities divided by Total Assets	Morás e Klann (2020)
Sales Growth (SG)	Sales growth due to revenue variation	Percentage variation in sales	Costa Filho et al., (2018); Soschinski et al. (2021)
Market-to-Book (MTB)	Expected future growth of the company	The market value of the company divided by the book value of equity	da Costa Neto et al. (2023); Vieira, Xavier e Lucena (2024)
YEAR	Analysis Period: 2011 to 2023	Dummies for the year	Haga et al. (2018)

Equation 3 summarizes the model used to test the hypotheses. As highlighted in the previous section, a positive effect of narcissism and a negative effect of ESG practices on EM are expected. In addition, a negative moderating effect of ESG practices on the relationship between CEO narcissism and EM is anticipated. Similarly, some variables that influence EM were included in the model to control for the proposed relationship.

Larger companies are more monitored by the market and society, are generally more mature, have lower operational volatility, and, consequently, have variability in accruals (Gu et al., 2005). Such characteristics may be associated with lower EM. Therefore, a negative relationship between size and EM is expected (Souza & Moraes, 2019).

EM practice allows for increasing or reducing profits. Therefore, less profitable companies have incentives for EM to increase profits (Zamri et al., 2013) and avoid negative

consequences such as a drop in share price or changes in the management team (Vieira et al., 2024). Therefore, a negative relationship between ROA and EM is expected.

Higher debt encourages managers to engage in EM practices to avoid violating debt covenants (Gu et al., 2005). A positive relationship between debt and EM is expected (Souza & Moraes, 2019; Soschinski et al., 2021). Growing companies typically face high investor expectations to maintain or accelerate this growth. There are incentives to use EM practices to meet these expectations. Thus, a positive relationship is expected between SG and EM (Soschinski et al., 2021).

Finally, it is argued that organizations with higher expectations of future growth (represented by Market-to-Book) may exhibit greater abnormal accruals than mature organizations (Vieira et al., 2024). A positive relationship between these variables is expected.

To choose the estimation model for the variables presented in Table 2, the Chow, Hausman, and Breusch-Pagan specification tests were performed. Based on these tests, the fixed-effects model best fits the data. Furthermore, the panel is unbalanced since it does not have data for all companies in all years.

$$EM_{it} = \beta_0 + \beta_1 NARC_{it} + \beta_2 ESG_{it} + \beta_3 NARC * ESG_{it} + \beta_4 SIZE_{it} + \beta_5 ROA_{it} + \beta_6 DEBT + \beta_7 SG_{it} + \beta_8 MTB_{it} + \gamma YEAR_t + \varepsilon_{it} \quad (3)$$

Finally, it is worth noting that tests were performed to verify the existence of problems of autocorrelation (Wooldridge test), heteroscedasticity (Wald test), and multicollinearity (variance inflation factor – VIF test). Since autocorrelation and heteroscedasticity were found in the data, estimation was performed with correction for robust errors.

4 PRESENTATION OF RESULTS

Table 3 presents the descriptive statistics for the variables used in the study. It is important to note that the variables ROA, SG, DEBT, and MTB were winsorized at the 1% and

99% levels to minimize the impact of outliers in the data. Consequently, it can be observed that, generally, the companies managed their results throughout the analyzed period. Some companies exhibited low management levels (close to zero) and higher EM (maximum value) levels. Furthermore, the data suggests that, on average, the CEOs did not display high narcissistic personality traits, as the index remained below 0.5.

Regarding engagement in ESG practices, the results show that around 60% of the companies analyzed were classified as having a high level of engagement in ESG practices, presenting more than 50% of the indicators considered by the database. In addition, the companies presented an average return on assets of 8%, demonstrating that, generally, companies can generate profit from their assets. Likewise, on average, the companies in the sample have managed to increase their sales over time. Finally, it is noted that the companies have a relatively high level of debt and can generate value over the period analyzed.

Table 3

Descriptive statistics

Panel A - Descriptive statistics of the variables used in the research								
	EM _{it}	NARC _{it}	ESG _{it}	ROA _{it}	SG _{it}	SIZE _{it}	DEBT _{it}	MTB _{it}
Mean	0,05	0,48	0,606	0,08	0,12	23,02	0,67	2,75
Standard Error	0,05	0,21	0,48	0,09	0,32	1,56	0,39	3,61
Median	0,03	0,6	1	0,08	0,09	23,04	0,65	1,75
Minimum	0	0,2	0	-0,61	-0,85	10,46	0,1	-5
Maximum	0,43	1	1	0,37	2,54	25,62	5,11	33,55
Observations	678							

Notes: EM_{it} = Discretionary accruals in absolute values estimated by the Pae model (2005); NARC_{it} = CEO Narcissism index; ESG_{it} = Dummy measuring the environmental, social, and governance score; ROA_{it} = Return on assets; SG_{it} = Sales growth; SIZE_{it} = Size of the company; DEBT_{it} = Debt level; MTB = Market to book.

Continuing the analysis, Table 4 presents the results of the econometric analysis conducted in this research. The findings indicate that we cannot infer that managers exhibiting narcissistic personality traits engage in EM practices to achieve personal goals such as status, power, and admiration, as no significant relationship was identified between these variables. Therefore, this result does not validate the study's first hypothesis (H1), which posits that CEO narcissism is positively related to EM. A similar finding was reported in the study by D'Souza

et al. (2019), where no significant relationship was established between the narcissistic trait and EM practices.

Table 4

Results of the influence of ESG practices on the relationship between CEO Narcissism and earnings management

EM_{it}	Coefficient β (robust standard error)
Narcisism _{it}	-0,0206 (0,0156)
ESG _{it}	-0,0020 (0,0130)
Narcisism _{it} * ESG _{it}	-0,0049 (0,0216)
SIZE _{it}	0,0022 (0,0028)
Return on Assets _{it}	-0,0749 (0,0502)
Sales Growth _{it}	0,0272** (0,0109)
Debt Level _{it}	0,0543 (0,0161)
MTB _{it}	0,0013 (0,0007)
Constant	0,0015 (0,0723)
<i>Year Dummies</i>	Yes
Observations	678
R ² overall	0,0643
F-test	2,60**
Wooldridge test	10,428***
Wald test	10582,83***
Multicollinearity average VIF)	2,88

Notes: EM_{it} = discretionary accruals in absolute values estimated by the Pae model (2005); ESG_{it} = Dummy measuring the environmental, social, and governance score; NARC_{it} * ESG_{it} = multiplication between the CEO Narcissism Index and the Dummy that measures ESG; MTB = Market to Book; F-test = Model significance; Wooldridge test = Autocorrelation test; Wald test = Heteroscedasticity test; VIF = Multicollinearity test (VIF - variance inflation factor). Regression estimated by fixed effects with robust standard errors (in parentheses); ***, ** = significance at 1 and 5% level, respectively. NARC_{it} * ESG_{it} = multiplication between the CEO Narcissism index and the Dummy measuring each model's environmental, social, and governance pillars.

Likewise, no significant relationship was found between ESG practices and EM; this indicates that, in the analyzed context, such practices are not linked to reduced engagement in EM practices. Thus, this result does not validate the second hypothesis (H2) proposed in this study, suggesting that ESG practices are negatively related to EM. This finding contrasts with the literature that suggests engagement in such practices could help mitigate managers' opportunistic behaviors (D'Souza, 2020).

Regarding the moderating role of ESG, no statistically significant relationship was found, indicating that in the context analyzed, the adoption of ESG practices does not contribute to mitigating the tendency of narcissistic CEOs to engage in EM. Therefore, the results did not support the validation of the research's third hypothesis (H3), suggesting that ESG practices negatively moderate the relationship between CEO narcissism and EM.

Only sales growth was significant in explaining EM among the control variables inserted in the model. Soschinski et al. (2021) found a similar result, with a positive relationship between these variables.

Additionally, each of the pillars that make up ESG (environmental, social, and governance dimensions) was analyzed separately, seeking to verify whether there are differences between the indicators in mitigating opportunistic practices. The results are presented in Table 5.

Due to increased social pressure, greater media coverage, and investor interest in environmental and social issues, companies that are more engaged in such practices are expected to seek to improve the quality of their financial reports to meet the growing demand for transparency (Gerged et al., 2021; Yoon et al., 2019).

However, the results contrasted with these theoretical expectations because, in the analyzed context, no statistically significant relationships existed between the environmental and social pillars and EM. Additionally, no moderating effect of these pillars was identified in the relationship between CEO narcissism and EM. Therefore, the findings did not support the previous empirical evidence that identified a negative relationship between environmental (Gerged et al., 2021; Xi & Xiao, 2022; Yoon et al., 2019) and corporate social practices (Soschinski et al., 2023) and EM.

Finally, the results indicate a negative and significant relationship between the CG pillar and EM, confirming the importance of CG mechanisms in mitigating opportunistic behaviors,

such as the practice of EM (Gerged et al., 2021). This finding aligns with previous evidence demonstrating the role of CG in reducing the practice of EM (Bajra & Cadez, 2018; Correia et al., 2017; Soschinski et al., 2021). However, no moderating effect of this dimension was observed in the relationship between CEO narcissism and EM.

Table 5

Results of the influence of environmental, social, and governance dimensions on the relationship between CEO Narcissism and earnings management

EM _{it}	Model 1 (Environmental)	Model 2 (Social)	Model 3 (Governance)
Coefficient β (robust standard error)			
Narcisism _{it}	-0,0243 (-0,014)	-0,0135 (-0,0174)	-0,0083 (-0,0098)
EnvironmentalScore _{it}	-0,0002 (-0,0123)	-	-
SocialScore _{it}	-	0,0106 (-0,0141)	-
GovernanceScore _{it}	-	-	-0,0372** (-0,018)
Narcisism _{it} * ESG _{it}	0,0011 (-0,0175)	-0,0144 (-0,0243)	0,0222 (-0,0189)
SIZE _{it}	0,002 (-0,0028)	0,0017 (-0,003)	0,002 (-0,0028)
Return on Assets _{it}	-0,0732 (-0,0509)	-0,0732 (-0,0506)	-0,0702 (-0,0513)
Sales Growth _{it}	0,0272** (-0,011)	0,0274** (-0,0107)	0,0269** (-0,0109)
Debt Level _{it}	0,0058 (-0,0071)	0,0055 (-0,0074)	0,006 (-0,0069)
MTB _{it}	0,0013 (-0,0007)	0,0013 (-0,0007)	0,0012 (-0,0007)
Constant	-0,0082 (-0,0667)	-0,0086 (-0,0695)	0,1308*** (-0,0374)
<i>Year Dummies</i>		Sim	
Observations		678	
R ² overall	0,0606	0,0495	0,066
F-test	3,08***	2,80***	3,49***
Wooldridge test	10,747***	10,747**	10,103***
Wald test	10812,63***	10812,63***	17628,25***
Multicollinearity (average VIF)	2,86	2,86	2,78

Notes: EM_{it} = discretionary accruals in absolute values estimated by the Pae model (2005); ESG_{it} = Dummy measuring the environmental, social, and governance score; NARC_{it} * ESG_{it} = multiplication between the CEO Narcissism Index and the Dummy that measures ESG; MTB = Market to Book; F-test = Model significance; Wooldridge test = Autocorrelation test; Wald test = Heteroscedasticity test; VIF = Multicollinearity test (VIF - variance inflation factor). Regression estimated by fixed effects with robust standard errors (in parentheses); ***, ** = significance at 1 and 5% level, respectively. NARC_{it} * ESG_{it} = multiplication between the CEO Narcissism index and the Dummy measuring each model's environmental, social, and governance pillars.

The absence of moderation among the ESG pillars in the relationship between narcissism and EM contrasts with the evidence found in the study by D'Souza (2020) that, even in the presence of CSR, the greater the Machiavellianism trait of managers, the greater the tendency for opportunistic attitudes to modify gains, seeking to obtain personal benefit or advantages for the company, even if this implies being in disagreement with legal, ethical, and professional standards. Finally, it is worth noting that only sales growth showed a statistically significant relationship with EM.

4.1 Discussion of results

It was not found that narcissistic managers adopt opportunistic behaviors such as EM to achieve status, admiration, and power. This result contrasts with evidence from previous studies that found a positive influence of high narcissistic traits on EM (Capalbo et al., 2017; Cruz et al., 2024; Deconto et al., 2024; Ham et al., 2017; Silva et al., 2020) and does not corroborate the assumptions of UET that individual characteristics of managers, such as values, experience, and personality traits, reflect on the decision-making process and organizational results (Hambrick & Mason, 1984; Hambrick, 2007).

However, this result can be explained, in part, by the fact that, on average, the CEOs analyzed did not present high narcissistic traits (index below 0.5). The literature found that moderate and low traits of Machiavellianism and psychopathy differ from high traits concerning the propensity for opportunistic behavior of earnings manipulation (D'Souza et al., 2019).

In turn, no support was found for the arguments in the literature that due to greater transparency, ethical culture, trust, and reputation sought by companies with greater ESG investment (Dunn & Harness, 2018; Shafer, 2015; Shafer & Lucianetti, 2018), they would be less likely to engage in practices that may harm their image, as well as contrasting empirical

evidence, demonstrating that a greater commitment to CSR (Chih et al., 2008) and ESG (Gonçalves et al., 2021; Grimaldi et al., 2020) practices reduces the propensity for EM.

The results showed that ESG practices do not moderate the relationship between CEO narcissism and EM, demonstrating that such practices could not reduce the propensity of narcissistic CEOs to manage accounting results. In this sense, this result diverges from the evidence provided by the study by Góis et al. (2024), which found that corporate reputation contributes to the reduction of EM practices and fraud by managers with dark personality traits (which includes narcissism).

Thus, given the fact that evidence indicates that ESG (Mazzioni et al., 2023) and CSR (Baraibar-Diez & Sotorrió, 2018) practices are related to corporate reputation. As in Góis et al. (2024), such practices were potentially expected to mitigate EM by narcissistic managers.

Although the results did not validate any of the three hypotheses raised, the analysis made it possible to investigate the limits of the effectiveness of ESG practices as a control mechanism in the presence of narcissistic CEOs. Likewise, by segregating the pillars that makeup ESG, it was possible to verify the relevant role of CG in reducing EM, indicating that different pillars of ESG can act differently in mitigating opportunistic behaviors.

5 FINAL CONSIDERATIONS

This research analyzed the influence of ESG practices on the relationship between CEO narcissism and EM. To this end, 678 observations from 2011 to 2023 were examined using regression analysis estimated through fixed effects.

Although the literature supports the influence of ESG practices and CEO narcissism on opportunistic EM behavior, the results showed that, for the context and period analyzed, it is impossible to ratify such evidence and, consequently, did not allow the validation of the hypotheses raised in the research. However, part of this result can be explained by the fact that

the CEOs in the sample, on average, did not present high levels of narcissism, which may mean that the behaviors expected by managers with high levels of this trait did not manifest themselves to the point of leading to greater EM.

Finally, the pillars that make up ESG practices (environmental, social, and governance) were analyzed separately to verify whether there are differences between the indicators in mitigating opportunistic practices. However, contrary to what is suggested in the literature that greater engagement in environmental and social practices would lead to higher quality accounting information due to the greater pressure from stakeholders, no statistically significant relationships were found between the environmental and social pillars and EM, nor was there a moderating effect of these pillars on the relationship between CEO narcissism and EM.

On the other hand, it was found that CG was statistically significant in reducing EM. These results highlight the relevance of CG as a useful mechanism capable of reducing EM and underscore the importance of transparency practices, control structures, and accountability. However, no moderating effect of this variable was found in the relationship between CEO narcissism and EM.

Thus, these results can contribute to academia and professional practice. For academia, the findings of this study provide new evidence regarding the joint analysis of CEOs' behavioral characteristics associated with the characteristics of the company in which they work, a theme that has been growing in recent years but is still little explored in the national scenario.

From a practical point of view, considering the growing interest in ESG worldwide and the limited research on how these practices interact with other variables to reduce EM, this research may help companies and boards of directors analyze the potential of investing in ESG practices to improve corporate transparency and reduce EM.

Finally, it is worth noting that this study has some limitations that do not diminish its contributions but make it impossible to generalize its results. The main limitation is that only a

few organizations have data on ESG practices and consistently publish their reports over time, significantly reducing the sample.

Future research could analyze contexts with samples of CEOs with high narcissistic traits, given that the CEOs analyzed in this study showed predominantly low traits. In addition, new research could advance concerning this study, using primary data collected from questionnaires or semi-structured interviews conducted with companies seeking to capture traits of narcissism, ESG practices, and EM. Finally, new studies could expand the research to other dark personality traits, such as Machiavellianism, psychopathy, and sadism, seeking to identify similar or divergent patterns.

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A Influência de Práticas ESG na Relação entre Narcisismo do CEO e Gerenciamento de Resultados

RESUMO

Objetivo: Analisar a influência das práticas Environmental, Social and Governance (ESG) na relação entre narcisismo do CEO e Gerenciamento de Resultados (GR).

Método: Dados de 101 empresas não financeiras foram analisados durante 2011 a 2023, totalizando 678 observações. O narcisismo teve como proxy a proeminência da fotografia do CEO obtida a partir da análise dos relatórios, anual, relato integrado, ou sustentabilidade. As práticas ESG e demais variáveis foram obtidas na base de dados Refinitiv Eikon. Para análises dos dados utilizou-se regressão múltipla estimada por efeitos fixos.

Resultados: Os resultados não permitiram validar as hipóteses levantadas sugerindo: (i) uma relação positiva entre o narcisismo do CEO e o GR; (ii) uma relação negativa entre as práticas ESG e o GR; e (iii) um efeito moderador negativo das práticas ESG na relação entre narcisismo do CEO e o GR. Adicionalmente, constatou-se uma relação negativa entre a GC e o GR.

Originalidade/Relevância: Diferente de estudos anteriores que analisaram estes construtos de maneira isolada, esta pesquisa investigou a influência das práticas ESG na relação entre narcisismo do CEO e GR preenchendo uma lacuna identificada. Apesar das hipóteses não terem sido validadas, a análise possibilitou explorar os limites da eficácia das práticas ESG na redução GR em empresas com CEOs narcisistas.

Contribuições Teóricas/Metodológicas: O estudo destaca a importância de analisar mecanismos de controle complementares na presença de gestores narcisistas, buscando reduzir comportamentos indesejados. Além disso, a segregação da análise a partir dos três pilares ESG possibilitou identificar especificidades e contribuiu ao destacar que o pilar de governança é relevante para reduzir o GR.

Palavras-chave: Narcisismo do CEO, Gerenciamento de Resultados, Environmental, Social and Governance, Desempenho ESG.

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