“See You in Court”: How CEO narcissism increases firms' vulnerability to lawsuits

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A B S T R A C T

Although some researchers have suggested that narcissistic CEOs may have a positive influence on organizational performance (e.g., Maccoby, 2007; Patel & Cooper, 2014), a growing body of evidence suggests that organizations led by narcissistic CEOs experience considerable downsides, including evidence of increased risk taking, overpaying for acquisitions, manipulating accounting data, and even fraud. In the current study we show that narcissistic CEO's subject their organizations to undue legal risk because they are overconfident about their ability to win and less sensitive to the costs to their organizations of such litigation. Using a sample of 32 firms, we find that those led by narcissistic CEOs are more likely to be involved in litigation and that these lawsuits are more protracted. In two follow-up experimental studies, we examine the mechanism underlying the relationship between narcissism and lawsuits and find that narcissists are less sensitive to objective assessments of risk when making decisions about whether to settle a lawsuit and less willing to take advice from experts. We discuss the implications of our research for advancing theories of narcissism and CEO influence on organizational performance.

USA Today reported that Trump and his businesses have been the targets of at least 3500 actions in federal and state courts during the past 30 years.1

If any single individual is to influence an organization, it is most likely to be the person in charge, or the CEO. One CEO attribute that appears to significantly influence organizational performance is the extent to which the leader is narcissistic, a collection of attributes related to overconfidence, feelings of personal superiority and entitlement, a desire for power and admiration, a willingness to manipulate others for personal gain, and hostility when challenged (e.g., Brummelman, Thomaes, & Sedikides, 2015; Campbell, Hoffman, Campbell, & Marchisio, 2011; Grijalva, Harms, Newman, Gaddis, & Fraley, 2015a). A growing number of studies have examined how a CEO's level of narcissism influences a variety of organizational outcomes (e.g., Chatterjee & Hambrick, 2011; Gerstner, Koenig, Enders, & Hambrick, 2013; Grijalva & Harms, 2014) such as firm strategy (Chatterjee & Hambrick, 2007; Zhu & Chen, 2015) and performance (e.g., Olsen, Dworiks, & Young, 2014; Patel & Cooper, 2014; Wales, Patel, & Lumpkin, 2013). But a growing body of evidence suggests that narcissistic CEOs can create serious problems for their organizations.

These findings typically cluster in the domain of ethics, suggesting that being a narcissistic leader may increase a firm's propensity to engage in ethically tenuous activities. For example, CEO narcissism is related to higher levels of corporate tax avoidance (Olsen & Stekelberg, 2015), accounting data manipulation (Ahmed & Duellman, 2013; Judd, Olsen, & Stekelberg, 2015; Frino, Ming Ying, Mollica, & Palumbo, 2015; Hales, Hobson, & Resutke, 2012; Ham, Seybert, & Wand, 2017; Hsieh, Bedard, & Johnstone, 2014), excessive compensation (O’Reilly, Doerr, Caldwell, & Chatman, 2013) and potential fraud (Rijsenbilt & Commandeur, 2013; Schrand & Zechman, 2012). Such activities can be subtle but can also be precursors to significant declines in organizational performance and reputation (e.g., Duchon & Drake, 2008; Verschoor, 1988).

To investigate their potential negative impact, we explore whether narcissistic CEOs, by virtue of their enhanced sense of overconfidence, reduced willingness to take advice from experts, and propensity to become hostile and competitive when challenged, subject the organizations they lead to undue legal risk. Given the disruption and turmoil caused by being entangled in significant and protracted litigation (e.g., Marshall, Picou, & Schlichtmann, 2004; Trubek, Sarat,

1 Penzenstadler and Page (2016).
Felstiner, & Kritzer, 1983), and the propensity of narcissists to participate in processes that have clear winners and losers (Raskin, Novacek, & Hogan, 1991), it is important to understand the relationship between narcissistic leaders and their willingness to involve the organizations they lead in legal disputes. From a theoretical perspective, exploring this link allows us to gain insight into narcissists’ systematic biases including overconfidence and a general disinterest in expert advice. By isolating these underlying mechanisms, our paper contributes to a more fine-grained behavioral insight into how narcissistic CEO’s affect their organizations. Specifically, narcissistic leaders’ stance on litigation may be particularly harmful to organizations because of their tendency to make more aggressive and riskier decisions when challenged, making their decisions about engaging in and prolonging lawsuits less rational and more costly for the organizations they lead. Second, a better understanding of narcissists’ propensity to engage in litigious behavior will enable organizations and boards to more accurately calibrate the potential costs of hiring or promoting narcissistic leaders, particularly at senior levels.

Therefore, we conducted a field study (study 1) in which employees evaluated their CEO’s level of narcissism, and found that CEO narcissism is related to increased levels of corporate litigation. We then conducted two experimental studies to elucidate the mechanisms underlying this relationship. In the experimental studies, we offer more insight into the findings from the field study by showing that narcissists are more likely to engage in the underlying legally questionable behaviors that may trigger a lawsuit and that narcissists’ decisions about settling lawsuits are less affected by objective estimates of the financial and reputational costs of a lawsuit than are those lower in narcissism—even when participants may suffer a personal loss. Overall, these results suggest that narcissistic CEO’s level of overconfidence can lead them to involve their organizations in lengthy and damaging litigation. We discuss the implications of our findings for advancing theories of narcissism and CEO influence on organizational performance.

Narcissism and leadership

Recent research on narcissism has proceeded along two streams (e.g., Miller, Lynam, Hyatt, & Campbell, 2017; Rose, 2002; Wink, 1991). One stream has focused on what is referred to as vulnerable or clinical narcissism, which is characterized by anxiety, a fragile self-concept, and low self-esteem (e.g., Ackerman, Hands, Donnellan, Hopwood, & Witt, 2017; Rohmann, Neumann, Herner, & Bierhoff, 2012). Vulnerable narcissism, sometimes referred to as “covert,” “maladaptive,” or “pathological,” emphasizes defensive self-presentation tactics stemming from low-self-esteem and a more introverted nature (e.g., Clarke, Karlov, & Neale, 2015; Hart, Adams, Burton, & Tortoriello, 2017).

In contrast, a larger body of research, and the focus of our paper, has focused on grandiose narcissism—a more assertive and extroverted form characterized by high self-esteem and dominance. Grandiose narcissism is a well-documented, stable individual difference characterized by a sense of personal superiority and entitlement, grandiosity, overconfidence, low social empathy, a willingness to manipulate others, and hostility and aggression when challenged (e.g., Blinkhorn, Lyons, & Almond, 2016; Campbell, Reeder, Sedikides, & Elliott, 2000; Guedes, 2017; Nevicka, De Hoogh, Van Vianen, Beersma, & McIlwain, 2011; Penney & Spector, 2002). Although the construct of grandiose narcissism is multi-dimensional, there is a lack of a clear consensus among researchers about what the lower order sub-factors might be (e.g., Brown, Budzek, & Tamborski, 2010; Clarke et al., 2015; Emmons, 1987; Wright, 2016). There is, however, consensus that the construct itself can be assessed as a global measure (e.g., Ames, Rose, & Anderson, 2006; Konrath, Meier & Bushman, 2014; Raskin & Terry, 1988). Although there is some overlap between the two types of narcissism, evidence suggests that they assess distinct constructs (Hart et al., 2017; Krizan & Herlache, 2017; Maxwell, Donnellan, Hopwood, & Ackerman, 2011).

In terms of the Five Factor Model of personality, research has shown that grandiose narcissists are more extroverted and less agreeable (Brown, Budzek, & Tamborski, 2010; Brown, Saunter, Littvay, Saunter, & Bearnes, 2010; Holtzman, Vazire, & Meh, 2010; Paulhus & Williams, 2002; Saulsman & Page, 2004; Vazire, Naumann, Rentfrow, & Gosling, 2008), more sensitive to obtaining rewards, and less sensitive to being punished (Foster, Reidy, Misra, & Goff, 2011; Foster & Trimm, 2008; Patel & Cooper, 2014; Vazire & Funder, 2006). Using large samples (N = 11,937 and N = 4433) Leckelt et al. (2017) confirmed that two subscales of narcissism (rivalry and need for admiration) were positively associated with extraversion and negatively related to agreeableness. Consistent with Paulhus and Williams (2002), they also report that narcissism is positively associated with openness to experience.

Because the Big 5 does not easily discriminate between various antisocial tendencies, research using an alternative personality inventory, the HEXACO (Ashton & Lee, 2007), has also corroborated and refined these findings and shown that narcissism is also associated with psychopathy and Machiavellianism (Lee & Ashton, 2014). Research on the so-called Dark Triad (Machiavellianism, psychopathy, and narcissism) has linked narcissism to sexual aggression (Zeigler-Hill, Besser, Morag, & Campbell, 2016) and counter-productive work behaviors like theft and abusive behavior (e.g., Grijalva & Newman, 2015; O’Boyle, Forsyth, Banks, & McDaniel, 2012). Interestingly, Lee and Ashton (2005) find that their measure of Honest-Humility is correlated with all three measures of the dark triad and argue that this correlation cannot be explained by the FFM.

Consistent with these findings, other studies have shown that narcissists are lower in integrity than are non-narcissists, more likely to engage in unethical behavior, and have personalities similar to psychopaths (Blickle, Schlegel, Fassbender, & Klein, 2006; Brown, Saunter, et al., 2010; Mumford, Connelly, Helton, Strange & Osburn, 2001; Paulhus & Williams, 2002; Rauthmann, 2012). Narcissistic leaders have also been found to engage in more aggression and bullying toward their subordinates (Bushman & Baumeister, 1998; Michel & Boling, 2013; Twenge & Campbell, 2003), and, as a result, subordinates are more frustrated and tense, and have lower morale (Hochwarter & Thompson, 2012).

In spite of these clear downsides, some researchers refer to narcissistic leaders as a “mixed blessing” because evidence also shows that those high on narcissism are often seen as more attractive on first impressions (Back, Schmulke, & Egloff, 2010), and are more likely to emerge as leaders (Brunell et al., 2008; Harms, Spain, & Hannah, 2011; Nevicka, Ten Velden, De Hoogh, & Van Vianen, 2011). Narcissistic leadership, combining self-confidence and extroversion, is often seen by others as prototypical of leaders. Interestingly, several studies show that although narcissists rate themselves highly as leaders, more objective ratings (e.g., from peers and supervisors) suggest that narcissism is negatively associated with actual leadership performance (e.g., Blair, Hoffman, & Helland, 2008; Judge, LePine, & Rich, 2006). For example, leader narcissism actually inhibits information exchange among group members and negatively affects group performance (Nevicka, De Hoogh, et al., 2011; Nevicka, Ten Velden, et al., 2011). Other studies note that narcissism exists on a spectrum, suggesting that the relationship between narcissism and performance is curvilinear, with moderate levels of narcissism contributing to performance (Grijalva et al., 2015a; Harms et al., 2011; Krizan & Herlache, 2017). It is at very high levels that narcissism has significant downsides. In a review of narcissism in organizational contexts, Campbell and his colleagues noted, “leadership positions are a natural venue for achieving narcissists’ needs for self-enhancement and superiority” (Campbell et al., 2011, p. 273).

Narcissists have also been found to be charming, impulsive, and risk seeking (Campbell, Goodie, & Foster, 2004; Foster, Shenesey, & Goff, 2009; Vazire & Funder, 2006), as well as to show more confidence and
task persistence than non-narcissists (Campbell et al., 2004; Wallace, Ready, & Weitenhagen, 2009). This combination of characteristics can lead narcissists to be more willing to take chances, persist in unproductive choices, and ignore negative feedback. For example, in a study of investing, narcissists were found to choose more risky investments, to persist with these choices, and to lose more money (Campbell et al., 2004; Foster et al., 2011, 2009). Campbell, Bush, Brunell, and Shelton (2005) showed that narcissistic participants were more willing to benefit themselves in the short-term at a long-term cost to others in an experiment using the tragedy of the commons dilemma.

Interestingly, narcissists are aware of these risks (Foster et al., 2009) but are driven by the combination of their impulsivity and heightened perceptions of the benefits. Similarly, research has shown that people who are overconfident are not punished for their elevated estimates of their own abilities, even when their exaggerated claims are revealed. In this sense, overconfidence, one of the primary markers of narcissism (e.g., Schaefer, Williams, Goodie, & Campbell, 2004), may, paradoxically, increase one's social status (Kennedy, Anderson, & Moore, 2013) and can result in narcissists attaining leadership roles. Thus, in spite of the lack of evidence that narcissistic leaders positively influence groups and organizations, they often seek out and obtain leadership roles.

**Narcissistic CEOs and organizational performance**

Although research has not shown that narcissistic leaders perform objectively better at the individual level, several studies suggest that they may have a positive as well as a negative impact at the organizational level (e.g., Maccoby, 2007; Resick, Whitman, Weingarden, & Hiller, 2009; Wille, De Fruyt, & De Clercq, 2013). In spite of these suggestions, however, a more careful analysis has shown that these positive outcomes are typically short-lived or associated with long-term negative consequences. For example, several studies have examined narcissism among U.S. presidents and concluded that both the best and the worst U.S. presidents were narcissists (Deluga, 1997; Watts et al., 2013). A recent study showed that Donald Trump scored in the bottom 0.02% of the HEXACO Honesty-Humility scale, suggesting that he is seen as highly narcissistic (Visser, Book, & Volk, 2017).

A similar pattern emerges among corporate leaders, Chatterjee and Hambrick (2007), for example, found that narcissistic CEOs led firms with higher variance in financial performance. Patel and Cooper (2014) reported similar findings showing that, because narcissistic CEOs had lower avoidance motivation and were less fearful of being punished, their firms suffered more in the 2007 financial crisis, but also performed better after the crisis. However, Buyl, Boone, and Wade (2017) failed to confirm these findings, finding that more narcissistic CEOs took greater risks prior to the financial crisis but performed more poorly post-crisis. Further, CEOs who were overconfident overestimated their ability to generate returns and the quality of their investments (Malmendier & Tate, 2005). Overconfident CEOs also engage in more mergers – 65% more than CEOs who are not overconfident – and they overpay when acquiring target firms (Chatterjee & Hambrick, 2007, 2011).

Taken together, this research suggests that among CEOs, those who are more narcissistic take more risks because they are both overly confident about their own judgment and believe themselves to be less vulnerable to being penalized for their overconfidence (e.g., Campbell et al., 2004). Given this overconfidence, we expect that people who are more narcissistic will be less willing to settle a lawsuit as the risk of being sued increases. Thus, in spite of the claim that there is both a “bright side” and a “dark side” to narcissistic leadership, overall, there is little evidence that firms with narcissistic CEOs perform better in the long term than do those with less narcissistic leaders, but significant evidence that they can put their organizations at risk (Grijalva et al., 2015a; Pfeffer, 2016).

**Narcissistic CEOs and lawsuits**

In the past several years, empirical studies in accounting and finance have documented the effects of CEO narcissism on financial misreporting. These studies have shown that narcissistic CEOs are more likely to manipulate corporate earnings (Buchholz, Lopatta, & Maas, 2014; Frino et al., 2015; Hsieh et al., 2014), restate financial reports (Ham et al., 2017), aggressively avoid paying taxes (Olsen & Stekelberg, 2015), and produce lower financial reports with lower accounting quality (Judd et al., 2015). These studies build on a growing body of work showing that overconfident or narcissistic CEOs are more likely to lead firms that misreport their financial status (Ahmed & Duellman, 2013; Amerinic & Craig, 2010; Boyle, Carpenter, & Hermanson, 2012; Hales et al., 2012; Laux & Stocken, 2012; Schrand & Zechman, 2012) and be at risk of committing fraud (Boyle et al., 2012; Duchon & Drake, 2008; Peng & Roell, 2008; Rijkenbilt & Commandeur, 2013).

Our research extends these studies by focusing on outcomes that are potentially more consequential and long-lasting than how well an organization performs financially over a shorter time frame, which has been the rather limited focus of many studies of CEO narcissism (e.g., Chatterjee & Hambrick, 2007; Wales et al., 2013). These accounting studies note that fraud usually begins with the CEO because he or she is responsible for determining the quality of the information reported to the board of directors and investors (e.g., Chen, 2010; Feng, Ge, Luo, & Shevlin, 2011; Goel & Thakor, 2008). More narcissistic CEOs with a higher need for self-enhancement, an inflated sense of self-worth, a greater sense of self-confidence in their own abilities, and a diminished sense of risk are more optimistic and willing to make adjustments in earnings that can lead to subsequent accounting problems. They have also been shown to be less responsive to corrective feedback (Chen, Crossland, & Luo, 2015). The costs of these decisions are often substantial, sometimes resulting in corporate bankruptcy (Boyle et al., 2012; Goldstein, 2015).

We suggest that one way of understanding the potential negative impact of narcissistic CEOs may have on organizations is by focusing on lawsuits filed against an organization. Estimates suggest that 10% of U.S. companies have been involved in significant litigation in the past several years and that the total cost of litigation for the Fortune 500 may exceed $200 billion, equivalent to one-third of the total after tax profit (AlixPartners, 2013; Henry, 2008). Research has documented that lawsuits can damage a firm’s value (e.g., Gande & Lewis, 2009; Koku, Qureshi, & Akhigbe, 2001) as well as its reputation (Haslem, Smith, & Hutton, 2015). As such, lawsuits are highly consequential for organizations.

**Hypotheses**

When compared to outright fraud, lawsuits are typically about pushing the boundaries of acceptable behavior and are driven by the CEO and senior executives. Thus, CEO narcissism and lawsuits may relate in a number of ways. First, research has shown that those who are more narcissistic have a heightened sensitivity to rewards and a lower sensitivity to punishments (e.g., Foster & Trimm, 2008; Foster et al., 2009; Vazire & Funder, 2006). Because narcissists are also more impulsive and aggressive than non-narcissists (e.g., Twenge & Campbell, 2003; Reidy, Foster, & Zeichner, 2010), they may focus heavily on the potential benefits of risky actions and minimize the costs. They also are overconfident in their own abilities and grandiose in their ambitions, even though objectively their performance is no better than others (e.g., Blair et al., 2008; Campbell et al., 2011; Judge et al., 2006), leading them to pursue actions that others might avoid. Finally, narcissists see others as less competent and are not only less likely to pay attention to the advice of others, but they are also more likely to respond with hostility when their ideas are challenged (e.g., Grijalva & Harms, 2014; Park & Colvin, 2014; Penney & Spector, 2002). This may lead them to ignore information that might mitigate the risks they are taking.
Overview of the studies

We conducted three studies to explore the effects of CEO narcissism on corporate litigation. In study 1, we examined original field and archival data from a survey of 32 high technology firms. We obtained CEO narcissism ratings from employees and the number and length of significant company lawsuits from firm annual reports. We tested Hypotheses 1 and 2 with these externally valid data.

We then conducted two experimental studies to understand the mechanism underlying the relationship between CEO narcissism and litigation. In Studies 2 and 3 we created a scenario examining the likelihood that subjects would approve actions that could result in a potential lawsuit, offering another test of Hypothesis 1 and a scenario examining respondents' willingness to settle and existing lawsuit, a test of Hypothesis 3. In the experimental studies, we put at risk the participants' rewards, demonstrating that narcissists are more likely to take risks even when they may suffer personal losses. We also provide evidence that more narcissistic respondents are more skeptical of expert opinions and confident of their decisions. Taken together, these studies permit us to identify the association between narcissistic CEOs and firm lawsuits as well as the causal mechanism inducing narcissists to take actions that could either lead to a lawsuit or extend existing litigation.

Study 1

Research design and sample

As a part of a larger 2009 research project, we collected data on CEO personality as rated by company employees from 32 large high technology firms. Ninety-seven percent of the sample companies were included in the list of the Fortune 1000. The companies were all publicly listed U.S. firms with primary operations in hardware, software and internet services. Each firm had a minimum of 20 alumni from three West Coast business schools. In 2010, we contacted prospective informants (alumni of the three business schools currently employed at the company) and asked them to complete an online survey assessing their current CEO's personality. We assured participants that their responses were confidential and that neither individuals nor firms would be identified. Data on significant litigation against the firms were collected from archival sources as described below.

Of the original 648 individuals surveyed, 250 current employees completed the personality rating (x = 7.81 informants per company, s.d. = 4.97). The sample was 34% female and their average tenure with the focal firm was 7.22 years. All had earned a Bachelor's degree or higher and 26% had worked at the company for > 12 years. Given the relatively long tenure and their managerial positions, we believe that the respondents were likely to have experience with their CEOs and be qualified to make judgments of their personality.

Independent variables

CEO narcissism. Informants completed an online personality assessment of their CEOs that asked: “Below are a number of words that describe common human traits. Read each item and indicate how accurately (how well) you think it describes [name of CEO]. This should reflect how [s]he generally or typically behaves or appears.” This measure was derived from the narcissism personality inventory developed and validated by Resick et al. (2009). The eight adjectives were arrogant, assertive, boastful, conceited, egotistical, self-centered, show-off, and temperamental, and were dispensed among a larger set of adjectives used to assess the Big Five personality attributes (Gosling, Rentfrow, & Swann, 2003). Respondents were asked to rate how accurately each of the eight adjectives described their 2009 CEO on a scale of 1–7 (1 = “very inaccurate”, 7 = “very accurate”). We averaged the eight items to form an overall scale (Cronbach’s α = 0.92). Previous research has shown that the accuracy of observers’ ratings of personality is higher than self-assessments (Funder, 2012; Mount, Barrick, & Strauss, 1994) and that observers are able to make these assessments easily (Lievens, DeFruyt, & Van Dam, 2001). Connelly and Ones (2010), in a meta-analysis with > 263 independent samples and > 44,000 individuals, concluded that observer ratings yield more predictive accuracy than do self-ratings.

To determine the appropriateness of aggregating narcissism ratings for each CEO, we computed several metrics of inter-rater reliability and agreement. First, we calculated an rwg(j) value for the ratings of each CEO, assuming uniform distribution. The rwg(j) indicates how highly raters agree on their perceptions of the CEO. We obtained values for all firms (x = 0.78, s.d. = 0.11) that exceeded the recommended minimum value of 0.70 (Klein et al., 2000), indicating high within-firm (CEO) agreement. Second, we calculated an intra-class correlation metric (ICC(1)) to assess the reliability of the CEO (within firm) narcissism mean ratings. The ICC(1) value (0.88) exceeded the recommended minimum value of 0.70. Together, these measures provide justification for aggregating narcissism ratings by CEO and evidence of sufficient rater reliability.
distinctiveness of CEO narcissism ratings across firms, or between-group variance, we conducted a within-and-between (WABA) analysis. Results indicated significant between-group variance (65% of variation accounted for by between-group factors, 35% within-group; $F = 9.03$, $p < 0.001$) (Dansereau, Alutto, & Yammarino, 1984).

We assessed the convergent validity of the narcissism measure by examining the CEO's use of first-person pronouns in their letters to shareholders and quarterly earnings calls, the correlation of CEO signature size and the employees' ratings of CEO narcissism and the correlation of narcissism with the Big 5 personality ratings. First, we collected the CEO's letter to the shareholders for the fiscal year 2009 (number of letters = 25) and the transcripts of quarterly earnings calls for that year in which the CEO participated (average number of earnings calls per CEO = 2.38). Previous research has suggested that those high on narcissism use first-person singular pronouns more frequently (DeWall, Buffardi, Bonser, & Campbell, 2011; Koch & Biemann, 2014), although there is some recent evidence questioning the validity of this commonly used measure (Carey et al., 2015). To test this, we used the Linguistic Inquiry and Word Count (LIWC) text analysis program (Pennebaker, Francis, & Booth, 2001) and found that our measure of CEO narcissism was modestly though positively correlated with the CEO's use of first-person singular pronouns ("I") in fiscal year 2009 letters to shareholders ($r = 0.27$, $p < 0.10$), as well as with use of personal pronouns ($r = 0.24$, $p < 0.10$) in fiscal year 2009 earnings call transcripts.

In a study of CEO narcissism and company financial reporting, Ham et al. (2017) coded the size of the notarized signatures of CFOs and CEOs in SEC submissions. In a laboratory experiment using data from 63 undergraduates, they found a monotonic relationship between standardized signature size and ratings of narcissism using the NPI-40. They also provided standardized signature sizes for 513 CEOs, which included 24 of the 32 firms in the present study. Using the signature size data that they provided, we found a significant positive correlation between standardized CEO signature size and our narcissism measure ($r = 0.55$, $p < 0.01$), providing further convergent validity for the narcissism measure.

Finally, prior research has shown that more narcissistic individuals are also more extroverted and less agreeable (e.g., Brown, Budzak, and Tamborski, 2010; Holtzman et al., 2010; Judge et al., 2006; Paulhus & Williams, 2002; Saulsman & Page, 2004). Using Big 5 personality ratings of the CEO collected from the same participants (Gosling et al., 2003), we found that CEO narcissism was significantly correlated with both extroversion ($r = 0.50$, $p < 0.01$) and agreeableness ($r = -0.83$, $p < 0.001$). Together, these results offer additional convergent validity for our assessment of narcissism.

Number and average length of lawsuits. We tabulated the number and time span of lawsuits disclosed in each firm's 2011 annual report. The U.S. Securities and Exchange Commission (SEC) requires publicly traded firms to disclose all material pending legal proceedings in which they are involved. Although “material” is somewhat broadly defined (consistent with other financial disclosures – e.g., “that an average prudent investor ought to be informed about before buying or selling the security”), further specification in the code (17 CFR 229.103) indicates that cases with claims for damages exceeding 10% of current assets should be disclosed (among other considerations). These SEC specifications provide relative consistency in the level of disclosure across firms regardless of their size or other internal factors. For each firm, trained coders recorded the number of distinct (separate) legal cases disclosed in the fiscal year 2011 form 10-K for each case, and the start and end (if closed) dates for each case such that the length of time (in months) that each lawsuit was open could be calculated, then averaged across cases by firm. The mean number of lawsuits for the sample firms was 4.36 (s.d. = 5.59) and the average duration was 20.1 months (s.d. = 18.5).

Control variables. Although the sample firms were in the high-technology industry, we further identified each firm's sector as software, hardware, or a combination. We used SIC codes from Compustat to create two dummy variables, Software (variable “Software” = 1) or Mixed (“Mixed Products” = 1) if a company was involved in a mixture of hardware- and software-oriented production.

We also controlled for firm size because larger firms are more likely to be involved in litigation (Norton Rose Fulbright Annual Litigation Trends Survey, 2014). We used the log of the number of employees in fiscal year 2009, gathered from Compustat to represent firm size. To control for the possibility that a prior CEO had been responsible for lawsuits, we also controlled for CEO tenure. To assess tenure, we counted the number of full years that each leader had consecutively occupied the CEO position in their firm. We obtained these data from publicly available sources and validated them using the start dates as reported in ExecuComp ($\chi^2 = 8.39$, s.d. = 8.54).

We included two indicators of firm age in our initial regression models: number of years since founding and number of years since going public, gathered from company reports and SEC filings. We dropped these indicators, however, because they never affected our results and were highly correlated with firm size ($\alpha_{\text{Firm size}}: \chi^2(1) = 2.10$, n.s.; ageipo: $\chi^2(1) = 1.88$, n.s.). We also considered whether or not the CEO was the founder of the firm ($0 = \text{no, 1 = yes}$) from corporate websites and included this variable in the analyses. Because being a founder did not change the results ($\chi^2(1) = 0.14$, n.s.), we also dropped this variable from further analyses.

Results

Means, standard deviations, and correlations among study variables are presented in Table 1. Pairwise correlations show that CEO narcissism is significantly correlated with both the total number of lawsuits and their duration. Both the number and duration of lawsuits are also significantly correlated with the size of the company and CEO tenure, so the true association between CEO narcissism and litigation is unclear.

Table 2 presents the regression results investigating the relationship of narcissism with the number and duration of lawsuits after controlling for firm industry segment (software/hardware), firm size, and CEO tenure. Hypothesis 1 proposed that firms led by more narcissistic CEOs would be sued more often. Model 2 (negative binomial regression) confirms this hypothesis and shows that CEO narcissism is significantly associated with the number of lawsuits in which the firm is named as a defendant after controlling for firm size, CEO tenure, and industry segment ($b = 0.50$, $p < 0.05$; 95% confidence interval: $b = 0.17$–0.76). Curvilinear effects for CEO narcissism were not present ($b = 0.11$, n.s.). Hypothesis 2 proposed that firms led by more narcissistic CEOs would also be slower to settle lawsuits. Model 4 (EIV OLS) shows that higher levels of CEO narcissism are positively related to the duration of the lawsuit, with moderate effect size ($b = 7.03$, $p < 0.05$; Cohen’s $f^2 = 0.20$). Curvilinear effects were again not evident ($b = -0.45$, n.s.).

Although not displayed in Table 2, we conducted additional analyses to determine whether CEOs who were the founders of their firm were sued more often and were involved in lawsuits that lasted longer. No significant relationships emerged from these analyses ($\chi^2(1) = 0.14$, n.s.; $\chi^2(1) = 0.21$, n.s.). Previous research has suggested that influence of a dominant CEO may be moderated by strong governance or a collectivistic culture (Banerjee, Humphrey-Jenner, Nanda, & Tham, 2015). Thus, as a robustness test, we also conducted additional analyses to explore whether the relationships between CEO narcissism and litigation were affected by stronger governance (i.e., an independent

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2 The correlation between narcissism and agreeableness reported here is higher than in many other studies (e.g., Paulhus & Williams, 2002), suggesting that the NPI-16 may be biased toward disagreeableness and anger (e.g., Miller et al., 2017).
Chairman, the absence of a poison pill, or a golden parachute protecting against hostile takeovers or dismissal), or a culture emphasizing corporate integrity (O'Reilly, Caldwell, Chatman, & Doerr, 2014). Again, against hostile takeovers or dismissal), or a culture emphasizing corporate integrity (O'Reilly, Caldwell, Chatman, & Doerr, 2014). Again, however, do not allow us to identify the mechanism by which more narcissistic CEOs make these decisions. Thus, we conducted two experiments (four studies) to better understand this relationship.

Studies 2 and 3

Overview of research design

To explore the mechanism underlying the relationship we found in study 1 between narcissism and firms’ involvement in lawsuits, we conducted two experimental studies. In study 2 we explored how narcissism might be associated with the propensity to approve actions that entailed a risk that the firm would be sued. We asked participants to assume the role of a CEO of a company facing the choice to proceed or not with a new product release, asking them to consider advice from their inside counsel regarding the probability that releasing the product would result in their firm being named as a defendant in a lawsuit. We measured narcissism and manipulated the probability of a lawsuit ensuing as a result of releasing the new product. Then, in the second scenario, study 3, we asked participants to assume the role of a CEO making a decision to settle a lawsuit that a competitor has filed against the CEO’s firm. Here we measured narcissism and manipulated the probability that the rival would win the lawsuit (the CEO’s firm would lose the lawsuit) if it went to court.

Study 1 discussion

The results of study 1 offer support for Hypotheses 1 and 2, that firms with more narcissistic CEOs have more lawsuits filed against them and the lawsuits endure for longer periods of time. Study 1 thus provides evidence for an important link in an externally valid setting, that CEOs who are more narcissistic are likely to subject their firms to risks that may have long-term negative impact. The data from this study, however, do not allow us to identify the mechanism by which more narcissistic CEOs make these decisions. Thus, we conducted two experiments (four studies) to better understand this relationship.

Table 1

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>S.D.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
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<tr>
<td>1</td>
<td>9.75</td>
<td>1.28</td>
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</tr>
<tr>
<td>2</td>
<td>0.44</td>
<td>0.50</td>
<td>0.08</td>
<td>–</td>
<td>–</td>
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<tr>
<td>3</td>
<td>0.63</td>
<td>0.49</td>
<td>0.15</td>
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<tr>
<td>4</td>
<td>7.81</td>
<td>8.11</td>
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<td>–</td>
<td>–</td>
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<td>–</td>
</tr>
<tr>
<td>5</td>
<td>3.67</td>
<td>1.14</td>
<td>0.38</td>
<td>0.03</td>
<td>0.04</td>
<td>0.45</td>
<td>–</td>
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</tr>
<tr>
<td>6</td>
<td>4.32</td>
<td>5.36</td>
<td>0.50</td>
<td>–</td>
<td>0.18</td>
<td>0.30</td>
<td>0.24</td>
<td>0.54</td>
</tr>
<tr>
<td>7</td>
<td>21.36</td>
<td>17.56</td>
<td>0.55</td>
<td>–</td>
<td>0.13</td>
<td>0.21</td>
<td>0.08</td>
<td>0.44</td>
</tr>
</tbody>
</table>

Note: Models 1 and 2 use pseudo R² (function of log-likelihoods of current model, intercept-only model, and maximum) and an omnibus test using the likelihood-ratio chi-squared (Model 1 LR = 11.53*, Model 2 LR = 16.67**).

Table 2

<table>
<thead>
<tr>
<th>Variable</th>
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<tbody>
<tr>
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<td>7</td>
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</tr>
</tbody>
</table>

Note: Models 1 and 2 use negative binomial regression (Poisson model for over-dispersion). Models 3 and 4 use OLS.

Models 1 and 2 use pseudo R² (function of log-likelihoods of current model, intercept-only model, and maximum) and an omnibus test using the likelihood-ratio chi-squared (Model 1 LR = 11.53*, Model 2 LR = 16.67**).

3 We cannot rule out some endogeneity between CEO narcissism, CEO tenure, and lawsuits. Although we believe it to be unlikely, it is possible that the firms that have higher rates of litigation could be more likely to hire narcissists. However, the average tenure of CEOs in the sample was 7.8 years while the average duration of a lawsuit was 21.6 months. We found no evidence that less tenured CEOs were more likely to be higher in narcissism or that they had more lawsuits.
Study 2

Research design and sample

We asked participants to assume the role of CEO of a company facing the choice to proceed or not with a new product release with either a low or high probability (20% or 80%) that releasing the product would result in the firm being sued, or to decide to continue or settle an ongoing lawsuit with a low or high probability (20% or 80%) of losing. Respondents were paid $2 for their participation. We asked subjects to make a definitive decision: launch or not launch, settle or not settle, and subjects were told that their decision would have real consequences: If they chose to launch the product or not settle the lawsuit (riskier choice), their subject payment would be determined by the actual outcome of the case – to be communicated and paid after they completed the study.

We counterbalanced the administration of the experimental treatment and the collection of the demographic and personality data to ensure that there were no demand or cueing effects occurring. To provide convergent validity for our measures of narcissism, participants completed both the Resick et al. (2009) measure of narcissism and the NPI-16 (Ames, et al., 2006), as well as the Honesty-Humility (H–H) scale from the HEXACO-60 (Ashton & Lee, 2009). The HEXACO model is a well-validated instrument that assesses six dimensions of personality structure and includes a dimension not captured by the Big 5, Honesty-Humility. In particular, the HEXACO measure of Honesty-Humility has been found to correlate with the Dark Triad (Aghababaei, Mohammadtabar, & Saffarinia, 2014; Ashton, Lee, & de Vries, 2014; Lee & Ashton, 2014), and is positively correlated with honesty and sincerity but negatively correlated with being exploitative and opportunistic (Lee, Ashton, Morrison, Corderly, & Dunlop, 2008). Lee and Ashton (2005) report that the H–H scale is significantly correlated with narcissism ($r = -0.53, p < 0.01$).

Finally, because prior research has shown that narcissists are more likely to reject advice, discount negative feedback, and see others as less competent (Kausel et al., 2015; Kernis & Sun, 1994; Kong, 2015), we asked respondents to provide source credibility ratings (Fiske, Cuddy, & Glick, 2006; Pornpitakpan, 2004) of the “experts” from whom they were receiving advice (patent attorneys or the CFO). Subjects were asked to provide their general assessment of how credible they believe experts to be in general, using a scale that has been validated in prior research (see below). To assess subjects’ confidence in their own performance vis-à-vis others, subjects were also asked how well they thought they performed compared to how other participants performed.

Subjects

One hundred ten subjects were recruited from Amazon’s Mechanical Turk (mTurk) and paid a flat $2.00 for their participation, with an opportunity to earn an additional bonus performance-based payment. A priori analysis indicated that a sample size of 100 would be sufficient to detect a significant effect ($d = 0.80, a = 0.05$). The subjects met the study’s main qualifications: they were at least 18 years old, residing in the U.S., spoke English as their first language, had a four-year college degree, and were employed full-time. Subjects were also required to complete several attention-check questions throughout the experiment, and were allowed to participate in the study one time (enforced by checking unique mTurk IDs with each successive condition). We also monitored the amount of time that subjects took to complete the study and removed subjects who took less than four minutes to complete it ($x = 9.59$ min, $s.d. = 5.15$ min). One hundred four ($N = 104$) respondents met all criteria and were included in the experiment. Forty nine percent were male and they averaged 32.8 years in age. Seventy-two percent were Caucasian, 9% were Asian, 4% were African-American, and 15% identified as “other.” Subjects’ average work experience was 11.0 years with just under half (46%) reporting having managerial responsibilities.

Procedure and measures

Subjects were randomly assigned to complete the personality assessment either before or after reading the scenario. There were no significant differences in the subjects’ responses based on when they completed the assessment. Within the set of narcissism metrics, the correlation of the NPI-16 and the Resick measure of narcissism was $r = 0.73$ ($p < 0.01$). The correlation of the NPI with the Honesty-Humility scale of the HEXACO personality instrument was $r = -0.57$ ($p < 0.01$), and the correlation with the Resick measure was $r = -0.51$ ($p < 0.01$). Negative scores on the HEXACO H–H scale are typically highly correlated with high levels of narcissism (Lee & Ashton, 2005). Thus, our narcissism measure demonstrates good convergent validity.

Either before or after completing the narcissism measure ($x = 4.98$, $s.d. = 4.44$), respondents read the scenario shown in Appendix A and were provided one of two versions of the scenario. Each version described a different probability of the firm being sued if the CEO chooses to launch the product. The first condition estimated a 20% probability of being sued, and the second condition presented an 80% likelihood of being sued. After reading the scenario, subjects were asked, in their role as CEO, whether they would launch the product ($0 = no$, $1 = yes$). Subjects were then told that, if they launched or settled and were not sued or won, they would earn an additional $5$. But if they launched or settled and were sued or lost, they would earn $0.20. If they chose the conservative option (not launch or settle the lawsuit), they would earn an additional $1. Thus, subjects had a true stake in the decision they were making.

Subjects were also asked to provide their general assessment of how credible they believe experts to be in general, using 15 bipolar adjectives that assess three dimensions of source credibility: trustworthiness (e.g., honest-dishonest), competence (e.g., informed-uninformed), and dynamism (e.g., bold-timid) ($x = 5.31, s.d. = 0.57$). These adjectives have been used in previous research (Berlo, Lemert, & Mertz, 1969; O’Reilly & Roberts, 1976), and the scale is reliable (Cronbach’s $\alpha = 0.85$). Participants’ rated their confidence in their performance at the conclusion of the experiment by indicating on a 100-point scale how well they thought they performed compared to other participants ($0 = “I did much worse than other participants”$ $100 = “I did much better than other participants”$) ($x = 62.01, s.d. = 17.45$).

Analysis and results

Study 2 tests Hypotheses 1 and 3. Hypothesis 1 predicted that those higher on narcissism would be more likely to engage in an action (launch a product) that could result in a lawsuit whereas Hypothesis 3 predicted that people who are more narcissistic will be more likely to launch the product as the level of risk increases, compared to less narcissistic individuals whose decisions will correspond more closely to objective levels of risk. Table 3 presents means, standard deviations, and correlations between the study variables. Table 4 reports the regressions testing these hypotheses. Fig. 1 illustrates the test of Hypothesis 3.

We conducted a two-stage least squares (2SLS) regression using our secondary measure of narcissism (Resick) as instrument, with risk condition moderating the effect of narcissism on product-launch decisions (Hausman $F(3,97) = 2.72, p < 0.05$; partial $r^2 = 0.53$). In Table 4, Model 1 shows that subjects who were more narcissistic were more likely to launch the product in general ($b = 0.14, p < 0.05$), consistent with Hypothesis 1. Model 1 also shows that subjects were less likely to launch the product when the probability of being sued was higher (80%: $b = -0.27, p < 0.01$). Model 2 shows that the effect of narcissism was contingent on the level of risk, consistent with Hypothesis 3 ($\chi^2 = 26.97, p < 0.01$). In the low-risk condition (20%), narcissism had no significant effect on subjects’ choice to launch the product ($b = 0.02$, n.s.). In the high-risk condition (80%), more narcissistic individuals were more likely to launch the product ($b = 0.25$,
Fig. 1 displays the effect of narcissism on product-launch decisions at each level of risk, demonstrating that the effect of narcissism manifests at higher levels of risk. These experimental results show that those with higher levels of narcissism are more likely to ignore advice about the probability of failure than those with lower levels of narcissism when the level of risk is high.

To explore why more narcissistic individuals may be more inclined to take an action that runs counter to experts’ advice, we asked participants to rate how much credibility they ascribed in general to the advice of experts (e.g., lawyers). The correlation matrix in Table 3 shows these associations. Both the two measures of narcissism and the H–H scale are associated with significantly lower ratings of source trustworthiness and competence (NPI-16–Source Credibility: $r = -0.23, p < 0.05$, Resick–Source Credibility; $r = -0.37, p < 0.01$, H–H–Source Credibility: $r = 0.25, p < 0.05$). This suggests that narcissists are less likely to see expert advice as useful.

We then explored whether more narcissistic individuals perceived their relative performance differently than did less narcissistic individuals after completing the scenario. The correlation matrix in Table 3 indicates that two of the narcissism measures are significantly correlated with higher levels of confidence in relative performance (NPI-16–Did Well: $r = 0.37, p < 0.01$, Resick–Did Well: $r = 0.24, p < 0.05$). This provides some evidence that narcissists are more confident in their decisions even when those decisions run counter to the objective level of risk.

Table 3
(Study 2) Means, standard deviations, and correlations among study variables.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>S.D.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 High risk (0 = no, 1 = yes)</td>
<td>0.51</td>
<td>0.50</td>
<td>–</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Narcissism (NPI-16)</td>
<td>4.98</td>
<td>4.44</td>
<td>– 0.07</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Narcissism (Resick-8)</td>
<td>2.87</td>
<td>1.14</td>
<td>– 0.17 0.73</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 HEXACO honesty-humility (1–7)</td>
<td>4.34</td>
<td>1.16</td>
<td>0.08 – 0.57 0.51</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Launch product (0 = no, 1 = yes)</td>
<td>0.65</td>
<td>0.48</td>
<td>– 0.35 0.30 0.24</td>
<td>– 0.15</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Source credibility (1–7)</td>
<td>5.31</td>
<td>0.57</td>
<td>0.23 – 0.23 0.37 0.25</td>
<td>– 0.17</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>7 Did well compared to others (1 – 100)</td>
<td>62.01</td>
<td>17.45</td>
<td>0.07 0.37 0.24</td>
<td>– 0.12 0.12 0.12</td>
<td></td>
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Table 4
(Study 2) Logistic regression models predicting CEO decision to launch product.

<table>
<thead>
<tr>
<th></th>
<th>β</th>
<th>S.E.</th>
<th>Wald</th>
<th>d.f.</th>
<th>Sig</th>
<th>β</th>
<th>S.E.</th>
<th>Wald</th>
<th>d.f.</th>
<th>Sig</th>
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<tr>
<td>Constant</td>
<td>0.82</td>
<td>0.38</td>
<td>4.54</td>
<td>1</td>
<td>0.03</td>
<td>1.27</td>
<td>0.47</td>
<td>7.38</td>
<td>1</td>
<td>0.01</td>
</tr>
<tr>
<td>Narcissism</td>
<td>0.17</td>
<td>0.06</td>
<td>7.93</td>
<td>1</td>
<td>0.01</td>
<td>0.29</td>
<td>0.22</td>
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<td>1</td>
<td>0.76</td>
</tr>
<tr>
<td>High risk</td>
<td>– 1.61</td>
<td>0.50</td>
<td>10.46</td>
<td>1</td>
<td>0.00</td>
<td>– 2.67</td>
<td>0.71</td>
<td>9.70</td>
<td>1</td>
<td>0.00</td>
</tr>
<tr>
<td>Narcissism × high risk</td>
<td></td>
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<tr>
<td>Model $\chi^2$</td>
<td>22.83</td>
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<td></td>
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<td></td>
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<tr>
<td>N (subjects)</td>
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</table>

$\beta$ p < 0.10. $^*$ p < 0.05. $^**$ p < 0.01.

Fig. 1. (Study 2) Narcissism-risk graphed interactions.
were provided one of two versions of the scenario. Each version
s.d. = 4.81), respondents read the scenario shown in
Table 5 presents means, standard deviations, and correlations among study variables.

Table 5 (Study 3) Means, standard deviations, and correlations among study variables.

<table>
<thead>
<tr>
<th>Variable Description</th>
<th>Mean</th>
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<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. High risk (0 = no, 1 = yes)</td>
<td>0.50</td>
<td>0.50</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>2. Narcissism (NPI-16)</td>
<td>4.71</td>
<td>4.81</td>
<td>–0.04</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
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<tr>
<td>3. Narcissism (Resick-8)</td>
<td>2.90</td>
<td>1.12</td>
<td>–0.07</td>
<td>0.68</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>4. HEXACO honesty-humility (1–7)</td>
<td>4.42</td>
<td>1.13</td>
<td>0.14</td>
<td>–0.69</td>
<td>–0.61</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>5. Settle lawsuit (0 = no, 1 = yes)</td>
<td>0.39</td>
<td>0.49</td>
<td>0.43</td>
<td>–0.18</td>
<td>–0.13</td>
<td>0.18</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>6. Source credibility (1–7)</td>
<td>5.28</td>
<td>0.56</td>
<td>0.02</td>
<td>–0.27</td>
<td>–0.24</td>
<td>0.20</td>
<td>–0.02</td>
<td>–</td>
</tr>
<tr>
<td>7. Did well compared to others (1–100)</td>
<td>64.17</td>
<td>16.24</td>
<td>–0.01</td>
<td>0.36</td>
<td>–0.10</td>
<td>–0.30</td>
<td>–0.12</td>
<td>–0.01</td>
</tr>
</tbody>
</table>

N = 100.

*p < 0.10.

*p < 0.05.

⁎⁎ p < 0.01.

Discussion

Consistent with Hypotheses 1 and 3 and the results of study 1, subjects who were more narcissistic were more likely to make a decision that could result in the firm being named as a defendant in a lawsuit than were those with lower levels of narcissism, particularly when the level of risk was high. Further, we confirmed that more narcissistic subjects were more confident in their performance, and less trusting of experts’ advice. This study does not allow us to rule out the possibility that narcissists were simply overconfident about the likelihood of winning a lawsuit rather than focused on the simple risk of a lawsuit. To determine if the risk was based on overconfidence of winning, we conducted an additional experiment, which we describe below.

Study 3

Subjects

One hundred ten subjects were recruited from Amazon’s Mechanical Turk (mTurk) and paid $2.00 for their participation with an opportunity to earn an additional bonus performance-based payment. Once again, a priori analysis indicated that a sample size of 100 would be sufficient to detect a significant effect (d = 0.80, a = 0.05). These subjects met the study’s main qualifications, which were identical to those described above for study 2. Again, subjects were required to complete several attention-check questions throughout the scenario, and were allowed to participate in the study one time (enforced by checking unique mTurk IDs with each successive condition). We also monitored the amount of time that subjects took to complete the study. One hundred (N = 100) respondents met all criteria and were included in the experiment. Fifty nine percent were male and they averaged 35 years in age. Eighty percent were Caucasian, 4% were Asian, 7% were African-American, and 9% identified as “other.” Subjects’ average work experience was 12.1 years with more than half having had managerial responsibilities.

Procedures and measures

Subjects were again randomly assigned to complete the personality assessment either before or after reading the scenario. There were no significant differences in the subjects’ responses based on when they completed the assessment. Within the set of narcissism metrics, the correlation of the NPI-16 and the Resick measure of narcissism was r = 0.68 (p < 0.01). The correlation of the NPI with the Honesty-Humility scale of the HEXACO personality instrument was r = −0.69 (p < 0.01) and the correlation with the Resick measure was r = −0.61 (p < 0.01). As noted earlier, negative scores on the HEXACO H–H scale have been shown to be highly correlated with high levels of narcissism (Lee & Ashton, 2005). Thus, once again the narcissism measure demonstrates convergent validity.

Either before or after completing the narcissism measure (x = 4.71, s.d. = 4.81), respondents read the scenario shown in Appendix A and were provided one of two versions of the scenario. Each version described a different probability of the firm losing the lawsuit if the CEO chooses not to settle out of court. The first condition estimated a 20% probability of losing, and the second condition presented an 80% likelihood. After reading the scenario, subjects were asked, in their role as CEO, whether they would settle the lawsuit (0 = no, 1 = yes).

Subjects were also asked to provide their general assessment of how credible they believe experts to be in general, using the same adjective scale employed in study 2 (x = 5.28, s.d. = 0.56). To assess the participants’ overall confidence in their performance, at the conclusion of the experiment they were also asked, on a 100-point scale, to indicate how well they thought they performed compared to how other participants performed (0 = “I did much worse” 100 = “I did much better”) (x = 64.17, s.d. = 16.24).

Analysis and results

Study 3 tested Hypotheses 2 and 3. Hypothesis 2 predicted that those higher on narcissism would be less likely to settle a lawsuit that could result in significant damage to the firm while Hypothesis 3 predicted that people who are more narcissistic will be less likely to settle the lawsuit as the level of risk increases, compared to less narcissistic individuals whose decisions will correspond more closely to objective levels of risk. Table 5 presents means, standard deviations, and correlations between the study variables. Table 6 reports the regressions testing these hypotheses. Fig. 2 illustrates the test of Hypothesis 3.

To test these hypotheses, we conducted a two-stage least squares (2SLS) regression using our secondary measure of narcissism as instrument, with risk condition moderating the effect of narcissism on product-launch decisions (Haussman F(3,93) = 3.14, p < 0.05; partial r² = 0.36). In Table 6, Model 1 shows that subjects who were more narcissistic were marginally less likely to settle the lawsuit in general (b = −0.09, p < 0.10), consistent with Hypothesis 1. Model 2 shows that the effect of narcissism was contingent on the level of risk, consistent with Hypothesis 3 (χ² = 26.68, p < 0.01). In the low-risk condition (20%), narcissism had no significant effect on subjects’ choice to settle the lawsuit (b = 0.03, n.s.). In the high-risk condition (80%), more narcissistic individuals were less likely to settle the lawsuit (b = −0.21, p < 0.05). Fig. 2 displays the effect of narcissism on lawsuit-settlement decisions at each level of risk, demonstrating that the effect of narcissism occurs at higher levels of risk. These experimental results show that those with higher levels of narcissism are more likely to ignore advice about the probability of failure than those with lower levels of narcissism when the level of risk is high.

To explore why more narcissistic individuals may be more inclined to take an action that runs counter to experts’ advice, we asked participants to rate how much credibility they ascribed in general to the advice of experts (e.g., lawyers). The correlation matrix in Table 5 shows these associations. All three measures of narcissism are associated with significantly lower ratings of source trustworthiness and competence (NPI-16–Source Credibility: r = −0.27, p < 0.01, Resick–Source Credibility: r = −0.24, p < 0.05, H–H–Source Credibility: r = 0.20, p < 0.05). This suggests that
narcissists are less likely to see expert advice as useful.

We then explored whether more narcissistic individuals perceived their relative performance differently than less narcissistic individuals post-experiment. The correlation matrix in Table 5 indicate that the two narcissism measures and the H–H scale are significantly correlated with higher levels of confidence in relative performance (NPI-16–Did Well: r = 0.36, p < 0.01; H–H–Did Well: r = −0.30, p < 0.01). This provides some evidence that narcissists are more confident in their decisions even when those decisions run counter to the objective level of risk.4

Discussion

In this experiment, subjects who were more narcissistic were again more likely to take risks when the stakes were high (80% risk of losing) and meaningful (real money on the line) than less narcissistic individuals. The results from this study show that not only are narcissists more likely to approve actions that are likely to result in their firm being sued, as demonstrated in study 2, they are also less likely to settle a lawsuit even when the risk of losing the lawsuit is high. Specifically, when more narcissistic subjects were confronted with a higher risk of losing a lawsuit, they were significantly more likely to persist and less likely to settle. More narcissistic subjects in study 3 were also more confident in their decisions after making them, indicating that they thought they performed significantly better than other participants. Finally, more narcissistic individuals generally trusted experts less than did those who were less narcissistic. The latter two findings suggest two possible explanations for the narcissist’s risk-taking behavior: over-confidence, and a propensity to dismiss others’ advice.

General discussion

Research on narcissistic leaders has sometimes distinguished the so-called “bright side” of personality from the “dark side” (e.g., Khoo & Burch, 2008; Resick et al., 2009). In this framing, the positive aspects of one’s core evaluations (e.g., self-esteem, self-confidence) are differentiated from the more negative aspects (e.g., narcissism). The intuition behind this distinction is that the bright-side attributes should be associated with successful leadership whereas the dark side should have negative consequences. What has blurred this picture is that some aspects of narcissism such as being self-confident, more extroverted,

Table 6

(Study 3) Logistic regression models predicting CEO decision to settle lawsuit.

<table>
<thead>
<tr>
<th></th>
<th>β</th>
<th>S.E.</th>
<th>Wald</th>
<th>d.f.</th>
<th>Exp(β)</th>
<th></th>
<th>β</th>
<th>S.E.</th>
<th>Wald</th>
<th>d.f.</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>−0.84</td>
<td>0.39</td>
<td>4.59</td>
<td>1</td>
<td>0.03</td>
<td></td>
<td>−1.23</td>
<td>0.45</td>
<td>7.53</td>
<td>1</td>
<td>0.01</td>
</tr>
<tr>
<td>Narcissism</td>
<td>−0.09</td>
<td>0.06</td>
<td>2.78</td>
<td>1</td>
<td>0.10</td>
<td></td>
<td>0.18</td>
<td>0.11</td>
<td>3.70</td>
<td>1</td>
<td>0.17</td>
</tr>
<tr>
<td>High Risk</td>
<td>1.96</td>
<td>0.49</td>
<td>15.71</td>
<td>1</td>
<td>0.00</td>
<td></td>
<td>2.88</td>
<td>0.70</td>
<td>16.94</td>
<td>1</td>
<td>0.00</td>
</tr>
<tr>
<td>Narcissism × high risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Model χ²</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>22.78</td>
<td></td>
<td>26.68</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N (subjects)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>100</td>
<td></td>
<td>100</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

1 p < 0.10.
2 p < 0.05.
3 p < 0.01.

4 To further examine the extent to which narcissists were likely to make these decisions at different levels of risk, we conducted two additional experiments that included choices at 20%, 50%, and 80% risk positions. We used exactly the same paradigm except that subjects merely needed to indicate their decision to launch the product or not and to settle or not (rather than having financial contingencies). Across the two scenarios comprising 380 subjects who met identical criteria and screening procedures as those described in studies 2 and 3, we found, first that the effect of narcissism was contingent on the level of risk, consistent with Hypothesis 3 (β(1, 169) = 17.37, p < 0.01). In the low-risk condition (20%), narcissism had no significant effect on subjects’ choice to launch the product (β = 0.18, n.s.). In the mid-risk condition (50%), more narcissistic individuals were more likely to launch the product (β = 0.27, p < 0.01, Cohen’s f² = 0.06) suggesting that the effect of narcissism is more pronounced at higher levels of risk. Second, we found that the effect of narcissism was contingent on the level of risk when predicting subjects’ choice to settle the lawsuit, consistent with Hypothesis 3 (β(1, 169) = 9.69, p < 0.01). In the low-risk condition (20%), narcissism had no significant effect on subjects’ choice to settle the lawsuit (β = 0.00, n.s.). In the mid-risk condition (50%), narcissism also had no effect (β = −0.03, n.s.). But in the high-risk condition (80%), more narcissistic individuals were less likely to settle the lawsuit (β = −0.17, p < 0.05, Cohen’s f² = 0.04), suggesting again that the effect of narcissism manifests at higher levels of risk.

Fig. 2. (Study 3) Narcissism-risk graphed interactions.
and having a vision of the future (grandiosity) are related to leader emergence (e.g., Brunell et al., 2008), and, under some circumstances, even lead to positive organizational outcomes (e.g., Gerstner, Koenig, Enders, Esslinger, & Fleischhacker, 2010). However, evidence accumulating over the past few years suggests that CEO narcissism is not associated with effective leader performance over the longer term (e.g., Chatterjee & Hambrick, 2007; Gриjalva et al., 2015a), and also that CEOs who are highly narcissistic can cause negative consequences for the firms they lead (e.g., Blair et al., 2008; Buyu et al., 2017). The results here add to this growing body of evidence suggesting that firms with more narcissistic CEOs are more likely to be sued, and that this litigation will take longer to be resolved. These findings are consistent with research showing that more narcissistic CEOs were at increased risk of committing fraud (Rijsewilt & Comandeure, 2013) and that overconfidence among executives increased the likelihood that a firm would be the defendant in a securities class action lawsuit (Banerjee et al., 2015).

Study 1 provided externally valid evidence that firms headed by more narcissistic CEOs had higher levels of litigation but it did not offer insight into the mechanism underlying this link. The two experimental studies provide clarity by showing that, when given the opportunity to proceed with actions that experts believed could result in litigation, subjects who were more narcissistic were significantly more likely to approve these actions (study 2), and, when sued, less likely to settle even high-risk lawsuits (study 3), even when subjects themselves had more to gain or lose from their decisions. Indeed, narcissistic subjects were significantly less sensitive to differences in the risk associated with entering into a suit and resisting settling once the suit had already been filed. This was particularly true for the difference in a low and high risk of being sued and losing, respectively. Our additional analyses reported in footnote 4 showed that narcissists essentially did not differentiate between high (50%) and high (80%) levels of risk in the scenario in which the consequences were more proximal (lawsuit-settlement scenario), whereas those lower in narcissism differentiated between these levels of risk.

Previous research has shown that narcissists are less willing to accept the advice of others (Chen et al., 2015; Kaule et al., 2015). Narcissists have been shown to be more likely to discount negative feedback (Kernnik & Sun, 1994), see others as less competent (Kong, 2015), and be more persistent in pursuing self-enhancement strategies (Maass & Ziegler, 2017; Wallace et al., 2009). The results of the source credibility ratings from studies 2 and 3 are consistent with these findings and illustrate that more narcissistic respondents see the expert advice as less trustworthy and less competent.

Study implications

This study makes two contributions to the research and theory on narcissistic leadership. First, the results add to the growing empirical evidence highlighting the potential negative consequences of narcissistic CEOs by showing that narcissists are more likely to transgress legal and ethical boundaries than are non-narcissists. Second, we provide an updated and integrative review of the rapidly growing research on narcissistic leadership, including a growing number of studies in accounting and finance. Collectively, these studies paint a picture of the dangers of narcissists as leaders.

If prior research showed that the impact of narcissists on everyday behavior was irritating but not necessarily dangerous (Kluger, 2014), more recent research, including the present study, suggests that there may be more long-term negative consequences for organizations with narcissistic leaders. Add to this narcissists’ tendency to both seek out and occupy positions of power in organizations (e.g., Gриjalva et al., 2015a) and gravitate toward contexts in which the opportunities for high performance will lead to self-gloration (e.g., Wallace & Baumeister, 2002), and it makes sense that their over-representation in organizational leadership roles and as founders of organizations (e.g., O’Reilly et al., 2014) may have dramatic long-term negative consequences.

This unfortunate combination is likely enhanced by three contextual forces. First, the organizational playing field is tilted in the favor of narcissists who aspire to positions of power, present themselves as outgoing, are self-confident and grandiose in their ambitions, and are effective at manipulating others (Pfeffer, 2015). This bias exists because narcissists interview well and their grandiosity and confidence impress search committees (Kluger, 2014, p. 137). Thus, narcissists are more likely to emerge as leaders, regardless of their objective capabilities.

A second reason for the increased danger of narcissistic leaders has to do with the bias we have for focusing on success and ignoring or excusing failure (Dennen, 2003; Pfeffer, 2015). Because narcissists pursue riskier courses of action, some are likely to succeed in corporate tournaments, and be selected for top positions (Goel & Thakor, 2008). Focusing on these successful examples means that we under-sample the more numerous failures. For example, Steve Jobs, the founder and longtime CEO of Apple, is widely lauded as a great leader, but ample evidence suggests that he was a classic narcissist who routinely lied to others (the “reality distortion field”), made outlandish claims of his own competence, cheated his colleagues, was abusive to others, and created a hostile working environment (Henriques, 2012; Isaccson, 2011; Maccoby, 2007). The emphasis on successful narcissists provides both a misleading picture of the number who have failed and understates the downside of these leaders.

Third, the growing literature on narcissistic leaders has begun to underscore the dangers that these individuals can pose to organizations. For example, the research linking narcissism to counterproductive work behaviors (absenteeism, sabotage, aggression toward others) is robust (Gриjalva & Newman, 2015; O’Boyle et al., 2012; Penney & Spector, 2002). Abusive supervision, as often manifest by narcissists, has been shown to be a significant cause of employee stress and health concerns (e.g., Braun, Aydin, Frey, & Peus, 2015; Thompson, 2011). Other research has shown that those high in narcissism also have a greater likelihood of engaging in sexual harassment (e.g., Blinkhorn, Lyons, & Almond, 2015; Mumford, Connelly, Helton, Strange, & Osburn, 2001; Zeigler-Hill et al., 2015) or having similar personality profiles to psychopaths and white collar criminals (Blickle et al., 2006; Paulhus & Williams, 2002; Rauthmann, 2012). These propensities led Macenazak and his colleagues to conclude that “Since those high in narcissism often seek high positions of power, this can be a dangerous combination if left unchecked” (Macenazak et al., 2016, p.119).

Study limitations and future research

Although the results presented here are provocative and consistent with recent research demonstrating the negative consequences that narcissistic CEO’s have on the firms they lead, our studies have some clear weaknesses. First, in our field study, although the number of raters of the CEO’s personality was reasonable (n = 250), the number of firms was small (n = 32), limiting the power of any findings. Second, we focused on firms in a narrow industry segment (computer hardware and software). Although this focus allows us to control for industry variations, it may also limit the generalizability of our findings. Finally, the lack of detailed data on the specifics of the lawsuits filed against the firm makes it difficult to ascertain more precisely what decisions and actions sanctioned by the CEO could be leading to the litigation. Future research might investigate the type of litigation that firms with narcissistic CEOs are most likely to be involved in to see if they differ from litigation among firms with less narcissistic CEOs.

Although the two experimental studies corroborate the findings from the field study, they too suffer from a number of weaknesses. First, although the subjects in our study had considerable work experience and roughly half had managerial experience, they were not senior executives making consequential decisions that could affect their reputation and compensation. Although the studies put some reward at risk, it remained a small amount compared to the material amounts that actual lawsuits often imply. Third, although we attempted to minimize...
potential demand and cueing effects by counterbalancing the collection of the personality data and experimental treatments, the participant data in the experimental studies was collected in a single session, which means that we could not completely obfuscate the purpose of the experiment (Zizzo, 2010). With these limitations in mind, it is nevertheless reassuring that the results from our experimental studies are consistent not only with the field data reported here and elsewhere (e.g., Judd et al., 2015; Olsen & Stekelberg, 2015) but also with previous experiments that have shown that narcissists are more likely to choose riskier courses of action (e.g., Brunell & Buelow, 2017). Clearly, further research with larger and more meaningful consequences at risk would be useful.

One important future direction is to examine how pervasive the effects of narcissism are on leadership across levels within organizations. Because much of the research on narcissism has relied on laboratory studies with student samples, it would be important to compare the levels of narcissism seen in organizations with those typically measured in student samples. It may be that the true dark side of narcissism reveals itself only when the levels are very high. Future research might explore the consequences of extreme narcissism as well as examine real managers at lower levels in organizations to determine how narcissism affects the attitudes and performance of their units, including the extent to which their actions are subject to ethical or legal violations. Given the growing empirical evidence documenting the risks posed by narcissistic CEOs however, it seems important to continue to explore how these managers may put their firms at risk.

Appendix A. Scenario Text

A.1 Study 2

You are the CEO of ZetaCan Corp. After years of intensive and expensive R&D, your market-planning group has developed a new product. If successful, this new product would increase the firm's overall profits by 20%, take significant market share from your competitors, and result in large bonuses for you and the executive team.

However, your firm's patent attorneys have discovered that the product's technology may infringe on patents held by other firms. They believe that there is a [20/80] percent chance that your company will be sued if the product is launched.

A patent infringement lawsuit would significantly damage ZetaCan's finances. However, if your company is not sued, or if it is sued but wins the lawsuit, the new product release would dramatically improve your company's position in the marketplace and solidify your company's reputation as a great market innovator.

As CEO, you need to decide whether to launch the product.

- If you decide to NOT LAUNCH the product, your bonus as CEO will be the same as it was last year: $10 million (which equates to an additional $1.00 payment to you).
- If you decide to LAUNCH the product and your company is SUEd by competitors, your bonus will be reduced to $2 million ($0.20 additional payment to you).
- If you decide to LAUNCH the product and your company is NOT SUEd by competitors, your bonus will be increased to $50 million ($5.00 additional payment to you).

A.2 Study 3

You are the CEO of ZetaCanCorp. One of the company's most successful and sophisticated new products was based on millions of dollars of research and development and several new patents. This is the firm's most profitable product.

However, the head of R&D recently learned that a competitor has filed a patent infringement lawsuit against your firm. The CFO indicates that losing this lawsuit would have a substantial negative effect on the firm's reputation and profitability. As a result, it would harm your personal reputation and reduce your annual bonus.

Your firm's patent attorneys estimate that there is a [20/80] percent chance that ZetaCan would lose the lawsuit if it proceeds. As CEO, you need to decide whether to settle the lawsuit or allow it to go to court.

- If you decide to SETTLE the lawsuit, your bonus as CEO will be the same as it was last year: $10 million (which equates to an additional $1.00 payment to you).
- If you decide NOT SETTLE the lawsuit and your company LOSES, your bonus will be reduced to $2 million ($0.20 additional payment to you).
- If you decide to NOT SETTLE the lawsuit and your company WINS, your bonus will be increased to $50 million ($5.00 additional payment to you).

References


