



Article

The Impact of CEO Narcissism on Corporate Financialization

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Abstract: This paper empirically examines the impact of CEO narcissism on corporate financialization using Shanghai and Shenzhen A-share listed companies from 2009–2022. The results find that CEO narcissism leads to corporate financialization, and the promotion is more significant in lower cash flow, smaller company size, and non-Big Four audited firms. The impact mechanism test finds that CEO narcissism leads to inefficient investment behaviors, increases agency costs, and thus, exacerbates corporate financialization. By exploring the relationship between CEO narcissism and corporate financialization in depth, this paper provides new perspectives and ideas for research in related fields. This study conducts an in-depth analysis of the underlying mechanisms through which CEO narcissism influences corporate financialization. It highlights that inefficient investment behavior and increased agency costs serve as key transmission channels, providing new theoretical support for understanding the complex drivers of corporate financialization. Therefore, this research not only expands the scope of studies on the relationship between CEO characteristics and corporate financial decision making but also offers new perspectives for explaining the phenomenon of corporate financialization and formulating governance strategies.

Keywords: CEO narcissism; corporate financialization; inefficient investment; agency costs



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1. Introduction

In today's era of rapid global economic development, corporate financialization has become a common phenomenon (W. J. Wang & Qi, 2024; Tao & Zhu, 2024; Zhang & Du, 2024). Companies are increasingly involved in financial market activities, such as stock investment, bond issuance, and derivatives trading (Nie, 2024; Cheng et al., 2024) to seek higher profits and wider access to capital. Financialization tends to make companies overly concerned with volatile short-term returns, such as quick returns through capital market operations. However, such short-term gain chasing may cause companies to neglect implementing long-term strategies, affecting their sustained competitiveness. Owing to the high-risk nature of capital market operations, companies may face unanticipated large losses, posing a threat to industrial development and even to the companies' survival.

Corporate financialization makes their operations and management more complex, requiring higher management and risk control capabilities (Z. B. Li et al., 2024; M. G. Zhao et al., 2024). However, not all corporates have such capabilities, which may lead to problems, such as chaotic management and poor decision making. In this process, the decisions and behaviors of corporate executives, especially CEOs, significantly impact a company's financialization process. As a common personality trait, narcissism is common among CEOs (Aabo et al., 2024; Ma, 2024; Z. J. Li et al., 2024). Narcissistic CEOs typically exhibit a complex and distinct personality profile, characterized by a high level of self-confidence that often exceeds rational boundaries, leading them to display an almost

fearless attitude when facing challenges and opportunities. At the same time, highly confident executives have a strong desire for power, striving to establish dominance within the company and even across the industry. This relentless pursuit of power drives them to seek continuous expansion and control. Narcissistic CEOs tend to overidentify with their self-worth, often overestimating their abilities and contributions, believing themselves to be the central and indispensable force behind the company's success. These key personality traits—excessive self-confidence, a strong desire for power, and an inflated sense of self-worth—shape their decision making style and behavioral patterns. They are more likely to adopt aggressive business strategies and pursue high-risk, high-return projects, convinced of their ability to navigate any situation successfully. In terms of team management and corporate culture, narcissistic CEOs may favor centralized decision making and personal glorification, showing reluctance to heed or accept others' opinions and suggestions. This tendency inevitably influences the company's strategic direction, operational efficiency, and long-term competitiveness.

In recent years, more and more scholars have begun to pay attention to the impact of CEO narcissism on corporate decision making and performance. However, relatively few studies have been conducted on the impact of CEO narcissism on corporate financialization. Therefore, this study aims to explore the impact of CEO narcissism on corporate financialization and the differences in this impact in different contexts. Based on China's Shanghai and Shenzhen A-share listed companies from 2009–2022, this paper empirically finds that CEO narcissism leads to corporate financialization, and the effect is heterogeneous, according to differences in cash flow, company size, and auditing institutions. The mechanism test finds that overinvestment and agency costs have a mediating effect in the relationship between CEO narcissism and corporate financialization.

The results of this study can inform corporate management and decision making. For investors and regulators, understanding the impact of CEO narcissism on corporate financialization can help them better assess the risk and value of firms. Meanwhile, for managers of companies, understanding the decision making characteristics of narcissistic CEOs can help them better strategize and plan. It is worth noting that corporate financialization has an important impact on the economic development and financial stability of society as a whole, and exploring how CEO narcissism affects the direction of corporates' financialization can help corporates better cope with the financial risks and challenges that may arise.

2. Theoretical Analysis and Research Hypotheses

2.1. CEO Narcissism and Corporate Financialization

Narcissistic CEOs tend to have a strong desire for dominance and power (Bildirici et al., 2024; Kim & Anderson, 2024), increasing their power and influence by controlling more resources. In this process, financialization as a way of resource allocation provides them with a wider scope. Narcissistic CEOs may be more inclined to invest their firm's resources in the financial market in pursuit of higher capital appreciation and greater control (Y. Li & Qu, 2021b). Based on the risk appetite perspective, narcissistic CEOs usually have higher risk tolerance and risk appetite. They are willing to take greater risks in pursuit of higher returns. In the financial market, high risk is often accompanied by high returns. Therefore, narcissistic CEOs may be more inclined to seek higher returns through financial investments, thus promoting the level of corporate financialization (Lei et al., 2022).

Concerning corporate strategy, narcissistic CEOs tend to have grand strategic visions and ambitions. They want to realize their value by building a huge business empire. In this process, financialization, as a means of rapid expansion and access to resources, can meet their strategic needs (S. Liu et al., 2024; Lu et al., 2024; H. Y. Liu & Zhang, 2023). Narcissistic

CEOs may use financialization to rapidly expand the size of their firms and improve their market position, thus further consolidating their power and status. Specifically, at the level of corporate behavioral decision making and implementation efficiency, narcissistic CEOs are usually confident in their abilities and believe that their decisions are correct and wise. This self-confidence can increase their decision making efficiency, making them more decisive and quicker in their decision making (Zaher & Marquez-Illescas, 2023). In the financial market, the efficiency of decision making often determines the success or failure of a business. Narcissistic CEOs' self-confidence and decision making efficiency can make companies more flexible and sensitive in the financial market (Wu & Zhang, 2023), thus seizing more investment opportunities and improving the level of corporate financialization.

In addition, the leadership style and personality traits of narcissistic CEOs can have a profound impact on corporate culture. They may promote the financialization of the firm by shaping a corporate culture that emphasizes risk taking, innovation, and expansion (L. Zhao et al., 2022). In such a culture, employees may be more willing to experiment with new financial instruments and strategies, thus contributing to the level of corporate financialization. In summary, the following basic assumptions are made in this paper:

H1. *CEO narcissism leads to corporation financialization.*

2.2. CEO Narcissism, Inefficient Investment, and Corporate Financialization

CEO narcissism is usually characterized by overconfidence, power seeking, and self-centeredness (S. G. Wang & Zhang, 2022). Generally, narcissistic CEOs tend to overestimate their ability and judgment and are overly optimistic in assessing the prospects and risks of investment projects, thus choosing to invest in projects with low or even negative net present value, leading to overinvestment. Moreover, narcissistic CEOs tend to enhance their power by expanding the size and influence of their enterprises (Donker et al., 2023; Rovelli et al., 2023). They may blindly pursue investment expansion without regard to the actual situation and long-term interests of the enterprise, leading to a waste of resources and inefficiency. When the enterprise has over-investment behaviors, part of the funds may flow to the financial market to seek higher returns, which will lead to the increase in the enterprise's financial assets. With the increase in financial assets, the source of profits of the enterprise may also change. Part of the profits may come from investment returns in the financial markets rather than from traditional production and business activities. This further reflects the trend towards corporate financialization. Based on the above, this paper proposes the following basic assumption:

H2. *CEO narcissism leads to inefficient investment behavior, thereby exacerbating corporate financialization.*

2.3. CEO Narcissism, Agency Costs, and Corporate Financialization

CEO narcissism is a psychological state in which the CEO focuses excessively on his or her personal image, accomplishments, and power to neglect the company's interests and other stakeholders. This psychological state may affect the CEO's decision making behavior and management style, which in turn, increases agency costs. Narcissistic CEOs tend to have difficulty accepting the opinions and suggestions of others, which makes shareholders and other stakeholders spend more time and energy monitoring their behavior to ensure that their decisions are in the interest of the firm (Shan et al., 2023; L. N. Wang et al., 2023). This increase in monitoring costs reduces the efficiency of corporate governance and increases agency costs. Based on the agency perspective, narcissistic CEOs may be more inclined to pursue their personal goals at the expense of the company's long-term

interests and shareholders' interests (Yang et al., 2022). This may lead to the need for the companies to take more measures to constrain the CEO's behaviors, such as setting stricter performance appraisal standards strengthening internal auditing, and so on. The implementation of these measures requires additional costs, thus increasing agency costs.

Increased agency costs may cause companies to focus more on short-term gains at the expense of long-term growth. Financialization, as a way to achieve rapid capital appreciation, tends to be the first choice of companies in pursuit of short-term benefits (Y. Li & Qu, 2021a). Therefore, increased agency costs may push companies to prefer financialization. Therefore, the following assumption is put forward:

H3. *CEO narcissism increases agency costs, thereby exacerbating corporate financialization.*

3. Research Design

3.1. Data Sources and Sample Selection

This paper empirically examines the impact of CEO narcissism on corporate financialization by taking China's Shanghai and Shenzhen A-share listed companies as the research object from 2009 to 2022. The data involved are obtained from the China Stock Market and Accounting Research Database (CSMAR). In order to ensure the validity of the data, the raw data were screened in accordance with the following criteria: excluding the samples of companies in the financial industry, excluding the samples of listed companies with missing values, and excluding the samples of companies that were ST or *ST during the sample period. The final number of valid samples is 13,270, and the software used in the process of data organization, calculation, and regression in this paper is Stata17.0. In order to avoid the influence of extreme values, this paper has applied a 1% winsorization to all continuous variables.

3.2. Model Construction and Variables Description

This paper constructs model (1)–(2). Among them, model (1) is used to test the relationship between CEO narcissism and corporate financialization, when the central concern is the sign and significance of a_1 . Model (2) focuses on testing the mechanistic effects of inefficient investment and agency costs. Where Controls refers to the control variables, i is each firm, and t is each year. Year is the year fixed effect, u is the individual enterprise fixed effect, and ε is the residual term.

$$FIN_{i,t} = a_0 + a_1OCN_{i,t} + a_iControls_{i,t} + \sum Year + u_{i,t} + \varepsilon_{i,t}, \quad (1)$$

$$SD_{i,t}/Mfee_{i,t} = a_0 + a_1OCN_{i,t} + a_iControls_{i,t} + \sum Year + u_{i,t} + \varepsilon_{i,t}, \quad (2)$$

The dependent variable is corporate financialization (FIN). Drawing on the study of Liang and Zhao (2020), corporate financialization is comprehensively measured from the equity dimension, the management dimension, the financial activities dimension, and the profit accumulation dimension. Among them, the equity dimension is the ratio of the number of shares held by financial institutions among the top ten shareholders to the total number of shares held by the top ten shareholders; the management dimension is the number of directors and supervisors with financial education or professional background divided by the total number of directors and supervisors; the financial activity dimension is the division of financial assets by the total assets; and the profit accumulation dimension is the division of financial income by operating profit. The entropy method is used to measure the financialization index of the above indicators and to derive the core indicators of corporate financialization in this paper.

The independent variable is CEO narcissism (OCN). Drawing on the study of [Wu and Zhang \(2023\)](#), CEO signatures in the prospectuses of listed companies were manually intercepted. The measurement is calculated by multiplying the length and width of the signature and then adjusting by the number of strokes in the CEO's name. The higher the value, the higher the degree of CEO narcissism.

The mechanism variables are inefficient investment (SD) and agency costs (Mfee). For inefficient investment, the [Richardson \(2006\)](#) model is used to construct the residual term and take the absolute value as a measure, with larger values indicating higher levels of inefficient investment; the agency cost is “administrative expenses/operating income”, and the control variables include company size, gearing ratio, etc. The detailed definitions of the variables are shown in Table 1.

Table 1. Description of variables.

Variable Type	Symbol	Variable Description
Dependent variable	FIN	Corporate financialization, see text for comprehensive constructs
Independent variable	OCN	CEO narcissism, handmade collection see text
Mechanism variables	SD	In inefficient investment, Richardson's (2006) model constructs the residual term and takes absolute values
	Mfee	Agency costs, administrative expenses/operating income
Control variables	Size	Firm size, natural logarithm of total assets
	Lev	Gearing ratio, liabilities/assets
	ROA	Return on assets, net profit/assets
	Cashflow	Cash flow, net cash flow from operating activities/total assets
	Board	Board size, natural logarithm of board size
	Ind	Ratio of independent directors, the number of independent directors/the number of board of directors
	Top1	The shareholding ratio of the largest shareholder
	SOE	Property rights, state-owned enterprises are assigned a value of 1 otherwise 0
	FirmAge	Age of firm establishment, in natural logarithms

4. Empirical Results

4.1. Descriptive Statistics

Descriptive statistics of the variables are presented in Table 2. It can be seen that the dependent variable corporate financialization (FIN) has a minimum value of 0.001 and a maximum value of 0.432; the independent variable CEO narcissism has a mean value of 7.633. For the mechanism variables, SD has a mean value of 0.035, and Mfee has a mean value of 0.091. For the control variables, the company size indicator (Size) has a mean value of 21.759, a minimum value of 19.567, and a maximum value of 26.452. The dummy variable of the property rights nature of 0–1 distribution has a mean value of 0.124. To summarize, the dependent variable, independent variable, and control variables selected in this paper are all distributed within a reasonable range.

Table 2. Descriptive statistics.

	Sample	Mean	Standard Deviation	Minimum	Maximum
FIN	13270	0.054	0.044	0.001	0.432
OCN	13270	7.633	0.657	3.045	10.324
SD	13270	0.035	0.048	0.000	0.272
Mfee	13270	0.091	0.065	0.007	0.641
Size	13270	21.759	1.046	19.567	26.452
Lev	13270	0.345	0.178	0.027	0.894
ROA	13270	0.054	0.063	−0.373	0.247
Cashflow	13270	0.050	0.066	−0.222	0.283
Board	13270	2.090	0.187	1.609	2.708
Ind	13270	0.379	0.054	0.250	0.600
Top1	13270	0.344	0.146	0.081	0.758
SOE	13270	0.124	0.330	0.000	1.000
FirmAge	13270	2.755	0.377	1.099	3.611

4.2. Correlation Analysis

Table 3 presents the results of the correlation analysis of the main coefficients in the models. It can be seen that the value of the correlation coefficient between the independent variable OCN and the dependent variable FIN is 0.049, which is significant at the 1% level, indicating that there is a significant positive correlation between the two. As can be seen in Table 3, from the absolute value of correlation coefficients between the independent variable and control variable, the absolute value of correlation coefficients between each variable is relatively small and unlikely to be multicollinearity, so theoretically, they can be put into the same multiple regression model to analyze. It is worth noting that, in order to examine the multicollinearity problem more rigorously and scientifically, this paper carried out the VIF multicollinearity test for the independent variable, and Table 4 demonstrates the relevant results. It can be seen that the VIF value of each variable is relatively small, less than 10, so it is unlikely to have multicollinearity and can be directly analyzed in regression.

Table 3. Correlation analysis.

	FIN	OCN	SD	Mfee	Size	Lev	ROA	Cashflow	Board	Ind	Top1	SOE	FirmAge
FIN	1												
OCN	0.049 ***	1											
SD	−0.032 ***	0.00300	1										
Mfee	0.024 ***	0.020 **	0.096 ***	1									
Size	0.107 ***	0.066 ***	0.045 ***	−0.311 ***	1								
Lev	−0.065 ***	0.058 ***	0.053 ***	−0.300 ***	0.497 ***	1							
ROA	0.050 ***	−0.017 **	−0.020 **	−0.167 ***	−0.00400	−0.322 ***	1						
Cashflow	0.075 ***	−0.0120	0.018 **	−0.088 ***	0.064 ***	−0.176 ***	0.421 ***	1					
Board	−0.035 ***	0	−0.031 ***	−0.049 ***	0.174 ***	0.048 ***	0.030 ***	0.019 **	1				
Ind	0.024 ***	−0.00500	0.024 ***	0.042 ***	−0.00200	0.023 ***	−0.022 **	0.00200	−0.638 ***	1			
Top1	0.120 ***	0.00700	−0.049 ***	−0.101 ***	0.120 ***	0.016 *	0.117 ***	0.091 ***	−0.032 ***	0.082 ***	1		
SOE	0.022 **	−0.0120	−0.030 ***	−0.045 ***	0.290 ***	0.153 ***	−0.029 ***	0.026 ***	0.235 ***	−0.061 ***	0.198 ***	1	
FirmAge	−0.00400	−0.00900	0.021 **	−0.122 ***	0.015 *	0.047 ***	−0.037 ***	0.072 ***	−0.050 ***	0.00600	−0.112 ***	−0.056 ***	1

(***, ** and * respectively mean significant at 1%, 5% and 10% levels, the same below).

Table 4. VIF test.

	VIF	1/VIF
Board	1.870	0.536
Ind	1.740	0.575
Lev	1.560	0.642
Size	1.530	0.653
ROA	1.360	0.736
Cashflow	1.250	0.800
SOE	1.190	0.840
Top1	1.090	0.918
FirmAge	1.030	0.969
OCN	1.010	0.993
Mean VIF	1.360	

4.3. Regression Results

Table 5 gives the basic regression results of this paper. Among them, column (1) shows the results of the univariate regression of OCN and FIN when control variables are not taken into account, with a coefficient value of 0.0038, which is significant at the 1% level; columns (2)–(4) gradually add the control variables, and under the full-variable regression, the coefficient value of OCN is 0.0041, which is significant at the 1% level.

The above results strongly suggest that CEO narcissism leads to corporate financialization. First, narcissistic CEOs tend to satisfy their desire for power by constantly consolidating and enhancing their power. This strong desire for dominance may disrupt the balance of power in the board of directors, making the board a platform dominated by the CEO, resulting in insider control. In this environment, narcissistic CEOs may be more likely to pursue personal interests rather than the interests of the firm as a whole, which includes obtaining more resources or benefits through financial means. Second, narcissistic CEOs may be more concerned with pursuing rapid capital appreciation through capital operations and financial investments, rather than generating operating profits through traditional production and business activities. This mindset may lead to more corporate assets being used for financial investments rather than traditional R&D, production, sales, and other business activities. Third, narcissistic CEOs tend to be more adventurous and have a higher risk appetite, and they may be more inclined to make risky financial investments in pursuit of higher returns. Risky decisions can lead to deeper corporate financialization, because financial investments are usually associated with higher risk and uncertainty. Fourth, the personal traits of CEOs tend to influence the strategic direction and business decisions of firms. Narcissistic CEOs may be more inclined to develop strategies that are self-centered and pursue personal success, which may lead to greater involvement of firms in financial market activities to obtain more resources and benefits.

Table 5. Baseline regression results.

	(1)	(2)	(3)	(4)
	FIN	FIN	FIN	FIN
OCN	0.0038 *** (3.5235)	0.0040 *** (3.7213)	0.0041 *** (3.7814)	0.0041 *** (3.8157)
Size		0.0012 (1.2978)	0.0013 (1.2702)	0.0013 (1.2947)
Lev		−0.0215 *** (−6.0163)	−0.0217 *** (−6.0427)	−0.0215 *** (−5.9909)
ROA		−0.0263 *** (−4.2718)	−0.0269 *** (−4.3368)	−0.0268 *** (−4.3153)
Cashflow		0.0043 (0.7584)	0.0045 (0.7966)	0.0044 (0.7935)
Board			0.0098 *** (2.5893)	0.0093 ** (2.4579)
Ind			0.0317 *** (2.7279)	0.0308 *** (2.6519)
Top1			0.0043 (0.6457)	0.0040 (0.5965)
SOE				0.0010 (0.3718)
FirmAge				−0.0101 ** (−2.3169)
_cons	0.0108 (1.2382)	−0.0083 (−0.3936)	−0.0432 * (−1.7753)	−0.0216 (−0.8298)
Year	Control	Control	Control	Control
Corporate	Control	Control	Control	Control
Obs.	13270	13270	13270	13270
R-squared	0.1031	0.1070	0.1078	0.1083

The text in parentheses is the t-value. The same applies below.

4.4. Robustness Tests

4.4.1. Excluding the Impact of the Pandemic

The COVID-19 pandemic, which began in 2019, had a significant impact on the global economy, particularly on China's economy. In the early stages of the pandemic, global financial markets experienced severe volatility and increased uncertainty in capital markets, which led to financing difficulties for businesses. However, governments and central banks quickly adopted massive monetary and fiscal stimulus policies, including interest rate cuts, asset purchases, and liquidity support. These measures eased the financing pressure on enterprises to some extent, especially for those large enterprises and companies with good credit ratings. In order to cope with the drop in revenue and cash flow constraints brought about by the epidemic, many enterprises had to increase their borrowing, leading to a significant rise in corporate debt levels. Particularly in industries that have been hard hit by the epidemic, such as airlines, tourism, hotels, and retail, the debt burden of corporations has increased, which in turn, has increased their future financial risks. Therefore, in order to avoid the impact of the pandemic, the samples from 2020 and beyond are excluded, and the remaining samples are regressed again. The results are reported in Table 6. As can be seen, the coefficient value of the core indicator OCN is significantly positive, regardless of whether control variables are considered or not, and regardless of whether the regression is univariate or multivariate, further validating the basic regression results. Namely, narcissistic CEOs tend to be overconfident in their abilities and judgment and tend to make high-risk, high-return decisions. This includes large-scale acquisitions, investing in risky projects, and adopting financial instruments, such as high leverage or financial derivatives to expand the size of the company or achieve rapid growth. From a corporate governance perspective, narcissistic CEOs tend to centralize power and decision making and reduce the effective oversight and discipline of the corporate governance structure. This makes the board of directors and management overly dependent on the CEO's decisions and makes it difficult to effectively monitor and balance his or her financialization tendencies.

Table 6. Robustness tests: excluding the impact of the pandemic.

	(1)	(2)	(3)	(4)
	FIN	FIN	FIN	FIN
OCN	0.0034 *** (2.8872)	0.0035 *** (2.9628)	0.0037 *** (3.0885)	0.0037 *** (3.0965)
Size		0.0026 ** (2.1988)	0.0026 ** (2.1828)	0.0026 ** (2.1884)
Lev		−0.0154 *** (−3.5269)	−0.0158 *** (−3.5917)	−0.0157 *** (−3.5559)
ROA		−0.0304 *** (−3.9100)	−0.0313 *** (−3.9986)	−0.0312 *** (−3.9860)
Cashflow		−0.0009 (−0.1358)	−0.0005 (−0.0772)	−0.0006 (−0.0832)
Board			0.0135 *** (2.9931)	0.0134 *** (2.9722)
Ind			0.0443 *** (3.2371)	0.0438 *** (3.1952)
Top1			0.0070 (0.8447)	0.0066 (0.7905)
SOE				−0.0035 (−0.8603)
FirmAge				−0.0063 (−1.2714)
_cons	0.0130 (1.3672)	−0.0340 (−1.3229)	−0.0844 *** (−2.8351)	−0.0705 ** (−2.2025)
Year	Control	Control	Control	Control
Corporate	Control	Control	Control	Control
Obs.	9422	9422	9422	9422
R-squared	0.1022	0.1051	0.1067	0.1069

4.4.2. Consideration of Lag Effects

The relationship between CEO narcissism and corporate financialization has been largely verified above, but only to test the effect of the current period's independent variable on the current period's dependent variable. In this section, in order to avoid the problem of endogeneity where the independent and dependent variables are mutually dependent, the independent variable lagged by one period and regressed on the dependent variable, and the results are reported in Table 7. As can be seen, the sign and significance of the coefficient values of the core indicators are largely consistent with the previous paper, further validating the basic regression results. Narcissistic CEOs focus more on short-term market reaction and personal reputation than on long-term corporate health and sustainability. This leads to excessive focus on short-term shareholder value and the pursuit of short-term shareholder returns through financial engineering and financialization rather than long-term investment and innovation.

Table 7. Robustness tests: consideration of lag effects.

	(1)	(2)	(3)	(4)
	FIN	FIN	FIN	FIN
OCNt-1	0.0042 *** (3.6408)	0.0044 *** (3.8386)	0.0044 *** (3.8717)	0.0044 *** (3.8866)
Size		0.0024 ** (2.2502)	0.0023 ** (2.1601)	0.0024 ** (2.1675)
Lev		−0.0219 *** (−5.5380)	−0.0218 *** (−5.5058)	−0.0216 *** (−5.4530)
ROA		−0.0341 *** (−5.2732)	−0.0341 *** (−5.2426)	−0.0339 *** (−5.2096)
Cashflow		0.0063 (1.0157)	0.0061 (0.9853)	0.0061 (0.9801)
Board			0.0072 * (1.7017)	0.0068 (1.6004)
Ind			0.0290** (2.2585)	0.0281 ** (2.1848)
Top1			−0.0001 (−0.0176)	−0.0004 (−0.0580)
SOE				0.0003 (0.1193)
FirmAge				−0.0116 ** (−2.0450)
_cons	0.0195 ** (2.1198)	−0.0225 (−0.9556)	−0.0479 * (−1.7727)	−0.0212 (−0.7069)
Year	Control	Control	Control	Control
Corporate	Control	Control	Control	Control
Obs.	10466	10466	10466	10466
R-squared	0.0918	0.0971	0.0976	0.0981

4.4.3. Propensity Score Matching

In order to avoid the problem of endogeneity of omitted variables, this paper uses the propensity score matching (PSM) method to match the samples, using the 1:3 nearest-neighbor matching method. The PSM propensity score probability distribution density function was plotted using the samples after getting the matching. In Figure 1, it can be seen that the bias of the samples is reduced after matching. Table 8 reports the results of the balance test, and the sample bias is greatly reduced after matching. Further, the matched samples were re-regressed, and the results are reported in Table 9. As can be seen, the sign and significance of the coefficient values of the core indicators are basically consistent with the previous paper, further validating the basic regression results. Based on signaling theory, narcissistic CEOs specialize in personal brand marketing and marketing campaigns and are able to create short-term shareholder value growth or market volatility in the market. This behavior motivates firms to participate more frequently in financial market operations in response to market expectations and personal image maintenance.

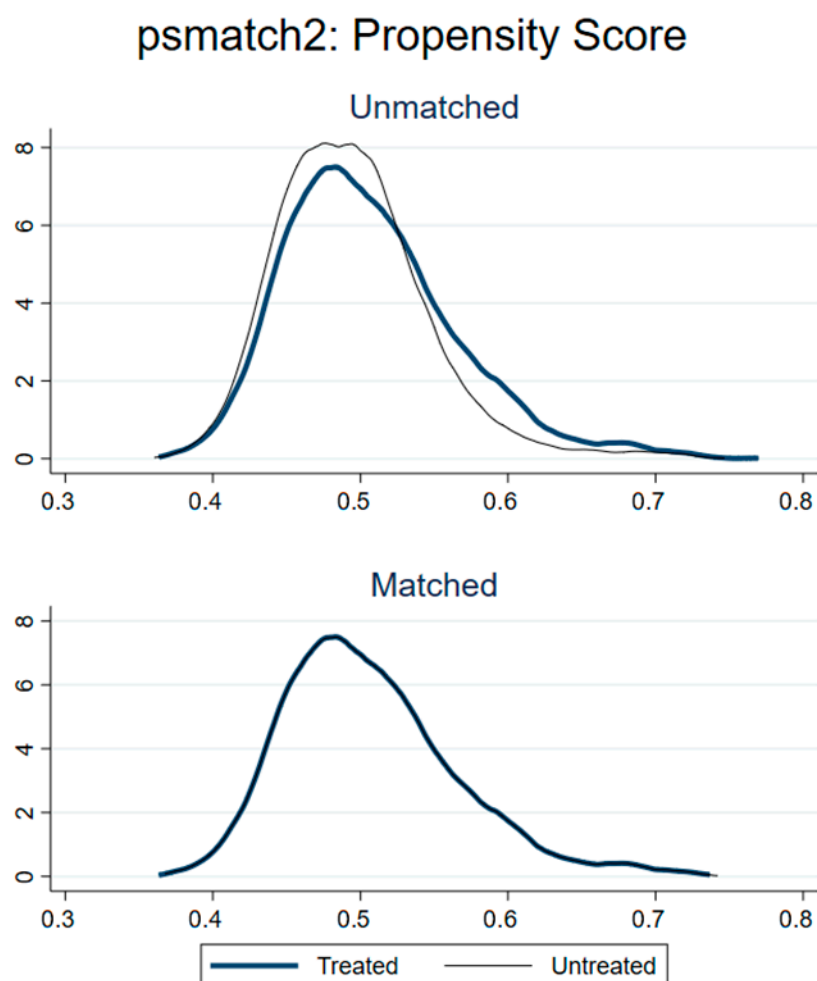


Figure 1. PSM density plot.

Table 8. Balance test.

		MEAN			REDUCE%			
		Matched	Treated	Control	%bias	bias	t	p > t
Size	U		21.865	21.653	20.400		11.730	0.000
	M		21.864	21.858	0.500	97.400	0.280	0.776
Lev	U		0.353	0.337	8.900		5.150	0.000
	M		0.352	0.352	0.000	99.600	0.020	0.984
ROA	U		0.055	0.054	0.900		0.540	0.592
	M		0.055	0.054	0.800	9.300	0.490	0.626
Cashflow	U		0.050	0.050	−0.300		−0.180	0.857
	M		0.050	0.049	1.400	−361.600	0.830	0.407
Board	U		2.094	2.086	4.100		2.370	0.018
	M		2.094	2.089	2.600	37.500	1.470	0.141
Ind	U		0.378	0.379	−2.300		−1.320	0.187
	M		0.378	0.378	0.600	75.200	0.330	0.743
Top1	U		0.350	0.337	9.300		5.370	0.000
	M		0.350	0.349	0.800	91.300	0.460	0.649
SOE	U		0.129	0.119	3.000		1.720	0.085
	M		0.129	0.121	2.400	18.600	1.400	0.162
FirmAge	U		2.754	2.755	−0.400		−0.220	0.829
	M		2.754	2.760	−1.600	−327.500	−0.920	0.359

Table 9. Endogeneity test: PSM (propensity score matching).

	(1)	(2)	(3)	(4)
	FIN	FIN	FIN	FIN
OCN	0.0037 *** (3.2280)	0.0040 *** (3.4599)	0.0040 *** (3.5073)	0.0041 *** (3.5267)
Size		0.0015 (1.4635)	0.0014 (1.3234)	0.0014 (1.3516)
Lev		−0.0228 *** (−5.9784)	−0.0228 *** (−5.9467)	−0.0226 *** (−5.8796)
ROA		−0.0286 *** (−4.3924)	−0.0288 *** (−4.3933)	−0.0287 *** (−4.3818)
Cashflow		0.0063 (1.0574)	0.0064 (1.0750)	0.0064 (1.0755)
Board			0.0089 ** (2.2255)	0.0086 ** (2.1323)
Ind			0.0262 ** (2.1237)	0.0254 ** (2.0554)
Top1			0.0005 (0.0769)	0.0001 (0.0183)
SOE				−0.0002 (−0.0785)
FirmAge				−0.0101 ** (−2.1491)
_cons	0.0110 (1.1818)	−0.0131 (−0.5862)	−0.0402 (−1.5554)	−0.0188 (−0.6785)
Year	Control	Control	Control	Control
Corporate	Control	Control	Control	Control
Obs.	11970	11970	11970	11970
R-squared	0.1039	0.1083	0.1089	0.1093

4.5. Heterogeneity Test

4.5.1. Cashflow Heterogeneity

In this section, the heterogeneous effect of CEO narcissism on corporate financialization is examined based on cashflow heterogeneity. As shown in Table 10, the median cashflow is calculated as follows: if it is greater than or equal to the median, it is better cashflow; otherwise, it is worse. It can be seen that for firms with higher cashflow, the value of the OCN coefficient is 0.0040, which is significant at the 5% level, and for firms with lower cashflow, the value of the OCN coefficient is 0.0045, which is significant at 1% level. The above results suggest that the facilitating effect of CEO narcissism on corporate financialization is more significant when firms have lower cash flows. Narcissistic CEOs tend to pursue higher personal achievement and power, and they may be more inclined to rapidly expand the company size or acquire more resources through financialization. When the firm's cash flow is low, the firm faces greater financial stress and needs to seek new sources of capital or improve the efficiency of capital utilization. At this time, narcissistic CEOs may be more inclined to solve the cash flow problem through financialization. They may choose more aggressive financial investment strategies, such as increasing debt financing and participating in high-risk, high-yield financial transactions. Meanwhile, because narcissistic CEOs have a strong desire for power, they may consolidate and enhance their power through financialization. For example, they control more resources through capitalization or enhance their status and influence through financial investment.

4.5.2. Company Size Heterogeneity

In this section, the heterogeneous effect of CEO narcissism on corporate financialization is examined based on company size heterogeneity. As shown in Table 11, the median size is calculated as follows: if it is greater than or equal to the median, the firm is larger; otherwise, it is smaller. It can be seen that for large companies, the OCN coefficient value is 0.0028, which is significant at the 10% level; for small companies, the OCN coefficient value is 0.0052, which is significant at the 1% level. The above results indicate that the facilitating effect of CEO narcissism on corporate financialization is more significant in small companies.

Table 10. Heterogeneity test: cashflow heterogeneity.

	(1)	(2)
	FIN	FIN
	High	Low
OCN	0.0040 ** (2.1312)	0.0045 *** (2.8943)
Size	0.0025 (1.5481)	−0.0002 (−0.1590)
Lev	−0.0323 *** (−5.4590)	−0.0135 *** (−2.5787)
ROA	−0.0250 ** (−2.2243)	−0.0269 *** (−3.1507)
Cashflow	0.0088 (0.6948)	−0.0370 *** (−3.2269)
Board	0.0112 * (1.7874)	0.0029 (0.5249)
Ind	0.0290 (1.6023)	0.0184 (1.0674)
Top1	0.0226 ** (2.2151)	−0.0093 (−0.9227)
SOE	−0.0029 (−0.6344)	−0.0004 (−0.1147)
FirmAge	−0.0127 * (−1.8513)	−0.0115 * (−1.8031)
_cons	−0.0474 (−1.1128)	0.0311 (0.8152)
Year	Control	Control
Corporation	Control	Control
Obs.	6635	6635
R-squared	0.1086	0.1075

Table 11. Heterogeneity test: company size heterogeneity.

	(1)	(2)
	FIN	FIN
	High	Low
OCN	0.0028 * (1.8672)	0.0052 *** (2.9875)
Size	0.0053 *** (3.4099)	−0.0007 (−0.3309)
Lev	−0.0275 *** (−5.1242)	−0.0252 *** (−4.3799)
ROA	−0.0294 *** (−3.2608)	−0.0245 *** (−2.7371)
Cashflow	0.0032 (0.3982)	0.0107 (1.3134)
Board	0.0135 *** (2.6557)	0.0004 (0.0672)
Ind	0.0497 *** (3.2109)	−0.0058 (−0.3165)
Top1	0.0172 * (1.9080)	−0.0079 (−0.6828)
SOE	0.0014 (0.4200)	−0.0016 (−0.3304)
FirmAge	−0.0202 *** (−3.4970)	0.0224 *** (2.7082)
_cons	−0.0880 ** (−2.2126)	−0.0294 (−0.5849)
Year	Control	Control
Corporation	Control	Control
Obs.	6633	6637
R-squared	0.1034	0.1270

In small companies, CEOs have more power due to relatively centralized management, and their personal traits and decisions have a more significant impact on the firm. Narcissistic CEOs are more likely to pursue increased personal power and influence, which may lead to a greater tendency to financialize to rapidly expand the size of the company or acquire more resources. Narcissistic CEOs usually have a greater appetite for risk. In small companies, due to poor operational stability, firms may need to seek new growth or cope with risks through financialization. Narcissistic CEOs may be more inclined to make risky financial investments in pursuit of higher returns. In addition, small companies face greater difficulties in raising capital, which limits their ability to obtain funds through

traditional means (e.g., bank loans, bond issues, etc.). Therefore, financialization tools (e.g., equity financing, venture capital, etc.) may become an important way for small companies to obtain capital. Narcissistic CEOs may be more active in seeking these financialization opportunities to meet the company's capital needs.

4.5.3. Audit Firm Heterogeneity

In this section, the heterogeneous effect of CEO narcissism on corporate financialization is tested based on audit firm heterogeneity. As shown in Table 12, the international Big Four accounting firms are generally considered to be PricewaterhouseCoopers (PwC), Deloitte Touche Tohmatsu (DTT), KPMG, and Ernst and Young (EY). For companies audited by the Big Four, the OCN coefficient value is 0.0075, which is not significant, and for companies audited by a non-Big Four, the OCN coefficient value is 0.0039, which is significant at the 1% level. The above results suggest that the facilitating effect of CEO narcissism on corporate financialization is more significant in non-Big Four audited firms. Non-Big Four audited firms may face relatively less external audit oversight, which allows CEOs to be less constrained in their decision making. As a result, narcissistic CEOs are more likely to take advantage of this opportunity to pursue the expansion of their personal power and influence through financialization. In general, CEOs in non-Big Four audited firms usually have a higher degree of decision making autonomy. The autonomy allows narcissistic CEOs to more easily drive financialization strategies without having to give much consideration to the opinions of external auditors or regulators. In addition, narcissistic CEOs typically have a higher risk appetite. This risk appetite may be further reinforced in non-Big Four audited firms due to weak audit oversight and high decision making autonomy. As a result, narcissistic CEOs are more likely to choose high-risk and high-reward financialization strategies in pursuit of personal achievement and power.

Table 12. Heterogeneity test: audit firm heterogeneity.

	(1)	(2)
	FIN	FIN
	Big 4	Non-Big 4
OCN	0.0075 (0.5758)	0.0039 *** (3.6119)
Size	0.0088 (1.0959)	−0.0000 (−0.0172)
Lev	0.0042 (0.1581)	−0.0231 *** (−6.3667)
ROA	−0.0416 (−0.9448)	−0.0272 *** (−4.3715)
Cashflow	−0.0019 (−0.0554)	0.0033 (0.5832)
Board	0.0333 * (1.7476)	0.0050 (1.2766)
Ind	0.1021 ** (2.2062)	0.0150 (1.2393)
Top1	0.0294 (0.5601)	0.0074 (1.0899)
SOE	−	0.0006 (0.2207)
FirmAge	−0.0315 (−1.5860)	−0.0034 (−0.7402)
_cons	−0.2255 (−1.0478)	0.0028 (0.1043)
Year	Control	Control
Corporation	Control	Control
Obs.	599	12,671
R-squared	0.2317	0.1136

4.5.4. Mechanistic Tests

Table 13 gives the mechanistic effects based on inefficient investment and agency costs. In column (1), the coefficient value of OCN for the SD of inefficient investment is 0.0031, which is significant at the 10% level. The above results suggest that CEO narcissism leads to

inefficient investment behavior, which in turn, exacerbates corporate financialization. Narcissistic CEOs may overinvest in certain projects because of their pursuit of personal power, reputation, and status, even if the net present value (NPV) of these projects is negative. They may be overconfident that their judgment is correct and ignore potential risks. On the other hand, narcissistic CEOs may also overlook some long-term, promising investment projects, because they are too focused on short-term gains or personal achievements. This may lead to missed opportunities for growth and underinvestment in the business. Further, inefficient investment behaviors may exacerbate corporate financialization, mainly in the following aspects. First, excessive investment will take up a large amount of funds for enterprises, leading to cash flow constraints. In order to alleviate the pressure on funds, enterprises may increase their reliance on financial markets, such as issuing bonds and stocks, thus exacerbating corporate financialization. Secondly, over-investment may cause enterprises to become heavily indebted and increase their financial risks. In order to reduce financial risks, firms may optimize their asset structure by means of financialization, such as conducting asset securitization and debt restructuring. Third, a narcissistic CEO may focus too much on financial market returns and neglect the firm's main business. This may lead firms to deviate from their core business and become overly dependent on the financial market, thus exacerbating their financialization. In column (2), the coefficient value of OCN for agency cost (Mfee) is 0.0028, which is significant at the 5% level, suggesting that CEO narcissism increases agency costs, which in turn, exacerbates corporate financialization. Narcissistic CEOs tend to pursue personal power and reputation, which may lead them to take a series of measures to consolidate their position, thereby weakening the balance of power on the board. In such an environment, it is difficult for the board of directors to effectively monitor and discipline the behavior of the CEO, leading to higher monitoring costs. In addition, narcissistic CEOs may circumvent or weaken internal control and regulatory mechanisms through a range of means, such as withholding information and manipulating financial statements. These behaviors not only increase the cost of corporate discipline but may also negatively affect the reputation and long-term development of the firm.

Table 13. Mechanistic tests.

	(1)	(2)
	SD	Mfee
	Inefficient Investment	Agency Costs.
OCN	0.0031 *	0.0028 **
	(1.8366)	(2.2205)
Size	0.0240 ***	−0.0135 ***
	(15.6038)	(−11.9622)
Lev	0.0537 ***	−0.0274 ***
	(9.4457)	(−6.5744)
ROA	0.0335 ***	−0.2073 ***
	(3.4184)	(−28.8152)
Cashflow	−0.0197 **	−0.0069
	(−2.2245)	(−1.0561)
Board	−0.0044	0.0018
	(−0.7331)	(0.4127)
Ind	0.0132	−0.0102
	(0.7187)	(−0.7600)
Top1	−0.0061	−0.0301 ***
	(−0.5794)	(−3.8743)
SOE	−0.0107 **	−0.0006
	(−2.5527)	(−0.2108)
FirmAge	0.0039	−0.0203 ***
	(0.5705)	(−4.0007)
_cons	−0.5164 ***	0.4353 ***
	(−12.5348)	(14.4059)
year	control	control
corporation	control	control
Obs.	13,270	13,270
R-squared	0.0813	0.3084

Notably, increased agency costs may exacerbate conflicts of interest between management and shareholders. Management may be more concerned with personal interests than with those of shareholders, leading to the wasteful and irrational allocation of corporate resources. In order to seek higher earnings and returns, management may be more inclined to make financialized investments, thus increasing corporate financialization. At the same time, the increase in agency costs may weaken the firm's internal control and risk management mechanisms. In such an environment, firms may be more vulnerable to financial market volatility, increasing the risk of financialized investments. At the same time, weakened internal controls may also lead to excessive reliance on financial markets, further exacerbating corporate financialization.

5. Conclusions and Implications

5.1. Conclusions

This paper takes China's Shanghai and Shenzhen A-share listed companies as the research object to carry out in-depth research from 2009 to 2022 and systematically examines the specific impact of CEO narcissistic traits on the trend of corporate financialization through empirical analysis. The findings show that there is a significant positive association between CEO's narcissistic traits and corporate financialization; that is, the higher the CEO's narcissistic tendencies, the more the firm tends to engage in financialization investments. Heterogeneity analysis reveals that this facilitating effect is more significant in specific contexts. The effect of CEO narcissism on corporate financialization is more pronounced in firms with relatively low cash flow and small company size and those audited by non-Big Four accounting firms.

Further, this paper examines how CEO narcissistic traits affect firms' investment decisions and internal governance. The study shows that the narcissistic trait of CEOs can lead to the emergence of inefficient investment behaviors. Narcissistic CEOs may be overconfident and overestimate their own decision making ability, thus making decisions that deviate from the firm's optimal investment strategies, including investing in high-risk, high-return financial projects that are inconsistent with the firm's long-term development goals. This behavior not only wastes the firm's resources but may also damage the firm's long-term competitiveness.

In addition, CEO narcissism increases the agency costs of the firm. Narcissistic CEOs may be more concerned with their personal interests than the overall interests of the firm, leading to increased conflicts of interest between management and shareholders. This conflict not only increases the firm's monitoring and restraint costs but may also weaken the firm's internal control and risk management mechanisms. Against the backdrop of increased agency costs, firms may be more vulnerable to financial market volatility, thus further exacerbating the trend of corporate financialization.

Potential innovations: This study is the first to systematically conduct an empirical analysis of the direct impact of CEO narcissism on corporate financialization using comprehensive data from A-share listed companies in Shanghai and Shenzhen between 2009 and 2022. Furthermore, it examines how this impact varies across firms with different characteristics, providing new empirical evidence and theoretical support for understanding how CEO personal traits influence corporate financial strategies.

Additionally, this study delves into the underlying mechanisms through which CEO narcissism drives corporate financialization. Empirical findings reveal that CEO narcissistic traits induce inefficient investment behavior and increase agency costs, thereby exacerbating the degree of corporate financialization. This discovery not only deepens the understanding of the driving forces behind corporate financialization but also offers a novel research

perspective on the relationship between CEO decision making behavior and corporate financial performance, paving the way for new directions in related research.

5.2. Implications

Based on the above conclusions, the following implications are proposed.

First, emphasize the role of CEO personality traits in the selection process. In the selection process of CEOs, in addition to examining their professional competence, management experience, and past performance, their personality traits should also be assessed in depth. Narcissistic traits may cause CEOs to be overconfident in their decision making and ignore potential risks, thus exacerbating corporate financialization. Therefore, psychological tests and personality assessments should be added to the selection process to ensure that the selected CEO has healthy and robust personality traits.

Second, strengthen the board's supervisory function over the CEO. The board of directors, as the core body of corporate governance, should strengthen the supervision and management of the CEO. When the CEO is found to have narcissistic traits, the board of directors should take effective measures to intervene, such as regularly evaluating the CEO's decision making behaviors and strengthening internal control and risk management, in order to ensure the healthy and stable development of the enterprise.

Third, establish a sound internal control and risk management system. Enterprises should establish a sound internal control and risk management system to ensure that investment activities are in line with corporate strategies and risk control requirements. For CEOs with narcissistic traits, enterprises should strengthen the supervision and review of their investment decisions to prevent their overconfidence and risk-taking behavior from leading the enterprise into financial risks.

Fourth, improve the transparency and accuracy of information disclosure. Enterprises should improve the transparency and accuracy of information disclosure, so that investors can fully understand the company's operation and risk status. For CEOs with narcissistic traits, firms should pay more attention to the timeliness and truthfulness of information disclosure, in order to prevent them from concealing or misleading investors for personal reputation and interests.

Fifth, introduce external monitoring and consulting. Enterprises can introduce external monitoring and consulting organizations, such as accounting firms, law firms, and consulting firms, to provide independent and objective advice and recommendations. These organizations can help enterprises identify potential risks, provide suggestions for improvement, and monitor whether the enterprise is operating in accordance with the norms.

Sixth, establish a governance system that combines incentives and constraints. Enterprises should establish a governance system that combines incentives and constraints to ensure that the CEO pursues his or her personal interests, while also giving full consideration to the overall interests of the company, through the development of a reasonable compensation system, equity incentive plan, and performance appraisal system, etc., to motivate the CEO to create more value for the company, and through the establishment of a strict accountability mechanism and constraints, to prevent the CEO due to narcissistic traits and do harm to the interests of the company.

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