Investigating The Impact of Management Narcissism on Corporate Governance and Earnings Quality in Financial Reports in Iraq 2016-2021

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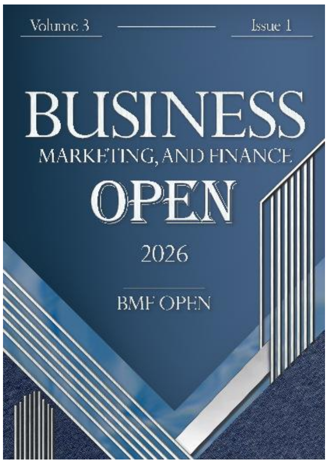

Citation: Ibrahim Jebur Al-Abboodi, M., Dastgir, M., Hamza Habeeb Almagtome, A., & Alimoradi, M. (2026). Investigating The Impact of Management Narcissism on Corporate Governance and Earnings Quality in Financial Reports in Iraq 2016-2021. *Business, Marketing, and Finance Open*, 3(1), 1-14.

Received: 01 May 2025
Revised: 14 August 2025
Accepted: 31 August 2025
Published: 01 January 2026

Abstract: The purpose of this study was to investigate the effect of management narcissism on corporate governance and profit quality in companies listed on the Iraqi Stock Exchange. Two methods of document mining and library were used to collect information and data. The library method was used to conduct preliminary studies and compile theoretical foundations and research literature by referring to books, journals, theses and articles, and the document mining method was used to collect data related to testing the research hypotheses by referring to the Central Bank of Iraq and the audited financial statements of companies listed on the Baghdad Stock Exchange and referring to the Iraqi Stock Exchange website. The statistical population of this study was all companies listed on the Baghdad Stock Exchange in the period 2016-2021. The systematic elimination method was used for sampling, and multivariate regression was used to analyze the data and test the hypotheses using the EViews software. The results of the first hypothesis at the 5% error level showed that the narcissism of managers has a significant effect on the sustainability of profits. The increase in management narcissism in Iraqi companies can reduce the quality of profits in the company; The results of the second hypothesis of the research at the 5% error level showed that the narcissism of the CEO does not have a significant effect on corporate governance; therefore, the second hypothesis is rejected.

Keywords: Management narcissism, profit quality, corporate governance, companies listed on the Iraqi Stock Exchange

1. Introduction

In recent decades, the financial landscape has witnessed profound changes that have placed increasing importance on the integrity of financial reporting, corporate governance, and managerial behavior. As global competition intensifies and financial crises expose structural weaknesses, the behavior and personality traits of top executives, particularly chief executive officers (CEOs), have emerged as crucial determinants of firm performance, transparency, and sustainability. Among these traits, narcissism has received special attention, given its potential to influence decision-making, financial outcomes, and the effectiveness of governance structures [1, 2].

Financial reports serve as the most significant outputs of an organization's accounting system, providing investors, regulators, and stakeholders with vital insights into a firm's operations and performance. Within these reports, the quality of reported earnings holds special importance, as it influences investor confidence, shapes market valuation, and guides managerial accountability [3]. High-quality earnings are expected to reflect the firm's true economic performance, enabling stakeholders to make sound decisions. However, managerial discretion, opportunistic behaviors, and psychological attributes can distort earnings quality, raising concerns over financial transparency and reliability [4].

Narcissism, characterized by traits such as self-admiration, power-seeking, and sensitivity to praise, is both a psychological construct and a managerial phenomenon with profound organizational implications. Narcissistic managers often pursue aggressive strategies, high-profile investments, and bold innovations to attract attention and enhance their personal reputation, even when such strategies may jeopardize long-term sustainability [5]. The tendency of narcissistic CEOs to prioritize personal image and short-term recognition frequently leads to distorted financial practices, increased risk-taking, and compromised governance mechanisms [6, 7].

Research has shown that narcissism can shape not only strategic decisions but also the dynamics of corporate governance. Narcissistic CEOs are often resistant to oversight, potentially undermining board independence and the role of audit committees. In some cases, these traits correlate with opportunistic earnings management and weaker transparency in financial reporting [8, 9]. However, narcissism does not always produce negative effects. In certain contexts, it has been associated with innovation, corporate social responsibility (CSR), and dynamic strategic moves that can strengthen firm competitiveness [10, 11]. This dual nature of narcissism makes it a complex and critical area of inquiry.

Corporate governance is widely recognized as the framework through which firms are directed and controlled, balancing the interests of shareholders, managers, creditors, and other stakeholders. Governance mechanisms—including independent boards, audit committees, shareholder rights, and institutional monitoring—are designed to mitigate agency conflicts and ensure that managerial decisions align with long-term shareholder value [12, 13]. In emerging markets, where regulatory environments and enforcement mechanisms are still evolving, governance assumes an even greater role in sustaining investor confidence and financial market stability [14].

While robust governance structures can counterbalance managerial opportunism, the effectiveness of these mechanisms is not absolute. CEO personality traits may weaken or, in some instances, circumvent governance controls. Narcissistic leaders may exploit weaknesses in governance systems to pursue self-serving goals, manipulate financial reporting, or engage in tax avoidance practices [15, 16]. Conversely, when governance systems are strong and independent, they may channel narcissistic tendencies into socially desirable outcomes, such as green innovation and sustainability initiatives [5, 17].

Earnings quality serves as a key benchmark for evaluating the reliability of financial statements and their usefulness for decision-making. High-quality earnings reflect recurring, sustainable income streams rather than transitory or manipulated figures. Investors and regulators increasingly scrutinize earnings quality to identify the extent of managerial discretion and detect opportunistic reporting practices [18, 19]. In this context, CEO narcissism becomes highly relevant. Studies demonstrate that narcissistic executives, driven by self-promotion and impression management, may engage in aggressive earnings management practices to portray superior performance [20, 21]. Such tendencies can reduce earnings reliability and amplify risks of financial distress [22].

Earnings management practices are often intertwined with governance mechanisms. Audit committee independence, board expertise, and shareholder concentration are recognized as safeguards against opportunistic earnings manipulation. Yet the effectiveness of these mechanisms is contingent upon managerial cooperation and the ethical orientation of top executives [4, 23]. When narcissism dominates managerial behavior, these safeguards may prove insufficient, threatening the accuracy of financial reporting and undermining corporate accountability [24].

Beyond financial reporting, narcissism has been studied in relation to corporate social responsibility (CSR) and sustainability performance. Some research suggests that narcissistic CEOs pursue CSR activities primarily for personal reputation and visibility rather than genuine stakeholder engagement [7]. These symbolic actions may create a façade of responsibility, while underlying earnings quality and governance practices remain weak [11]. On the other hand, narcissism can, under certain conditions, drive firms to adopt high-profile sustainability initiatives and innovation strategies that enhance corporate legitimacy [1, 25]. Thus, the interplay between narcissism and governance determines whether narcissistic traits become liabilities or assets for organizational performance.

In emerging markets such as Iraq, corporate governance practices and financial reporting face distinct challenges stemming from regulatory inefficiencies, political instability, and institutional weaknesses. These conditions provide fertile ground for managerial discretion and personality-driven decision-making to exert significant influence [2]. Moreover, the evolving nature of governance structures in such contexts amplifies the relevance of examining how CEO narcissism affects earnings quality and governance effectiveness. Studies across different jurisdictions highlight that cultural, regulatory, and institutional contexts shape the degree to which narcissism impacts corporate outcomes [26, 27].

For instance, research in Asian and Middle Eastern settings has revealed that narcissistic CEOs can influence debt financing, innovation, and even tax avoidance strategies, with consequences for firm value and sustainability [15, 27]. In some cases, narcissism contributes to overconfidence in financial projections and aggressive strategies that erode profitability and undermine investor trust [17, 20]. Such findings underscore the necessity of investigating narcissism not merely as a psychological trait but as an organizational variable with profound implications for corporate governance and financial reporting.

Despite the growing body of literature, significant gaps remain in understanding the precise mechanisms through which CEO narcissism shapes financial outcomes in emerging economies. Prior studies have yielded mixed results: while some highlight the detrimental effects of narcissism on governance and reporting quality [4, 8], others emphasize its potential to stimulate innovation and competitive advantage under strong governance oversight [10, 16]. This ambivalence suggests that contextual factors—such as governance strength, audit committee independence, and board diversity—determine whether narcissism produces positive or negative outcomes.

Moreover, little is known about how narcissism specifically affects firms in transitional markets such as Iraq, where governance systems are less mature and financial transparency is often compromised. Given the increasing participation of Iraqi firms in regional and global financial markets, addressing these gaps is crucial to enhancing investor confidence, strengthening accountability, and ensuring sustainable growth. This study seeks to contribute to this emerging stream of research by examining the effect of CEO narcissism on earnings quality and corporate governance in Iraqi firms, offering insights that extend beyond local markets to broader debates on managerial behavior and governance effectiveness.

Against this backdrop, the present research aims to investigate two interrelated questions: (1) Does CEO narcissism negatively affect the quality of earnings in firms listed on the Iraqi Stock Exchange? and (2) Does CEO narcissism weaken corporate governance mechanisms in these firms?

2. Methodology

This research is descriptive-correlational in nature and quasi-experimental in methodology and is in the field of post-event and affirmative accounting research. This research is conducted using real information and, since it can be used in the process of using information, it is considered a type of applied research.

In this research, the following regression model is used to test the statistical hypothesis, which is as follows: The equation of the present research seeks to examine the effect of CEO narcissism on the quality of earnings and corporate governance. Therefore, the following regression model is used to test the research hypotheses:

Model 1:

$$\boldsymbol{earnings\ quality}_{it} = a_0 + a_1 CEO\_NAR_{it} + a_2 PRICESTD_{it} + a_3 \mathrm{Size}_{it} + a_4 \mathrm{LEV}_{it} + a_5 ROE_{it} + a_6 M/B_{it} + a_7 \mathrm{BOARDSize}_{it} + a_8 Age_{it} + \varepsilon_{it}$$

$$\mathrm{CG}_{it} = a_0 + a_1 CEO\_NAR_{it} + a_2 PRICESTD_{it} + a_3 \mathrm{Size}_{it} + a_4 \mathrm{LEV}_{it} + a_5 ROE_{it} + a_6 M/B_{it} + a_7 \mathrm{BOARDSize}_{it} + a_8 Age_{it} + \varepsilon_{it}$$

Dependent variable:

Earnings quality

Earnings quality, is tested and examined by various criteria and if only one criterion or a limited set of criteria is used in its evaluation, the results of the tests may be incorrect and unreliable. Therefore, in this study, the accruals quality criterion is used.

Accrual quality

Profit is calculated and recognized based on accruals. Based on the accrual approach, profit can be reported if revenues are realized and expenses occur, and since in the accrual basis, it is not necessary to recognize revenues and expenses along with the receipt and payment of cash, and forecasts and estimates are used in calculating profit. As a result, it is a good criterion for investors' decisions about earnings quality.

In this study, the model of Decho and Dicho (2002) and M. C. Nicholas (2002) is used. This model is estimated as a time series for each company in each year.

Model 2:

$$TACC_{i,t} = \alpha + \beta_1 \frac{1}{TA_{i,t-1}} + \beta_2 \frac{CFO_{i,t-1}}{TA_{i,t-1}} + \beta_3 \frac{CFO_{i,t}}{TA_{i,t-1}} + \beta_4 \frac{CFO_{i,t+1}}{TA_{i,t-1}} + \beta_5 \frac{\Delta Sales_{i,t}}{TA_{i,t-1}} + \beta_6 \frac{PPE_{i,t}}{TA_{i,t-1}} + \varepsilon_i$$

$TACC_{i,t}$:Total accruals of company i in year t

$TA_{i,t-1}$:Total assets of company i in year t-1

CFO :Operating cash flow of company i in years t-1, t and t+1

$PPE_{i,t}$:Fixed assets of company i in year t

$\Delta Sales_{i,t}$:Changes in sales of company i in year t

From this model, two proxies are obtained to assess the quality of abnormal accruals, which are used as a measure of earnings quality in examining the sub-hypothesis of the two studies.

AAQ: Absolute value of the error component of the proposed regression model, for company i

AQ: Five-year standard deviation of the error component of the proposed regression model, for company i

Corporate Governance

The Corporate Governance Index (CG) is measured using a checklist consisting of 6 related components that are compatible with the Iraqi reporting environment. In this section, the method of coding and scoring the components has been used. Each of the corporate governance components earns a score of one or zero, taking into account its operational definition. You take the average of the scores of these six variables, and any company whose score is above the average has strong corporate governance, and any company whose score is below the average has weak corporate governance. The corporate governance indicators are as follows:

Financial expertise of the board of directors: If an accounting and financial expert is used on the board of directors, the number is considered one, otherwise the number is zero.

Audit committee: If there is an audit committee, the number is considered one, otherwise the number is considered zero.

Audit institution: If the company is audited by the Iraqi Court of Auditors or other large institutions (whose number of partners is greater than the median), the number is considered one, otherwise the number is zero.

Existence of institutional shareholders: If there are institutional shareholders (such as ownership of banks and financial and investment institutions), the number is considered one, otherwise the number is considered zero.

Independent variable:

CEO narcissism:

CEO narcissism is calculated from the variable of CEO signature area. The narcissism measurement method, in accordance with research conducted (e.g. Ham et al., 2017), draws a square or rectangle around the signature, each side of which reaches the end point of the signature. After doing this, the area of the square or rectangle is measured and finally, based on the Pareto principle, the number one is assigned to the two top deciles of the signature area of the managers of each industry, which indicates narcissistic managers, and the number zero is assigned to the other deciles. To control the error of the signature of the CEOs, the average of the existing signatures of each of them is used. It should be noted that the signatures of the CEOs were collected from the reports located on the Kodal website, namely the board of directors' activity report and also the financial statements of the companies under study.

Control variable:

Stock price standard deviation: The standard deviation of the stock price from the average price

Model 3:

$$\sigma = \sqrt{\frac{1}{N}\sum_{i=1}^{N}(x_i - \mu)^2}$$

Company Size: Company size calculated through the LN of company assets .

Size=LN (Asset)

Financial Leverage (LEV): The leverage obtained by dividing the total debt by the company's assets.

Return on Equity (ROE): Return on Equity is net income divided by the amount of equity.

Model 4:

$$ROE = \frac{NET\ Incom}{Share\ Holder\ Equity}$$

Book to Market Ratio (B/M): Book to Market Ratio: It is obtained by dividing the book value by the market value of the company's shares.

Model 5:

$$\frac{\mathrm{B}}{\mathrm{M}} = (\text{Book Value})/(\text{Market Value})$$

Board Size (BOARDSize): The size of the company is measured by the number of directors on the company's board of directors.

Company Age (AGE): The age of the company is obtained by the difference in the year of research until the company's establishment.

The research hypotheses are as follows:

1- Management narcissism has a negative and significant effect on profit quality in companies listed on the Iraqi Stock Exchange.

2- Management narcissism has a negative and significant effect on corporate governance in companies listed on the Iraqi Stock Exchange.

The population of this study is companies listed on the Iraqi Stock Exchange during the years 2016 to 2021. The sample of this study, given its subject, is of the type of exclusion sampling in which the selected companies are selected from a set of companies listed on the Iraqi Stock Exchange, taking into account the limitations mentioned below:

1)In order to be comparable, the end of the companies' fiscal year must end at the end of December and there must not be a change in the fiscal year during the research period.

2) In order to ensure homogeneity of the information, the companies must not be banks and credit institutions, insurance and other financial intermediaries.

3)Information related to the variables selected in this study must be available.

4) Companies must not have a consecutive trading break of more than 6 months during this period.

55)Companies must have been listed on the Baghdad Stock Exchange before 2016 and have not been delisted from the Baghdad Stock Exchange during the research period.

The process of determining the sample size is presented in Table 1:

Table 1. Determining the statistical sample size

Row	Description	Number of companies
1	Number of companies listed on the Baghdad Stock Exchange at the end of 2021	134
2	Companies in the financial intermediation, holding, and banking and insurance industries	68
3	Companies for which the information required for this study is not available	32
4	Companies whose fiscal year does not end at the end of December or have changed their fiscal year during the study period	0
5	Companies listed on the Stock Exchange during the study period	0
Sample size		34

Due to the nature of the research, two methods of document mining and library are used to collect information and data. The library method is used to conduct preliminary studies and compile theoretical foundations and research literature by referring to books, journals, theses and articles, and the document mining method is used to collect data related to testing research hypotheses by referring to the Central Bank of Iraq and the audited financial statements of companies listed on the Baghdad Stock Exchange and referring to the website www.isx-iq.net.

In the first step, in order to measure and test hypotheses, we will start with descriptive data analysis. This analysis is the mean (central index), standard deviation (dispersion index) and minimum and maximum values of variables. Before testing the hypotheses, the data were tested as pooled or panel type, which was determined by the F-Limer test. Panel or mixed data are data that are a combination of time series data and cross-sectional data. The advantage of using the panel method is to increase the statistical power of the coefficients compared to using separate analysis of statistical data in the form of time series or cross-sectional data. After determining the type of data, the Hausman test was used to determine the type of their effects.

3. Findings and Results

Tables 2 and 3 show the descriptive statistics related to the research variables. According to the descriptive statistics table, the median and mean of earnings quality (dependent variable) are very close to each other; corporate governance (dependent variable) more than half of the companies scored 3, the highest score was 5, and the lowest score was zero. Among the control variables, the company's age is 0.69, which is related to Asia cell Telecommunications in the communications and internet industry, which is a new company that has entered the stock exchange. Comparing the size of the board of directors, more than half of the companies have 7 board members. . The independent variable is the CEO's narcissism, which shows that, given that only 2 deciles of managers are narcissistic in the measurement model,

Table 2. Descriptive statistics of research variables

Variable type	Variable	Mean	Median	Standard Deviation	Minimum	Maximum
Dependent	Earnings quality	0.18	0.14	0.14	0.001	0.63
	Corporate governance	2.54	3.00	0.09	0.00	5.00
Control variable	Stock standard deviation	0.19	0.16	0.13	0.01	0.82
	Board size	6.46	7.00	1.32	5.00	9.00
	Firm size	21.91	21.75	1.93	0.01	28.99
	Financial leverage	0.32	0.25	0.48	0.01	0.93
	Firm age	3.42	3.36	0.20	0.69	4.33
	Market value to book value	3.35	2.50	2.66	0.27	13.65
	Return on equity	0.17	0.06	0.30	-0.86	0.88

Table 3. Descriptive statistics of qualitative variables

Variable type	Variable	Zero percent	Percentage one	Number zero	Number one
Independent	CEO narcissism	22.0	78.0	158	46

The results of the F-test of Lemmer, Hausman and Durbin-Watson of the first research model are presented in Table 4 as follows.

Table 4. F-test of Lemmer and Durbin-Watson

Test	Statistical value	Significance level
First model		
F Limer	56.4	00.0
Haussmann's test	66.14	1448.0
Durbin-Watson	97.1	-
White's test	1.01	0.2401
Second model		
F Limer	78.6	00.0
Haussmann's test	66.11	245.0
Durbin-Watson	99.1	-
White's test	1.23	0.209

According to the results of Table 4, the F-test of Limier for both research models is less than 5%, so the data is of the panel type and the Hausman test is used to determine the type of fit. Given that the significance level is greater than 5%, random effects regression is used. The results of the Wald test show that there is no serial autocorrelation. Finally, the results related to the research models are shown in the following tables.

Table 5. Results of the regression model estimation of the research hypotheses

Results of the regression model estimation of the first hypothesis

$$earnings\ quality_{it} = a_0 + a_1 CEO\_NAR_{it} + a_2 PRICESTD_{it} + a_3 \text{Size}_{it} + a_4 \text{LEV}_{it} + a_5 ROE_{it} + a_6 M.B_{it} + a_7 \text{BOARDSize}_{it} + a_8 Age_{it} + \varepsilon_{it}$$

t

Variable		Coefficients	Standard Error	t-Statistic	Significance P-value	Variance Inflation
Title	Symbol					
Width from origin	β	-0.027	0.22	-20.0	90.0	-
CEO narcissism	narcissism	-0.17	0.02	-18.8	*000.0	33.1
Stock standard deviation	PRICESTD	0.03	0.06	61.0	53.0	39.1
Board size	BOARDSize	-0.003	0.007	- 41.0	67.0	97.1
Firm size	Size	0.002	0.004	55.0	58.0	46.1
Financial leverage	LEV	0.02	0.03	79.0	42.0	54.1
Firm age	AGE	0.04	0.02	86.1	06.0	24.1
Market value to book value	MTB	0.003	0.03	00.1	31.0	54.1
Return on equity	ROE	0.02	0.03	69.0	48.0	24.1
F-statistic (probability)	(000.0) 83.8		Adjusted coefficient of determination		0.25	
Durbin–Watson statistic	97.1					
Significance at the 5% level*						

Results of the regression model estimation of the second hypotheses

$$CG_{it} = a_0 + a_1 CEO\_NAR_{it} + a_2 PRICESTD_{it} + a_3 Size_{it} + a_4 LEV_{it} + a_5 ROE_{it} + a_6 M.B_{it} + a_7 BOARDSize_{it} + a_8 Age_{it} + \varepsilon_{it}$$

t

Variable		Coefficients	Standard Error	t-Statistic	Significance P-value	Variance Inflation
Title	Symbol					
Width from origin	β	-0.027	0.22	-20.0	90.0	-

CEO narcissism	narcissism	-0.01	0.12	-08.0	*93.0	33.1
Stock standard deviation	PRICESTD	0.43	0.37	16.1	24.0	39.1
Board size	BOARDSize	0.18	0.05	57.3	*00.0	97.1
Firm size	Size	0.05	0.04	37.1	16.0	46.1
Financial leverage	LEV	- 0.32	0.29	-10.1	26.0	54.1
Firm age	AGE	-0.74	0.22	-39.3	*00.0	24.1
Market value to book value	MTB	-0.03	0.02	-62.1	10.0	54.1
Return on equity	ROE	-0.37	0.20	-84.1	06.0	24.1
F-statistic (probability)	(000.0) 67.4		Adjusted coefficient of determination		0.12	
Durbin–Watson statistic	51.1					
Significance at the 5% level*						

Table 5 presents the results of fitting the first and second models. As the above table shows, the significance level of the F statistic is less than 0.05 and the research models are significant. The Durbin Watson statistic for the two models is between 1.5 and 2.5, and given that the variance inflation of all variables is less than 5, there is no linearity between the research variables.

Hypothesis 1: The results indicate that there is a significant relationship between management narcissism and profit quality at the 5% error level. Because the p-value calculated for the coefficient of this independent research variable is 0.00 and is less than 0.05. Therefore, the first hypothesis is confirmed for the relationship between management narcissism and profit quality. Since the coefficient of the product diversity variable is -0.17, the relationship obtained is an inverse and significant relationship; In other words, increasing management narcissism in Iraqi companies can reduce the quality of profits in the company.

Hypothesis 2: The results indicate that there is no significant relationship between management narcissism and corporate governance at the 5% error level. Because the p-value calculated for the coefficient of this independent variable of the research is 0.93 and is greater than 0.05. Therefore, the second hypothesis is rejected.

4. Discussion and Conclusion

The findings of this study provide new insights into the role of CEO narcissism in shaping corporate governance and earnings quality within Iraqi listed firms during 2016–2021. The first hypothesis, which posited that CEO narcissism negatively affects earnings quality, was confirmed. The regression results revealed a significant inverse relationship between managerial narcissism and profit quality, indicating that higher levels of narcissistic tendencies among executives reduce the sustainability and reliability of earnings. This result suggests that narcissistic managers are more likely to engage in opportunistic behaviors such as earnings manipulation, discretionary accruals, or distorted reporting to present a favorable image of the firm's financial performance.

The second hypothesis, which proposed that CEO narcissism negatively affects corporate governance, was rejected. The results revealed no statistically significant relationship between narcissism and governance quality. This indicates that, despite their self-centered tendencies, narcissistic managers in the Iraqi context did not directly influence formal governance mechanisms such as board independence, audit committee presence, or institutional shareholder participation. However, indirect effects cannot be entirely ruled out. These findings highlight the complex interplay between managerial traits, governance structures, and institutional environments.

The evidence that narcissism reduces earnings quality aligns with a significant body of prior literature emphasizing the risks posed by self-serving executives. Narcissistic managers, motivated by image-building and recognition, often exploit their discretion over financial reporting to project inflated performance [3, 4]. This study's results are consistent with findings that link narcissistic leadership with opportunistic earnings management and lower transparency in financial disclosures [8, 20]. Narcissists' preference for bold, short-term strategies often translates into accounting practices that distort the economic reality of firm operations [1, 27].

From a theoretical perspective, agency theory suggests that narcissistic managers exploit information asymmetry between owners and executives to pursue self-interest, leading to earnings manipulation. This is particularly relevant in emerging markets where enforcement mechanisms are weaker and monitoring costs are higher. The Iraqi context exemplifies such conditions, making financial reports vulnerable to opportunism. Prior evidence supports this interpretation. For instance, [7] documented how narcissistic CEOs in East Asia compromised CSR performance by manipulating disclosures, while [15] showed that narcissism was linked to higher tax avoidance, a practice closely related to earnings quality distortions.

The robustness of these findings also resonates with studies suggesting that narcissism leads to excessive reliance on accrual-based earnings management, reducing earnings persistence and predictability [24]. Similarly, [22] highlighted the role of behavioral strains in amplifying financial distress through distorted inventory and earnings practices. By aligning with these results, the present study underscores that narcissism represents a key psychological driver of financial misreporting, especially in institutional environments with limited governance enforcement.

The rejection of the second hypothesis—that CEO narcissism negatively impacts corporate governance—adds nuance to ongoing debates. While some literature documents the tendency of narcissistic leaders to resist monitoring and undermine governance structures [9, 16], the findings here suggest that, in Iraq, narcissism does not significantly erode governance systems. This could reflect the contextual strength of formal governance requirements in publicly listed companies, where external institutions, including regulators and auditors, impose standards that constrain managerial discretion.

This outcome contrasts with evidence from other contexts. For instance, [11] reported an inverted U-shaped relationship between narcissism and CSR, mediated by governance, while [10] emphasized the moderating role of narcissism in shaping entrepreneurial strategies and performance. In contrast, [17] found that board structures and gender diversity moderated the CSR effects of narcissistic CEOs. The divergence of results indicates that institutional and cultural contexts critically shape whether narcissism affects governance.

One possible explanation is that Iraqi corporate governance is still evolving and heavily reliant on compliance-based mechanisms. Under such conditions, narcissistic leaders may not find sufficient leeway to alter governance structures directly, even though their behaviors distort financial outcomes. As [12] noted, boards in emerging markets play an increasingly prominent role in ESG performance and accountability, while [13] highlighted how meritocratic governance systems influence managerial careers, thereby curbing narcissistic excesses. In Iraq, external oversight by auditors, regulators, and shareholders may therefore neutralize the direct influence of narcissism on governance quality.

The contrasting results of the two hypotheses highlight an important distinction: narcissism strongly influences financial reporting quality but does not necessarily reshape governance systems. This duality echoes the findings of [14], who noted that governance mechanisms in emerging markets function unevenly, being more effective in regulating structural dimensions (such as board size or audit presence) than behavioral dimensions (such as managerial discretion in reporting).

The study's results also complement evidence from multiple contexts. For example, [25] found that CEO narcissism, when channeled through social media engagement, improved innovation performance, suggesting that narcissism's impact is highly contingent on context and mediating factors. Similarly, [6] showed that CEO duality moderates the narcissism–earnings management relationship, while [28] emphasized how governance practices determine whether earnings management is opportunistic or efficient. By comparison, the current study demonstrates that in Iraq, narcissism exerts a detrimental effect on earnings quality regardless of governance strength, but does not significantly weaken formal governance structures themselves.

In addition, [2] found that real earnings management moderated tax planning in Nigerian firms, highlighting how managerial traits intersect with governance and reporting practices in emerging markets. Similarly, [29] emphasized the role of governance and audit quality in moderating CSR reporting and firm value in Iran. Together, these findings point to a broader pattern: governance institutions in developing economies act more as moderating forces that constrain narcissism's consequences than as domains narcissistic leaders can directly manipulate.

Theoretically, these findings extend upper echelons theory by illustrating how executive personality traits—specifically narcissism—affect organizational outcomes in emerging markets. While narcissism influences strategic choices and reporting behaviors [1, 27], its limited direct impact on governance systems indicates that structural and institutional factors may buffer or constrain individual traits. This aligns with research that highlights governance as a contextual moderator of CEO behavior [12, 16].

Agency theory also helps explain the study's results. Narcissism amplifies agency conflicts by driving executives to pursue self-interest through earnings manipulation [20], but governance systems in Iraq appear strong enough to resist direct distortion. Thus, governance functions more as a boundary condition that prevents narcissistic leaders from undermining its mechanisms, even while financial reporting quality remains vulnerable. This dual effect illustrates the interplay between individual psychology and institutional design in shaping corporate outcomes.

The results have important implications for investors, regulators, and policymakers in emerging markets. First, they highlight the need for stakeholders to assess managerial psychological attributes, particularly narcissism, when evaluating firms. Second, they underscore the importance of enhancing monitoring mechanisms to improve earnings quality. Finally, they suggest that while governance structures may resist direct manipulation, continuous reforms are necessary to strengthen transparency and reduce earnings management opportunities.

This study, while contributing valuable insights, is not without limitations. First, the measurement of CEO narcissism relied on signature size as a proxy, a method that, although validated in prior studies, may not fully capture the multidimensional nature of narcissistic traits. More direct psychometric or behavioral measures could provide richer insights. Second, the study focused exclusively on firms listed on the Iraqi Stock Exchange, limiting generalizability to other industries or non-listed firms. Third, the study period (2016–2021) captured a specific institutional and political context in Iraq, which may differ from other emerging economies undergoing reforms. Finally, the reliance on archival data constrained the ability to explore qualitative dimensions of governance dynamics, such as board–CEO interactions or cultural factors shaping narcissism's expression.

Future research could extend this study in several directions. Scholars could employ multi-method approaches, combining archival data with interviews, surveys, or experiments to capture more nuanced measures of narcissism and governance effectiveness. Comparative studies across different emerging markets would also provide valuable insights into how institutional environments mediate narcissism's impact on earnings quality and governance. Furthermore, exploring moderating variables such as CEO duality, board diversity, and audit committee independence could clarify why narcissism affects some corporate outcomes more strongly than others. Finally, longitudinal studies that track changes in governance reforms and managerial behavior over extended periods could deepen understanding of the dynamic interplay between executive psychology and institutional structures.

From a practical perspective, firms should integrate psychological assessments into executive recruitment and evaluation processes, ensuring that narcissistic tendencies are identified and managed. Boards of directors should enhance monitoring systems, particularly in the area of financial reporting, to mitigate the risks posed by narcissistic managers. Regulators and policymakers in Iraq and similar markets should focus on strengthening audit quality, improving disclosure standards, and promoting investor education to counterbalance the adverse effects of narcissism on earnings quality. Institutional investors and shareholders should also actively engage in governance processes, ensuring that managerial behaviors are aligned with long-term firm value and transparency.

Authors' Contributions

Authors equally contributed to this article.

Ethical Considerations

All procedures performed in this study were under the ethical standards.

Acknowledgments

Authors thank all participants who participate in this study.

Conflict of Interest

The authors report no conflict of interest.

Funding/Financial Support

According to the authors, this article has no financial support.

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