**Narcissistic Audit Committee Chairs and the Quality of Non-IFRS Disclosures**

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***Abstract:*** We examine whether a narcissistic audit committee (AC) chair influences the quality of non-IFRS earnings disclosure. We find that executives are more likely to opportunistically subtract persistent income-decreasing items from IFRS earnings in firms with ACs chaired by highly narcissistic individuals. Interestingly, unlike the common belief that narcissism destroys value, our findings suggest narcissism of an AC chair enhances the quality of non-IFRS earnings. This effect is particularly pronounced when the narcissistic AC chair possesses relevant experience, such as accounting expertise, firm-specific knowledge, or corporate governance experience. Additionally, our results show that the quality of non-IFRS earnings is enhanced when the narcissistic AC chair has fewer personal ties with the CEO and is motivated to assert their authority in monitoring. Importantly, our results are robust when controlling for potential endogeneity.

**Keywords:**

Audit committee chair, narcissism, personality characteristics, non-IFRS disclosures, non-GAAP.

# **1. Introduction**

We investigate whether narcissistic audit committee (AC) chairs influence the quality of non-IFRS earnings.[[1]](#footnote-2) While existing studies pay considerable attention to observable characteristics of the AC chair (Krishnamoorthy, Bruynseels, De Groote, Wright, & Van Peteghem, 2023; Tanyi & Smith, 2015), we go beyond these measures to study narcissism - a salient yet less observable personality trait that may significantly influence the quality of the AC chair’s financial reporting decisions. Indeed, Gul, Wu, and Yang (2013) noted that the observable attributes explain only 3% of individual decisions, highlighting the need for research that takes a more nuanced consideration to less observable psychological attributes, such as narcissism in our case.

Existing studies on narcissism have predominantly focused on CEOs and CFOs and evince that this personality trait is associated with opaque financial reporting decisions (Abdel-Meguid, Jennings, Olsen, & Soliman, 2021; Olsen, Dworkis, & Young, 2014; Olsen & Stekelberg, 2016; Rijsenbilt & Commandeur, 2013). However, it remains an empirical question whether these findings can be extended to monitoring board directors, especially the AC chair. One might contend that narcissistic individuals are often treated as a homogeneous group, with assumptions that they uniformly increase agency costs. Yet, this perspective overlooks the nuanced influence of directors who play varying roles in major corporate decision-making (Lara, Osma, Mora, & Scapin, 2017; Masulis & Mobbs, 2011). More importantly, existing studies noted that independent directors exhibit varying degrees of independence (Fich & Shivdasani, 2006; Larcker, Richardson, Seary, & Tuna, 2005), and that inside directors are not homogeneous (Masulis & Mobbs, 2011). Based on this, we argue that narcissism manifests differently according to their position within the corporate board hierarchy. While CEOs may engender a culture of risk-taking and diminish accountability, potentially jeopardizing financial reporting quality, AC chairs, driven by their commitment to governance principles, may serve as bulwarks against unchecked executive power, promoting transparency and stewardship of shareholder interests.

Theoretically, narcissists are described as being in a chronic process of self-construction, constantly seeking ways to reinforce their self-image or maintain their desired sense of self (Morf & Rhodewalt, 2001). They view themselves as focal points and seek to attract the attention of others to deem themselves tough and independent monitors (Chou, Pittman, & Zhuang, 2021; Raskin & Terry, 1988). These tendencies related to reputation suggest that the narcissistic AC chair may be more likely to scrutinize and challenge managers’ non-IFRS earnings practices closely.

However, a narcissistic AC chair may react vehemently to criticism, undervalue others’ opinions, and thus hinder information exchange among AC members who have experience and insights that could help mitigate managerial opportunism (Chou et al., 2021; Nevicka, Ten Velden, De Hoogh, & Van Vianen, 2011). Accordingly, they may become less informed than they should be, impairing their competence. Further, narcissists tend to entertain optimistic illusions about their abilities being superior to others, which may undermine their effectiveness in monitoring. In a nutshell, whether an AC chair with narcissistic tendencies is likely to mitigate or facilitate opaque non-IFRS disclosure remains an open research question; the influence of narcissism could run in either direction.

Additionally, delving into the role of AC chairs in non-IFRS disclosure is likely a fruitful research area. The majority of UK firms increasingly disclose non-IFRS earnings numbers and assert that this disclosure is intended to eliminate the impact of non-recurring items on earnings and thus better represent core profitability performance. While this intention may be true, regulators, such as the UK Financial Reporting Council, alert users that managers may utilize such disclosure to mislead investors. Therefore, as a secondary objective of our study, we also investigate whether UK firms use (as informative) or abuse non-IFRS earnings. Given that managers may exhibit opportunistic behavior in some contexts while acting as stewards in others (Healy, 1996), and that distinguishing between these behaviors can be challenging (Black & Christensen, 2009), we investigate whether narcissistic AC chairs mitigate opaque non-IFRS earnings disclosure.

Using a sample of UK firms from 2013 to 2020, we find that exclusions from non-IFRS earnings are significantly associated with companies’ future IFRS earnings, which are more pronounced when they allow UK firms to report non-IFRS earnings higher than IFRS earnings, suggesting that some UK firms misuse current flexibility around non-IFRS disclosure for opportunistic instead of informative purposes. Furthermore, our findings suggest this opportunistic use of non-IFRS is strengthened when the AC is chaired by a narcissistic individual. This may be interpreted as these chairs optimistically harboring illusions of having superior abilities, undermining their monitoring efforts.

However, we postulate that narcissists’ motivations and ability to monitor executive directors might be contingent on other factors, such as their competence and expertise, power distribution, independence, or the firm complexity. Therefore, we conduct further analysis by using three proxies for AC chair experience, namely having accounting expertise, long-term firm-specific knowledge, and corporate governance experience. Interestingly, the results suggest that, when a narcissistic AC chair has relevant experience, the exclusion of expenses from non-IFRS earnings is primarily intended to be informative. Furthermore, we find that narcissistic AC chairs are more likely to exercise independent judgment and allow non-IFRS exclusions for informative purposes only when CEOs have less power. Finally, our findings suggest that narcissistic AC chairs enhance the quality of non-IFRS exclusions, particularly in environments requiring intensive monitoring, such as firms with complex operations. Our findings are robust to controlling for CEO narcissism and endogeneity issues.

Our study makes three major contributions. First, while existing studies suggest that narcissism is value-destroying (e.g., Abdel-Meguid et al., 2021), our findings suggest that this attribute enhances the quality of non-IFRS earnings. Specifically, while our results indicate that narcissistic AC chairs could undermine the quality of non-IFRS exclusions when they have significant personal ties with their CEOs, they tend to improve the quality of non-IFRS exclusions when they are motivated to showcase their abilities and assert their authority in monitoring. This improvement occurs especially when they possess relevant experience, such as accounting expertise, firm-specific knowledge, or corporate governance experience. Indeed, our findings establish a link between the AC and narcissism research streams, which is particularly significant given the limited existing knowledge on the unobservable personality traits of ACs (Qu, 2020). Second, we extend prior research on executive narcissism (Abdel-Meguid et al., 2021; Ham, Lang, Seybert, & Wang, 2017; Olsen et al., 2014), by focusing on the AC chair, a key monitoring board member who plays a pivotal role in influencing financial reporting quality (CAQ, 2013). By examining the personality traits of the AC chair, our study generates new insights into factors that impede or enhance their monitoring efficacy, with significant practical implications. Third, our study contributes to the non-GAAP or non-IFRS earnings literature (Black, Black, Christensen, & Gee, 2022; Frankel, McVay, & Soliman, 2011; Hsu, Wang, & Whipple, 2022) by showing that a narcissistic AC chair, along with their experience, can jointly influence managerial motivations to (mis)use non-recurring expenses. When assessing the usefulness of non-IFRS earnings disclosures in decision-making, investors should consider the profile of the AC chair and their reports, rather than focusing solely on the numbers.[[2]](#footnote-3)

The remainder of this paper is structured as follows: Section 2 introduces the regulatory background of non-IFRS earnings and ACs in the UK. Section 3 discuss our theory. Section 4 reviews the related literature and develops our hypothesis. Section 5 explains the research design. Section 6 presents the empirical results and findings from further analyses. Finally, Section 7 concludes the paper.

# **2. Non-IFRS disclosures quality, audit committee chairs, and narcissistic traits**

Over the years, the accounting standards for non-recurring items in the UK have evolved from SSAP6, which required the separate disclosure of extraordinary items, to FRS3, which mandated the disclosure of exceptional items, and finally to IAS1, which requires the disclosure of material items.

FRS3 mandated firms to distinguish between operating and non-operating non-recurring items and to provide more detailed information about each exceptional item, helping users understand their nature and differentiate them from recurring items. However, since 2005, UK listed companies are required to comply with International Financial Accounting Standards (IFRS) which does not specifically address non-recurring or exceptional events beyond a general guideline on ‘material items’ under IAS1 (Athanasakou, Strong, & Walker, 2009). Furthermore, the limited guidance on how to identify and disclose material items grants considerable managerial discretion, which may lead to the misuse of non-IFRS disclosure. In particular, firms might misclassify some expenses to report a more favorable picture of their underlying profitability.[[3]](#footnote-4) Given the information asymmetry between managers and investors regarding the nature of non-recurring items, it would be challenging for users to verify whether the excluded items are genuinely non-recurring (Frankel et al., 2011).

This flexibility under IFRS has led to significant variation in disclosure practices across companies, time periods, and industries. The UK Financial Reporting Council (FRC) has already identified a number of anecdotal cases where the disclosure of non-recurring items is inconsistent and cautioned that managers may exploit such disclosures to mislead investors. Surprisingly, however, there has been little in-depth exploration of this phenomenon. There is no existing evidence on whether UK firms explicitly disclose such information to enable or steer user perceptions on their core performance. The current evidence is dominated by US data and it is not clear whether the findings can be extended to the UK environment.[[4]](#footnote-5) While both the Sarbanes-Oxley Act Section 401(b) in the USA and the IAS 33 in the UK require firms to reconcile non-GAAP to GAAP earnings, Kolev, Marquardt, and McVay (2008) argue that providing such a reconciliation does not impose a significant cost, but being censured by the SEC could lead to a negative impact. This suggests that the UK environment is relatively more flexible than that of the USA, at least in the treatment of non-IFRS earnings.

This flexibility underscores the crucial role of ACs in mitigating questionable non-IFRS earnings. The FRC has been proactive in revising the UK Corporate Governance Code, particularly concerning ACs. Through a series of updates (in 2008, 2010, 2012, 2014, 2016, 2018, and 2024) aimed at strengthening the role of ACs in overseeing financial reporting and internal controls, the FRC seeks to empower them with the authority needed to ensure the accuracy and integrity of financial statements, thereby enhancing corporate governance. Key initiatives include mandating the inclusion of independent directors on ACs, ensuring that members have relevant financial expertise, and emphasizing their role in overseeing relationships with external auditors (FRC 2024). These measures reflect a concerted effort to equip ACs with the necessary tools to effectively scrutinize financial reporting.

However, while these formal powers and responsibilities are essential, they are not sufficient on their own to guarantee high-quality financial reporting. We argue that the individual characteristics of AC members—such as their ethical orientation, cognitive style, and psychological traits—are equally important in determining how effectively these powers are exercised. The personal values and experiences of AC members can significantly influence their decision-making processes, including their willingness to challenge management.

# **3. Theory**

While stewardship theory posits that managers’ goals are inherently aligned with those of the organization, making stringent monitoring mechanisms unnecessary (Muth & Donaldson, 1998), agency theory contends that shareholders face agency problems, wherein managers may not always act in the best interests of shareholders (Lu, Ntim, Zhang, & Li, 2022). To mitigate these agency problems, Jensen and Meckling (1976) advocate for the implementation of robust monitoring mechanisms, such as oversight provided by directors. In this context, shareholders delegate power to the board of directors and its monitoring subcommittees (i.e., audit committee) to monitor management decisions (e.g., Fama, 1980; Fama & Jensen, 1983) and protect shareholders’ wealth (e.g., Beasley, 1996; DeZoort, Hermanson, Archambeault, & Reed, 2002).

However, we postulate that although AC members have significant monitoring responsibilities and authority to shape financial reporting decisions, their effectiveness is not solely contingent on these formal powers. Indeed, their personality traits are key antecedents of financial reporting quality. This aligns with the upper echelons theory, which suggests that personal values, idiosyncratic experiences, and cognitive and psychological characteristics of key decision-makers significantly influence firms’ strategic decisions (Hambrick & Mason, 1984; Hambrick, 2007). While the majority of existing research has focused on observable traits, such as demographic traits, financial experience, and tenure (Adams & Ferreira, 2009; Badolato, Donelson, & Ege, 2014; Bedard, Chtourou, & Courteau, 2004; Liu & Sun, 2010), which explain only about 3% of individual decisions, a growing body of studies is increasingly examining the less observable psychological attributes that play a crucial role in shaping individual decision-making. In this study, we specifically focus on narcissism and its influence on AC chair decisions.

We integrate agency theory and upper echelons theory to provide a comprehensive understanding of the role of AC chairs. In particular, we draw on Cragun, Olsen, and Wright (2020), who suggest that extending agency theory with upper echelons theory helps elucidate the underlying psychology and motivations of narcissists. Their model describes narcissism as a dynamic self-regulatory system comprised of four elements that interact and mutually reinforce each other. The first element is conceptualizing five fundamental qualities of the narcissistic self: agentic vs. communal concerns, approach orientation, desire for self-esteem, entitlement, and inflated self-views. The second is the narcissists’ interpersonal styles, mainly charm and extraversion. The third is the intrapsychic self-regulation strategies of the narcissistic self, including a self-serving bias and fantasies of power. The fourth element involves the interpersonal strategies adopted by narcissists, including perceiving better-than-average effects and self-promotion (Campbell & Foster, 2011). The formation of such self-regulatory processes reflects a narcissist’s ongoing need for external affirmation (Morf & Rhodewalt, 2001).

In the context of our study, we hypothesize that the self-regulatory system of narcissistic AC chairs may significantly influence their monitoring behavior. This influence may be reflected in their capability to address critical accounting matters, such as reporting non-recurring items, engage with other AC members in formal and informal meetings, and effectively challenge executive directors. The effects of such influence on the quality of non-GAAP earnings disclosure may be positive or negative, as we further articulate in subsequent sections.

# **4. Literature review and hypothesis development**

## *4.1 Motives for non-GAAP earnings disclosure and the role of AC chairs*

Firm management often proactively reports and stresses non-IFRS earnings figures in media releases. While this phenomenon might stem from managers’ efforts to present earnings numbers more accurately and reflect their firms’ core earnings, some may misclassify recurring items as non-recurring to mislead investors about their underlying performance (e.g., Bradshaw & Sloan, 2002; Hsu et al., 2022). Both motivations have received some empirical support. On the one hand, studies show that firms disclose non-GAAP earnings to help investors better assess their operating performance (McVay, Curtis, & Whipple, 2014), or when GAAP earnings is relatively uninformative (e.g., Lougee & Marquardt, 2004). More recently, Chen, Lee, Lo and Yu (2021) have further shown that disclosure of non-GAAP earnings is more informative when managers disclose more transparent qualitative information about non-GAAP earnings in press releases. Black et al. (2022) extend this study and find that non-GAAP earnings is more useful than GAAP earnings when this figure is disclosed in both annual earnings announcements and proxy statements.

On the other hand, some studies provide evidence of the opportunistic use of non-GAAP earnings. For instance, Doyle, Lundholm, and Soliman (2003) find that managers routinely exclude recurring expenses to mislead investors. Similarly, Black and Christensen (2009) and Doyle et al. (2013) provide evidence that managers utilize non-GAAP exclusions to increase the likelihood of meeting or beating analyst earnings forecasts. Henry, Hu, and Jiang (2020) show that in cases when GAAP earnings are lower, fail to achieve a benchmark, or less value-relevant, managers place greater emphasis on non-GAAP earnings in conference calls. Collectively, these studies demonstrate that non-GAAP earnings information can help firms present their core earnings more clearly and assist investors in better assessing operating performance, however it may also introduce variability among firms or be used opportunistically.

Existing research suggests that less sophisticated investors are more likely to trade on non-GAAP earnings and are more prone to deception when managers disclose non-GAAP information for opportunistic reasons (Allee, Bhattacharya, Black, & Christensen, 2007; Bhattacharya, Black, Christensen & Mergenthaler, 2007; Elliott, 2006; Frederickson & Miller, 2004). This highlights the importance of the role of ACs in protecting them. Indeed, many studies have examined and evidenced that the expertise and independence of ACs play an important part in improving financial reporting quality and reducing earning management (e.g., Ashraf, Michas, & Russomanno, 2020; Badolato et al., 2014; Dhaliwal et al., 2010; Klein, 2002; Tanyi & Smith, 2015). Given the AC chair’s pivotal role in fostering open dialogue among committee members to thoroughly discuss significant financial reporting matters during formal meetings (Free, Trotman, & Trotman, 2021), several studies have closely scrutinized their influence (e.g., Krishnamoorthy et al., 2023; Lee, 2022; Tanyi & Smith, 2015).

Extending this line of research, we go beyond the conventionally examined characteristics of AC members to focus on a salient but less visible trait-the AC chair’s narcissism-that may shape financial reporting decisions. Prior accounting studies show that having narcissistic CEOs and CFOs deteriorates financial reporting quality (e.g., Capalbo, Frino, Lim, Mollica, & Palumbo, 2018; Ham et al., 2017; Olsen et al., 2014). However, less is known about how narcissism influences AC members. Arguably, having this trait might be a double-edged sword, either improving or deteriorating the quality of monitoring. In the next section, we explore this in detail.

## *4.2 Hypothesis development*

## *4.2.1 The bright side of AC chair narcissism*

As previously discussed in section 3, we integrate agency theory and upper echelons theory to provide a comprehensive understanding of the role of narcissistic AC chairs. In particular, based on the characteristics of narcissism inherent in the dynamic self-regulatory system (Cragun, Olsen, & Wright, 2020), the quality of monitoring exerted by narcissistic AC chairs may be enhanced in three ways. First, narcissists are motivated by receiving praise from others and striving for self-sufficiency and perfection (Raskin & Terry, 1988), which might enhance the effectiveness of their monitoring role. Narcissism involves a dynamic self-regulatory process with the objective of obtaining continuous self-affirmation externally (Morf & Rhodewalt, 2001). As an important player on the board of directors, the AC chair may be driven to develop an exceptional reputation in his or her networks. Moreover, the effectiveness of ACs has been under the spotlight of regulators in various countries (Cohen, Krishnamoorthy, & Wright, 2002). AC members, including the chair, bear significant penalties in the labor market when their firms are detected engaging in fraudulent financial reporting practices (Srinivasan, 2005). Thus, a narcissistic AC chair may lean towards more stringent monitoring of non-IFRS earnings disclosure to enhance their reputation.

Second, narcissists generally exhibit an inflated sense of self-worth and constantly seek ways to bolster their self-image, particularly in situations where they perceive threats to their self-worth (John & Robins, 1994). Building on this point, a narcissistic AC chair is likely to initiate more frequent meetings with senior management and internal and external audit to assert their status in the company as an essential board member. Furthermore, in formal meetings when the CEO and CFO attend, a narcissistic AC chair may more frequently raise both general and specific issues concerning draft financial statements, in their pursuit of continuous self-promotion (Horvath & Morf, 2010). By raising additional issues, the AC may have more opportunities to assess the trustworthiness of managements’ non-IFRS earnings disclosures.

Third, narcissistic AC chairs may exhibit egocentrism and underestimate the judgment of others (Nevicka et al., 2011), which means they are more likely to challenge managers’ justifications and less likely to change their own opinions when assessing non-IFRS earnings disclosures, which may enhance the effectiveness of their monitoring.

## *4.2.2 The dark side of AC chair narcissism*

Likewise, narcissism may impair the monitoring exerted by the AC chair in two ways. First, the narcissistic AC chair with an egocentric tendency may constrain information sharing among AC members (Chou et al., 2021). Suboptimal decisions lead to diminished group performance when information within the group is not shared and utilized (Nevicka et al., 2011). In the same vein, Free et al. (2021) stress that the chair needs to promote AC members’ full involvement in the monitoring of financial statement quality and provide each with equal opportunity to express their views. Robust debate on major financial reporting issues, including estimates on transitory versus recurring items, may be absent in the presence of a narcissistic AC chair, leading to a lower likelihood of detecting managerial opportunism with non-IFRS earnings.

Second, people high in narcissism tend to overestimate their current performance and are optimistic about future outcomes (Farwell & Wohlwend-Lloyd, 1998). Following this argument, a narcissistic AC chair may have optimistic expectations about their own performance in monitoring and assert that they understand all aspects of financial reporting, including the company’s accounting standards and estimates. As such, a narcissistic AC chair may be less willing to elicit and assimilate information, and therefore less likely to hold regular meetings with management to discuss the use of certain accounting standards and non-IFRS earnings definitions, potentially impairing their competence in detecting opportunistic use of non-recurring items.

To sum up, given the above discussion on the bright and dark sides of AC chair narcissism, it is clear that whether a narcissistic AC chair mitigate or facilitate opportunistic non-IFRS disclosure warrants empirical investigation. We thus state our hypothesis in a non-directional form:

***H1***: *The personal narcissism of an AC chair affects the quality of the company’s non-IFRS disclosure*.

# **5 Research design**

## *5.1. Measure of narcissism*

Following Church, Dai, Kuang, and Liu (2020) and Ham et al. (2017), we measure narcissism by signature size. There is evidence that signature size is positively associated with personality traits related to narcissism (Jorgenson, 1977; Mailhos, Buunk & Cabana, 2016; Zweigenhaft, 1970; Zweigenhaft & Marlowe, 1973). Recent empirical accounting studies have validated the use of signature size as proxy for an individual’s degree of narcissism because of its positive relationship with the NPI-40 (Church et al., 2020; Ham et al., 2017). Likewise, through experimental studies and correlation tests, Ham, Seybert, and Wang (2018) have validated that signature size is an appropriate method for measuring narcissism.

Following previous accounting studies (Church et al., 2020; Ham et al., 2017; Ham et al., 2018), we draw a rectangle around each AC chair’s signature, wherein each side of the rectangle touches the most extreme endpoint of the signature. The area occupied by the signature is then computed by multiplying the length and width of the rectangle. After that, the square area of the signature is divided by the number of letters in the chair’s name. In our sample, the longest name contains 21 letters, while the shortest contains 6 letters. The average area per letter of the chairs’ signatures is 0.30 cm2.

## *5.2. Sampling and data sources*

We start our sampling by identifying all companies listed on the FTSE All-Share index.[[5]](#footnote-6) We exclude financial companies due to their different regulatory environment and also exclude observations with missing AC chair signatures. These procedures lead to a final sample of 670 valid observations and 131 unique firms covering the period between 2013 and 2020 (an unbalanced panel). We start from 2013 when the signature of the AC chair became available. Since September 2012, the revised UK corporate governance code has required ACs to report their duties related to financial reporting oversight and significant issues discussed during scheduled meetings in a separate section of the annual report, which is signed by the AC chair.[[6]](#footnote-7)

Table 1 presents the construction and distribution of our sample.

{INSERT TABLE ONE ABOUT HERE}

## *5.3. Regression models and variables*

To investigate whether the narcissism of the AC chair influences the quality of non-IFRS disclosures, we estimate the following regression equation:

In this and all subsequent equations, the subscripts represent chair and company in year . *IFRSEPS* is the dependent variable, which equals the company’s earnings per share from continuing operations in the following year. *NONIFRS* refers to the non-IFRS earnings metric in our study, which is defined as underlying EPS, adjusted EPS, headline EPS, core EPS, and EPS before exceptional items. *EXCLUSION* is the difference between non-IFRS earnings and IFRS earnings, wherein IFRS earnings is the reported EPS from continuing operations. A positive value of *EXCLUSION* indicates exclusions of income-decreasing items (expenses), while a negative value of *EXCLUSION* indicates exclusions of income-increasing items (revenues). If the items excluded from non-IFRS earnings are irrelevant to the company’s core businesses and transitory, then the coefficient on *EXCLUSION* in Equation (1), i.e., , should equal zero (Doyle et al., 2003; Frankel et al., 2011; Abdel-Meguid et al., 2021). *NARCIS* represents our measurement of the narcissism of the AC chair. The coefficient on the interaction between *EXCLUSION* and *NARCIS*, i.e., , is the coefficient of interest. If non-IFRS exclusions of companies with more narcissistic AC chairs are of lower quality than the average non-IFRS exclusions, we expect to be negative.

We include seven company-level control variables in our non-IFRS model. Return on assets (*ROA*), leverage (*LEV*), size (*SIZE*), sales growth (*SG*), firm age (*AGE*), accruals (*ACCRUAL*) and losses (*LOSS*). In addition to company controls, we also include an array of board-level controls in our non-IFRS model. In particular, CEO duality (*DUAL*), CEO tenure (*TENURE*), independent directors (*INDEP*), board (*BDSIZE*) and AC size (*ACSIZE*), female directors on the AC (*FEMALE*), AC members who have accounting expertise (*ACCEXP*) and AC chair compensation (*COMPENSATION*) are included.[[7]](#footnote-8) Finally, *Industry* and *Year* denote the industry and year indicators respectively, which are used to control for industry fixed effects and year fixed effects. See Appendix A for detailed definitions of all variables used in our model. We cluster standard errors by company to account for any correlation of residuals caused by company effects (Petersen, 2009).

# **6. Empirical results and discussion**

## *6.1. Descriptive*

Table 2 provides descriptive statistics of the main variables, firm, board, and AC characteristics over the sample period. The mean (median) of *IFRSEPS* is 0.48 (0.21), while the mean (median) of *NONIFRS* is 0.61 (0.27). The gap in amounts between the reported IFRS earnings and non-IFRS earnings suggests that non-IFRS earnings metrics generally provide UK firms with more favorable operating results. Also, the non-IFRS exclusions are, on average, £0.16 per share.

In addition, we conduct skewness tests for all the continuous variables. As reported in Panel A of Table 2, most of the variables are skewed, indicating that our data contains more outliers than expected. To mitigate the effects of these outliers, we winsorize all continuous variables at the 1st and 99th percentiles in a subsequent analysis. As reported in Panel B, we note that the skewness of the variables improves significantly after the winsorization.

{INSERT TABLE TWO ABOUT HERE}

## *6.2. Correlation*

Table 3 presents the two-way Pearson correlations for the dependent, independent, and control variables used in our model. Non-IFRS earnings is correlated with future IFRS reported earnings at 0.76, providing some initial insights that managers’ adjusted earnings are persistent. Exclusions and both non-IFRS and IFRS earnings are positively correlated, consistent with our conjecture that non-IFRS exclusions are not completely transitory. We further conduct a variance inflation factor (VIF) analysis (un-tabulated) as a robustness check for multicollinearity and find that none of the VIF values exceeds 5 (Gujarati & Porter, 2009).

{INSERT TABLE THREE ABOUT HERE}

## *6.3. Main analysis*

Before investigating our main hypothesis, we use our sample to replicate prior US studies and investigate whether UK firms utilize non-IFRS earnings for informative or opportunistic purposes. As reported under Column (1) of Table 4, the coefficient on the non-IFRS earnings is 0.85 and significant at the 1% level, while the coefficient on *EXCLUSION* is -0.14 and significant at the 5% level. Consistent with previous studies, non-IFRS exclusions are less persistent than non-IFRS earnings (-0.14 < 0.85) but they are not completely transitory (Frankel et al., 2011; Abdel-Meguid et al., 2021). In order to provide a sharp analysis on the opportunistic use of non-IFRS earnings, we focus on a setting where firms are more likely to mislead investors, namely the reported non-IFRS earnings is higher than IFRS earnings. That is, we create a dummy variable, *HIGH*, set to 1 if the firm reported non-IFRS earnings higher than GAAP earnings, and 0 otherwise. We then interact *HIGH* with *EXCLUSION* and report the results of this analysis under Column (2) of Table 4. It shows that the coefficient on the interaction between *HIGH* and *EXCLUSION* is negative and significant (*β* = -0.29; *p* < 0.10), providing some support that these non-IFRS adjustments are more persistent when they enable firms to inflate their non-IFRS earnings. Collectively, consistent with the US evidence (i.e., Black & Christensen, 2009; Doyle et al., 2003, 2013), the results reported in Table 4 demonstrate that some UK firms exploit the flexibility under IFRS and opportunistically exclude some income-increasing items to report a more favorable earnings performance.

These results highlight the importance of analyzing the role of the AC chair in mitigating such practices. To investigate this, we focus on the interaction between *EXCLUSION* and *NARCIS.* As reported in Column (3) of Table 4, consistent with *H1*, the coefficient on the interaction between *EXCLUSION* and *NARCIS* is negative and significant (*β* = -1.15; *p* < 0.01), suggesting that these non-IFRS exclusions are more persistent in firms with narcissistic AC chairs. This demonstrates that some of these exclusions involve items that were excluded for opportunistic reasons. Exclusions from non-IFRS earnings are associated with a lower future IFRS earnings per share of £1.26 (£0.11 + £1.15) in companies whose ACs are chaired by more narcissistic persons, compared with £0.11 in companies whose ACs are chaired by less narcissistic counterparts, which is an economically significant difference.[[8]](#footnote-9) These results align with the dark side of AC chair narcissism, indicating possible degradation of the quality of their monitoring.[[9]](#footnote-10)

The results are relatively similar when we use a firm fixed effects model (Column (4)) Collectively, our results align with empirical studies on CEO/CFO narcissism (e.g., Abdel-Meguid et al., 2021; Capalbo et al., 2018; Ham et al., 2017; Olsen et al., 2014). While these findings could suggest that narcissistic individuals form a homogeneous group and consistently elevate agency cost regardless of their positions within corporate board hierarchies, we argue that it is premature to make this conclusion without considering AC chair’s competence, firm complexity, power distribution, and external oversight.[[10]](#footnote-11)

{INSERT TABLE FOUR ABOUT HERE}

## *6.4. Channel analysis*

In the main analysis, we assume that narcissism is a stable and uniform personality trait among AC chairs, overlooking the mechanisms that may influence the quality of their monitoring, such as their competence (i.e., experience), ability (power distribution), motivation to monitor (firm’s complexity) and their independence. Accordingly, in this section, we provide in-depth analyses and extend our main analysis by considering these mechanisms such as AC chair’s accounting expertise, tenure, outside directorships, independence, power distribution, and firm’s complexity.[[11]](#footnote-12)

### *6.4.1 Accounting expertise*

One major driving factor of AC monitoring efficacy is accounting expertise. Beasley, Carcello, Hermanson, and Neal (2009) noted that AC members with accounting expertise enhance the AC’s oversight process by facilitating in-depth discussions on estimates and accounting treatments that require significant managerial discretion. Indeed, numerous studies have shown that managers are less likely to engage in earnings management when the AC is composed of accounting experts (e.g., Badolato et al., 2014; DeZoort et al., 2002; Dhaliwal et al., 2010). Accordingly, we postulate that while the narcissistic traits of an AC chair may motivate them to rigorously monitor executive directors, their ability to effectively detect accounting irregularities may be contingent upon their accounting expertise. That is, we expect that professional accounting expertise serves as a mechanism that influences the monitoring quality of narcissistic AC chairs, enhancing their ability to scrutinize non-IFRS disclosure and detect irregularities.[[12]](#footnote-13) In order to investigate our proposition, we estimate the below equation:

Column (1) of Table 5 indicates that the coefficient on the interaction between *EXCLUSION* and *NARCIS* is still negative and significant, while the coefficient on the interaction between *EXCLUSION*, *NARCIS,* and *ACC\_EXP* is positive and significant, demonstrating that narcissistic AC chairs improve the quality of non-IFRS exclusions when they have professional accounting expertise. This demonstrates that accounting experts can make significant contributions to the oversight of critical financial reporting issues, such as recognition of non-recurring items, by drawing on their deep knowledge of accounting nuances and the auditing process (Badolato et al., 2014; Dhaliwal et al., 2010). This finding indicates that the results reported in our main analysis are driven by inexpert AC chairs.

### *6.4.2 Tenure*

Based on upper echelons theory, tenure represents a distinct attribute of top decision-makers that reflects their values and cognitive foundation, influencing them to make different strategic choices (Hambrick & Mason, 1984). Long service on the board increases independent directors’ knowledge and experience of their firms’ operations, risks and culture, making them less dependent on executive directors and more likely to exercise independent judgement (Bedard et al., 2004; Kim & Yang, 2014; Liu & Sun, 2010; Yang & Krishnan, 2005). Their accumulated knowledge and experience might enable them to differentiate between recurring and non-recurring expenses and mitigate any opportunistic exclusions from recurring expenses. Extant accounting studies suggest that long tenure improves the oversight of financial reporting (e.g., Beasley, 1996). Therefore, we expect that narcissistic AC chairs with long tenure will be better equipped to monitor non-IFRS disclosure more effectively. In order to investigate this proposition, we estimate the following equation:

Column (2) of Table 5 indicates that the coefficient on the interaction between *EXCLUSION* and *NARCIS* is negative and significant, while the coefficient on the interaction between *EXCLUSION*, *NARCIS,* and *FIRM\_EXP* is positive and significant, demonstrating that our previous findings are driven by AC chairs having short tenure. This suggests that AC chairs with long tenure have extensive firm-specific experience, which enables them to better differentiate between recurring and non-recurring items; thus, they are more effective in constraining opportunistic managerial behaviors (Bedard et al., 2004; Kim & Yang, 2014).

### *6.4.3 Outside directorships*

Fama and Jensen (1983) noted that labor market motivates outside directors to monitor executives. They are motivated to establish themselves as effective monitors and being a director in a well operated company enhances their monitoring reputation, potentially leading to additional directorships or at least secure their current directorship. In fact, Srinivasan (2005) showed that independent directors lose 25% of their outside directorships in firms experiencing restatements, with this penalty more pronounced for AC members. Furthermore, holding additional outside directorships is likely to enrich directors’ experience in monitoring executives and award them with expertise in governance best practice (Bedard et al., 2004). Therefore, we expect that narcissistic AC chairs would be more able and motivated to exercise stringent monitoring when they hold more outside directorships, due to their governance knowledge and fear of losing other roles if their firm engages in opportunistic financial reporting practices. In order to investigate our proposition, we estimate the equation below.

Column (3) Table 5 indicates that the coefficient on the interaction between *EXCLUSION*, *NARCIS,* and *GOV\_EXP* is positive and significant, while the coefficient on the interaction between *EXCLUSION* and *NARCIS* is still negative and significant, demonstrating that narcissistic AC chairs play a key role in improving the quality of non-IFRS exclusions when they hold more outside directorships. This is consistent with the suggestion that corporate governance experience gained from other outside directorships helps mitigate the opportunistic use of non-IFRS disclosure (Bedard et al., 2004; Yang & Krishnan; 2005).

Collectively, our results in Table 5 suggest that non-IFRS adjustments are less persistent only when AC chairs are competent demonstrating that the combination of narcissism and experience creates a dynamic where strong oversight is not only motivated but also executed with competence.

{INSERT TABLE FIVE ABOUT HERE}

### *6.4.4 Power distribution between executives and non-executives*

The ability of the AC chair to effectively monitor executives is another key mechanism that shapes the quality of their oversight. However, this ability can be diminished in firms with powerful CEOs. Despite restrictions on CEOs serving on the nominating committee, they can still influence board selection. For instance, Cohen et al. (2013) found that 73% of directors acknowledged CEO influence in the selection of audit committee members, while Clune, Hermanson, Tompkins, and Ye (2014) reported that 53% of interviewees recognized substantial CEO involvement in new director nominations. Similarly, Clune et al. (2019) observed that 50% of interviewees noted CEO influence in selecting committee chairs. Consequently, AC chairs may align with the CEO’s financial reporting choices to avoid conflicts and gain favor or pursue personal advancement, thereby compromising their objectivity and diminishing their ability to provide rigorous oversight.

Additionally, powerful CEOs often play a central role in setting the agenda for board meetings (Faleye, Hoitash, & Hoitash, 2013), allowing them to prioritize topics favorable to their agenda while downplaying or avoiding discussions that may challenge their financial reporting decisions, including non-IFRS disclosures. That is, in firms led by powerful CEOs, the AC chair may have diminished access to timely and necessary information, thereby undermining the quality of their monitoring (Bedford, Ghannam, Grosse, & Ma, 2023). One could argue, therefore, that narcissistic AC chairs are more able to challenge non-IFRS disclosure in firms led by less powerful or influential CEOs. To investigate this assertion, we focus on three dimensions to capture CEO power, namely limited structural power (*LOWSTRUCTURE*), limited expert power (*LOWEXPERT*), and limited ownership power (*LOWOWNERSHIP*). We exclude the prestige dimension of CEO power because prior studies (Tang, Crossan, & Rowe, 2011; Sheikh, 2022) have suggested that the prestige dimension is not a proximal measure of CEO power compared to other dimensions.

We measure *LOWSTRUCTURE* by combining four indicator variables, duality (set to 1 if the two positions of CEO and board chair are separate, and 0 otherwise), committee memberships (set to 1 if the CEO does not have a role in other board committees, and 0 otherwise), board power (set to 1 if the percentage of independent non-executive directors is higher than the industry median, and 0 otherwise), and co-opted directors (set to 1 if the percentage of directors appointed during the CEO’s tenure is less than 50%, and 0 otherwise). *LOWEXPERT* is an indicator variable equal to 1 if the CEO’s tenure is below the industry median, and 0 otherwise. *LOWOWNERSHIP* is an indicator variable equal to 1 if the percentage of the CEO’s stock ownership is lower than the industry median, and 0 otherwise. We use the following equation to examine how CEO power shapes the association between AC chair narcissism and the quality of non-IFRS exclusions:

As reported in Column (1), (2) and (3) of Table 6, the coefficient on the interaction between *EXCLUSION*, *NARCIS,* and *LESSCEOPOWER* is significantly positive across three dimensions of CEO power: limited structural, expert, and ownership power. This demonstrates that narcissistic AC chairs are more able to challenge non-IFRS disclosure in settings characterized by less powerful CEOs. Furthermore, the coefficient on the interaction between *EXCLUSION* and *NARCIS* is still significantly negative, demonstrating that having more powerful CEO on board accentuates the negative association between AC chair narcissism and the quality of non-IFRS exclusions, consistent with the intuition that CEO power deteriorates AC monitoring effectiveness (Lisic, Neal, Zhang, & Zhang, 2015).

### *6.4.5 AC chair independence*

The independence of AC chairs (i.e., limited ties to the CEO) is essential for effective monitoring. Enhanced independence empowers AC chairs to exercise objective judgment and challenge executive decisions, thereby enhancing oversight and accountability within the firm. Prior studies suggest that AC members with considerable personal ties to the CEO are less likely to exercise independent judgment (e.g., Wilbanks, Hermanson, & Sharma, 2017). Hence, our baseline findings indicating a decline in narcissistic AC chair monitoring effectiveness may be more pronounced in firms where narcissistic AC chairs have social ties with the CEO. To test this conjecture, we follow Hoitash (2011) and collect the current and historical board appointments of AC chairs and CEOs from the BoardEx database, and then generate an indicator variable *LOWINDEPENDENCE*, which equals 1 if the AC chair has other current or past board ties with a CEO at other firms, and 0 otherwise. We then estimate the below equation to investigate whether the effect of narcissistic AC chairs is driven by decreased independence:

In Column (4) of Table 6 the coefficient on the coefficient on *EXCLUSION×NARCIS×LOWINDEPENDENCE* is significantly negative at 5%. This suggest that the effect of narcissism on the quality of non-IFRS exclusion significantly manifests when AC chair independence is likely to suffer, demonstrating that decreased independence is a mechanism that deteriorates the quality of narcissistic AC chairs monitoring of non-IFRS exclusions.

### *6.4.6 Firm complexity*

The demand for intensive oversight can serve as a significant mechanism influencing the motivation of narcissistic AC chair to monitor executive directors. Engel, Hayes, and Wang (2010) assert that firms with complex business operations face an increased risk of financial misstatement, thereby intensifying shareholders’ demand for rigorous oversight. In this context, and in light of their intrinsic desire for recognition (Brunell et al., 2008; Campbell et al., 2004; Wink, 1991), we posit that narcissistic AC chairs are particularly more motivated to showcase their capabilities and assert their authority in overseeing the financial reporting process. To test this proposition, we develop a proxy for complex firms based on the number of business segments. In particular, we generate an indicator variable, *HIGHCOMPLEXITY*, which equals 1 if the number of business segments is in the top quartile, and 0 otherwise. We then estimate the below equation to investigate whether the effect of narcissistic AC chairs is driven by lesser competence:

Column (5) of Table 6 reports that the coefficient on *EXCLUSION×NARCIS* is significantly negative, whereas the coefficient on *EXCLUSION×NARCIS×HIGHCOMPLEXITY* is significantly positive. This later finding suggests that narcissistic AC chairs are more motivated to exercise close monitoring, thereby enhancing the quality of non-IFRS exclusions in complex firms. This supports our intuition that they may utilize this opportunity to showcase their abilities in monitoring the financial reporting process (Brunell et al., 2008; Campbell et al., 2004; Wink 1991).

{INSERT TABLE SIX ABOUT HERE}

## *6.5. Further analysis*

### *6.5.1. AC chair’s review on non-IFRS exclusions*

As discussed earlier, individuals with narcissistic traits demonstrate heightened self-esteem and a persistent desire for external validation of their perceived superiority, predisposing them to actively cultivate a distinguished image as vigilant monitors (Chou et al., 2021; Judge et al., 2006). One way they may signal this image is through AC reports. In particular, this report offers the AC chair a crucial platform to elucidate and review senior managers’ judgements on significant accounting estimates, including the choices behind non-IFRS adjustments. If the AC chair report incorporates a review of non-IFRS exclusions, it signifies their confidence in the accuracy and reliability of these adjustments and the adequacy of the scrutiny applied. This transparency not only strengthens the credibility of the non-IFRS exclusions but also emphasizes AC’s commitment to transparency, accountability, and vigilant oversight. Hence, we posit that narcissistic AC chairs, driven by a desire to cultivate an outstanding reputation within their networks, are more inclined to affirm their review of only genuine non-IFRS adjustments in their report. To test this proposition, we create a dummy variable, *DISCLOSURE,* set to 1 if the AC report includes confirmation of their review of non-IFRS adjustments, and 0 otherwise. Then we interact this variable with *EXCLUSION* and *NARCIS.*

As reported in Table 7 under Column (1), the coefficient on *EXCLUSION×NARCIS* is still significantly negative and consistent with our proposition. The coefficient on *EXCLUSION×NARCIS×DISCLOSURE* is significantly positive, which suggests that non-IFRS adjustments are less persistent only when AC chairs confirm this in their report; otherwise, they may be interpreted as opportunistic exclusions.

### *6.5.2. External oversight*

Existing studies suggest that external monitoring, whether from financial analysts or oversight by institutional investors, plays a pivotal role in monitoring non-GAAP earnings (Christensen, Gomez, Ma, & Pan, 2021; Jennings & Marques, 2011; Hribar, Mergenthaler, Roeschley, Young, & Zhao, 2022). Given that narcissistic individuals are often motivated by a desire for recognition and validation of their perceived superiority (John & Robins, 1994; Morf & Rhodewalt, 2001), we postulate that they may view external monitoring as an opportunity to showcase their abilities and assert their dominance within the organization. This desire for validation could prompt them to actively engage in monitoring activities, demonstrating their competence and leadership skills to external monitors. Furthermore, it could also serve as an opportunity for them to receive recognition and praise from external monitors for their monitoring efforts. Therefore, in this section, we examine whether external oversight enhances the monitoring quality of narcissistic AC chairs.

We measure *ANALYSTS* as an indicator variable equal to 1 if the number of analysts following a firm is in the top quartile, and 0 otherwise. *INSTOWNER* is measured as an indicator variable equal to 1 if the percentage of shares held by institutional investors is in the top quartile, and 0 otherwise. We use the equation below to examine whether analyst coverage and institutional ownership play a moderating role in the association between AC chair narcissism and non-IFRS exclusions:

Column (2) of Table 7 reports that the coefficient on the interaction between *EXCLUSION* and *NARCIS* is still significantly negative while the coefficient on the interaction between *EXCLUSION*, *NARCIS,* and *ANALYSTS* is significantly positive implying attenuating effect. Similarly, the interaction between *EXCLUSION*, *NARCIS,* and *INSTOWNER* also attracts a positive coefficient as reported in Column (3). Taken together, these results demonstrate that, in the presence of external oversight and monitoring, as proxied by more analyst coverage and high institutional ownership, narcissistic AC chairs are more inclined to improve the quality of non-IFRS exclusions and engage in close monitoring as they seek validation, recognition, and the opportunity to demonstrate their competence and leadership skills.

{INSERT TABLE SEVEN ABOUT HERE}

### *6.5.3. Controlling for Auditor, CEO and CFO narcissism*

One of the key tasks of the AC chair is to serve as a liaison between the board of directors and external auditors, CEO and CFO. Existing research suggests that the effects of interpersonal interactions in this role may depend on the personal attributes of the auditor involved (Nelson & Tan, 2005) and other key players (CEO and CFO). Therefore, as a robustness analysis, we control for the narcissism of Auditor, CEO and CFO.[[13]](#footnote-14) The unreported results are qualitatively consistent with our baseline findings.

## *6.6. Robustness*

### *6.6.1. Endogeneity tests*

A potential concern is that narcissistic AC chairs could be drawn to certain kinds of companies, such as those which are poorly performing companies or whose governance practices are weak, or that such companies tend to select narcissistic AC chairs. To alleviate this concern about potential selection bias, we adopt the propensity score matching (PSM) technique. Specifically, we first run a probit model to estimate the probability of a firm selecting an AC chair with high narcissism, captured by an indicator variable indicating whether their signature size is above the sample median, using the full sample and storing the propensity sore for each observation. Then, based on the array of variables employed in Equation (1), we match a firm with a high-narcissism AC chair to a firm with a low-narcissism AC chair using the nearest neighbor matching technique and a caliper value of 0.1%.[[14]](#footnote-15) We then re-run Equation (1) based on the PSM sample to examine the robustness of our main results. The results are reported in Column (1) of Table 8. The estimate on *EXCLUSION×NARCIS* is negative and significant, reaffirming our conjecture that the quality of non-IFRS exclusions decreases when a narcissistic AC chair is present in the firm.

Another concern is that the dynamic link between internal corporate governance and firm performance may drive reverse causality in our empirical analysis. It is possible that when AC chairs have more confidence in the quality of their work, they tend to sign their names in a larger size for some reason (Chou et al., 2021). To address the endogeneity issues caused by potential reverse causality, we adopt a system generalized method of moments (GMM) estimation technique. Wintoki, Linck, and Netter (2012) suggested that system GMM tackles three potential sources of endogeneity in corporate governance studies, including the dynamic link between current AC composition and past firm earnings. The results are reported in Column (2) and are consistent with our reported findings from the main analysis.

{INSERT TABLE EIGHT ABOUT HERE}

### *6.6.2. Alternative narcissism measures*

Some may argue that the observed relation should not change considerably over time. Therefore, in this section, we check the robustness of results to using three measures of narcissism with a focus on constancy: the signature size at the beginning of the chair’s tenure (*SIGSIZE\_BEGAN*), the average signature size over the chair’s tenure (*SIGSIZE\_AVERA*), and the most recent value of the chair’s signature size (*SIGSIZE\_RECEN*). The results of using these alternative narcissism measures (untabulated in this paper) are consistent with our main findings that the presence of AC chair narcissism has adverse effects on the quality of firms’ non-IFRS exclusions.

### *6.6.3. Controlling for letter size*

We conduct a robustness test controlling for letter size. Letter size might bring bias to our results, given that we measure the narcissism of AC chairs using their handwritten signatures. Signatures generally consist of a string of letters and the space that each one fills is very likely different. Thus, our measure of narcissism might simply reflect random deviation in letter size in each signature. We use ImageJ software to create a new measure of narcissism based on the average pixel size per letter of each AC chair’s signature. ImageJ is a powerful image editing software that allows us to transform any page of an annual report to a unified image file with the same content and attributes. In the untabulated results, we find that our findings still hold when using this alternative measure of AC chair narcissism. Additionally, we conduct a test using pixel size as a control variable in our model and find that the observed relation in Table 4 still exists.

# **7. Summary and conclusion**

We have investigated the effects of having a narcissistic AC chair on the quality of non-IFRS disclosures. Based on the narcissism literature and previous studies on AC roles, we propose that narcissism in the AC chair may affect the monitoring quality in either positive or negative ways. While our baseline results support that the dark side of narcissism plays a dominant role in shaping an AC chair’s monitoring effectiveness, our further analysis show that the quality of non-IFRS exclusions improves when a narcissistic AC chair is more independent (with fewer social ties with senior management), has professional accounting expertise (through chartered accountancy qualification), has superior firm-specific knowledge (through longer board tenure), or has more corporate governance experience (through more outside directorships, or from cases where the demand for stringent oversight is high, such as in firms with complex operations).

Empirical research on the effects of ACs on company accounting practices from the perspective of AC chair’s personal attributes is lacking. By establishing a relationship between the narcissism of the AC chair and the quality of non-IFRS disclosures, our study not only reveals a potential side effect of narcissism on the behavior of monitoring directors, but most importantly advances the current literature on how AC members’ personality traits can shape firms’ financial reporting choices (Qu, 2020).

Our study also provides insight into how AC chair narcissism shapes voluntary earnings-related disclosure. This is an important question since there are ongoing concerns about the opportunistic use of pro-forma earnings to mislead investors (e.g., Doyle et al., 2013; Hsu et al., 2022; Laurion & Sloan, 2022). While our initial results suggest that the participation of a narcissistic AC chair facilitates managerial opportunism in non-IFRS disclosures, further analysis suggests that they play a key role in constraining such opportunism when they are less connected with senior managers, have more competence (experience), or when in situations with higher demand for more intensive monitoring.

Our study has important practical implications. First, it responds to the concerns of the FRC about the consistency of firm disclosures on non-recurring items. Our findings imply that the currently light regulation of non-IFRS earnings in the UK allows firms to misuse the definitions of non-recurring items to manipulate underlying earnings. Second, our study cautions investors that non-IFRS earnings may not be informative in some cases, particularly when management generates large amounts of income-increasing exclusions. Investors should also look into the personal profile of the AC chair and the associated report when evaluating firm performance based on non-IFRS earnings. Third, our study provides unique insights for firms to enhance corporate governance. Our findings imply that appointing AC chairs with specific attributes, such as more firm-specific knowledge and corporate governance expertise, significantly improves oversight within financial reporting processes.

However, our paper is subject to limitations. Firstly, while we have strived to address endogeneity, we cannot fully mitigate concerns that our findings may still be subject to endogeneity. Secondly, although existing studies (Church et al., 2020; Ham et al., 2017; Ham et al., 2018) have already validated signature size as an effective yet unobtrusive measure of narcissism, there might be other factors at play, such as overconfidence, personal habitual variation, temporary mood, or imitation of others. We encourage future research to develop more rigorous measures to capture the narcissistic personality traits of AC chairs. Finally, we mainly focus on UK listed companies so our findings might not be fully applicable to countries with different social, economic, or political environments.

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**List of Tables**

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| **Table 1**  Sample construction and distribution. | | | | | | | | | | | | | | |
| Panel A: Sample selection procedure | | | | | | | | | | | | | | |
|  | | | | |  | | |  | |  | |  | *N* | |
| All FTSE All-Share firms during 2013-2020 | | | | |  | | |  | |  | |  | 4,968 | |
| (1) Less: Observations in the financial sector | | | | |  | | |  | |  | |  | 2,048 | |
| (2) Less: Observations without AC chair’s signature | | | | |  | | |  | |  | |  | 2,250 | |
| Final sample | | | | |  | | |  | |  | |  | 670 | |
|  | | | | | | | | | | | | | | |
| Panel B: Characteristics of sample firms and excluded firms | | | | | | | | | | | | | | |
|  | Selected sample firms | | | | | | Firms excluded in stage two | | | | | | | |
| *Year* | *2013* | *2014* | *2015* | | *2016* | | *2013* | | *2014* | | *2015* | | | *2016* |
| M/B ratio | 7.592 | 13.851 | 10.584 | | 8.164 | | 2.000 | | 1.947 | | 4.045 | | | 2.777 |
| Sales growth | 0.065 | 0.003 | -0.037 | | 0.102 | | 0.953 | | 0.260 | | 0.117 | | | 0.178 |
| Leverage | 0.541 | 0.571 | 0.600 | | 0.607 | | 0.574 | | 0.579 | | 0.558 | | | 0.554 |
| ROA | 0.124 | 0.109 | 0.098 | | 0.091 | | 0.083 | | 0.081 | | 0.079 | | | 0.076 |
| No. of firms | 49 | 78 | 86 | | 92 | | 289 | | 276 | | 274 | | | 276 |
| *Year* | *2017* | *2018* | *2019* | | *2020* | | *2017* | | *2018* | | *2019* | | | *2020* |
| M/B ratio | 5.980 | 6.172 | 3.781 | | 3.528 | | -2.416 | | 7.792 | | 1.340 | | | 1.438 |
| Sales growth | 0.098 | -0.005 | -0.032 | | -0.178 | | 0.117 | | 0.215 | | -1.899 | | | -0.022 |
| Leverage | 0.616 | 0.588 | 0.580 | | 0.585 | | 0.533 | | 0.522 | | 0.538 | | | 0.561 |
| ROA | 0.093 | 0.105 | 0.079 | | 0.008 | | 0.089 | | 0.077 | | 0.069 | | | 0.029 |
| No. of firms | 89 | 90 | 97 | | 89 | | 289 | | 282 | | 281 | | | 283 |
|  | | | | | | | | | | | | | | |
| Panel C: Sample distribution by industry | | | | | | | | | | | | | | |
|  | | | | *N* | |  | | | | | | | | *N* |
| Mining and quarrying (05-09) | | | | 45 | | Information and communication (58-63) | | | | | | | | 104 |
| Manufacturing (10-33) | | | | 133 | | Real estate activities (68) | | | | | | | | 27 |
| Electricity, gas, steam, and air conditioning supply (35) | | | | 11 | | Professional, scientific, and technical activities (69-75) | | | | | | | | 60 |
| Water collection, treatment, and supply (36) | | | | 3 | | Administrative and support service activities (77-82) | | | | | | | | 41 |
| Construction (41-43) | | | | 50 | | Public administration and defense (84) | | | | | | | | 4 |
| Wholesale and retail trade (45-47) | | | | 92 | | Human health activities (86) | | | | | | | | 11 |
| Transportation and storage (49-53) | | | | 37 | | Gambling and betting activities (92) | | | | | | | | 8 |
| Accommodation and food service activities (55-56) | | | | 34 | | Other service activities (94-96) | | | | | | | | 10 |
| Notes: This table presents the sample selection procedure, firm characteristics of our sample firms relative to the remaining non-financial firms from year 2013 to 2020, and the distribution of the sample by two-digit UK SIC (2007) code. | | | | | | | | | | | | | | |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Table 2**  Descriptive statistics. | | | | | | | |
| Panel A: Original sample | | | | | | | |
|  | N | Mean | SD | Min | P50 | Max | Skewness |
| *IFRSEPS* | 533 | 0.481 | 1.038 | -3.513 | 0.210 | 7.932 | 2.441 |
| *NONIFRS* | 670 | 0.614 | 0.977 | -1.956 | 0.274 | 7.696 | 2.787 |
| *EXCLUSION* | 670 | 0.158 | 0.563 | -5.139 | 0.054 | 4.563 | 0.450 |
| *NARCIS* | 670 | 0.301 | 0.154 | 0.045 | 0.270 | 1.100 | 1.357 |
| *ROA* | 670 | 0.068 | 0.241 | -0.944 | 0.044 | 2.518 | 6.306 |
| *LEV* | 670 | 0.597 | 0.263 | 0.048 | 0.582 | 2.476 | 1.879 |
| *SG* | 664 | -5.056 | 126.734 | -3264.489 | 0.042 | 1.000 | -25.678 |
| *AGE* | 670 | 2.607 | 0.512 | 0.000 | 2.833 | 3.091 | -1.580 |
| *SIZE* | 670 | 14.376 | 1.634 | 9.854 | 14.207 | 18.419 | 0.179 |
| *ACCRUAL* | 666 | -0.144 | 5.768 | -112.376 | -0.052 | 66.866 | -8.969 |
| *LOSS* | 670 | 0.166 | 0.372 | 0.000 | 0.000 | 1.000 | 1.799 |
| *DUAL* | 670 | 0.030 | 0.170 | 0.000 | 0.000 | 1.000 | 5.525 |
| *TENURE* | 670 | 8.124 | 6.745 | 1.000 | 6.000 | 47.000 | 1.551 |
| *INDEP* | 670 | 0.593 | 0.108 | 0.333 | 0.600 | 0.857 | -0.023 |
| *BDSIZE* | 670 | 9.028 | 2.171 | 4.000 | 9.000 | 16.000 | 0.294 |
| *ACSIZE* | 670 | 0.450 | 0.110 | 0.214 | 0.437 | 0.800 | 0.359 |
| *FEMALE* | 670 | 0.305 | 0.203 | 0.000 | 0.333 | 1.000 | 0.233 |
| *ACCEXP* | 670 | 0.380 | 0.185 | 0.000 | 0.333 | 1.000 | 0.587 |
| *COMPENSATION* | 670 | 4.061 | 0.751 | 0.000 | 4.174 | 5.380 | -3.860 |
|  |  |  |  |  |  |  |  |
| Panel B: Winsorized sample | | | | | | | |
|  | N | Mean | SD | Min | P50 | Max | Skewness |
| *IFRSEPS* | 533 | 0.440 | 0.640 | -0.445 | 0.210 | 2.048 | 1.162 |
| *NONIFRS* | 670 | 0.560 | 0.647 | -0.008 | 0.274 | 2.288 | 1.453 |
| *EXCLUSION* | 670 | 0.150 | 0.281 | -0.150 | 0.054 | 1.021 | 2.022 |
| *NARCIS* | 670 | 0.304 | 0.145 | 0.143 | 0.270 | 0.793 | 1.263 |
| *ROA* | 670 | 0.067 | 0.203 | -0.336 | 0.044 | 1.766 | 6.082 |
| *LEV* | 670 | 0.593 | 0.242 | 0.117 | 0.582 | 1.657 | 0.972 |
| *SG* | 664 | 0.001 | 0.364 | -2.514 | 0.042 | 0.764 | -4.091 |
| *AGE* | 670 | 2.612 | 0.494 | 1.099 | 2.833 | 3.091 | -1.339 |
| *SIZE* | 670 | 14.381 | 1.615 | 11.260 | 14.207 | 17.987 | 0.219 |
| *ACCRUAL* | 666 | -0.032 | 0.869 | -3.946 | -0.052 | 5.698 | 2.741 |
| *LOSS* | 670 | 0.166 | 0.372 | 0.000 | 0.000 | 1.000 | 1.799 |
| *DUAL* | 670 | 0.030 | 0.170 | 0.000 | 0.000 | 1.000 | 5.525 |
| *TENURE* | 670 | 8.069 | 6.523 | 1.000 | 6.000 | 29.000 | 1.302 |
| *INDEP* | 670 | 0.592 | 0.108 | 0.333 | 0.600 | 0.833 | -0.032 |
| *BDSIZE* | 670 | 9.016 | 2.131 | 5.000 | 9.000 | 14.000 | 0.196 |
| *ACSIZE* | 670 | 0.450 | 0.108 | 0.231 | 0.437 | 0.714 | 0.270 |
| *FEMALE* | 670 | 0.304 | 0.200 | 0.000 | 0.333 | 0.800 | 0.099 |
| *ACCEXP* | 670 | 0.380 | 0.185 | 0.000 | 0.333 | 1.000 | 0.587 |
| *COMPENSATION* | 670 | 4.060 | 0.750 | 0.000 | 4.174 | 5.298 | -3.875 |
| Notes: This table presents the descriptive statistics of our sample before and after winsorization. Variable definitions are reported in Appendix A. | | | | | | | |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Table 3**  Pearson correlation matrix. | | | | | | | | | | |
| Panel A: Variables 1–10 | | | | | | | | | | |
| Variables | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| *1. IFRSEPS* | 1 |  |  |  |  |  |  |  |  |  |
| *2. NONIFRS* | 0.759\*\*\* | 1 |  |  |  |  |  |  |  |  |
| *3. EXCLUSION* | 0.105\*\* | 0.284\*\*\* | 1 |  |  |  |  |  |  |  |
| *4. NARCIS* | -0.104\*\* | -0.069 | -0.006 | 1 |  |  |  |  |  |  |
| *5. ROA* | 0.134\*\*\* | 0.138\*\*\* | -0.162\*\*\* | -0.048 | 1 |  |  |  |  |  |
| *6. LEV* | 0.103\*\* | 0.144\*\*\* | 0.106\*\* | -0.116\*\*\* | 0.036 | 1 |  |  |  |  |
| *7. SG* | 0.036 | 0.031 | -0.017 | -0.140\*\*\* | 0.067 | 0.008 | 1 |  |  |  |
| *8. AGE* | 0.122\*\*\* | 0.197\*\*\* | 0.105\*\* | -0.030 | 0.006 | 0.103\*\* | -0.043 | 1 |  |  |
| *9. SIZE* | 0.402\*\*\* | 0.508\*\*\* | 0.154\*\*\* | -0.033 | 0.056 | 0.192\*\*\* | 0.066 | 0.232\*\*\* | 1 |  |
| *10. ACCRUAL* | -0.001 | 0.011 | -0.177\*\*\* | -0.059 | 0.157\*\*\* | -0.156\*\*\* | 0.071 | -0.015 | 0.033 | 1 |
| *11. LOSS* | -0.204\*\*\* | -0.217\*\*\* | 0.277\*\*\* | 0.117\*\*\* | -0.290\*\*\* | -0.055 | -0.107\*\* | -0.128\*\*\* | -0.134\*\*\* | -0.279\*\*\* |
| *12, DUAL* | -0.073\* | -0.043 | 0.002 | 0.087\*\* | -0.039 | 0.058 | -0.079\* | -0.076\* | -0.003 | -0.102\*\* |
| *13. TENURE* | 0.031 | 0.015 | -0.045 | -0.088\*\* | 0.084 | -0.089\*\* | -0.068 | 0.063 | -0.225\*\*\* | -0.036 |
| *14. INDEP* | 0.019 | 0.097\*\* | 0.132\*\*\* | 0.120\*\*\* | -0.023 | 0.070 | -0.043 | 0.256\*\*\* | 0.390\*\*\* | 0.027 |
| *15. BDSIZE* | 0.214\*\*\* | 0.299\*\*\* | 0.134\*\*\* | -0.026 | -0.023 | 0.125\*\*\* | 0.016 | 0.146\*\*\* | 0.655\*\*\* | 0.087\*\* |
| *16. ACSIZE* | 0.008 | 0.001 | 0.016 | 0.009 | -0.077\* | -0.023 | -0.038 | -0.022 | -0.147\*\*\* | -0.091\*\* |
| *17. FEMALE* | 0.051 | 0.144\*\*\* | 0.056 | -0.102\*\* | 0.039 | 0.188\*\*\* | 0.026 | 0.204\*\*\* | 0.123\*\*\* | -0.086\*\* |
| *18. ACCEXP* | -0.075\* | -0.089\*\* | -0.087\*\* | -0.110\*\* | 0.033 | 0.167\*\*\* | 0.034 | -0.070 | 0.063 | 0.040 |
| *19. COMPENSATION* | 0.038 | 0.147\*\*\* | 0.136\*\*\* | 0.084 | -0.032 | 0.166\*\*\* | -0.033 | 0.052 | 0.162\*\*\* | -0.011 |
|  |  |  |  |  |  |  |  |  |  |  |
| Panel B: Variables 11–19 | | | | | | | | | | |
| Variables | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 |  |
| *11. LOSS* | 1 |  |  |  |  |  |  |  |  |  |
| *12, DUAL* | 0.002 | 1 |  |  |  |  |  |  |  |  |
| *13. TENURE* | -0.049 | -0.103\*\* | 1 |  |  |  |  |  |  |  |
| *14. INDEP* | 0.016 | 0.155\*\*\* | -0.296\*\*\* | 1 |  |  |  |  |  |  |
| *15. BDSIZE* | -0.014 | -0.120\*\*\* | -0.169\*\*\* | 0.237\*\*\* | 1 |  |  |  |  |  |
| *16. ACSIZE* | -0.009 | 0.266\*\*\* | -0.011 | 0.131\*\*\* | -0.467\*\*\* | 1 |  |  |  |  |
| *17. FEMALE* | -0.095\*\* | -0.068 | 0.044 | 0.069 | 0.100\*\*\* | 0.016 | 1 |  |  |  |
| *18. ACCEXP* | -0.058 | -0.036 | -0.082\* | 0.083\* | 0.010 | -0.173\*\*\* | -0.070 | 1 |  |  |
| *19. COMPENSATION* | 0.063 | 0.033 | -0.027 | 0.047 | 0.148\*\*\* | -0.128\*\*\* | 0.037 | 0.053 | 1 |  |
| Notes: \*, \*\*, and \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels (two-tailed), respectively. All variables are defined in Appendix A. | | | | | | | | | | |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Table 4**  Main analysis. | | | | |
| Variables | (1) | (2) | (3) | (4) |
| *NONIFRS* | 0.848\*\*\* | 0.955\*\*\* | 0.777\*\*\* | 0.256\*\*\* |
|  | (18.07) | (12.86) | (19.42) | (2.80) |
| ***EXCLUSION*** | **-0.135\*\*** | **0.138** | **-0.109\*\*** | **-0.0563** |
|  | **(-2.09)** | **(1.03)** | **(-2.04)** | **(-0.93)** |
| *HIGH* |  | -0.204\*\* |  |  |
|  |  | (-2.18) |  |  |
| *HIGH×NONIFRS* |  | -0.134 |  |  |
|  |  | (-1.62) |  |  |
| ***HIGH×EXCLUSION*** |  | **-0.289\*** |  |  |
|  |  | **(-1.74)** |  |  |
| *NARCIS* |  |  | -0.140 | -0.562\*\* |
|  |  |  | (-0.70) | (-2.07) |
| *NONIFRS×NARCIS* |  |  | 0.302 | -0.294 |
|  |  |  | (1.28) | (-1.01) |
| ***EXCLUSION×NARCIS*** |  |  | **-1.146\*\*\*** | **-0.826\*\*** |
|  |  |  | **(-2.89)** | **(-2.05)** |
| *ROA* | 0.0464 | 0.0253 | 0.113 | 0.239 |
|  | (0.26) | (0.14) | (0.77) | (0.37) |
| *LEV* | -0.195 | -0.171 | -0.0226 | 0.553\* |
|  | (-0.93) | (-0.81) | (-0.13) | (1.65) |
| *SG* | -0.0405 | -0.0296 | -0.0442 | -0.00843 |
|  | (-0.39) | (-0.29) | (-0.51) | (-0.09) |
| *AGE* | 0.0593 | 0.0353 | 0.0509 | 0.0983 |
|  | (0.74) | (0.44) | (0.74) | (0.43) |
| *SIZE* | 0.0552\* | 0.0577\*\* | 0.0625\*\* | 0.0360 |
|  | (1.97) | (2.06) | (2.13) | (0.49) |
| *ACCRUAL* | -0.0523 | -0.0441 | -0.0540 | -0.0149 |
|  | (-1.30) | (-1.08) | (-1.59) | (-0.34) |
| *LOSS* | 0.0332 | 0.0612 | 0.0239 | -0.000682 |
|  | (0.29) | (0.52) | (0.25) | (-0.01) |
| *DUAL* |  |  | -0.0201 | -0.253 |
|  |  |  | (-0.11) | (-0.93) |
| *TENURE* |  |  | 0.00386 | 0.00785 |
|  |  |  | (0.78) | (1.11) |
| *INDEP* |  |  | -0.254 | -0.137 |
|  |  |  | (-0.78) | (-0.35) |
| *BDSIZE* |  |  | 0.00455 | -0.00381 |
|  |  |  | (0.22) | (-0.15) |
| *ACSIZE* |  |  | 0.456 | -0.301 |
|  |  |  | (1.41) | (-0.69) |
| *FEMALE* |  |  | -0.368\*\* | -0.258 |
|  |  |  | (-2.43) | (-1.25) |
| *ACCEXP* |  |  | -0.219 | -0.226 |
|  |  |  | (-1.36) | (-1.19) |
| *COMPENSATION* |  |  | -0.0931\*\* | -0.0852\* |
|  |  |  | (-2.10) | (-1.94) |
| *Constant* | -0.891\*\* | -0.207 | -0.142 | 0.0470 |
|  | (-2.21) | (-0.49) | (-0.32) | (0.04) |
| *Industry fixed-effect* | Yes | Yes | Yes | No |
| *Year fixed-effect* | Yes | Yes | Yes | Yes |
| *Firm fixed-effect* | No | No | No | Yes |
| *N* | 526 | 526 | 526 | 526 |
| *Adjusted R2* | 0.603 | 0.607 | 0.672 | 0.717 |
| Notes: This table presents our main results. The dependent variable is *IFRSEPSt+1*. The coefficients of interest are shown in bold. \*, \*\* and \*\*\* indicate statistical significance at the 10%, 5% and 1% levels respectively. All continuous variables are winsorized at 1% and 99% levels. Standard errors are clustered by firm for Column (1), (2) and (3) of the results. Variables are defined in Appendix A. | | | | |

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| **Table 5**  Channel analysis: AC chair competence (experience). | | | |
| Variables | (1) | (2) | (3) |
| Accounting expertise | Tenure | Outside directorships |
| *NONIFRS* | 0.779\*\*\* | 0.860\*\*\* | 0.795\*\*\* |
|  | (12.27) | (16.44) | (19.90) |
| *EXCLUSION* | -0.232\*\*\* | -0.165\*\* | -0.199\*\*\* |
|  | (-2.59) | (-2.39) | (-3.37) |
| *NARCIS* | -0.181 | -0.178 | -0.245 |
|  | (-0.90) | (-0.74) | (-1.22) |
| *NONIFRS×NARCIS* | 0.442 | 0.0843 | 0.237 |
|  | (1.22) | (0.28) | (1.01) |
| *EXCLUSION×NARCIS* | -2.827\*\*\* | -1.165\*\* | -1.474\*\*\* |
|  | (-3.84) | (-2.26) | (-3.59) |
| *NONIFRS×ACC\_EXP* | 0.0123 |  |  |
|  | (0.19) |  |  |
| *EXCLUSION×ACC\_EXP* | 0.126 |  |  |
|  | (1.20) |  |  |
| *NONIFRS×FIRM\_EXP* |  | 0.0135 |  |
|  |  | (0.99) |  |
| *EXCLUSION×FIRM\_EXP* |  | -0.0449 |  |
|  |  | (-1.46) |  |
| *NONIFRS×GOV\_EXP* |  |  | -0.00528 |
|  |  |  | (-0.23) |
| *EXCLUSION×GOV\_EXP* |  |  | 0.0202 |
|  |  |  | (0.63) |
| *NONIFRS×NARCIS×ACC\_EXP* | -0.134 |  |  |
|  | (-0.28) |  |  |
| ***EXCLUSION×NARCIS×ACC\_EXP*** | **2.380\*\*\*** |  |  |
|  | **(2.67)** |  |  |
| *NONIFRS×NARCIS×FIRM\_EXP* |  | -0.232\*\* |  |
|  |  | (-2.35) |  |
| ***EXCLUSION×NARCIS×FIRM\_EXP*** |  | **0.794\*\*\*** |  |
|  |  | **(3.42)** |  |
| *NONIFRS×NARCIS×GOV\_EXP* |  |  | -0.0976 |
|  |  |  | (-0.50) |
| ***EXCLUSION×NARCIS×GOV\_EXP*** |  |  | **1.229\*\*\*** |
|  |  |  | **(3.52)** |
| *ACC\_EXP* | -0.0708 |  |  |
|  | (-1.22) |  |  |
| *FIRM\_EXP* |  | 0.0152 |  |
|  |  | (1.18) |  |
| *GOV\_EXP* |  |  | 0.0107 |
|  |  |  | (0.50) |
| *Controls* | Yes | Yes | Yes |
| *Industry fixed effect* | Yes | Yes | Yes |
| *Year fixed effect* | Yes | Yes | Yes |
| *N* | 526 | 526 | 526 |
| *Adjusted R2* | 0.676 | 0.621 | 0.679 |
| Notes: This table presents the results which test the role of AC chair accounting expertise, tenure and outside directorships in shaping the association between AC chair narcissism and the quality of non-IFRS disclosure. The dependent variable in column (1) – (3) is *IFRSEPSt+1*. The coefficients of interest are shown in bold. The t-statistics are reported in parentheses. Control variables are omitted for brevity. \*, \*\*, and \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels, respectively. All continuous variables are winsorized at 1% and 99% levels. Standard errors are clustered by firm. Variables are defined in Appendix A. | | | |

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| **Table 6**  Channel analysis: Power distribution, independence and complexity. | | | | | |
| Variables | (1) | (2) | (3) | (4) | (5) |
| Structural power | Expert power | Ownership power | AC chair independence | Firm complexity |
| *NONIFRS* | 0.775\*\*\* | 0.762\*\*\* | 0.705\*\*\* | 0.754\*\*\* | 0.681\*\*\* |
|  | (19.06) | (18.03) | (15.58) | (12.98) | (12.35) |
| *EXCLUSION* | -0.173\*\*\* | -0.165\*\*\* | -0.129\*\* | -0.121\* | -0.168\*\* |
|  | (-2.74) | (-2.78) | (-2.39) | (-1.90) | (-2.53) |
| *NARCIS* | -0.127 | -0.219 | -0.173 | -0.104 | -0.208 |
|  | (-0.61) | (-1.08) | (-0.85) | (-0.43) | (-1.05) |
| *NONIFRS×NARCIS* | 0.327 | 0.299 | 0.345 | 0.563 | -0.0133 |
|  | (1.37) | (1.19) | (1.21) | (1.47) | (-0.04) |
| *EXCLUSION×NARCIS* | -1.424\*\*\* | -1.306\*\*\* | -1.056\*\*\* | -1.739\*\*\* | -1.827\*\*\* |
|  | (-3.25) | (-3.01) | (-2.65) | (-2.71) | (-3.27) |
| *NONIFRS×LOWSTRUCTURE* | 0.00389 |  |  |  |  |
|  | (0.10) |  |  |  |  |
| *EXCLUSION×LOWSTRUCTURE* | 0.0789 |  |  |  |  |
|  | (1.15) |  |  |  |  |
| *NONIFRS×LOWEXPERT* |  | -0.114\* |  |  |  |
|  |  | (-1.82) |  |  |  |
| *EXCLUSION×LOWEXPERT* |  | 0.115 |  |  |  |
|  |  | (0.96) |  |  |  |
| *NONIFRS×LOWOWNERSHIP* |  |  | -0.211\*\*\* |  |  |
|  |  |  | (-3.13) |  |  |
| *EXCLUSION×LOWOWNERSHIP* |  |  | 0.117 |  |  |
|  |  |  | (1.21) |  |  |
| *NONIFRS×LOWINDEPENDENCE* |  |  |  | -0.0348 |  |
|  |  |  |  | (-0.25) |  |
| *EXCLUSION×LOWINDEPENDENCE* |  |  |  | -0.326\*\* |  |
|  |  |  |  | (-2.35) |  |
| *NONIFRS×HIGHCOMPLEXITY* |  |  |  |  | 0.207\*\*\* |
|  |  |  |  |  | (3.09) |
| *EXCLUSION×HIGHCOMPLEXITY* |  |  |  |  | 0.249\*\* |
|  |  |  |  |  | (2.39) |
| *NONIFRS×NARCIS×LOWSTRUCTURE* | -0.624\*\* |  |  |  |  |
|  | (-2.00) |  |  |  |  |
| ***EXCLUSION×NARCIS×LOWSTRUCTURE*** | **0.935\*** |  |  |  |  |
|  | **(1.72)** |  |  |  |  |
| *continued on next page* | | | | | |

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| **Table 6** (*continued*) | | | | | |
| Variables | (1) | (2) | (3) | (4) | (5) |
| *NONIFRS×NARCIS×LOWEXPERT* |  | -0.247 |  |  |  |
|  |  | (-0.55) |  |  |  |
| ***EXCLUSION×NARCIS×LOWEXPERT*** |  | **2.153\*\*** |  |  |  |
|  |  | **(2.09)** |  |  |  |
| *NONIFRS×NARCIS×LOWOWNERSHIP* |  |  | -0.292 |  |  |
|  |  |  | (-0.58) |  |  |
| ***EXCLUSION×NARCIS×LOWOWNERSHIP*** |  |  | **1.451\*** |  |  |
|  |  |  | **(1.72)** |  |  |
| *NONIFRS×NARCIS×LOWINDEPENDENCE* |  |  |  | -0.463 |  |
|  |  |  |  | (-0.50) |  |
| ***EXCLUSION×NARCIS×LOWINDEPENDENCE*** |  |  |  | **-0.899\*\*** |  |
|  |  |  |  | **(-2.18)** |  |
| *NONIFRS×NARCIS×HIGHCOMPLEXITY* |  |  |  |  | 0.185 |
|  |  |  |  |  | (0.36) |
| ***EXCLUSION×NARCIS×HIGHCOMPLEXITY*** |  |  |  |  | **1.500\*** |
|  |  |  |  |  | **(1.92)** |
| *LOWSTRUCTURE* | -0.0122 |  |  |  |  |
|  | (-0.31) |  |  |  |  |
| *LOWEXPERT* |  | -0.0298 |  |  |  |
|  |  | (-0.42) |  |  |  |
| *LOWOWNERSHIP* |  |  | -0.0896 |  |  |
|  |  |  | (-1.58) |  |  |
| *LOWINDEPENDENCE* |  |  |  | -0.151\*\* |  |
|  |  |  |  | (-2.33) |  |
| *HIGHCOMPLEXITY* |  |  |  |  | 0.163\*\* |
|  |  |  |  |  | (2.05) |
| *Controls* | Yes | Yes | Yes | Yes | Yes |
| *Industry fixed effect* | Yes | Yes | Yes | Yes | Yes |
| *Year fixed effect* | Yes | Yes | Yes | Yes | Yes |
| *N* | 526 | 526 | 526 | 526 | 526 |
| *Adjusted R2* | 0.674 | 0.674 | 0.680 | 0.695 | 0.688 |
| Notes: This table presents the results which test the role of CEO power, AC chair independence and firm complexity in shaping the association between AC chair narcissism and the quality of non-IFRS disclosure. The dependent variable in column (1) – (5) is *IFRSEPSt+1*. The coefficients of interest are shown in bold. The t-statistics are reported in parentheses. Control variables are omitted for brevity. \*, \*\*, and \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels, respectively. All continuous variables are winsorized at 1% and 99% levels. Standard errors are clustered by firm. Variables are defined in Appendix A. | | | | | |

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| **Table 7**  Further analysis. | | | |
| Variables | (1) | (2) | (3) |
| AC chair disclosure | Analyst following | Institutional ownership |
| *NONIFRS* | 0.798\*\*\* | 0.739\*\*\* | 0.783\*\*\* |
|  | (16.28) | (10.02) | (13.01) |
| *EXCLUSION* | -0.165\*\* | -0.145\* | -0.101\* |
|  | (-2.43) | (-1.87) | (-1.83) |
| *NARCIS* | -0.241 | -0.216 | -0.215 |
|  | (-1.18) | (-0.94) | (-0.88) |
| *NONIFRSEPS×NARCIS* | 0.270 | 0.456 | 0.438 |
|  | (0.89) | (1.24) | (1.39) |
| *EXCLUSION×NARCIS* | -2.202\*\*\* | -1.643\*\*\* | -1.279\* |
|  | (-3.69) | (-3.07) | (-1.77) |
| *NONIFRS×DISCLOSURE* | -0.00349 |  |  |
|  | (-0.05) |  |  |
| *EXCLUSION×DISCLOSURE* | -0.0258 |  |  |
|  | (-0.22) |  |  |
| *NONIFRS×ANALYSTS* |  | 0.00493 |  |
|  |  | (1.18) |  |
| *EXCLUSION×ANALYSTS* |  | -0.00183 |  |
|  |  | (-0.37) |  |
| *NONIFRS×INSTOWNER* |  |  | -0.0270 |
|  |  |  | (-0.22) |
| *EXCLUSION×INSTOWNER* |  |  | -0.258 |
|  |  |  | (-1.00) |
| *NONIFRS×NARCIS×DISCLOSURE* | -0.144 |  |  |
|  | (-0.30) |  |  |
| ***EXCLUSION×NARCIS×DISCLOSURE*** | **2.293\*\*** |  |  |
|  | **(2.45)** |  |  |
| *NONIFRS×NARCIS×ANALYSTS* |  | -0.0246 |  |
|  |  | (-0.94) |  |
| ***EXCLUSION×NARCIS×ANALYSTS*** |  | **0.0787\*\*** |  |
|  |  | **(2.19)** |  |
| *NONIFRS×NARCIS×INSTOWNER* |  |  | -2.010\*\* |
|  |  |  | (-2.04) |
| ***EXCLUSION×NARCIS×INSTOWNER*** |  |  | **2.314\*** |
|  |  |  | **(1.74)** |
| *DISCLOSURE* | -0.00571 |  |  |
|  | (-0.08) |  |  |
| *ANALYSTS* |  | -0.0102 |  |
|  |  | (-1.37) |  |
| *INSTOWNER* |  |  | -0.0504 |
|  |  |  | (-0.60) |
| *Controls* | Yes | Yes | Yes |
| *Industry fixed effect* | Yes | Yes | Yes |
| *Year fixed effect* | Yes | Yes | Yes |
| *N* | 526 | 526 | 526 |
| *Adjusted R2* | 0.674 | 0.675 | 0.673 |
| Notes: This table presents the results which test the role of AC chair disclosure and external monitoring mechanisms in shaping the association between AC chair narcissism and the quality of non-IFRS disclosure. The dependent variable in column (1) – (3) is *IFRSEPSt+1*. The coefficients of interest are shown in bold. The t-statistics are reported in parentheses. Control variables are omitted for brevity. \*, \*\*, and \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels, respectively. All continuous variables are winsorized at 1% and 99% levels. Standard errors are clustered by firm. Variables are defined in Appendix A. | | | |

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| **Table 8**  Endogeneity tests. | | | |
| Variables | (1) |  | (2) |
| PSM |  | GMM |
| *NONIFRS* | 0.916\*\*\* |  | 0.471\* |
|  | (10.72) |  | (1.84) |
| *EXCLUSION* | -0.246\*\* |  | -0.456\* |
|  | (-2.15) |  | (-1.67) |
| *NARCIS* | -0.403 |  | -0.811 |
|  | (-1.17) |  | (-0.88) |
| *NONIFRS×NARCIS* | 0.438 |  | -0.0751 |
|  | (0.80) |  | (-0.11) |
| ***EXCLUSION×NARCIS*** | **-2.689\*\*\*** |  | **-2.704\*\*\*** |
|  | **(-3.09)** |  | **(-3.62)** |
| *Controls* | Yes |  | Yes |
| *Industry fixed effect* | Yes |  | Yes |
| *Year fixed effect* | Yes |  | Yes |
| *Arellano-Bond (AR-1)* |  |  | 0.219 |
| *Arellano-Bond (AR-2)* |  |  | 0.348 |
| *Hansen test (p-value)* |  |  | 0.200 |
| *Wald chi2* |  |  | 351.90\*\*\* |
| *N* | 115 |  | 526 |
| Notes: This table presents the results of Propensity Score Matching (PSM) and system generalized method of moments (GMM) regressions for the effect of AC chair narcissism on the quality of non-IFRS disclosure. The dependent variable in column (1) and (2) is *IFRSEPSt+1*. The coefficients of interest are shown in bold. t-statistics for PSM and z-statistics for GMM are reported in parentheses. Control variables are omitted for brevity. \*, \*\*, and \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels, respectively. All continuous variables are winsorized at 1% and 99% levels. Variables are defined in Appendix A. | | | |

**APPENDIX**

**Appendix A**

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| **Definitions of variables** | |
| **Variable name** | **Definition** |
| *NARCIS* | The area-per-letter signature size of the audit committee chair. |
| *NONIFRS* | Non-IFRS EPS, defined as underlying, adjusted, headline, core, or earnings per share before exceptional items. |
| *EXCLUSION* | The difference between No-IFRS EPS and IFRS EPS, wherein IFRS EPS is the reported earnings per share from continuing operations. |
| *IFRSEPS* | Reported earnings per share from continuing operations in year t+1. |
| *LOSS* | An indicator variable which equals 1 if the IFRS EPS is negative, and 0 otherwise. |
| *SG* | The percentage increase in revenue in comparison to the previous year. |
| *AGE* | The natural logarithm of the number of years since the company was founded. |
| *SIZE* | The natural logarithm of the market value of equity at the fiscal year end. |
| *ACCRUAL* | IFRS earnings minus cash flows from operations, scaled by sales revenue. |
| *DUAL* | A dummy variable coded 1 if the company CEO is the board chair, and 0 otherwise. |
| *TENURE* | The CEO’s length of service in the company. |
| *LEV* | The ratio between total liabilities and total assets. |
| *ROA* | Earnings before taxation, divided by total assets. |
| *BDSIZE* | The total number of directors on the company’s board during the year. |
| *INDEP* | The percentage of independent directors on the board. |
| *ACSIZE* | The proportion of AC members to the total number of directors on the board. |
| *FEMALE* | The percentage of females on the audit committee. |
| *ACCEXP* | The percentage of AC members who have accounting expertise. |
| *COMPENSATION* | The natural logarithm of the AC chair’s annual salary. |
| *HIGH* | A dummy variable taking the value of 1 if No-IFRS EPS is higher than IFRS EPS. |
| *ACC\_EXP* | An indicator variable which equals 1 if the AC chair has professional accounting expertise, and 0 otherwise. |
| *FIRM\_EXP* | The tenure of the AC chair, measured as the number of years served in the company as AC chair. |
| *GOV\_EXP* | The number of outside directorships held by the AC chair. |
| *LOWINDEPENDENCE* | An indicator variable which equals 1 if the AC chair has other current or past board ties with a CEO at other firms, and 0 otherwise. |
| *HIGHCOMPLEXITY* | An indicator variable which equals 1 if the number of business segments is in the top quartile, and 0 otherwise. |
| *LOWSTRUCTURE* | A combination of four indicator variables, duality (set to 1 if the two positions of CEO and board chair are separate, and 0 otherwise), committee memberships (set to 1 if the CEO does not have a role in other board committees, and 0 otherwise), board power (set to 1 if the percentage of independent non-executive directors is higher than the industry median, and 0 otherwise), and co-opted directors (set to 1 if the percentage of directors appointed during the CEO’s tenure is less than 50%, and 0 otherwise). |
| *LOWEXPERT* | An indicator variable equal to 1 if the CEO’s tenure is below the industry median, and 0 otherwise. |
| *LOWOWNERSHIP* | An indicator variable equal to 1 if the percentage of the CEO’s stock ownership is lower than the industry median, and 0 otherwise. |
| *DISCLOSURE* | A dummy variable set to 1 if the AC report includes confirmation of AC chair review of non-IFRS adjustments, and 0 otherwise. |
| *ANALYSTS* | An indicator variable equal to 1 if the number of analysts following a firm is in the top quartile, and 0 otherwise. |
| *INSTOWNER* | An indicator variable equal to 1 if the percentage of shares held by institutional investors is in the top quartile, and 0 otherwise. |
| *Industry* | Industry indicators based on the two-digit UK SIC (2007) codes. |
| *Year* | Year indicators representing the corresponding fiscal year. |

**Appendix B**

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| Small signature example | Large signature example |
| 文本  描述已自动生成 | 图形用户界面, 文本, 应用程序, Word  描述已自动生成 |

1. Non-IFRS earnings are also referred to as pro-forma earnings, non-GAAP earnings, and street earnings; these terms are used interchangeably in this paper to represent earnings before non-recurring items. [↑](#footnote-ref-2)
2. In an unreported analysis, we also examine monthly stock returns from Yahoo Finance and find that returns are, on average, significant in the year a narcissistic AC chair is appointed. This finding indicates that AC chair signatures provide investors with important information. We thank the anonymous reviewer for suggesting this test. [↑](#footnote-ref-3)
3. As an illustration of the issue, in its 2019 annual report, Dixons Carphone plc transferred its 26.8p loss per share to 20.4p earnings per share (EPS) before non-recurring items (also known as non-IFRS earnings). Similarly, J Sainsbury plc reported a 19.8p non-IFRS EPS against 5.8p IFRS EPS in its 2020 annual report. [↑](#footnote-ref-4)
4. While the majority of prior studies focused on US firms where non-GAAP information is not a part of their annual accounts, IAS 33 allows companies to disclose non-IFRS earnings as part of the annual report instead; indeed almost 90% of UK firms do so in their annual accounts (Young, 2014). This provides us with a unique setting to investigate our research questions. [↑](#footnote-ref-5)
5. The FTSE All-Share index should be an optimal reflection of the financial reporting practices of UK corporations, as it covers all companies listed on the FTSE 100, FTSE 250, and FTSE SmallCap indices. [↑](#footnote-ref-6)
6. The new code released in 2012 ensures the data availability of our proxy measure of narcissism. [↑](#footnote-ref-7)
7. We define accounting experts as AC members who hold relevant accounting certificates, have auditing experience, or previously served as a CFO in a listed company. Other variables are defined in Appendix A. [↑](#footnote-ref-8)
8. To further examine the extent of the effects of narcissistic AC chairs on companies’ future IFRS earnings, we standardize all independent variables to have zero mean and unit variance before the interaction terms are generated and then re-estimate Equation (1). The results (un-tabulated) suggest that, for a company whose AC is chaired by a narcissistic individual one standard deviation above the AC chair narcissism mean, a one standard deviation increase in non-IFRS exclusions by management in the current reporting year predicts a 0.16% decrease in next year’s IFRS earnings per share. [↑](#footnote-ref-9)
9. While our study primarily focuses on non-IFRS disclosure, we also examined alternative proxies for earnings quality, such as discretionary accruals. Our findings are largely consistent with those reported in Table 4. [↑](#footnote-ref-10)
10. We would like to express our gratitude to the anonymous reviewers for their valuable and insightful comments. [↑](#footnote-ref-11)
11. It is important to acknowledge that our study does not encompass all possible mechanisms that could affect the quality of AC chairs monitoring. We have deliberately concentrated on specific mechanisms, consequently excluding other factors that might also influence the quality of non-IFRS disclosure in a similar direction. While this focused approach allows for a more detailed examination of the mechanisms under consideration, it also recognizes the limitations inherent in not accounting for other potentially relevant mechanisms. [↑](#footnote-ref-12)
12. We consider an AC chair as having professional accounting expertise if he or she is a chartered accountant. In un-tabulated tests, we also investigate two other sources of accounting expertise, namely being a CFO and having auditing experience. Yet, we find these sets of experience to have little effect on the monitoring quality exerted by the AC chair in the context of our study. Our definition of accounting expertise derives from the BoardEx database. [↑](#footnote-ref-13)
13. We further interact between *EXCLUSION*, *NARCIS* and auditor narcissism. Consistent with our expectation, unreported results show that the coefficient on this interaction is significantly negative suggesting that in a situation where both the external auditor and AC chair exhibit narcissistic traits, there may be a greater likelihood of decisions being made hastily or without sufficient deliberation, increasing the risk of error or poor judgment. [↑](#footnote-ref-14)
14. To examine the validity of our matching process, we conduct a covariate balance test and find that there is no significant difference between the treatment and control group in most of the observable firm characteristics. [↑](#footnote-ref-15)