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Me, myself and I: The role of CEO narcissism in internationalization decisions

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ABSTRACT

Internationalization decisions represent major objects of international business research; in this context, the respective role of decision-makers, i.e., strategic actors has been under study for now nearly 50 years. However, some important individual characteristics of strategic actors, which seem to influence individual decision-making in a significant way, have been – in contrast to general management research – widely disregarded. Among those characteristics, narcissism plays a decisive role. Trying to provide a first attempt to fill this research gap our paper aims at theorizing on as well as empirically analyzing potential relationships between narcissistic tendencies of CEOs and their internationalization decisions. The empirical study of major German manufacturing firms over the period 2004–2013 shows that CEOs with a high degree of narcissism tend to intensify business activities abroad in general while the expected effect on intensified activities in markets with a high psychic distance cannot be identified. These research results help to better understand the drivers of firms' internationalization, stress the importance of recognizing managerial decision-making in the context of analyzing business activities abroad, and improve the prediction of CEOs' decision-making behavior in general.

1. Introduction

Sigmund Freud recognized in the early twentieth century: "the leader himself need love no one else, he may be of a masterful nature, absolutely narcissistic, self-confident and independent" (Freud, 1922; chap. X, sec. 5). This characterization of individuals in leadership positions might also hold true for today's organizational context. Plenty of real life examples in which business leaders, i.e., chief executive officers (CEOs), show narcissistic behavior in job-related situations (e.g., Larry Ellison at Oracle, Pehr G. Gyllenhammar at Volvo, and Jürgen Schrempp at Daimler respectively DaimlerChrysler) corroborate this assumption (Maccoby, 2004; Taylor, 2000). Narcissistic individuals show absolute self-confidence as well as excessive self-admiration, feel intense need for power and prestige and strive after positions of authority and leadership (Kernberg, 1979; Kohut, 1971; Resick, Whitman, Weingarden, & Hiller, 2009). To specify the organizational relevance of CEO narcissism two main personality features have to be considered: On the one hand, narcissists choose major, risk-laden and spectacular projects (Kets de Vries & Miller, 1985); on the other hand, they show a high degree of selfishness, i.e., to pursue self-serving actions is particularly relevant to them (Brown, Sautter, Littvay, Sautter, & Bearnes, 2010). These behavioral patterns influence managerial decision-making in a significant way (Chatterjee & Hambrick, 2007); consequently, scholars have started to analyze organizational outcomes of CEO narcissism with increasing frequency. So far, several relationships between CEOs' narcissism and a firm's activities have been subject of academic research: e.g., CEO narcissism and performance (Chatterjee & Hambrick, 2007; Patel & Cooper, 2013), CEO narcissism and corporate leadership (Craig & Amernic, 2011; Resick et al., 2009), CEO narcissism and takeover processes (Aktas, De Bodt, Bollaert, & Roll, 2012), CEO narcissism and interorganizational imitation (Zhu and Chen, 2015), CEO narcissism and entrepreneurial orientation (Engelen, Neumann, & Schmidt, 2013) or CEO narcissism and the organizational adoption of technological discontinuities (Gerstner, König, Enders, & Hambrick, 2013). However, the increase of research interest does not reflect itself in the international business context; e.g., up to now it has not been investigated if narcissism has an impact on CEOs' internationalization decisions (Aharoni, Tihanyi, & Conelly, 2011). This is astonishing as internationalization decisions – more specifically, decisions to

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intensify company's business activities abroad – reflect a prime example for situations in which CEOs are able to achieve personal goals (Oesterle, Richta, & Fisch, 2013). In addition, international operations are (potentially) associated with great advantages but also certain threats. Therefore, to understand which drivers are the most relevant in the context of pushing business activities abroad has to be a key issue for companies. We would like to address this highly relevant problem area and thereby compensate for the research gap with the following paper.

Due to the increasing globalization of the world economy in the recent decades internationalization decisions have evolved into an essential part of the strategic challenges a firm faces (Schotter & Beamish, 2013). International business literature often views internationalization decisions as purely rational – e.g., by assuming that international firms exclusively take economic benefits into consideration when pursuing international activities (Schotter & Beamish, 2013) – and accordingly neglects individuals as decision-makers (Aharoni et al., 2011; Nielsen & Nielsen, 2011). Given that some companies pursue riskier internationalization strategies than others it is only reasonable to ask why and what kind of CEOs come to these decisions. Combining insights from upper echelons theory, latest findings in the field of behavioral decision-making, and internationalization research we analyze the link of CEOs' personalities and respective consequences in companies' business activities abroad. The objectives of the paper are to (1) point out that a certain personality attribute – narcissism – influences managerial decision-making in a significant way, (2) show respective consequences for the internationalization of firms on a conceptual level, and (3) empirically analyze relationships between narcissistic tendencies of CEOs and the international evolution of companies.

The remainder of the paper is structured as follows: We start with a review of research on the influence of decision-makers on companies' development. The following section deals with behavioral aspects of managerial decision-making. We then show how narcissism exerts influence in this context focusing on the outcomes of internationalization decisions. Finally, we present the results of our empirical study as well as the most important implications and limitations.

The paper extends international business literature by enhancing knowledge about the role of decision-makers – specifically the certain personality feature narcissism – in companies' internationalization. We provide insights into the decisions a narcissistic CEO might take, the consequences for a firm regarding its international activities, and therefore add explanatory power to existing internationalization research. Additionally, the study has implications for the analysis of narcissism as it shows the influence of this personality dimension in a new context.

2. Theoretical background

2.1. Executive influence on organizational outcomes

The role of individual decision-makers as drivers of a firm's actions has been widely discussed in management research (for a comprehensive review of the respective literature, see Finkelstein, Hambrick, & Cannella, 2008). As a starting point, Cyert and March identify the relevance of strategic decision-makers for a company's evolution (Cyert & March, 1963). Similarly, Child's approach sheds light on the role of individuals in the so-called strategic choice context and their power to decide upon strategic goals and actions (Child, 1972). Furthermore, agency theory can be employed as a widely recognized management research stream in which individual decision-makers play a pivotal role (Berle & Means, 1932; Eisenhardt, 1989; Jensen & Meckling, 1976). At last, Hambrick and Mason (1984) provide a comprehensive theoretical approach regarding the influence of intra-firm decision-makers on a company's strategy. Following their so-called upper echelons concept, organizational outcomes are a reflection of the strategic choices of managers and these choices are in turn a result of their experiences, values, and personalities.

Considering the international business context Aharoni was the first to include individual decision-makers into the analysis of firms' internationalization (Aharoni, 1966). Since then, research on the influence of individuals on decisions regarding foreign business activities has been increasingly conducted: e.g., scholars have shown that the international orientation of managers lead to a better export performance (Dichtl, Koeglmayer, & Mueller, 1990), investigated whether a CEO's age and tenure can be applied to market entry mode choices (Herrmann & Datta, 2002, 2006), demonstrated the relationship between the international orientation of managers and foreign market entry mode choices (Nielsen & Nielsen, 2011), or discovered managerial hassle factors in location choices (Schotter & Beamish, 2013). However, compared to other topics of international business studies the amount of available research still remains on a low level (Aharoni et al., 2011) and the focal point of the paper – narcissism as a predictor of decision-making in an international business context – has not been investigated at all up to now.

In our study we assume that intra-firm decision-makers shape a firm's evolution in a significant way. Furthermore, we focus on the CEO of a company as the key intra-firm decision-maker. The impact of CEOs on strategic change has been part of multiple empirical studies; he/she represents the main leader and architect of a firm (Boeker, 1997; Hutzschenreuter, Kleindienst, & Greger, 2012; Virany, Tushman, & Romanelli, 1985). This pivotal role can be traced back to different reasons: He/she has legal authority and responsibility in a corporate's hierarchy and directs as well as controls organizational goals (Jaw & Lin, 2009). Besides this formal power, the CEO's position is also associated with symbolic power. Stakeholders outside and inside the company recognize the CEO as important ruler of the company's empire (Calori, Johnson & Sarnin, 1994; Nadkarni & Herrmann, 2010; Song, 1982; Weiner & Mahoney, 1981), media coverage focuses almost exclusively on the CEO instead of other top-management team (TMT) members (Hutzschenreuter et al., 2012) and compensation differences between the CEO and the rest of the TMT lead to the assumption that he/she has to bear particular responsibilities. Of course, this should not be misunderstood in the way that CEOs formulate all major decisions or carry them out into operational execution by themselves. They might generate strategic ideas or decide upon project proposals by other members of the organization. Furthermore, CEOs establish and modify the contextual factors of companies via staffing policy, implementation of incentives or structural decisions (Gerstner et al., 2013).

2.2. Decision-making influenced by personality

2.2.1. Upper echelons theory as reference point

Hambrick and Mason (1984) were the first to issue the impact of certain individual characteristics on the strategic behavior of managers. Organizational outcomes are modeled as a result of the managers' strategic choices which in turn are predetermined by the manager-specific interpretation of a decision problem. Because of the complexity of these situations and the constrained cognitive capacity of managers, his/her perception is limited to selective environmental and organizational stimuli. The cognitive base and the respective perception of reality lead to an individual interpretation of the decision problem which results in a specific strategic choice. That's why strategic choices made are a reflection of the manager's personality; this highly personalized construal guides executives' actions. In order to predict and measure the managers' cognitive base and values, background characteristics are used. Hambrick and Mason argue that characteristics like age, tenure in the organization, functional background, education, socioeconomic roots, and financial position are indicators of the possible managerial behavior in a specific situation; e.g., empirical studies have shown that TMT demographics influence corporate strategic change (Wiersema & Bantel, 1992). Most of the research based upon the upper echelons approach focuses on the effects of common demographic attributes of executives on organizational outcomes (e.g., age or tenure). It seems appropriate to take the next step and include more sophisticated aspects of CEO personality into this line of research (Gerstner et al., 2013; Resick et al., 2009).

Narcissism as a manager's characteristic which influences his/her behavior in a certain way represents the newest subarea of upper echelons research; the construct has increasingly been used in the recent past to describe managerial behavior in organizations (e.g., Campbell, Goodie, & Foster, 2004; Chatterjee & Hambrick, 2007; Gerstner et al., 2013). Campbell et al. (2004) showed in several laboratory studies with university scholars that narcissism is a significant predictor of overconfidence. As well, narcissism seems to lead to a high willingness of the respective participants to take risks because narcissists show little fear of failure. Chatterjee and Hambrick (2007) transferred this basic idea of narcissism on the organizational context by examining the effects of CEOs' narcissism on company strategy in terms of dynamism, acquisition behavior and performance. According to the authors narcissism has a positive impact on strategic dynamism as well as acquisition activities; however, company performance is not influenced depending on the degree of CEOs' narcissism. Besides these empirical results, the development of a measurement method of CEO narcissism displays an important achievement of the study. The study of Gerstner et al. (2013) is another example of narcissism-oriented general management research. The authors show the link between narcissism and aggressive investment behavior regarding new technologies and thereby proof that this character trait influences risk-taking behavior of CEOs.

We believe that it is only reasonable to integrate narcissism as a predictor of individual decision-making into international business research as internationalization strategies may serve as promising options to fulfill the special needs of narcissistic individuals in an organizational context. Moreover international activities account for a strategically important field of a firm's business and performance in today's business environment. Thus, modeling a concept that gives respect to the effects of CEO's narcissism on the changes of such international activities may help to provide further insights into the main drivers of a firm's international development.

2.2.2. Antecedents and outcomes of CEO narcissism

From a psychological view the specific antecedents of the development of narcissistic tendencies still remain unclear (Carlson & Gjerde, 2009); they most probably evolve due to certain experiences with over- or under-parenting during the socialization process of individuals (Horton, 2011). Considering the organizational context it seems as if CEOs tend to have a relatively high degree of narcissism in general as this component of orientation might be a driving force behind the desire to obtain a leadership position (Campbell, Hoffman, Campbell, & Marchisio, 2011; Kets de Vries & Miller, 1985). However, despite the generally existing level of narcissism regarding CEOs there seem to be differences in the intensity of the characteristic (Chatterjee & Hambrick, 2007). Depending on this intensity different outcomes of narcissism can be expected. We will focus on two main consequences of narcissism in the context of strategic decision-making: On the one hand, a CEO's subjectively perceived need of pursuing personal goals (Aggarwal & Samwick, 2003) is fostered by a high degree of narcissism. On the other hand, certain personality dimensions are associated with a CEO's attitude toward risk (March & Shapira, 1987); narcissism plays a pivotal role in this context (Chatterjee & Hambrick, 2011; Gerstner et al., 2013). The underlying mechanisms of these two relationships will be discussed in the following.

Empire-building theory issues a key aspect in the context of self-serving managerial behavior: managers tend to favor diversifying strategies to capture private benefits (Aggarwal & Samwick, 2003; Jensen, 1986) by transferring firm resources to their personal gain (Harris & Raviv, 1991). Especially in the case of high managerial discretion due to dispersed ownership structures (Amihud & Lev, 1999; Crossan, 2011; Crossland & Hambrick, 2011; Salancik & Pfeffer, 1980) managers possess the power to trace personal goals during their employment. The resulting opportunities to consume specific perquisites (e.g., corporate jets) as well as a high degree of power and prestige by controlling a large company represent desirable goals for managers. We argue that these aspects play an even more important role for narcissistic individuals; they will tend to pursue strategies that help to gain influence.

Different attitudes toward risk of the various parties that engage in a corporation have been a major object of business related theories (March & Shapira, 1987). Especially agency theory issues the role of risk in prominent fashion (Barney & Hesterly, 1996; Beatty & Zajac, 1994). Agents (managers) are assumed as being risk averse while principals (owners) appear to have a neutral attitude toward risk (Eisenhardt, 1989). Hence, regarding risk issues there is a good possibility that managers do not act in the way owners would prefer (Jensen & Meckling, 1976). However, according to results of empirical studies managers show a high willingness to take risks as they believe in being able to control at least some parts of the respective risk and show little fear of failure (Campbell et al., 2004). They think about risk-taking as being an integral part of their job and are convinced that they are able to overcome risk because of their skills and talents. Some scholars even make a point by saying that managers believe risk being manageable instead of passively accepting risk as an environmental feature. Therefore, managers sometimes take business opportunities with a good return potential even though the risk is high (March & Shapira, 1987). Theories that utilize strict assumptions regarding managers' risk orientations fail to explain managerial behavior such as risk-seeking or risk-loving (e.g., Asch & Quandt, 1990; Fiegenbaum, 1990; Piron & Smith, 1995). Apparently, managers' individual perceptions of risk instead of objective risk assessments are the most important drivers in this context (March & Shapira, 1987). Recent research highlights the impact of narcissism on risk-taking behavior in managerial decision-making (Gerstner et al., 2013); following this approach, we argue that narcissistic CEOs will tend to pursue riskier strategies than non-narcissistic CEOs.

2.3. Internationalization as a business strategy

International activities – defined as the extension of business activities across the borders of the domestic country (Hitt, Hoskisson, & Ireland, 1994) – appear nowadays as an almost mandatory option. When exploring the reasons why companies pursue international strategies two perspectives have to be differentiated: "Objective" internationalization motives deal with company-level goals and comprise economic outcomes of doing business abroad by considering factors like market potential or labor costs. These motives represent the "classical" arguments when analyzing internationalization steps of companies. "Subjective" internationalization motives however can be found on the individual, i.e., managerial level; managers might pursue international activities due to deriving private benefits (Schotter & Beamish, 2013).

The managerial influence on the international evolution of a firm has been widely neglected in international business research for a long time; Hutzschenreuter, Pedersen, and Volberda (2007) even point out that managers have been the most disregarded driver of internationalization in international business research (Hutzschenreuter et al., 2007). This negligence applies to all aspects of analyzing international strategies – e.g., entry mode or location choices (Benito, Petersen, & Welch, 2009; Schotter & Beamish, 2013) – as well as to most of the established theoretical approaches (Maitland & Sammartino, 2015). Especially our understanding of the underlying individual decision-making processes – i.e., how and why managers decide the way they do – is not sufficiently developed up to now; consequently, recent academic work highlights the need of including managerial decision processes into international business research (e.g., Barkema & Shvyrkov, 2007). Taking these insights into account, we argue that CEOs affect the development of a company's international activities in a significant way and that "subjective" goals of CEOs are of a high relevance in this context (Buckley, Devinney, & Louviere, 2007). To understand how these mechanisms work, we first have to look at company-level arguments pro internationalization and differentiate them from manager-driven initiatives.

2.3.1. Evaluation of internationalization motives on company level

Operating abroad offers multifaceted options to gain success for companies. Various theoretical approaches focus on rational reasons to justify the extension of a firm's activity across borders, such as the utilization of monopolistic advantages (Hymer, 1976; Kindleberger, 1969), market or resource seeking motives (Dunning, 1973; Luostarinen, 1979), leveraging of industrial economic effects (Kogut, 1983; Krugman, 1983), the gain in operational flexibility (Kogut, 1983, 1985), and the opportunity for organizational learning (Ghoshal, 1987; Kim, Hwang, & Burgers, 1993; Kogut & Zander, 1993). Furthermore, (geographical) diversification of a firm's risk is brought up regularly when talking about reasons for internationalization from a firm's point of view (Hughes, Logue, & Sweeney, 1975; Hennart, 2007; Qian, 1997; Rugman, 1976). This risk-reducing argument results from the portfolio theory which is based in the finance research area (Markowitz, 1952) and assumes that spreading the business activities over different not perfectly correlated markets may reduce the overall risk for a company.

We acknowledge that there may be a certain risk-reducing potential of pursuing foreign activities; however, internationalization also features an inherent risk for the firm (e.g., Kwok & Reeb, 2000; Reeb, Kwok, & Baek, 1998). Internationally active firms face additional costs (Hymer, 1976; Kindleberger, 1969) as they operate in unfamiliar environments because of cultural, political, and economic differences – often referred to as psychic distance between the home and foreign market – and have to coordinate their activities across the geographic distance. Accordingly the liability of foreignness acts as foundation of several theories in international business (Buckley & Casson, 1976; Caves, 1982; Dunning, 1977; Hennart, 1982; Zaheer, 1995). In an international context risk can be seen as fluctuations in demand, sales, factor prices, exchange rates, cash flows, or total profits and the threats that result from changes of the political situation in a specific country. All these aspects raise the risk of bankruptcy (Annavarjula & Beldona, 2000; Ramírez-Alesón & Espitia-Escuer, 2001; Shapiro, 1978). Beyond, Sanders and Carpenter (1998) attest a higher risk to international activities due to fragmented managerial attention. Larger amounts of diverse and conflicting information have to be processed. The potential failure of a specific firm's international activities might even have negative consequences for the well-being of the entire company (Mitchell, Shaver, & Yeung, 1992). Especially in host countries/markets with a high psychic distance to the home market companies experience unknown characteristics and situations; thus, doing business in such regions should be considered as enhancing the overall risk exposure of a firm.

2.3.2. Manager-driven initiatives in the context of international business activities

"Objective" internationalization motives – as discussed above – generally affect the performance dimension of a company. A single manager – if at all – only owns a small fraction of a company's shares and/or his/her compensation is partially performance-based; taking these aspects into account it could be argued that managers' goals fully match the owners' goals regarding internationalization decisions. However, managers may – in addition – try to receive private benefits by engaging in international activities (Oesterle et al., 2013). Examples of these managerial benefits can relate to the management of a large and diversified company (e.g., by means of "empire-building", status, prestige and power) (Aggarwal & Samwick, 2003; Amihud & Lev, 1981), the maximization of monetary rewards through the growth of a company in terms of physical size as compensation tends to be closely linked to a firm's size (Baker, Jensen, & Murphy, 1988; Tosi, Werner, Katz, & Gomez-Mejia, 2000), the wish of becoming indispensable to the firm which can be fostered through diversification strategies (Shleifer & Vishny, 1989) and the increase of autonomy from domestic pressure groups such as governmental agencies, banks, shareholders and unions through international diversification (Whitley, 1998).

At the same time, international activities enlarge the complexity for companies as there are differences (real or perceived) between domestic and international business. Following this perspective, managers might have an aversion to involve in such actions; e.g., international expansion may be perceived as simply too risky when added on top of the risks arising from the firm's core activities (Carpenter, Pollock, & Leary, 2003). However, if managers tried to completely avoid this increase of risk and complexity, potential "subjective" and/or "objective" gains from internationalization could not be utilized. As so far most managers of large firms strongly favor internationalization and do not exclusively focus on the home market.

3. Hypotheses

Various paths of argumentation, i.e., fundamental theoretical approaches (e.g., Aharoni, 1966), widespread empirical evidence (e.g., Schotter & Beamish, 2013) and the consideration of relevant real-life actions of firms (e.g., the merger of Daimler and Chrysler in the 1990s) lead us to the suggestion of managers having an essential influence on the international evolution of a company through their decision styles. Narcissistic tendencies of CEOs might (partly) foster self-serving decision-making in this context. In addition, some companies pursue riskier international strategies than others. We argue that not necessarily an objective risk assessment is the driving force of managerial decision-making in this context; instead individual perceptions of risk play the major role (Forlani, Parthasarathy, & Keaveney, 2008). A potential explanation might be found in varying narcissistic tendencies of CEOs, which lead to overconfidence respectively deficits in decision-making when entering international markets (Campbell et al., 2011). However, as decision-making processes and styles cannot be analyzed directly we have to focus on the respective organizational outcomes treating the individual decision-making processes as black boxes. We consider two dimensions to determine these outcomes: the growth of a company's degree of internationalization (DOI) and the growth of the share of "high-risk" foreign sales.

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3.1. CEO narcissism and a firm's degree of internationalization

"Managers have incentives to cause their firms to grow beyond the optimal size. Growth increases managers' power by increasing the resources under their control. It is also associated with increases in managers' compensation, because changes in compensation are positively related to the growth in sales" (Jensen, 1986; p. 323). Internationalization is a promising way to realize growth strategies. International activities affect the whole company. By considering the DOI the importance of international operations for a company can be expressed (Sullivan, 1994; Thomas & Eden, 2004). To understand the influence of CEO narcissism on the company's DOI we have to identify the main goals a CEO is trying to achieve concerning internationalization during his/her tenure as well as the role of risk with regard to the DOI. One essential goal of managers lies in the derivation of private benefits (Aggarwal & Samwick, 2003); the realization of personal achievements regarding their professional career represents an important aspect of their employment. This means, they chase goals like reaching the prestigious CEO position in a large company, building their own company "empire" or maximizing their salary. These assumptions are especially relevant for narcissistic managers as they want to achieve excessive admiration and feel an intense need for power and prestige (Kernberg, 1979; Kets de Vries & Miller, 1985). Basically pushing the internationalization of a firm supports the accomplishment of all of these aspects as such activities increase the degree of public awareness of a company and helps achieving good reputation in terms of being an agile, cosmopolitan company which actively seizes chances in the world. The corporate achievements are regularly conferred to the CEO of the respective firm.

Furthermore, a high DOI goes along with various managerial challenges as the complexity of the business activities vastly rises (Sanders & Carpenter, 1998). Due to the liabilities of foreignness stemming from different cultures, languages etc., it becomes much more challenging to manage the company; this risk of doing business abroad results in an increasing risk exposure of the respective firm. As mentioned before a narcissistic CEO has even more difficulties to objectively calculate risk as he/she believes in being able to overcome risk because of his/her skills and talents. Therefore, narcissistic CEOs might underestimate the risk of additional international activities. As so far, we propose that:

H1. The more narcissistic a CEO is, the higher the growth of a company's DOI will be.

3.2. CEO narcissism and foreign operations in countries with a high level of risk and uncertainty

Business activities in foreign markets are multifaceted; however, one aspect is especially important regarding the strategic impact on success or failure of the respective actions: the choice of the target markets on which the foreign operations shall be executed. This is because these decisions are directly linked to both, future costs and potential gains of the respective activity. Scholars have shown that location issues are of utmost importance when it comes to quantifying the risk of internationalization steps (Kraus, Ambos, Eggers, & Cesinger, 2015). Location issues have been intensively addressed in internationalization research (e.g., Dunning, 1973; Johanson & Vahlne, 1977; Vernon, 1966). However, location choice decisions have so far been oversimplified (e.g., solely based on logical positivism and economic efficiency) and researcher call for a more distinct approach of location decision analysis (Dunning, 2009; Schotter & Beamish, 2013). Psychic distance plays a major role when it comes to location choices; mainly due to the fact that international operations in psychologically distant markets go along with higher risks of the activities as well as a higher level of uncertainty (Johanson & Vahlne, 1977). Despite the importance of the topic it still has not been investigated sufficiently how managerial behaviors, perceptions, and preferences exert influence in this context (Schotter & Beamish, 2013). In line with relevant approaches it is assumed that countries with a high psychic distance to the home country display riskier target markets for companies. A high psychic distance hinders the flow of information between home and host market; a high level of differences in culture, language, industrial development etc. therefore increases the degree of uncertainty a firm faces (Johanson & Vahlne, 1977). Narcissistic CEOs think of themselves as being able to control risky business activities. Consequently we assume narcissistic CEOs will tend to push operations in far-away markets. This is in line with the findings of Campbell et al. (2004) who came to the conclusion that narcissism is a significant predictor of overconfidence and risk-taking. Another supporting argument is that CEOs strive for the potential prestige which goes along with operations in markets with a high psychic distance as pursuing risky strategies displays the CEO's ability to manage complex situations. Accordingly we assume that:

H2. The more narcissistic a CEO is, the greater the growth of the share of sales realized in countries with high psychic distance will be.

Fig. 1 provides an overview of our research model.

4. Empirical analysis

We test our hypotheses regarding the influence of CEOs' narcissism on a firm's internationalization using panel data of the years 2004–2013 derived from the 31 largest German manufacturing firms in 2005; these firms were recorded in the WELT 500 list of the largest German companies in the respective year. Thereby, we capture a substantial part of the important industry sector of Germany's economy—the manufacturing industry accounts for roughly 25% of the national GDP. Germany was chosen due to its relatively small home market (which goes along with a high need to internationalize for German companies in order to grow), due to data accessibility and because of the fact that German CEOs fill an

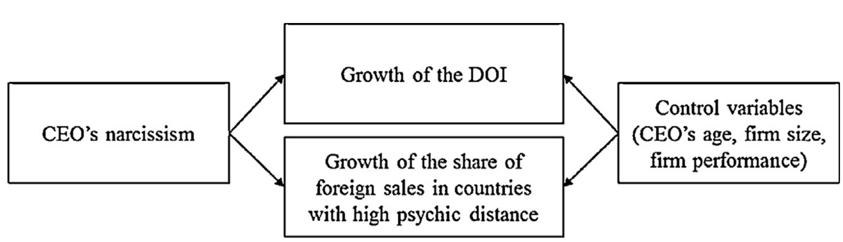

Fig. 1. Research model.

extremely powerful position (Six, Normann, Stock, Schiereck, 2013); accordingly they possess the power to define company's strategy. We identified the firms' CEOs for every year and created a single narcissism index for each CEO (for the specific way of calculating the narcissism index see p. 19–20). The necessary data was obtained from financial statements, annual reports, interview records, and Hoppenstedt Aktienführer (a periodical collection of financial data on listed firms in Germany). Furthermore, information about managers' biographies was added from Who's who European Business Manager (a database that publishes firm information and personal biographies of managers). In total, we identified 60 CEOs in 31 firms and analyzed the effects of the narcissistic tendencies of these managers for each year in the context of the firms' foreign activities.

4.1. Dependent variables

4.1.1. Growth of the DOI

Our first hypothesis H1 deals with a firm's DOI which we measured by the ratio of foreign sales to total sales (FSTS). This widely acknowledged uni-dimensional measure is still – despite all criticism and disadvantages (e.g., Sullivan, 1994; Tallman & Li, 1996) – the most commonly used measure for internationalization (Annavarjula & Beldona, 2000). The FSTS-ratio captures the foreign market penetration of a company (Thomas & Eden, 2004); despite the fact that this is just one important dimension of international business activities, the index reports the relevance of doing business abroad for a single firm. Besides, the problem of data availability often limits the possibilities of variable operationalization in the first place (Oesterle & Richta, 2013); this aspect gains in importance when executing panel analysis. Due to the need of consistency over a multi-year period we focus solely upon sales data. Considering the growth of the respective DOIs enables us to measure the additional steps of internationalization which are pursued by a CEO in a specific year. A one year time-lag is applied to address endogeneity issues.

4.1.2. Growth of the share of foreign sales in markets with high psychic distance

The second hypothesis H2 deals with a firm's share of foreign sales realized in countries with a high psychic distance to the home market. The companies in our sample generate the overwhelming amount of foreign sales in European, American or Asian countries. We believe that especially Asian countries display a high psychic distance to Germany due to enormous cultural and regulatory differences as well as varying market structures (Dow & Karunaratna, 2006). Therefore, we measured "high-risk" foreign sales, i.e., the share of foreign sales on markets with high psychic distance by calculating the ratio of sales realized in Asian countries to total foreign sales (ASFS). By considering the growth of this ratio we capture the additional (high-risk) internationalization steps. In line with H1 a one year time-lag is applied. We also controlled for the ratio of sales realized in Asian countries to total sales; however, no further insights could be gained using this option.

4.2. Independent variable

In psychology narcissism is usually measured by the Narcissistic Personality Inventory (NPI) which uses a forty-item forced-choice method (Raskin & Terry, 1988). However, it does not seem realistic to measure CEOs' narcissism this way as CEOs would most probably not answer such sensitive questions in survey research (Cycyota & Harrison, 2006). Furthermore, it can be expected that answers would be distorted by social desirability bias. Certain ways to operationalize narcissism which have been used for the measurement of personality several times might eliminate these problems (Chatterjee & Hambrick, 2007). Influenced by the measurement technique of Chatterjee & Hambrick (2007) regarding CEO narcissism we calculated the following four indicators: (1) size of the CEO's photograph in the company's annual report, (2) the CEO's prominence in the company's press releases (measured as the number of times the CEO was mentioned by name in the company's press releases divided by the total number of words (in thousands) in all the company's press releases), (3) the CEO's cash compensation divided by that of the second-highest paid executive in the firm, and (4) the CEO's non-cash compensation divided by that of the executive with the second-highest non-cash compensation in the firm. This – sometimes slightly adjusted – index has been used several times in relevant research efforts lately (e.g., Engelen et al., 2013; Gerstner et al., 2013).

4.3. Control variables

A number of control variables are included whereas the selection follows the logics of previous internationalization studies. The integration of these control variables is necessary in order to clarify the relationship between dependent and independent variables. Firstly, we controlled for CEO's age as this might be an indicator of his/her decision-making confidence. As well, older CEOs might have gained more international experience in their professional career; this could also exert influence on internationalization decisions. Firm size is another important control variable which is typically related to extensive international activities. Larger companies are more likely to engage in international activities due to the vast amount of resources they can provide to deal with complex foreign information and the possibility to benefit from economies of scale (Bausch & Krist, 2007; Calof, 1994; Hannah, 1996). We measured firm size by the firm's total sales. Additionally, we controlled for firm performance by using the firm's return of asset ratio (ROA) which is also interpreted as being related to extensive international activities (Hitt, Tihanyi, Miller, & Connelly, 2006; Lin, Cheng, & Liu, 2009). A one-year time lag is applied for all control variables.

Table 1
Descriptive statistics and correlations of narcissism indicators.

Variable	*M*	SD	1	2	3	4
1 CEO's photograph	2.897	0.76	1.000			
2 CEO's prominence in press releases	1.335	1.05	0.0658	1.000		
3 Relative cash compensation	1.75	0.77	0.1429(*)	0.0373	1.000	
4 Relative non-cash compensation	1.808	1.25	0.1795*	0.0612	0.2119*	1.000

(*) $p \leq 0.1$.
* $p \leq 0.05$.

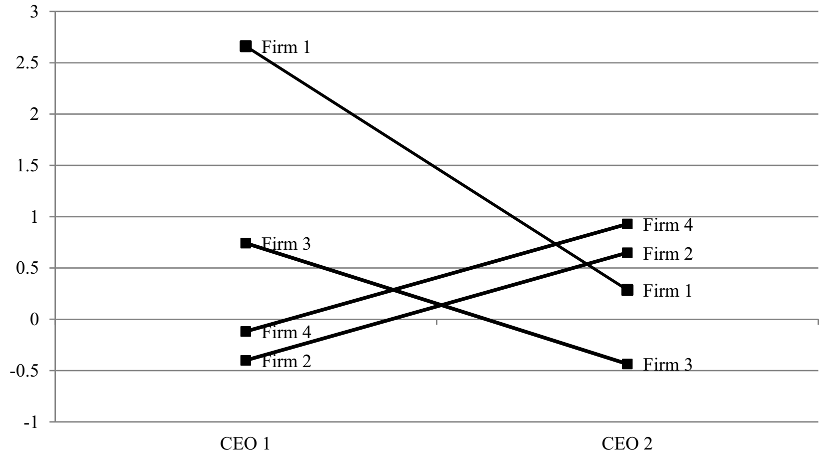

Fig. 2. Analysis of within-firm narcissism scores.

Table 2
Descriptive statistics and correlations.

Variable	Mean	S. D.	1	2	3	4	5	6
1 Growth of FSTS	0.748	0.115	1.000					
2 Growth of ASFS	0.213	0.104	0.0900	1.000				
3 CEO narcissism	0.035	0.542	0.1637$^{(*)}$	0.1593	1.000			
4 CEO age$_{n-1}$	56.14	5.14	−0.3174***	−0.2776***	−0.0906	1.000		
5 ROA $_{n-1}$	0.112	0.141	−0.0069	0.1250	−0.0006	−0.0657	1.000	
6 SIZE$_{n-1}$	27583	33200	−0.0268	−0.1601*	0.2833**	0.1525*	−0.0804	1.000

$^{(*)}$ $p \leq 0.1$.
* $p \leq 0.05$.
** $p \leq 0.01$.
*** $p \leq 0.001$.

4.4. Results

4.4.1. Descriptive statistics and correlations

Table 1 presents descriptive statistics and correlations for the four narcissism indicators used. The correlations among the indicators were all positive. According to Chatterjee & Hambrick (2007) we standardized the four indicators and calculated the mean in order to receive a single narcissism index for each CEO.

To control whether the narcissism index in fact measures the narcissistic tendencies of the CEO and does not depend on the company we exemplarily took four firms in the sample that had at least two different CEOs during the time of observation and analyzed intra-firm differences between those CEOs. As it is shown in Fig. 2 the narcissism scores differ significantly. If the company's effect would be of higher importance than the CEO's influence on the narcissism score itself – e.g., in case that the investor relations department mainly accounts for the way how the letter to shareholders is formulated – this difference would not arise. We therefore believe that our narcissism variable measures the CEO's level of narcissism and does not display a company's features.

Descriptive data (mean values, standard deviation) and correlations on dependent, independent and control variables are provided in Table 2.

Descriptive statistics show that the variable 'CEO narcissism' is significantly positively associated with the variable 'Growth of FSTS'. Furthermore the correlation index between 'CEO narcissism' and 'Growth of ASFS' is positive, but not statistically significant.

4.4.2. Results of regression analyses

Both hypotheses have been tested using GLS regressions; the results of these analyses are presented in Table 3.

As assumed narcissism has a positive and significant influence on the growth of FSTS; thus, H1 is supported in the data. The regression coefficient of narcissism regarding the growth of ASFS is not statistically significant; hence, H2 has to be rejected. As well, the explanatory power of the analysis regarding H1 is considerably higher. Possible reasons for these outcomes will be discussed in the next section.

Table 3
Regression results of GLS analyses of CEO narcissism on dependent variables.

	Growth of FSTS	Growth of ASFS
CEO narcissism	0.0068573**	−0.0062881
CEO age$_{n-1}$	1.83e − 06	−0.0000285
Firm profit$_{n-1}$	0.0068717	0.0178034
Firm size$_{n-1}$	−1.2e − 07**	1.33e − 08
Wald chi^2	31.16***	8.78$^{(*)}$

$^{(*)}$ $p \leq 0.1$.
** $p \leq 0.01$.
*** $p \leq 0.001$.

5. Conclusion

5.1. Discussion

Managerial influences on the international evolution of a firm display a widely disregarded research field in international business (Aharoni et al., 2011). In addition, a major aspect of latest research efforts in general management literature – narcissistic tendencies of CEOs as predictor of firms' behavior – has not been analyzed in the context of a firm's international activities up to now. Our study addresses the need for a more detailed understanding of managerial influences on internationalization decisions by introducing the concept of narcissism in the field of international business research. We state that narcissistic decision-making by CEOs exerts a noteworthy influence in this context as it affects a manager's tendency of pursuing personal goals as well as individual risk perception. Our research focuses on two main consequences for the international evolution of a firm: the growth of the DOI and the growth of "high-risk" foreign sales.

The empirical study shows that CEO narcissism is significantly positively related to the growth of a firm's DOI. This can be interpreted as approving the postulated effects. Managers' intentions have to be considered as drivers of internationalization (Hutzschenreuter et al., 2007); CEOs' narcissism seems to be an essential factor in this context. Such behavioral tendencies foster pro-internationalization decisions as greater foreign activities raise the sphere of control for managers: by boosting the DOI, multifaceted opportunities open up to fulfill narcissistic interests. Managers derive private benefits – e.g., plush offices, autonomy from domestic pressure groups etc. – through the international growth of their company (Oesterle et al., 2013); these goals seem to be highly important for narcissistic individuals. This result significantly enhances our understanding of behavioral aspects as influencing factors in the context of business activities abroad: Narcissistic tendencies of CEOs need to be considered when discussing the main drivers of internationalization. Of course, further research that pays attention to different aspects of internationalization strategies has to be conducted to verify the robustness of this result.

The expected influence of CEO narcissism on "high-risk" foreign sales, i.e., the share of sales realized in countries with high psychic distance cannot be identified in the data. However – with regard to prior research results that provide evidence for the link between individual narcissism and risk-taking (e.g., Campbell et al., 2004) – we believe that this is not due to the non-existence of the postulated relationship. Rather, it might refer to an inadequate way of measuring "high-risk" international activities in our research setting. By capturing the share of sales realized in Asian countries we oversimplify the concept of psychic distance which is said to be one of the most complex constructs in international business research (Harzing & Pudelko, 2016). More precise measures would be necessary; an application of measurements that explicitly capture psychic distances (see e.g., Dow & Karunaratna, 2006) for each country could generate better results. Due to the lack of respective (country-level) data we could not revert to this approach.

5.2. Contributions and implications

Nowadays internationalization has evolved into a mandatory sphere of activity for successful companies. This view is justified via the great (performance-oriented) potentials of foreign operations. However, international activities are also linked to a high degree of complexity and risk which raises the corresponding managerial requirements. That's why it's only reasonable to ask for the actual antecedents of pro-internationalization decisions by top managers. Further analyses of the underlying relationships seem to be valuable as managers' characteristics play a major role in general decision-making; interpretive processes and the use of cognitive abilities by managers are of great importance in complex situations (Gerstner et al., 2013). We contribute to this aim by identifying a research gap regarding the inadequate consideration of individual decision-makers in international business research in general and particularly that narcissism has not yet been linked to internationalization decisions; however, other fields of research have already shown the impact of narcissistic behavior on strategic decision-making and it seems appropriate to transfer these findings to the international business context. We addressed the gap by showing how CEO narcissism influences managerial decision-making in a first step. In a second step we hypothesized about how narcissistic tendencies manifest themselves in the internationalization of a firm. At last we empirically analyzed respective relationships. Our results show that CEO narcissism acts as a significant predictor of the growth of firms' international sales. Although the expected effect on "high-risk" sales could not be identified in our research setting, we stress the importance of recognizing narcissistic tendencies of CEOs in the context of international business. These insights provide a more complete picture of decision-making regarding foreign operations. That's why the findings are of high relevance especially for international business research. Only if the processes of how and why certain decisions are made in a company are well understood we are able to derive valuable recommendations for real-life problems. Of course, this should not be misunderstood in a way that our insights contradict established international business theories; however, they emphasize the need of recognizing managerial influences in corporate development. Thereby we are in line with the results of a major area of latest international business research (Maitland & Sammartino, 2015; Nielsen & Nielsen, 2011; Schotter & Beamish, 2013; Van de Laar & De Neubourg, 2006). Furthermore, we show a conceptual connection to the behavioral stream in general management as well as strategic management research and contribute to the goal of drawing a more complete picture of firms' behavior and evolution (e.g., Kunc & Morecroft, 2010).

The study's results are especially important for the share- and stakeholders of a company. As individuals with narcissistic character traits might be experts when it comes to outshining problems by putative skills the involved parties should take a close look at the respective CEO's actions to be able to intervene if necessary. However, shareholders find themselves in a dilemma: on the one hand the position of a CEO has to be filled with somebody who is willing to take action and who accept the responsibility which goes along with the outstanding position. For this purpose it seems reasonable to consider narcissistic candidates. On the other hand shareholders have to be interested in the best possible protection of their investments and therefore are not willing to have a CEO who puts more weight on self-serving than company-level goals. Furthermore, CEO overconfidence potentially leads to a low responsiveness to corrective feedback if management errors occurred (Chen, Crossland, & Luo, 2015). Therefore narcissistic CEOs might pursue unsuccessful strategies over and over again; mainly if they serve their own goals which should be especially relevant in the context of international strategies. Nevertheless, arguments can be found to consider narcissistic candidates as CEOs. Such tendencies of decision-makers lead to strategic dynamism; organizational inertia can be broken down (Gerstner et al., 2013). If the selection of a narcissistic CEO is required – for instance in a deadlock situation of a firm – shareholders should develop effective mechanisms to curb the exaggerated emergence of the narcissistic trait.

5.3. Limitations and future research paths

Our study is – as every research effort – subject to certain limitations. On the conceptual level there are various potentials to analyze further relationships between CEO narcissism and internationalization decisions. We solely consider the sales-dimension in an international context and thereby capture the overall evolution of firms on international markets without explicitly respecting the pursued strategies. To take a closer look at the actual strategy-dimension in an international context would eventually provide further insights. Especially market entry forms represent an interesting subarea as the analysis of the role of

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behavioral factors in this context has been relatively sparse (Herrmann & Datta, 2006; Schotter & Beamish, 2013). Due to limited data availability this idea could not be realized in our research setting.

Furthermore, we only investigated German firms; if the assumed relations can be identified in other countries – maybe even in a stronger way because of the relative low managerial discretion in German firms – this would be interesting as it might verify and/or extend our insights. Certainly a larger sample of firms or a broader study period and thereby the consideration of a larger set of CEOs would benefit the research in terms of generalization and explanatory power. Furthermore, we analyzed narcissism by taking four indicators into account. A broader approach – e.g., via studying CEO interviews with respect to narcissistic indications – could gain further insights at this point.

In terms of the employed methodology one could argue that the analysis of narcissism is flawed by firm specific influences on CEO narcissism. The respective scores might not reflect the CEO's narcissism itself but the company's way of e.g. public relation management (this argumentation arises from the way of measurement we used). By comparing different CEOs who worked for the same company we showed that it is possible to have different heights of narcissistic tendencies within the same company – hence this validity problem does not seem to be a big one. Nevertheless, the measurement method might be improvable – further studies need to be carried out to test the robustness of the results. We therefore recommend and would highly appreciate future research efforts in the respective field which pay attention to the critical aspects mentioned.

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