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Don't make me look bad: A study on the relationship between CEO narcissism and opinion shopping

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DON'T MAKE ME LOOK BAD: A STUDY ON THE RELATIONSHIP BETWEEN CEO NARCISSISM AND OPINION SHOPPING

A dissertation submitted to
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Approval of Dissertation

We, the faculty supervising the work of Ali Jon Kooti, affirm that the dissertation, *Don't Make Me Look Bad: A Study on the Relationship Between CEO Narcissism and Opinion Shopping*, meets the high academic standards for original scholarship and creative work established by the Lewis College of Business and the Marshall University. The work also conforms to the requirements and formatting guidelines of Marshall University. With our signatures, we approve the manuscript for publication.

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Dedication

This dissertation is dedicated to my family. To my wife, Christin, you have shown me nothing but endless patience, encouragement, and unwavering love throughout this endeavor. To my son, Dylon, and my daughters, Ava and Sadie, your love and selfless sacrifices have been my guiding light and source of motivation. I hope you never hesitate to pursue your dreams and know that we will support you just as you have supported me.To my father, you are my hero and the role model I will forever strive to become as a father, husband, friend, educator, and researcher. And to my mother, your love, support, and sacrifices have given both Christin and me the opportunity to pursue and succeed in the Marshall University DBA program.

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Abstract

CEO narcissism has become an urgent growing trend in business and accounting literature lately due to its strategic impact on CEO behavior and decision-making. Similarly, the opportunistic behavior of audit opinion shopping is a well-known concern among U.S. and international regulators and has been the subject of academic research for decades. This study investigates the association between the two. Specifically, this study examines whether narcissistic CEOs, motivated by their need for positive self-image, recognition, and praise, as well as their fear of adverse effects on their status and compensation, engage in opinion shopping in order to avoid receiving an unfavorable audit opinion, even at the expense of audit quality. The data for this study was obtained from various databases, and the narcissism scores were determined using an abridged version of Chatterjee and Hambrick's CEO narcissism index. The study utilized the opinion shopping framework developed by Lennox and analyzed a sample set of 4,328 observations from the years 1999-2017.

Using a sample of 4,328 firm-year observations for the period 1999-2017, this study finds that companies led by more narcissistic CEOs are more likely to opportunistically seek out auditors who will provide favorable opinions compared to companies led by less narcissistic CEOs. Additionally, the study suggests that this relationship may be further enhanced through CEO duality, where the narcissistic CEO also serves as the board chair, increasing their power compared to otherwise CEOs who do not serve as board chair. Finally, the study finds that the managerial inability of the narcissistic CEO further strengthens the relationship, as less able narcissistic CEOs are more likely to use opinion shopping tactics to compensate for their lack of ability compared to their more capable counterparts.

By extending the upper echelons theory, this study makes significant contributions to the literature on auditing and executive behavior bias. It demonstrates a connection between audit opinion shopping and CEO narcissism, while also extending the growing body of research on the behavior of narcissistic CEOs. Furthermore, the findings of this study have broader implications for accounting regulators, auditors, and investors.

JEL Classification: M4; M12; M41; M42

Keywords: opinion shopping; auditor switch; Lennox (2000) model; CEO narcissism; CEO duality; managerial ability

Chapter 1: Introduction

Opinion shopping is the practice of seeking an outside auditor willing to provide a clean audit opinion, even at the expense of reporting quality (SEC, 1988). According to Lennox (2000), opinion shopping can take two forms: a company may switch to a new auditor out of fear of receiving an unfavorable opinion from the incumbent auditor or retain the incumbent auditor out of fear of receiving an unfavorable opinion from a successor auditor. Regardless of the form in which opinion shopping occurs, regulators in the U.S. (AICPA, 1986; PCAOB, 2011; SEC, 1988) as well as in Canada, the United Kingdom, and the European Union (Cadbury Commission, 1992; European Commission, 2010; Institute of Chartered Accountants in England and Wales, 2002; MacDonald Commission, 1988) have considered opinion shopping to be a major concern for decades. Increased occurrences of opinion shopping raise questions about the reliability of auditor opinions and suggest a deficiency in auditor independence (DeFond & Zhang, 2014). Research shows that engaging in opinion shopping has significant negative effects on audit quality (Chung et al., 2019).

The concerns of both American and international policy makers, combined with the negative effects on the audit profession (e.g. Chung et al., 2019; Davidson et al., 2006), have prompted academics to search for possible determinants of companies that engage in opinion shopping. To date, most research on opinion shopping has focused on identifying extrinsic factors that influence the propensity of opportunistically switching auditors. Such factors include investor sentiment (Amin et al., 2021), audit committees (Archambeault & DeZoort, 2001; Lennox, 2002), market competition (Newton et al., 2016), and auditor conservatism (J. Krishnan, 1994; J. Krishnan & Stephens, 1995). However, little research has focused on identifying intrinsic factors, such as personality characteristics of management, as determinants of opinion

shopping. This study attempts to fill that gap in the literature by examining the association between opinion shopping and CEO narcissism.

Narcissism is a personality trait often characterized by a high sense of self-importance, an exaggerated need for admiration, and a lack of regard for others. Its effects on humans have been documented numerous times in psychology and behavioral literature (Brunell et al., 2008; Cragun et al., 2020). Narcissism has been linked to greater acceptance of risk and overconfidence (Campbell et al., 2004), improved decision-making ability when ambiguous or misleading information is involved (Byrne & Worthy, 2013), decreased decision-making comprehensiveness and increased decision-making speed (She et al., 2020). When present in the executive suites of organizations, these effects can become further intensified, ultimately influencing the way CEOs make decisions on how the organization operates. This may be due to the fact that CEO self-image, success, and compensation are often related to performance measures (Ittner et al., 1997). As a result, this connection provides significant incentives for narcissistic CEOs to make questionable decisions in order to project a more positive image of themselves and protect against negative market reactions (Chatterjee & Hambrick, 2007; Gerstner et al., 2013).

In the context of audit opinions, previous studies demonstrate that receiving a modified audit opinion can lead to significant negative consequences for the organization. These consequences include negative market reactions (Menon & Williams, 2010), difficulty in obtaining financing (Blay & Geiger, 2001; P. F. Chen et al., 2016), and increased likelihood of bankruptcy (Nogler, 2004). Furthermore, the receipt of a modified audit opinion can have significant adverse effects on CEOs' economic well-being. For example, Zhang and Xian (2014) find that both the cash and total compensation of CEOs decrease after receiving a modified audit

opinion. Similarly, Lennox (1998) finds that modified audit opinions are negatively associated with executive compensation. The results of these studies provide reason to believe that CEOs with narcissistic behavior are more inclined to seek out favorable audit opinions as a means to safeguarding their position and compensation. As such, this study seeks to answer two questions: 1) How does CEO narcissism impact a company's propensity to engage in opinion shopping? and, 2) How does the power of CEOs and managerial ability influence the association between CEO narcissism and opinion shopping?

To examine the relationship between CEO narcissism and the propensity to engage in opinion shopping, this study examines a sample of 4,328 firm-years obtained from five major databases: *Compustat*, *ExecuComp*, *Mergent Online*, *Audit Analytics,* and *BoardEx*. Additionally, annual reports collected from company websites and public databases are included. The sample consists of all firms included in the *Audit Analytics* and *ExecuComp* databases from 1999 to 2017. Data from 2002 and 2003 are excluded to account for the impact of the 2001 collapse of Arthur Andersen, which resulted in auditor changes (Chung et al., 2019). Furthermore, companies in the utilities and financial classes of the Fama-French 12 industry classifications are removed due to the higher level of regulations and complexity in those sectors (J.-H. Choi et al., 2014; Chung et al., 2019).

CEO narcissism is measured using an abbreviated version of the CEO narcissism index proposed by Chatterjee and Hambrick (2007, 2011). Following the research of Abdel-Meguid et al. (2021), Olsen et al. (2014), Olsen and Stekelberg (2016), and Judd et al. (2017), CEO narcissism is derived using three components: (1) CEO's relative cash pay, (2) CEO's relative non-cash pay, and (3) the size and prominence of the CEO's photograph in the firm's annual report. Once information is gathered from the *ExecuComp* and *Mergent Online* databases, and

annual reports, a principal component analysis is conducted to verify the components load on a single factor. The resulting factor weightings are used to derive a CEO narcissism composite score.

To identify cases of opinion shopping by companies, a version of the model developed by Lennox (2000) and later modified by Amin et al. (2021), Chung et al. (2019), and Newton et al. (2016) is employed. This two-stage process begins with a probit model that estimates the probability that a company will receive an unfavorable opinion. Estimates from the probit model are then used to calculate the difference between two conditional probabilities: the probability that the incumbent auditor will remain and the probability that a successor auditor will be brought on. This calculation results in the opinion shopping measure (Amin et al., 2021; Chung et al., 2019; DeFond et al., 2002; Lennox, 2000).

Once the opinion shopping measure is determined, the results are used, along with CEO narcissism index scores and other control variables commonly used in previous studies (Amin et al., 2021; Chen, 2020; Choi et al., 2014; Chung et al., 2019; Chung & Kim, 2022; Newton et al., 2016; Osma et al., 2022), in a second-step probit model to examine the relationships between CEO narcissism and opinion shopping. In the secondary analyses, the same second-step probit model is rerun, this time including CEO duality and managerial ability as moderators, to determine whether either variable further enhances the primary relationship.

The results of this study are summarized as follows. First, the findings provide evidence suggesting that companies led by CEOs with narcissistic behavior are more likely to engage in opinion shopping to avoid receiving an unfavorable opinion from auditors. Second, this relationship becomes stronger as the power of the CEO increases, and it becomes stronger as the managerial ability decreases. In other words, when faced with the threat of receiving an

unfavorable opinion, highly narcissistic CEOs are more likely to engage in ethically questionable behavior by selectively seeking out auditors who will provide a favorable opinion. Additionally, when the narcissistic CEO also serves as the board chair, the increased power from holding both positions further increases the likelihood of opinion shopping. Finally, in cases where the narcissistic CEO has lower managerial ability, the probability of engaging in opinion shopping increases as a way to compensate for their lack in capabilities.

This study makes two distinct contributions to the auditing and executive behavior bias literature. First, it contributes to the auditing literature by demonstrating a link between audit opinion shopping and the CEO's personality trait of narcissism. While previous literature focuses on identifying external factors that motivate companies to engage in opinion shopping (e.g., Amin et al., 2021; Chung & Kim, 2022; DeFond et al., 2016; Newton et al., 2016; Yuejun, 2011), this study investigates intrinsic factors that can drive CEOs to do so. Specifically, it examines the effects of narcissism on opinion shopping and provides insight into how the CEO's personality traits can influence the organization's accounting-related decision-making processes.

Second, this study extends the emerging literature on the proclivities of narcissistic CEOs, contributing to the executive behavior bias literature. Although previous studies find connections between CEO narcissism and broad organizational decisions and outcomes (e.g., Chatterjee & Hambrick, 2007, 2011; Ham et al., 2017; Kashmiri et al., 2017; O'Reilly et al., 2014; Petrenko et al., 2016; Rijsenbilt & Commandeur, 2013; Y. Tang et al., 2018; Wales et al., 2013), less attention has been paid to accounting-specific decisions (e.g., Buchholz et al., 2018, 2020; Capalbo et al., 2018; Judd et al., 2017; Lin et al., 2020; Marquez-Illescas et al., 2019). This study extends the upper echelons theory (Hambrick & Mason, 1984) and provides a better understanding of how CEO behavior can impact the quality of audit reports through questionable

actions. The results of this study are important to practitioners and regulators, as both groups continue to pursue effective strategies for mitigating the negative effects of opportunistic auditor switching on audit quality.

The remainder of this paper is structured as follows. Chapter 2 provides a review of existing literature, covering three main elements: auditor switching and opinion shopping, CEO narcissism, and theory discussion. Chapter 3 discusses the development of the hypotheses that are tested. This is followed by Chapter 4, which explains the sample selection procedures, the data used to measure CEO narcissism and identify opinion shopping, and the methodology used to analyze and test the hypotheses. The results from the three hypothesis tests are presented in Chapter 5, along with the results of the robustness test. Chapter 6 offers a discussion of the results, including the contributions to the literature and limitations of the study. Finally, Chapter 7 provides conclusions with implications to the profession and possible future research ideas.

Chapter 2: Literature Review

Auditor Switching and Opinion Shopping

Companies have the autonomy to hire auditing firms based on many factors that they consider important. Similarly, they can also change their incumbent audit firms for a wide range of reasons, a process known as auditor switching. However, the motivations behind such switches can vary greatly. Davidson et al. (2006) illustrate the breadth of possible motives by categorizing them along a continuum.

On one side of the continuum, Davidson et al. (2006) state that the decision whether to switch auditors is based on company interests. That is, the authors find that companies choose to move to a new auditor in hopes of enhancing company operations through various means. One

common reason Davidson and colleagues offer for switching auditors revolves around audit fees and cost control. Researchers study the relationship between audit fees and auditor switching from two perspectives. On the one hand, studies show that the inflationary nature of audit fees influences the likelihood of a company switching auditors (Ettredge et al., 2007; Garsombke & Armitage, 1993; Johnson & Lys, 1990; Woo & Koh, 2001). For instance, from 2002 to 2022, SEC registrants experienced an average annual increase in audit fees of 12.16% (Coello et al., 2022). This rise in audit fees has led some companies to attempt to reduce expenses by switching auditors (Ettredge et al., 2007). Garsombke and Armitage (1993) provide additional support for this strategy, finding that companies that switch auditors are more successful in reducing both audit and non-audit related costs than companies that do not switch.

On the other hand, a relationship between auditor switching and initial low-ball engagement fees has been discovered (Stefaniak et al., 2009). In addition to market increases in audit fees, companies generally experience incremental fee increases from their incumbent auditor after the initial engagement (Kanodia & Mukherji, 1994). Past studies suggest that this is in part due to low-ball offers commonly made by audit firms to incentivize potential new clients to switch (Eichenseher & Shields, 1983; Garsombke & Armitage, 1993; Johnson & Lys, 1990).

Garsombke and Armitage (1993) find that initial low-ball offers tend to be lower when the client initiates the competitive bidding process. However, this does not imply that benefits cannot be gained in the absence of client-initiated bidding. Before the US Supreme Court decision in Edenfield v. Fane (1993), which ruled that state bans on personal solicitation by CPAs were unconstitutional, there was a higher rate of switching in markets where boards of accountancy permitted audit firms to solicit new clients compared to markets where direct solicitation was prohibited (Chaney et al., 1997). Beattie and Fearnley's (1998) work further

supports this notion, as they find that most UK firms that switched auditors did so after receiving an offer from a potential new audit firm.

Another common motivation for switching audit firms is to improve the company's image. This can be accomplished in several ways. One way is to increase the quality of audits by using a specialized industry auditor. In a study of companies switching between Big 4 auditors[1], Knechel et al. (2007) find that companies switching to an audit firm specializing in their industry experience significantly positive abnormal returns, whereas switching to a non-specialized audit firm tends to produce alternative results. Early studies find motivations on the "company-centered" side of the continuum, ultimately benefiting shareholders (Williams, 1988).

On the opposite end of the continuum, motivations for switching auditors may involve self-serving interests. Decisions at this end of the spectrum are typically made to further entrench the management team and improve management compensation (Davidson et al., 2006). One specific self-serving action that management can take, and the focus of this study, is choosing whether to retain the incumbent auditors or switch to new auditors in order to ensure receiving a more favorable audit report. This opportunistic switch decision, made to avoid receiving an unfavorable opinion, is known as audit opinion shopping (SEC, 1988).

Opinion shopping is defined as the practice of searching for “an auditor willing to support a proposed accounting treatment designed to help a company achieve its reporting objectives

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[1] The term “Big 4” is used in this study to refer to the four largest accounting firms based on revenue. These firms include Ernst & Young (EY), Deloitte, PricewaterhouseCoopers (PwC), and Klynveld Peat Marwick Goerdeler (KPMG).

even though doing so might frustrate reliable reporting (SEC, 1988)". In simpler terms, opinion shopping is when a company dismisses or retains the incumbent auditor based on the expectation of receiving a more or less favorable opinion from another auditor (Lennox, 2000). According to Williams (1988, p. 247), companies engage in opinion shopping because "Managers would prefer to select an accommodating auditor who would allow the manager to reflect a favorable image as a good steward of the shareholder's investment. An auditor who (a) allows agents to favorably interpret accounting principles in order to achieve a specific goal and (b) issues favorable opinions, are examples of an auditor helping to create the manager's image as a good steward."

The concept of companies "shopping" for optimal audit opinions was first proposed by Abraham Briloff during a 1976 Barron's interview, which was included in a U.S. Senate report. This eventually led to the coining of the term "opinion shopping". Professor Briloff suggests that differences in the interpretation of principles among accountants may lead companies to seek the best auditor among possible candidates. He continued, "And I know that implications might be that this then might produce some kind of a shopping around for accountants, and you could have a race for the bottom" (U.S. Senate, 1976, p. 1693)." This acknowledgement of a possible legal yet morally questionable act quickly generated interest among researchers, leading to numerous studies exploring the existence of audit switching driven by competition (Chow & Rice, 1982; Fried & Schiff, 1981; Nichols & Price, 1976).

Goldman and Barlev (1974) are among the first to discuss the possible reasons why companies would opportunistically switch auditors, engaging in what would later be referred to as "opinion shopping". The authors detail how the structure of the auditing profession has created unintended opportunities for companies to pressure auditors to perform against

professional standards, thus negatively impacting auditor independence. The pressure from companies is built around three key conflicts of interest that auditors are involved in: (1) the conflict of interest between the auditor and the client, (2) the conflict of interest between the client's shareholders and management, and (3) the conflict of interest between professional standards and self-interest (Goldman & Barlev, 1974).

The auditor-client conflict arises when there is a disagreement between the client (i.e., management and shareholders) and the auditor, both of whom want the same result: a positive audit report (Goldman & Barlev, 1974). If the auditor's findings do not align with this desired outcome, the client may try to pressure the auditor into violating accounting standards (Goldman & Barlev, 1974). However, this conflict has been argued to be more complex than originally proposed. Nichols and Price (1976) suggest that the leverage of each party in the conflict depends on the value placed on the rewards that the opposing party can provide.

In contrast, the conflict between shareholders and management, best explained through the lens of agency theory (Jensen & Meckling, 1976), primarily involves the two parties of the client: the shareholders (the "principal") and management (the "agent"). Auditors may be drawn into this conflict if they feel pressure from management to produce favorable reports to improve the performance evaluations conducted by the shareholders (Goldman & Barlev, 1974).

These two types of conflicts can create pressure on auditors, leading to the third type of conflict of interest: the standards-self-interest conflict (Goldman & Barlev, 1974). In this internal dilemma, if the audit firm is presented with the ultimatum "do what the client wants or lose the client," auditors must decide whether to uphold professional standards but risk losing the client's business or ensure the retention of the client but violate professional standards (Goldman & Barlev, 1974).

In one of the first studies examining the existence of auditor switching due to disputes over accounting standards (i.e., opinion shopping), Burton and Roberts (1967) surveyed 83 Fortune 500 companies that had switched audit firms between 1952 and 1965 to determine the motive behind the switch. The authors find that only six of the 83 companies admitted to switching because of a dispute. This led Burton and Roberts to conclude that competition among auditors is not a contributing factor to auditor switching. Factors that contribute to auditor changes include changes in management, a need for additional services, fee reduction, and increased demands for higher auditor credibility (Burton & Roberts, 1967).

In 1982, Chow and Rice challenged the conclusion of Burton and Roberts's (1967) study that auditor switching was not influenced by competition. Chow and Rice argue that the previous authors' use of surveys fails to consider that participants have nothing to gain and everything to lose by admitting to using opinion shopping to pressure audit firms. Consequently, the authors determine that firms do in fact switch auditors more frequently after receiving qualified opinions. However, they find no evidence supporting the idea that companies switch to a new audit firm with a lower rate of issuing qualified opinions. The authors also find that companies that switch after receiving a qualified opinion are no more likely to receive a clean opinion from the successor firm compared to companies that do not switch after receiving a qualified opinion. Smith's (1986) case study later supports findings of Chow and Rice, as he finds only five out of 139 cases of companies switching auditors after receiving an adverse audit report, indicating the possibility of opinion shopping.

In 1994, Krishnan challenged the results of Chow and Rice (1982) by examining whether the decision to opinion shop is triggered by the level of conservatism from auditors, rather than receipt of qualified opinions. Krishnan determines that the rate of audit switching is higher when

auditors issue opinions based on more conservative standards, as compared to companies that do not switch. These results suggest that opinion shopping may be occurring. However, consistent with Chow and Rice, Krishnan finds that switching auditors does not typically improve the chances of receiving a clean opinion.

In an extension of this study, Krishnan and Stephens (1995) further examines the treatment of the predecessor and successor auditors by comparing audit opinions by both parties. The authors find that companies are not treated differently in the year prior to switching versus the year after switching, as compared to companies that do not switch. These results suggest that companies are either failing at opinion shopping or choosing to switch audit firms for reasons other than opinion shopping (J. Krishnan & Stephens, 1995).

Prior to 2000, nearly all studies on opinion shopping considered the act to only include instances of definitive auditor change. This limitation led to inconclusive or non-supporting evidence that opinion shopping was occurring often and/or successfully (e.g., Chow & Rice, 1982; Krishnan, 1994; Krishnan & Stephens, 1995; Smith, 1986). Conflicting results may be due to the assumption that opinion shopping is dependent on a change in auditors. In 2000, Lennox argues against the use of pre-switch opinions as the sole determinant of opinion shopping, claiming they are poor proxies. Drawing from the views of Teoh (1992), who describes opinion shopping as a second draw from a pool of audit opinions rather than a definitive switch, Lennox broadens the conditions in which opinion shopping should be viewed.

Lennox (2000) posits that opinion shopping can occur in two forms. On the one hand, consistent with previous literature, a company can switch to a new (successor) auditor if the company anticipates receiving an unfavorable opinion from the incumbent auditor. Lennox identifies this as ‘switching opinion shopping.’ On the other hand, a company can retain the

incumbent auditor if the company anticipates receiving an unfavorable opinion from a successor auditor, if a switch were to take place. As such, Lennox identifies this form as 'non-switching opinion shopping.' By incorporating this new additional form of opinion shopping, Lennox develops a model for determining whether companies are successfully engaging in opinion shopping. This new model has become a major turning point for opinion shopping literature, revolutionizing the way instances of opinion shopping are identified and studied (e.g. Amin et al., 2021; Chung et al., 2019; Chung & Kim, 2022; Newton et al., 2016).

The development of the Lennox (2000) model led the author to two significant findings: 1) companies are more likely to switch auditors after receiving a modified opinion, and 2) the decision to switch improves the likelihood that the company will receive a more favorable opinion. These outcomes suggest that the sample of UK-based companies studied are more likely to receive unfavorable opinions if the alternative switch decision was not made. Therefore, Lennox provides evidence that companies frequently engage in opinion shopping and do so with great success.

In a follow-up study, Lennox (2002) expands on the scope of his previous research by examining whether companies in the U.S. are engaging in opinion shopping, while also exploring the effects of audit committees on the engagement. Consistent with his earlier findings using companies located in the U.K., Lennox finds evidence suggesting that opinion shopping occurs successfully among U.S. companies as well. Additionally, the author finds that dismissals of auditors motivated by opinion shopping tend to occur significantly later in the accounting period than dismissals motivated by other reasons. This finding is significant because it provides justification for how and why opinion shopping occurs successfully. That is, companies have

more time to gather information and predict the opinion of the incumbent auditor, while the successor audit firm has less time to evaluate and discover underlying issues.

After Lennox (2000) developed his opinion shopping model and obtained successful results supporting the notion that opinion shopping occurs, there was renewed interest in opinion shopping research. One popular stream of research in this area focuses on influential factors. When searching for factors that may influence the likelihood of opinion shopping occurring, most literature focuses on examining extrinsic factors. For example, Lennox (2002) finds that the presence of an audit committee can act as a moderator, reducing the likelihood of a company engaging in opinion shopping. Additionally, the author finds that the strength of the deterrence from the audit committee can be explained by the level of independence and expertise of the audit committee members. Other influential factors linked to increased likelihoods of engaging in opinion shopping include whether the company is under principles-based accounting standards (as opposed to rules-based) (Chung & Kim, 2022), when investor sentiment is high (Amin et al., 2021), and when companies have a higher motivation to avoid loss driven by financial distress (Yuejun, 2011). Conversely, Yuejun finds higher audit fees reduce the likelihood of opinion shopping, as companies may feel that increased fees could indicate higher audit quality, thereby limiting their ability to obtain a more favorable audit opinion.

Research into intrinsic factors motivating companies to engage in opinion shopping is scarce. In fact, after a thorough search of the literature, only one study was found to examine the relationship between management characteristics and audit opinion shopping. Specifically, Seifzadeh et al. (2021) study five management factors, including earnings management (both real and accrual-based), narcissism, overconfidence, entrenchment, and board effort as influences of

opinion shopping. However, there are two significant differences between that study and the current study.

First, whereas Seifzadeh et al. (2021) conducts a multivariate regression analysis to study the impact the five management factors have on audit opinion shopping, the present study focuses only on CEO narcissism and its related impact. Prior literature documents the commonalities between narcissism and overconfidence (see Campbell et al., 2002, 2004; Raskin et al., 1991). In fact, Post (1993, pp. 99–100) goes so far as to claim, "narcissism is nothing more than extreme self-confidence." Additionally, Park et al. (2018) find that CEOs with excess self-confidence (i.e., hubris) are more likely to become entrenched. Therefore, and contrary to Seifzadeh and colleagues, this study attempts to eliminate possible issues of multicollinearity by isolating CEO narcissism as the sole independent variable.

Second, in the previous study, Seifzadeh et al. (2021) identify cases of opinion shopping by using a pre-Lennox proxy. This involves checking whether a company switched to a lower-quality audit firm and subsequently receives an unqualified audit opinion. Seifzadeh and co-authors also measure CEO narcissism using two factors: the cash compensation index (i.e., the organization's fiscal year's total payment divided by the approved cash compensation of the manager) and the CEO signature size. For this study, the Lennox model (2000) is used to identify cases of opinion shopping, and the CEO narcissism index (Chatterjee & Hambrick, 2007) is employed to measure CEO narcissism, following the works of Olsen et al. (2014), Olsen and Stekelberg (2016), and Judd et al. (2017).

The following subsections provide a more micro-level review of the opinion shopping literature, breaking down the topic into specific categories of unfavorable auditor opinions. These include opinion shopping to avoid a going concern opinions (e.g., Chung et al., 2019;

DeFond et al., 2002), an internal control opinions (e.g., Amin et al., 2021; DeFond & Zhang, 2014; Newton et al., 2016), and a modified audit opinion. Additionally, a fourth section is included to discuss other types of opinion shopping. However, these are beyond the scope of this study.

Going-Concern Opinion Shopping

One of the many responsibilities of auditors is to provide an opinion on the audited company's ability to continue operating in the near future. To do this, auditors must determine whether there is "substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time (PCAOB, 2020, p. 254)." It is commonly understood that "reasonable" means within one year of the financial statement's issuance date (FASB, 2014; PCAOB, 2020). If there is substantial doubt, the auditor will issue a going concern opinion (GCO), indicating that there is reasonable doubt that the company will remain in business for the next twelve months.

Prior to 1988, the decisions of auditors to issue GCOs were rather passive. Auditors were only required to evaluate the company's ability to continue as a going concern when questionable information from the financial statement audit was discovered, as stated in the authoritative guiding statement of that period, SAS No. 34 (AICPA, 1981). In 1988, the AICPA issued an update to the previous statement that expanded the grounds to which auditors should consider issuing qualified GCOs beyond the balance sheet (Ellingsen et al., 1989). Under SAS No. 59, auditors are required to assess the viability of the company over the subsequent twelve-month period in every audit (AICPA, 1988).

In addition, SAS No. 50 offers auditors with suggestions for a sequence of procedures that should be considered when auditing for going concern. These include using various analytics from the existing audit design to identify any possible conditions or events that introduce

substantial doubt about the viability of the company. Examples of these conditions or events can include negative trends in financial ratios, financial difficulties related to debt requirements, and other internal and external issues. If substantial doubt is uncovered, the next step should be to request and consider any action plans that management has to mitigate the adverse effects of the conditions or events in question (AICPA, 2017). Upon reviewing management's plans, if substantial doubt still remains, the auditor is required to issue an unfavorable GCO, modifying the standard report paragraph to include an explanation of the doubt.

Since the issuance of SAS No. 59, the responsibilities of auditors when auditing for going concern, in the eyes of the AICPA, have remained relatively consistent through the years, with minor update statements evolving the standards of auditing going concern. For example, SAS No. 64 suggests that auditors should include the terms "substantial doubt" and "going concern" when issuing the opinion. SAS No. 77 amends the original statement to prohibit the inclusion of conditional language within going concern opinions.

On July 30, 2002, in response to the high-profile accounting and corporate governance scandals of Enron, WorldCom, Tyco and Arthur Andersen, the U.S. Congress enacted the Public Company Accounting Reform and Investors Protection Act of 2002, more commonly known as the Sarbanes-Oxley Act (SOX), in hopes of restoring investors' confidence in the accounting profession. At its core, the objective of SOX was to improve the auditing of public companies in the U.S (Coates, 2007). As a result, the act created the Public Company Accounting Oversight Board (PCAOB) to oversee audit standards for public companies (SOX, 2002).

The enactment of SOX and subsequent creation of the PCAOB had a tightening effect on auditors, increasing the perceived risk associated with auditing public companies (Ryu et al., 2009). This led non-Big N auditors to become more conservative in their GCO decisions

(Feldmann & Read, 2010), while Big N auditors improved their Type II errors (Myers et al., 2014). This also created a sudden surge in GCOs issued by auditors in the years following the Enron scandal that led to SOX and beyond (Carson et al., 2013).

A considerable amount of effort has been devoted to examining the issuance of GCOs, including factors that influence the likelihood of a company receiving a GCO and the impact that receiving a GCO may have on that company. Since the primary objective of a GCO is to alert financial statement users to any doubt the auditor has regarding the company's ability to continue operating, extensive attention has been given to studying the issuance (or non-issuance) of GCOs on financially distressed companies (e.g., Chung et al., 2019; DeFond et al., 2002; Hopwood et al., 1994; Kida, 1980; Strickett & Hay, 2022; Swanson & Theis, 2019).

Other company characteristics that are commonly documented as having predictability in receiving a GCO include the development stage of the audited company (Rosman et al., 1999), company size (Carcello et al., 2000; Ireland, 2003), and the independence and governing expertise of the audit committees (Carcello & Neal, 2003). However, concerns have been raised by Louwers (1998) that auditors may be focusing too much on these characteristics when assessing going concern rather than economic incentives or litigation risk of the client.

Despite its name, the issuance of a GCO does not necessarily mean a company is doomed to fail. In fact, research on type I misclassification errors (i.e., when auditors issue a GCO but subsequently remains operational and does not fail; also known as "false positive") has discovered a high percentage of companies defying the GCO doubt (Mutchler & Williams, 1990). A more recent study finds that companies that received GCOs between 2000 and 2010 exhibited a survival rate past the one-year mark of 98.31% (Carson et al., 2013). This is relevant to the current study because, along with data showing a decreasing trend of GCOs being issued

since the record high set in 2008, Geiger et al. (1998, as cited in Geiger & Raghunandan, 2001) find that following a GCO type I error by the auditor, the likelihood of the company switching audit firms increases. Therefore, it is reasonable to believe that the decreasing trend in GCOs is due in part to companies engaging in opinion shopping to avoid receiving a GCO.

Although the percentage of companies that do not file for bankruptcy within 12 months of receiving a GCO is significantly higher than those that do, GCOs still have tangible negative impacts on the company. Existing literature shows that in the event that a GCO is issued, adverse consequences may result, including a negative reaction in stock prices if the going concern audit report contains issues of obtaining financing (Menon & Williams, 2010), a negative effect on the ability to raise capital via debt (Chen et al., 2016), and a negative effect on credit ratings (Strickett & Hay, 2022). These negative effects, in addition to the negative impacts on self-image and public reaction may further motivate narcissistic CEOs to avoid a GCO by searching for an auditor willing to sign off on a clean audit opinion. It is for this reason that this study examines the avoidance of GCOs as a motivation to participate in opinion shopping.

Internal Control Opinion Shopping

Another area auditors are responsible for assessing during audits is internal controls over financial reporting (ICFR) implemented by the client. The PCAOB defines ICFR as "a process ... to provide reasonable assurance regarding the reliability of financial reporting" (PCAOB, 2020, p. 154). The purpose of internal controls is to prevent and/or detect errors or fraud that can cause a misstatement in the financial statements. The expectation is that the higher the quality of internal controls, the lower the likelihood of material misstatements, thus increasing the reliability of the information included in the financial statements.

Prior to 2002, auditors had flexibility when evaluating internal controls. Their primary responsibility was evaluating controls for planning and risk assessment purposes (AICPA, 1988a). This flexibility allowed auditors to rely on higher-level substantive tests as sufficient evidence for their opinions, rather than on poor internal control design and functionality (Newton et al., 2016). Furthermore, at the time, the Foreign Corrupt Practices Act of 1977, which was the authoritative literature, only required the implementation of controls to protect assets and facilitate reporting; it did not require management to assess and certify control effectiveness (U.S. Congress, 1977). However, the latitude given to auditors when assessing internal controls changed significantly with the enactment of SOX in 2002.

When considering internal controls over financial reporting (ICFR), two sections of SOX are relevant: Section 302 and Section 404. Section 302 places increased responsibility on CEOs and CFOs, requiring them to certify the accuracy of financial statements. As part of this certification, management is required to certify in writing the effectiveness of, and any material changes in, the ICFR.

Similar in sentiment to Section 302, Section 404 is the most complex and costly provision of SOX (Krishnan et al., 2008). Section 404 requires the implementation, monitoring, assessment, and reporting of the effectiveness of ICFR, including any material weaknesses identified during the audit. According to the PCAOB (2020, p. 155), a material weakness is "a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis." Therefore, if material weaknesses remain unremedied by the end of the year, the company must conclude that their ICFR is ineffective and report this in the annual report.

There are three primary subsections of Section 404 that describe the nature of the ICFR audit. Section 404(a) requires management to annually assess the effectiveness of the ICFR implemented and report all results in the Form 10-K annual report. The company can conduct this audit in-house, by internal auditors. Section 404(b) extends the previous subsection by requiring independent (external) auditors to verify the ICFR assessments of management, issuing a material weakness opinion (MWO) regarding the attestation of the effectiveness.[2]

Both Sections 404(a) and 404(b) became effective for all accelerated filers, i.e., companies with public floats (i.e., the market value of all nonaffiliate-held common equity) greater than $75 million, for fiscal years ending after November 15, 2004. For non-accelerated filers, or those with less than $75 million in public float, Section 404(a) became effective for fiscal years ending December 15, 2007. In an attempt to ease the possibility of financial burden on smaller reporting companies, lawmakers granted 404(b) compliance exemptions for non-accelerated filers until 2010. In July 2010, The Dodd-Frank Act was signed, which added Section 404(c) to SOX, permanently exempting non-accelerated filers from having to comply with Section 404(b).

There has been little research conducted on the factors that influence the propensity to engage in opinion shopping to avoid receiving an MWO. Specifically, two studies focus explicitly on MWO shopping. In a study by Newton and colleagues (2016), the authors find that

[2] According to Section 404 of SOX (2002), auditors are required to issue an adverse opinion on the effectiveness of ICFR when one or more material weakness exists. For this purpose, the terms adverse, unfavorable, and material weakness opinion are used interchangeably.

companies are successfully shopping for clean MWO. The likelihood of opinion shopping increases as competition levels increases and, similar to Lennox (2002), occurs later in the reporting period. In a later study, Amin and colleagues (2021) find that MWO shopping is more prevalent and results in higher restatement risk and audit fees when investor sentiment is high.

The inclusion of MWO shopping in this study, along with GCO shopping, serves two purposes. First, MWOs are issued more frequently than GCOs (Newton et al., 2016). This higher incident rate allows for a larger sample size, which provides a more powerful setting to examine the impact of CEO narcissism on a company's propensity to opinion shop. Second, policy makers have expressed greater concern over deficiencies in IFCR, as evidenced by the frequency with which the PCAOB mentions them compared to GCOs (Newton et al., 2016). According to the International Forum of Independent Audit Regulators' annual Survey of Inspection Findings (2023), audits reviewed for internal control testing with at least one deficiency (9%) outnumber those reviewed for going concerns with deficiencies (3%). This has been consistently true throughout the history of the audit report, despite the percentage of internal control audits with deficiencies having steadily declined over the past 10 years while the percentage of going concern audits with deficiencies has remained relatively consistent over the same period (IFIAR, 2023).

Opinion Shopping to Avoid Modified Auditors' Opinions

One of the most important responsibilities of independent external auditors is to provide assurance to stakeholders that the assertions of the company's management is presented in compliance with the established criteria of GAAP. More specifically, according to AS 1001 (PCAOB, 2020), the role of an independent auditor is to "plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements,

whether caused by error or fraud." It is worth noting that the standard specifically uses the word 'reasonable' as auditors are unable to obtain absolute assurance against material misstatements due to the nature of audit evidence (PCAOB, 2020).

Upon completion of performing their financial statement audit duties, the auditors must formulate "an opinion on the fairness with which [the financial statements] present, in all material respects, financial position, results of operations, and its cash flow in conformity with generally accepted accounting principles (PCAOB, 2020, p. 7)." This opinion is then communicated to the stakeholders through a one-page report, dubbed the auditor's report.

Little has changed regarding the auditor's report since the 1940s, except for the addition of internal control opinions due to the Sarbanes-Oxley Act (SOX) in 2002 (Lawson et al., 2017). Auditors have five reporting options when expressing their opinion in the auditor's report: unqualified, unqualified with explanatory paragraphs, qualified, adverse, and disclaimer.

An unqualified audit opinion, also known as an unmodified opinion, is considered a clean report. It indicates to stakeholders that the auditors have concluded that "the financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with the applicable financial reporting framework (PCAOB, 2020)." A 'standard unqualified' opinion is the most common audit opinion issued (Habib, 2013).

On the other hand, auditors may encounter situations that require them to deviate from a standard unqualified opinion, leading to modifications in the auditor's report. One possible modification is to include explanatory language alongside an unqualified opinion. However, it is important to note that the explanatory language should not change the auditor's assessment that the financial statements are presented fairly and without material mistakes (PCAOB, 1989). According to auditing standard AU 3101, circumstances that may warrant the inclusion of

explanatory language include uncertainties about the entity's ability to continue as a going concern, changes in accounting principles or application methods that result in material changes to the financial statements, changes in the reporting entity, material misstatements in prior financial statements that have been corrected, and internal control reports, among others (PCAOB, 2020).

In situations where auditors encounter more severe findings, they may need to qualify their opinion. This typically involves using the phrase “except for”. In this modified option, the auditor still provides assurance that the *overall* financial statements are presented fairly and in accordance with GAAP. However, there may be insufficient appropriate evidential matter, a limitation on the scope of the audit, or a material departure from GAAP that the auditor determines not to warrant an adverse opinion (PCAOB, 2020). Research suggests that this type of opinion is becoming less common, possibly due to the SEC’s strict stance on receiving a qualified audit opinion (Cipriano et al., 2016). In contrast to the PCAOB’s perspective that a qualified audit opinion serves as a middle ground between the pass/fail model (i.e., the financial statements are either presented fairly, therefore “pass”, or not presented fairly, therefore “fail”), the SEC considers a qualified audit opinion to be a failure to comply with filing requirements (SEC, 2016).

The most severe opinion an auditor can issue is an adverse opinion. When the auditor’s report is modified to include an adverse opinion, it conveys that the *overall* financial statement is not presented fairly or in conformity with GAAP (PCAOB, 2020). In other words, one or more material misstatements were found in the financial statements, and management refuses to correct them (PCAOB, 2020). At its core, the issuance of an adverse opinion does not provide any level of assurance regarding the reliability of financial statements. Due to the implications of

an adverse opinion, which may expose fraudulent activities, it is the rarest form of modified opinions (Zeff & Baskerville, 2018).

The final option an auditor may choose to modify his or her opinion is with a disclaimer. A disclaimer of opinion is issued when the auditor is unable to form an opinion on the financial statement due to a limit scope of the audit (PCAOB, 2020). While this type of opinion may appear neutral to financial statement users, the company receiving the disclaimer opinion may face negative consequences. First and foremost, the disclaimer opinion does not meet the requirements for certification as defined by the SEC (SEC, 2009). Furthermore, receiving a disclaimer opinion can make it difficult to obtain wavers for debt covenants violations, extend lines of credit, or secure additional financing (LaSalle et al., 1996).

The auditor's report and respective opinion serve as a source of 'non-earnings' information for financial statement users. Alongside previous research on the information provided by the financial side of the statements, such as earnings (Ball & Brown, 1968), Dopuch et al. (1986) find that qualified audit opinions are negatively associated with stock returns when disclosed in media. Choi and Jeter (1992) further support this notion by discovering that audit reports provide additional information for investors. The authors find that auditor opinions, particularly qualified opinions, can negatively affect the market's responsiveness to earnings announcements. They explain that these qualifications alter the market's perception of either the noise within earnings, the sustainability of earnings, or both.

Likewise, unqualified audit opinions that include explanatory language have been found to have a higher likelihood of being restated within the following two years, compared to those without such language (Czerney et al., 2014). Based on these studies and the implications of

adverse opinions, this study considers unqualified opinions with explanatory language, qualified opinions, and adverse audit opinions as unfavorable audit opinions.

Other Types of Opinion Shopping

In addition to the auditor-specific forms of opinion shopping discussed in the previous sections, which aim to avoid receiving unfavorable MAOs, GCOs, or MWOs, companies can engage in other forms of opinion shopping. These include seeking more lenient credit rating opinions (Coffee, 2011; Kotz, 2009), more favorable fairness opinions from investment bankers (Giuffra, 1986), and more beneficial opinions of counsel from unregistered finders (Lowenfels, 1971; Makens, 2004). One specific form that has recently become an area of interest in opinion shopping research is fair value opinion shopping. This is defined as "the practice of seeking the valuation opinion to support any primary objective other than faithfully representing the asset (or liability) being valued (Salzsieder, 2016, p. 57)." Auditors and standard setters alike are increasingly concerned about fair value opinion shopping.

From an audit perspective, this fear can be attributed to the shift towards fair value as the dominant measurement system for external financial reporting (Salzsieder, 2016). This dominance is further evidenced by the fact that 90% of the pronouncements issued by FASB involve fair value measurements (Salzsieder, 2016). From the perspectives of practitioners and standard setters, concerns are driven by the increasing quantity and complexity of fair value measurements on financial statements, which in turn increases the reliance on fair value opinions from valuation professionals (Bratten et al., 2013).

From the CEO's standpoint, fair value opinion shopping can be motivated by several factors. For example, a CEO may seek opinions that push earnings past a certain bonus target threshold, allowing them to earn a performance bonus (Murphy, 2000). This motivation is driven

by the CEO's self-interest. Another situation where fair value opinion shopping may be used is when a firm is close to violating a debt covenant (Beneish & Press, 1993). Unlike the previous example, the decision to seek a favorable fair value opinion is aimed at protecting stockholders from severe economic consequences and safeguarding the CEO's image.

While the objective of fair value opinion shopping is similar to that of GCO shopping and MWO shopping - i.e., shopping for favorable opinions - the sources of fair value opinions are quite different from the other two categories. Fair value measurements are not direct products of auditors. Instead, they can be derived from two sources: external valuation professionals or company insiders (Muller III & Riedl, 2002). Auditors generally prefer to rely on external professionals, as they have fewer conflicts of interest (Hirst, 1994). However, the purpose of the study is to investigate how CEO narcissism influences the likelihood of opportunistically seeking clean audit opinions. Since fair value opinion shopping does not involve auditors directly, it falls outside the scope of this study. Furthermore, no valid method has been developed to identify instances of fair value opinion shopping *ex post*. Previous studies on fair value opinion shopping use experimental research designs to examine how test subjects would react in a fair value dilemma (Cao, 2023; Salzsieder, 2016). For these reasons, fair value opinion shopping is not included in this study.

Narcissism

Narcissism has a long and evolving history, as the characteristics that define the term have been significantly modified over time. The term ‘narcissism’ is derived from a first century poem by the Roman poet Ovid, titled *Metamorphoses*, which chronicles the time from the creation of the world to the death of Julius Caesar. In Book III, Ovid writes about the mythological being Narcissus, who rejected all possible lovers, including the nymph, Echo. This

rejection maddened the gods, who punished Narcissus by forcing him to fall in love with his own reflection. Once Narcissus realized that his reflection could not return the love he was offering, he began to waste away from the unrequited passion burning inside him.

Nearly two millennia after the story of Narcissus was written, Ellis (1898) introduces the term "Narcissus-like" in psychological literature to describe the condition of "auto-erotism" found in one of his patients. Shortly thereafter, Freud (1905/1957) coins the term "narcissistic" when he uses "narcissistic libido" synonymously with "ego-libido," or self-love. Freud continues developing narcissism into a broader yet more complex concept, describing it as an attachment to oneself over another in his publication *On Narcissism: An Introduction* (Freud, 1914/1957a). Viewing narcissism as psychological state, Freud suggests that all humans are born with a finite amount of energy to drive their survival instincts, called libido. Narcissism is based on whether the direction of that energy is inward or outward. Early in life, an individual naturally directs all the libido inward. However, as the individual grows, he begins to increase the level of libido outward and decrease the level of libido inward, developing a necessary healthy balance for themselves and others. In other words, the individual grows out of the primary narcissistic stage.

Up until the 1960s, narcissism was generally viewed within psychological research as a personality or character trait. Around the same time that Freud published *On Narcissism*, Jones (1913/1951) published a compilation of essays on folklore, anthropology, and religion. In the twelfth essay, Jones suggests that narcissism is a pathological character trait, which he labels the “God-complex.” According to Jones, narcissism is characterized by “a desire for aloofness, inaccessibility, and mysteriousness, often also by a modesty and self-effacement” (1913/1951, p. 262). Jones argues that narcissism arises due to the confused views an individual has on reality, which can lead to a sense of omnipotence as a defense mechanism.

The transition of narcissism from a personality trait to a personality disorder began in 1961, after Nemiah first coins the term "narcissistic character disorder." This new revelation prompted psychoanalysts Otto Kernberg (1967, 1976, 1985) and Heinz Kohut (1968, 1971, 1977) to develop opposing schools of thought on narcissism, leading to a divergence in the way narcissism is viewed and studied.

Kernberg (1967) labels the concept "narcissistic personality structure" and develops a theory on narcissism that focuses on the impact of object-relations on self-esteem and self-esteem regulation. Kernberg's theory suggests that narcissism occurs in three forms: normal adult narcissism (a by-product of a healthy mental balance between self and others, which can be caused by positive relationships with early caretakers), normal infantile narcissism (a by-product of an infant's need for admiration from others), and pathological narcissism (a pathological form where the superego of an individual remains in the infantile state). At its foundation, Kernberg views the developmental source of narcissism to be the rejection, devaluation, and emotional invalidation from parental beings. This experience can lead to defensive withdrawal and, ultimately, the establishment of the grandiose self-representation seen in narcissists.

Unlike Kernberg, Kohut (1968) believes that narcissism is not a defense mechanism but rather a deviation from an individual's normal development process. As such, he introduces the term “narcissistic personality disorder”. Kohut suggests that grandiosity, a characteristic of narcissism in childhood, is normal. However, if the grandiose self does not evolve as it should, narcissism develops, causing the individual to have difficulty relating to others in ways found in the initial stages of development. In other words, if an individual is unable to develop an integrated sense of self, the grandiose narcissism they are born with will remain throughout adulthood.

As research on narcissism remained consistent through much of the 20th century, it began to diverge and therefore accelerated greatly in the late 1970s and early 1980s. This increase in research coincides with two prominent events: the introduction of narcissism as a personality disorder in the American Psychiatric Association's (APA) Diagnostic and Statistical Manual (DSM), and the development of the Narcissistic Personality Inventory (NPI; Raskin & Hall, 1981).

In 1994, the APA published its fourth edition of the DSM (DSM-IV, p. 717), which defines the symptoms an individual must possess to be diagnosed with Narcissistic Personality Disorder (NPD). The criteria consist of:

> "A pervasive pattern of grandiosity (in fantasy or behavior), need for admiration, and lack of empathy, beginning by early adulthood and present in a variety of contexts, as indicated by five (or more) of the following:
>
> 1. has a grandiose sense of self-importance (e.g., exaggerates achievements and talents, expects to be recognized as superior without commensurate achievements)
> 2. is preoccupied with fantasies of unlimited success, power, brilliance, beauty, or ideal love
> 3. believes that he or she is "special" and unique and can only be understood by, or should associate with, other special or high-status people (or institutions)
> 4. requires excessive admiration
> 5. has a sense of entitlement, i.e., unreasonable expectations of especially favorable treatment or automatic compliance with his or her expectations
> 6. is interpersonally exploitative, i.e., takes advantage of others to achieve his or her own ends

7. lacks empathy: is unwilling to recognize or identify with the feelings and needs of others
8. is often envious of others or believes that others are envious of him or her
9. shows arrogant, haughty behaviors or attitudes"

According to academic researchers, narcissism is viewed as a complex interpersonal disposition that revolves around three core features: an elevated sense of self-importance (grandiosity), an exaggerated need for admiration, and a lack of empathy towards others (Brunell et al., 2008; Cragun et al., 2020). However, there is a broad range of distinguishing features of narcissism according to psychology theory, as noted by researchers (Aktas et al., 2016). In addition to the three core features, Raskin and Terry (1988) further characterizes narcissism by seven determinants: authority, exhibitionism, superiority, vanity, exploitativeness, entitlement, and self-sufficiency. In essence, narcissists are fixated on success and power, often at the expense of others, as they lack empathy and crave recognition and praise for all their achievements, no matter how small, in order to support their grandiose sense of dominance (Brunell et al., 2008; Emmons, 1987).

Narcissism in Leadership

When considering the qualities one desires to see in a leader, most people would not expect narcissism to be included. In fact, some would likely expect narcissism to be listed as an undesirable quality in a leader. However, studies find that narcissism is significantly associated with leadership positions, including leadership in the military (Paunonen et al., 2006), professional sports (Resick et al., 2009), and C-suite executive positions (Gupta & Spangler, 2012). Rijsenbilt (2011) takes this one step further and suggests that narcissism is an essential component of effective leadership. This is especially interesting considering that only about

6.2% of the general population suffer from NPD (Stinson et al., 2008). Despite the relatively low prevalence rate, narcissists are frequently found in high-level leadership positions (Braun, 2017). O'Reilly et al. (2014) suggest three explanations for this phenomenon: character traits, natural emergence, and organizational needs.

First, many of the characteristics of narcissism overlap with the implicit characteristics of what is considered to be a 'good leader' (Epitropaki & Martin, 2004). In a meta-analysis study of individual differences proposed to be associated with effective leadership, Hoffman et al. (2011) identify seven specific traits that embody a good leader: achievement motivation, energy, dominance, honesty/integrity, self-confidence, creativity, and charisma. Among these seven traits, four are commonly associated with narcissists: energy, dominance, self-confidence, and charisma. As a result, narcissists may have improved chances of being offered leadership positions (Hoffman et al., 2011).

A second explanation for the prevalence of narcissists in leadership roles is that they are more likely to naturally emerge as leaders in the absence of one, compared to those who are not narcissistic (Brunell et al., 2008; Grijalva et al., 2015; Nevicka et al., 2011). In a study consisting of three experiments, Brunell et al. (2008) find that when presented with a task or tasks, a leaderless group of strangers tend to be led by the predicted narcissistic participants more often than non-narcissistic participants. This outcome is consistent across evaluation reports completed by oneself, by other group members, and by expert observers. The authors suggest that this can be attributed to the narcissists' increased desire to be the leader and their greater likelihood of expressing their opinions directly (Brunell et al., 2008).

The third explanation focuses on organizational needs, particularly during times of crisis. In such times, organizations may be willing to overlook possible disadvantages in order to

realize the benefits associated with narcissistic leaders. In other words, confidence and assertiveness are preferred over timidness and indecisiveness (Rosenthal & Pittinsky, 2006). Narcissism has been linked to the decisiveness quality needed by such organizations. For instance, the level of narcissism in CEOs is positively related to the speed at which decisions are made (She et al., 2020). However, the level of narcissism is negatively related to decision comprehension (She et al., 2020). Another quality that may entice boards to hire a narcissistic CEO is that such individuals tend to have higher levels of entrepreneurial orientation (Wales et al., 2013).

Studies on the effects of narcissism among CEOs on their companies find a range of outcomes, both positive and negative. The fact that narcissists are more likely to be promoted to the CEO position (Gupta & Spangler, 2012) suggests that boards believe there is a balance between the bright and dark sides associated with hiring a narcissist. For instance, narcissistic CEOs often prefer bold actions (Chatterjee & Hambrick, 2007). This tendency to undertake challenges stems from their desire to receive frequent praise and admiration from stakeholders (Rijsenbilt & Commandeur, 2013). This boldness can lead to an increase in the number of mergers and acquisitions, as well as deal size, while reducing deal frequency (Aabo et al., 2020). In other words, narcissistic CEOs tend to possess a "go big" mentality, prioritizing the size of the merger and acquisition deals over the quantity, which often results in overpaying for them. However, this boldness can also result in greater variability in firm performance (Wales et al., 2013).

Narcissistic CEOs often use a range of tools to enhance and reinforce their grandiose self-image. For instance, narcissistic CEOs tend to favor corporate social responsibility initiatives (Petrenko et al., 2016). Specifically, Petrenko and colleagues (2016) find that narcissism has a

positive influence on the levels and profile of organizational corporate social responsibility. However, because the narcissistic CEO may use corporate social responsibility for personal gain (e.g., attention and image reinforcement) rather than strategic purposes, the organization may experience lower financial performance. The relationship between narcissistic CEOs and corporate social responsibility is also influenced by peer firms. Tang et al. (2018) discovers that narcissistic CEOs tend to behave in a conflicting manner with respect to peer firms. That is, when board-interlocked peer firms invest less in corporate social responsibility initiatives, narcissistic CEOs tend to invest more, and vice versa.

Research on narcissistic CEOs has recently become more focused on studying the impact narcissism has on accounting-related outcomes of firms. For instance, Judd et al. (2017) find a positive relationship between CEO narcissism and external audit fees. The authors suggest that this is likely due to the higher levels of inherent risk and control risk that result from riskier business decisions, higher perceived risk of fraud, and lack of respect for compliance that are common among narcissists (Amernic & Craig, 2010; Chatterjee & Hambrick, 2007; Johnson et al., 2013). Narcissistic CEOs are also linked to an increased likelihood of manipulating performance measures through increased productions (Olsen et al., 2014). Additionally, CEO narcissism has a positive association with engagement in fraud (Rijsenbilt & Commandeur, 2013).

One particular area of accounting that CEO narcissism has been determined to have a significant effect on dealing with earnings management. Highly narcissistic CEOs tend to engage in earnings management, according to Capalbo et al. (2018). Lin et al. (2020) find that CEOs with high levels of narcissistic behavior are more likely to use the abnormal production cost method to increase reported earnings, meeting positive earnings thresholds and analysts'

forecasts. Buchholz et al. (2020) also find that CEOs use accruals management to positively manage earnings. However, contrary to previous research, narcissistic CEOs are found to use accrual-based earnings management to both increase and decrease income, suggesting that they use earnings management to influence perceived performance in the current period and the future (Buchholz et al., 2020).

From a contextual standpoint, narcissistic CEOs are careful in their choice of words when communicating earning information to stockholders. According to a text analysis conducted by Buchholz et al. (2018), more narcissistic CEOs tend to use an abnormal optimistic tone in their companies' 10-K reports compared to less narcissistic CEOs. Moreover, the increase in abnormal optimistic tones from narcissistic CEOs is positively associated with a higher likelihood of future seasonal equity offerings and increased investments in research and development costs. Similarly, Marquez-Illescas et al. (2019) find that narcissistic CEOs often try to manipulate the narrative of financial disclosures by using more positive textual tones in earnings announcements, thus reinforcing their grandiose self-image. However, the authors did find evidence suggesting that the bias included in the earnings announcements is moderated as the age of the CEO increases.

Given these examples of mechanisms that narcissistic CEOs already use, along with the adverse outcomes that come with receiving unfavorable audit opinions, it is reasonable to assume that audit opinion shopping could be another tool in their arsenal for promoting their grandiosity while safeguarding their job and compensation. In the following two subsections, a discussion of the two moderating factors that are included in this study are provided.

CEO Duality

The CEO is the most senior individual within a corporation. While the CEO is often responsible for making decision that align with the organization's strategic directions, the power[3] is not absolute (Boyd, 1995). In fact, the ultimate authority on internal matters of the company lies with the corporate board of directors (Molz, 1985). The board, led by a chair, is a governing body elected to represent the shareholders. According to Weisbach (1988, p. 431), the role of the board is to act as "the shareholders' first line of defense against incompetent management". That is, the board functions as a monitoring mechanism that safeguards the shareholders' interests (Fama & Jensen, 1983). Consequently, when a vigilant board is present, the power of CEOs and their ability to pursue riskier projects are likely to be moderated. However, when CEO duality is present, the CEO's additional power can enable him to advance his personal agenda through increasing influence and control (Finkelstein & D'Aveni, 1994).

CEO duality is defined as an individual holding both the positions of CEO and chairperson of the board in a company (Rechner & Dalton, 1991). Referred to as a "double-edged sword" by Finkelstein and D'Aveni (1994), duality is commonly studied through two disparate theories, which create two opposing extremes: one of detriment (non-supportive) and one of benefit (supportive).

From the perspective of agency theory, CEO duality is argued to create an imbalance of power at the top of the corporate ladder. This is due to the excessive power gained by the CEO

[3] Power is defined as the capacity of an individual to exert their will, achieving a desired outcome despite resistance (Finkelstein, 1992; Lynall et al., 2003; Pfeffer, 1981).

(Rijsenbilt, 2011). The lack of independence between the CEO, who is responsible for strategic management, and the board, who evaluates the success of the CEO's actions, results in the imbalance (Finkelstein & D'Aveni, 1994). Put in simpler terms, Brickley et al. (1997, p. 190) analogize duality by linking it to a "CEO grading his own homework". Agency theorists contend that duality can lead to CEO entrenchment (Mallette & Fowler, 1992), causing CEOs to prioritize their own interest over those of the shareholders when making firm-related decisions (Weisbach, 1988).

On the other hand, when viewed through the lens of organizational theory, CEO duality is often seen as a means to enhance the firms performance by establishing a unity of command (Finkelstein & D'Aveni, 1994). Supporters of duality argue that having the same person serving as both the CEO and chairperson of the board can create a company with "unambiguous leadership clarifying decision-making authority and sending reassuring signals to stakeholders (Finkelstein & D'Aveni, 1994, p. 1080)". Moreover, firms that believe in the benefits of leadership unity have argued that the independence of their board is sufficient, regardless of the CEO's dual presence on the board (Krause et al., 2014).

Research on the relationship between CEO duality and firm performance is extensive due to the dichotomous arguments that can be made. However, there is little consensus on the topic as the results have yielded mixed results, at best. In fact, a meta-analysis conducted by Dalton et al. (1998) revealed inconsistent associations between board leadership structure and firm performance, effectively ending research on direct associations between the two topics (Krause et al., 2014). As a result, the focus shifted towards examining the complex interactions associated with duality from a dynamic perspective, rather than monotonic (Elsayed, 2007). For example, Tang (2017) finds that the relationship between duality and performance is influenced by the

existence of a blockholding outside director on the board. Another study finds that the relationship is positively moderated by firm size and corporate social responsibility practices (Mubeen et al., 2021).

In relation to ethical concerns, research indicates that having dual CEOs can lead to unsavory behaviors. For example, when the CEO also serves as the chair of a board comprised of lower number of outside directors, the board is more likely to be sued by shareholders compared to boards with a higher proportion of outside directors (Kesner & Johnson, 1990). In the most extreme cases, CEO duality has been found to increase the likelihood of fraud (O'Connor et al., 2006). Specifically, the authors find a positive relationship between dual CEOs and fraudulent financial reporting in the absence of CEO stock options. It is worth noting that when both the board and the CEO have stock options, the likelihood of fraud is higher when the CEO is not also the chair of the board (O'Connor et al., 2006).

When exploring the influence that CEO duality has on CEO narcissism, researchers find that duality acts as a moderator for firm performance. According to Chen et al. (2021) duality enhances the positive relationship between CEO narcissism and peripheral corporate social responsibility, as well as the negative relationship between CEO narcissism and embedded corporate social responsibility[4]. Moreover, research suggests that the connection between CEO

[4] The term "peripheral corporate social responsibility" refers to corporate social responsibility activities that are not integrated into the company's strategy, routines, and operations, such as philanthropy. On the other hand, "embedded corporate social responsibility" is used to describe activities that are incorporated into the company's strategy, routines, and operations, like eco-friendly manufacturing (Aguinis & Glavas, 2013).

narcissism and firm performance is more pronounced when narcissists hold dual-CEO positions and find agreeableness between them and their top management team (Uppal, 2020). While it is widely acknowledged that narcissists are more inclined to take risks, studies suggest that when the narcissistic CEO also serves as the board chair, duality further amplifies its effects (Li & Tang, 2010).

Considering the enhanced power and influence acquired by a CEO that also chairs the board, combined with a narcissist's obsession with success and recognition at all costs to maintain their inflated self-image, it is reasonable to assume that a narcissist holding both positions would likely exploit this heightened authority to seek a favorable opinion rather than receiving an unfavorable opinion. This behavior serves to protect their perceived competence and reputation.

Managerial Ability

The ability of leaders has long been studied, with researchers exploring various interpretations (Anggraini & Sholihin, 2023). However, a significant shift occurred in 2012 when Demerjian et al. introduced a succinct method of defining and quantifying managerial ability. Since the publication of their influential work, researchers have widely embraced their interpretation and measurement as the prevailing consensus. According to Demerjian and colleagues, managerial ability refers to the effectiveness and efficiency of CEOs in utilizing the company's resources to generate revenue, profit, and firm values relative to other companies in the industry. Choi et al. (2015) further expands on this concept, highlighting that CEOs with higher ability can maximize resource utilization through their investment decisions, as well as revenue-generating and cost-cutting activities.

Previous literature documents that the ability of a CEO has a direct impact on the company. For instance, Demerjian et al. (2012) find a positive association between a CEO's ability and a firm's performance, as evidenced by changes in stock returns and return of assets. This association is particularly pronounced during financial crises, as more able CEOs demonstrate greater efficiency in utilizing company resources (Andreou et al., 2017). Additionally, Yuan et al. (2019) discover that managerial ability is positively associated with corporate social responsibility performance, specifically in relation to concerns of the corporate stakeholder rather than the concerns of society in general. Further exploration into the characteristics of CEO ability has revealed that less able CEOs have a tendency to compensate for their inadequacies by overinvesting or underinvesting in opportunistic corporate social responsibility projects for personal gain (García-Sánchez & Martínez-Ferrero, 2019). These behaviors have been attributed to more able CEOs having fewer concerns regarding their careers (García-Sánchez & Martínez-Ferrero, 2019).

When examining the specific impacts of managerial ability on the accounting side of a company, research finds multiple connections. Haider et al. (2021) observe that highly able CEOs tend to adopt a higher level of accounting conservatism, which benefits the firm and its stockholders. Similarly, CEO ability has been found to impact management earnings forecasting (Baik et al., 2011). Baik and colleagues find that higher able CEOs are more likely to issue a management earnings forecast, and they issue them more frequently and accurately compared to less able CEOs.

Within the past decade, there has been a focus on exploring the impact of CEO ability on auditing. Krishnan and Wang (2015) find that companies led by more able CEOs tend to have lower audit fees. This finding is supported by the idea that more able CEOs are associated with

higher earnings quality (Demerjian et al., 2013). As a result, the CEO's ability reduces the engagement risk for the auditing firm, leading to lower the audit fees. The same study also finds that CEO ability can influence the likelihood of the company receiving a GCO (relevant to this study). Companies with more able CEOs receive fewer GCOs, while companies with less able CEOs receive more (G. Krishnan & Wang, 2015). Additionally, less abled CEOs tend to exhibit more tax aggressiveness, increasing the chances of aggressive tax avoidance (Francis et al., 2013).

In summary, companies led by more able CEOs tend to experience significantly positive outcomes across various areas of the firm. This desirable quality eliminates the need for the CEO to engage in risky or questionable activities, as their capable actions speak for themselves. On the other hand, a company led by less capable CEOs may result in unfavorable outcomes. Considering the negative impact of such outcomes on the CEO, along with the strong desire of narcissistic CEOs to maintain their image and position at all costs, it is reasonable to expect that narcissistic CEOs with low managerial ability scores may resort to questionable tactics in order to conceal their deficiencies and create an illusion of superiority and success.

In the following subsection, a discussion of the theoretical framework commonly used when studying narcissistic CEOs and their behavior is provided. This includes explanations of how the theories relate to CEO narcissism, the associated weaknesses of choosing them for this study, and the motivation for ultimately deciding on the chosen theory.

Theory Framework

To study the relationship between CEO narcissism and its influence on audit-related decisions, researchers must first determine which theory to build upon. According to Cragun et al. (2020), there are five theoretical options commonly used in narcissistic leadership research to

provide conceptual clarity and guide research questions. They are implicit leadership theory (Lord et al., 1984), extended agency model of narcissism (Campbell & Foster, 2007), admiration-versus-rivalry perspective of narcissism (Back et al., 2013), tournament theory (Becker & Huselid, 1992), and upper echelons theory (Hambrick & Mason, 1984). For the sake of completeness and brevity, brief explanations are provided for the first four alternatives as they are not relevant to this study. The upper echelons theory (Hambrick & Mason, 1984) is then explained in greater depth as it is the theory used to develop the hypotheses for this study.

According to the implicit leadership theory (Lord et al., 1984), leaders are determined by their characteristics and how closely they resemble prototypical leaders. Narcissists often possess characteristics commonly associated with "good" leaders, such as being energetic, dominant, confident, and charismatic (Epitropaki & Martin, 2004). This theory allows researchers to explain individual differences within similar constructs, providing a foundation to identify specific attributes of narcissism and examine their impact (Lord et al., 1984). Using the implicit leadership theory, research finds that followers view charismatic leaders more positively, leading to greater willingness to support the leader (Galvin et al., 2010). However, this theory is not ideal for the purpose of this study, as it focuses on executive influence and the impact of narcissism from the perspective of their followers.

The extended agency model of narcissism, proposed by Campbell and Foster (2007), suggests that narcissism is a dynamic system of qualities, strategies, and skills that work together to cause and reinforce "narcissistic esteem." This type of self-esteem is associated with dominance, pride, and sometimes addictive behavior. According to the model, narcissists are not driven by a single, overarching goal, but rather a general need to protect their narcissistic esteem (Campbell & Foster, 2007). This allows researchers to distinguish between interpersonal skills,

intrapsychic strategies, and interpersonal strategies while also considering the mediating effects of all three on the relationship between motivation and outcome (Cragun et al., 2020). However, the complexity of the model makes it difficult to pinpoint whether and how organizational outcomes are direct consequences of CEO narcissism. Furthermore, there is limited empirical research using this model.

According to the admiration-versus-rivalry perspective of narcissism (Back et al., 2013), narcissistic behavior is developed through two opposing orientations: assertive (known as "narcissistic admiration") and antagonistic (known as "narcissistic rivalry"). Narcissistic admiration draws on an inflated self-image, a sense of uniqueness, and personal charm, while narcissistic rivalry draws on feelings of hostility, superiority, and a tendency to devalue others (Back et al., 2013). This model allows researchers to explore the ways in which narcissists pursue admiration or engage in rivalry within personal relationships. However, this emphasis on personal relationships limits the ability of researchers to consider other external factors that may be perceived as more significant influences on a narcissist's behavior, such as pressure to protect one's job or compensation.

The tournament theory (Becker & Huselid, 1992) suggests that the efforts of individuals are influenced by an economic reward structure based on organizational rankings. This structure allows individuals to "compete for prizes," incentivizing them to devote greater attention to the interests of the organization in hopes of moving up in the rankings or "tournament." When constructing hypotheses, the tournament theory is frequently employed to investigate why economic incentives and internal competition lead to the appointment of the most capable executive to the CEO position (Busenbark et al., 2016). Therefore, this theory is better suited for

exploring how and why individuals are able to ascend the organizational ladder (Cragun et al., 2020).

As the objective of this study is to examine the effects personality characteristics of the CEO has on decision making of the organization, the upper echelons theory (Hambrick & Mason, 1984) provides the strongest foundation for building this study's hypotheses. Upper echelons theory has had, and continues to have, a popular and productive history in literature that explores the effects of various management characteristics on organizational outcomes (Cragun et al., 2020). The theory suggests that organizational outcomes can be predicted at least in part by idiosyncratic demographics (e.g., tenure, age, and gender) and functional background characteristics (e.g., personality traits and values) of top-level executives (Hambrick, 2007; Hambrick & Mason, 1984).

This study considers upper echelons theory as the best option for achieving its objective for two reasons. First, upper echelons theory is based on three central beliefs: 1) organizational decisions reflect the experiences, values, and personalities of the most powerful individuals in the organization, 2) these attributes are a function of observable managerial characteristics, and therefore, 3) these observable managerial characteristics significantly influence organizational outcomes (Carpenter et al., 2004). This establishes the foundational relationship between the observable characteristics and traits of CEOs, their managerial choices, and the outcomes of the organization. Moreover, upper echelons theory has expanded beyond observable characteristics to include personality dimensions (Brunzel, 2021), exploring both the "bright" (e.g., Ou et al., 2018) and "dark" (e.g., Smith et al., 2018) sides of personality traits. Thus, this theory provides a direct link between CEO narcissism and organizational outcomes, such as clean auditor opinions, through strategic choices like opinion shopping.

Second, unlike other alternatives, the upper echelons theory acknowledges that many actions of an organization are not directly determined by the CEO, but by other high-level managers, often referred to as the top management team (Hambrick & Mason, 1984). However, the culture created by the CEO can significantly influence the other members of the top management team who are directly responsible for making decisions for the company. In the context of this study, the theory argues that although CEOs are typically not directly involved in the financial statement preparation and audit processes, they establish the tone at the top that influences the decision-making of other managers who are ultimately responsible for accounting measures (Gounopoulos & Pham, 2018). That is, the upper echelons theory predicts that an organization with a narcissistic CEO at the helm is more likely to engage in opinion shopping, as this behavior reflects the CEO's own tendencies.

Chapter 3: Hypothesis Development

The primary objective of this study aims to address whether narcissistic CEOs are more likely to engage in opinion shopping. As mentioned in the previous chapter, the presence of narcissism at the CEO level of an organization is not uncommon. The percentage of narcissistic CEOs in top management is relatively high (Braun, 2017) compared to the percentage of narcissistic individuals in the general population (Stinson et al., 2008). This is often attributed to a narcissist's ability to appear as a "good leader" through their confidence and assertiveness. Furthermore, upon being promoted to an executive level, a narcissistic CEO receives boosts in image, status, and compensation, which they are motivated to protect. Consequently, this motivation often leads narcissistic CEOs to behave in manners that range from high risk at best to questionable, unethical, or even illegal at worst. The existing literature documents that such

behaviors found in a narcissistic CEO's repertoire can include bullying (Regnaud, 2014), fraud and fraudulent reporting (Rijsenbilt & Commandeur, 2013), and tax avoidance through shelters (Olsen & Stekelberg, 2016).

In the framework of audit-related decisions, the issuance of an unfavorable audit opinion can have significant negative effects on an organization. These effects can include negative excess (Menon & Williams, 2010) and cumulative abnormal returns (Chen et al., 2000; Fleak & Wilson, 1994) for investors, higher interest spreads, fewer financial covenants, smaller loan sizes, and higher chances of needing collateral when contracting debt (Chen et al., 2016). Additionally, an unfavorable audit opinion can lead to increased cost of equity (Amin et al., 2014), higher idiosyncratic risk and systematic risk (Ashbaugh-Skaife et al., 2009), and an increased likelihood of bankruptcy (Nogler, 2004).

When facing the risk of receiving an unfavorable audit opinion, a narcissistic CEO may fear that the adverse implications and negative consequences that are associated with the opinion will reflect on how others perceive their ability to lead the organization effectively. In turn, this negative perception could threaten the status and compensation that come with the position of CEO. This is further supported by studies that find the receipt of modified opinions has an unfavorable effect on CEO turnover and compensation (Lennox, 1998; Zhang & Xian, 2014). Given this, as well as the influence that CEO personalities have on firm outcomes provided by the upper echelons theory (Hambrick, 2007; Hambrick & Mason, 1984), it is reasonable to expect that a narcissistic CEO would be motivated to protect his position and compensation by engaging in opinion shopping to mitigate this threat of receiving an unfavorable audit opinion. Therefore, the first hypothesis of this study is as follows:

H1: CEO narcissism is positively associated with a company's likelihood of being engaged in audit opinion shopping.

The second and third hypotheses of this study examines whether the relationship between CEO narcissism and the propensity to opinion shopping is further influenced by other factors, namely power and ability.

Narcissistic CEOs are no strangers to setting ambitious targets, engaging in bold and riskier behavior, and pursuing grandiose projects (Chatterjee & Hambrick, 2007). This fearlessness and desire to "make something happen" can result in mixed outcomes for the company. Moreover, the motivation to maintain reputation and image can also lead narcissistic CEOs to make questionable decisions, such as performance manipulations (Olsen et al., 2014) and even fraud (Rijsenbilt & Commandeur, 2013). Therefore, agency theorists argue that a separation of control between the narcissistic CEO's desire for self-aggrandizement and the vigilant board's commitment to protecting stakeholders from unnecessary risk creates a natural balance within the corporate governance structure (Fama & Jensen, 1983).

However, in the pursuit of gaining more power and prestige, a narcissistic CEO may try to reduce the control of the board by assuming the role of the board's chair (Cragun et al., 2020). This power shift bypasses the corporate system's monitoring mechanism, ultimately weakening the control of the board (Morck et al., 1988). With this increased power, the narcissistic CEO can prioritize actions that serve their personal interests rather than the shareholders' best interest (Fama & Jensen, 1983).

This study proposes that the relationship between a narcissistic CEO and the inclination to engage in opinion shopping becomes even stronger when the CEO also serves as the board chair. In other words, when a narcissistic CEO holds the board chair position, he has greater

power and decision-making authority. This additional influence enables the CEO to pursue unethical actions for personal benefits, such as actively seeking favorable audit opinions, even if it compromises audit quality. Therefore, the second hypothesis of this study is as follows:

H2: The effects of CEO narcissism on the company's likelihood of engaging in audit opinion shopping is moderated by CEO duality such that the effect is more positive when the CEO also serves as the board chair.

Research has found that CEOs with inferior managerial abilities can have detrimental effects on the companies and shareholders. These negative effects include deterioration in firm performance (Demerjian et al., 2012), reduced corporate innovation (Y. Chen et al., 2015), and lower corporate social responsibility performance (Yuan et al., 2019). Moreover, CEOs with increased managerial inability are more likely to receiving a GCO (G. Krishnan & Wang, 2015). Additionally, CEOs lacking ability may engage in self-serving activities, such as investing in opportunistic projects for personal gain (García-Sánchez & Martínez-Ferrero, 2019).

As mentioned earlier, narcissistic CEOs are primarily motivated by success and power, which fuels their grandiose nature (Brunell et al., 2008). This motivation, combined with their lack of empathy, leads them to make riskier and sometimes questionable decisions, even if it comes at the expense of others (Chatterjee & Hambrick, 2007). In other words, their decision-making is influences by how the outcome could impact their image, job, and how they are perceived by their peers and the public. When considering the potential implications of managerial inability on narcissistic CEOs, it is reasonable to assume that their inability will further drive them to engage in unethical behavior. They may resort to hiding their deficiencies, in order to protect their position and image. This study proposes that strength of the relationship between narcissistic CEOs and the propensity to opinion shop is positively moderated by

managerial inability. That is, narcissistic CEOs are more likely to seek out favorable opinions to compensate for their incompetence. Therefore, the third hypothesis of this study is as follows:

H3: The effects of CEO narcissism on the company's likelihood of engaging in audit opinion shopping is moderated by managerial inability such that the effect is more positive when the CEOs have lower abilities.

Chapter 4: Research Design

To test the hypotheses, a statistical analysis is conducted using data drawn from four major databases, as well as annual reports gathered from company websites. The *ExecuComp* and *Mergent Online* databases, along with the annual reports, provides the information needed to measure CEO narcissism, while the *Audit Analytics* and *Compustat* databases provide the necessary information to identify companies engaged in opinion shopping. CEO duality and managerial ability data are obtained from *BoardEx* and Demerjian et al. (2012), respectively.

Sample Selection

The sample used in this study consists of a panel dataset of firm-year observations spanning from 1999 to 2017. The sample size is limited to the CEO narcissism variable due to data availability constraints, specifically related to relative compensations data from *ExecuComp*. Data restrictions, similar to those of Chatterjee and Hambrick (2007), are imposed, requiring CEOs to have held their position for at least four years with their company. This is necessary to calculate CEO narcissism data using the data from years two and three, and to test the effects of CEO narcissism using data from year four and beyond. To measure CEO narcissism, data is collected from the *ExecuComp* database, as well as from annual reports available on *Mergent Online* and the respective companies' websites.

To identify firms that have engaged in opinion shopping, a combination of the *Audit Analytics* and *Compustat* databases is used to gather necessary information. The *Audit Analytics* database provides information on audit opinions, auditor identity, and auditor switches, while the *Compustat* database provides financial data.

This study also includes two moderators, CEO duality and managerial ability, in the analyses. CEO duality is a dichotomous variable that indicates whether a CEO also serves as the chair of the board. Information used to generate the CEO duality variable is obtained through *BoardEx* database.

Managerial ability is measured using a score called "MA-score", which was developed by Demerjian et al. (2012). The MA-score reflects a manager's ability to generate revenue using the same or fewer resources compared to other managers in the same industry. These scores are available in a public database created by Demerjian and colleagues, covering the years 1980 through 2020. In this study, the moderating effects of managerial inability – the lack in managerial ability – are examined. To facilitate this analysis, managerial inability is transformed into an indicator variable. A value of one is assigned if the CEO's MA-score is less than the median (-0.03), and zero is assigned if the MA-score is higher than the median.

The process in which the sample selection is completed is outlined in Table C1. After merging observations from the *Compustat* and *Audit Analytics* databases, along with information on CEO narcissism, CEO duality, and managerial ability, this study initially starts with a sample of 4,848 observations between the years 1999 and 2017.

Next, following the approach of Choi et al. (2014) and Chung et al. (2019), all observations from years 2002 and 2003 are deleted. This is done to account for the impact of the 2001 Arthur Andersen collapse and the subsequent auditor changes that occurred during the

following two years. Additionally, observations from companies belonging to either the utilities or financial industries are omitted (J.-H. Choi et al., 2014; Chung et al., 2019). As a result, the final sample size is 4,328 observations. Following Newton et al. (2016), this study bases industry classifications on Fama and French's 12 industry definitions, standard errors of coefficients are clustered by firm. In order to reduce the influence of potential outliers, each continuous control variables is winsorized at the 1st and 99th percentile. Finally, the statistical software STATA, version 17.0 is utilized to conduct the analyses.

CEO Narcissism Measure

Previous literature has used various proxies to measure narcissism, often depending on the discipline. When studying narcissism among CEOs, four types of measurement are commonly used: psychometric reporting (in two forms, self-reporting and third-party reporting), pronoun usage, signature size, and a CEO narcissism index (Cragun et al., 2020).

In a synthesis review of publications on CEO narcissism, Cragun et al. (2020) find that several studies relied on psychometric reporting to obtain measurements. Among these, almost half of the studies used self-reported measures, while the remaining used scores from third parties. Although there are several self-reported questionnaires available to measure narcissism, such as the Pathological Narcissism Inventory (PNI; Pincus et al., 2009), the Narcissistic Grandiosity Scale (NGS; Rosenthal, 2005), and the Hypersensitive Narcissism Scale (HSNS; Hendin & Cheek, 1997), Cragun and colleagues find that the only questionnaire used in CEO research is the Narcissistic Personality Inventory (NPI; Raskin & Hall, 1981). The NPI is a self-reported assessment tool that consists of 40 forced-choice questions and is considered highly accurate and valid (Gentile et al., 2013; Raskin & Terry, 1988).

One major constraint of using the NPI as a proxy is the challenge of obtaining data, as it relies on CEOs themselves to complete a lengthy survey. To overcome this limitation, unobtrusive methods for measuring narcissistic traits have been found to be credible alternatives to psychometric self-reporting methods (Webb & Weick, 1979).

Researchers who want to integrate psychometric measures in their studies can still do so by using third-party scoring. There are several ways to accomplish this method. For example, researchers can ask third-party scorers to rate CEO biographies based on adjectives used to describe narcissistic behavior (Resick et al., 2009). Alternatively, they can employ third-party scorers to document observed NPI factors based on the behaviors of CEOs observed directly or through recorded mediums (e.g., Cragun, 2018; Gupta & Misangyi, 2018; Petrenko et al., 2016). However, the ability to use third-party psychometric reporting is limited by the lack of accessibility to qualified scorers (Cragun et al., 2020).

Less commonly used methods for measuring CEO narcissistic traits include pronoun usage and signature size. According to Cragun et al. (2020), a small number of reviewed articles use personal pronoun usage. This is based on the premise that narcissists are more self-focused and tend refer to their accomplishments using singular pronouns like "I", "me", and "mine", instead of collaborative plural pronouns like “we”, “us”, and “ours” (Raskin & Shaw, 1988). Despite the fact that signature size has been used for decades in psychology studies (Zweigenhaft & Marlowe, 1973), the least number of reviewed articles use it as a proxy for narcissism (Cragun et al., 2020). The rationale behind analyzing signature size is that the grandiose nature of a narcissist will likely result in larger signatures (Ham et al., 2018). However, both of these proxies have received criticism from the research community (Cragun et al., 2020). For example, Carey et al. (2015) find a near-zero relationship between first-person pronouns, called "I-talk,"

and narcissism in a large-scale, multiple sites study. Some recent studies raise concerns about the use of signature size as a proxy for narcissism, as it may fail to represent the complex nature of narcissism (Cragun et al., 2020).

Among the various unobtrusive methods for measuring CEO narcissism, Chatterjee and Hambrick's (2007, 2011) CEO narcissism index is the most commonly used proxy, being included in over half of the reviewed articles (Cragun et al., 2020). This composite measurement comprises several narcissism indicators that can be gathered and evaluated using various publicly available company documents. The original index consisted of five components: (1) CEO's photograph prominence in the company's annual report, (2) CEO's prominence in the company's press releases, (3) CEO's cash pay as it related to the second-highest paid executive of the company, (4) CEO's non-cash pay as it relates to the second-highest paid executive of the company, and (5) the use of first-person singular pronouns by the CEO during interviews (Chatterjee & Hambrick, 2007). In a subsequent study, the authors modified the index by removing the pronoun use component due to its decreased reliability after the implementation of SOX (Chatterjee & Hambrick, 2011).

This study builds on previous research by Abdel-Meguid et al. (2021), Olsen et al. (2014), Olsen and Stekelberg (2016), and Judd et al. (2017). Here, an abridged version of the CEO narcissism index (Chatterjee & Hambrick, 2011) is used to measure CEO narcissism. The index consists of three components: (1) CEO's relative cash pay, (2) CEO's relative noncash pay, and (3) the size and prominence of the CEO's photograph in the firm's annual report. Previous literature validates the use of the CEO narcissism index through several validation tests, which supports its use in this study. These include a 0.82 correlation (Chatterjee & Hambrick, 2007) and a 0.84 correlation (Patel & Cooper, 2014) between the average CEO narcissism rating done

by analysts and the CEO narcissism index, and a 0.84 correlation between the CEO narcissism index and NPI-16 ratings completed by analysts who watched short videos of CEO speaking engagements (Zhu & Chen, 2015).

The relative cash pay of CEOs is determined by calculating the ratio of the CEO's salary and bonuses for the year to that of the second-highest paid executive. Similarly, the relative non-cash pay of CEOs is determined by calculating the ratio of the CEO's total compensation, minus cash compensation, for the year to that of the second-highest paid executive. These measurements are supported by the findings of O'Reilly et al. (2014), which show that narcissistic CEOs receive higher total direct pay and pay discrepancies than their executive team. Both the relative cash and non-cash payments are determined using an average of the second and third years of the CEO's tenure.

The size and prominence of the CEO's photograph in the annual report is measured on a scale from 1 to 5, as follows:

1. No CEO photograph was included in the firm's annual report.
2. The annual report contained a photograph of the CEO and other executives.
3. The annual report contained a photograph of the CEO alone and occupied less than half a page.
4. The annual report contained a photograph of the CEO alone, occupied at least half of the page, and shared the page with text.
5. The annual report contained a photograph of the CEO alone and occupied the entire page.

The evaluation of the CEOs' photographs in annual reports are included in the index due to their relentless pursuit of self-concept, self-importance, personal glory, and need for

recognition and affirmation (Campbell et al., 2000; Resick et al., 2009; Wallace & Baumeister, 2002). While not required, some CEOs choose to include their photograph in the annual report, which may vary in size and prominence (Olsen et al., 2014). The optional inclusion, along with the size and prominence of a photograph, provides an unobtrusive measure of narcissistic CEOs. CEOs with a greater propensity towards narcissistic behavior will use the photograph as a means to gain additional recognition and admiration. Thus, the larger and more prominent the photograph, the more attention is drawn towards the CEO.

Once measurements have been gathered for the three components described above (relative cash pay, relative non-cash pay, and photograph prominence rating), a factor analysis is conducted to confirm that they capture the same construct, meaning that the factor analysis loads on a single factor. For this study, the factor-loading threshold is set at an eigenvalue above 1, and the resulting factor weightings are used to create a continuous composite measure called CEO Narcissism (*CEONar*).

Model for Testing H1

Opinion Prediction Model

To identify cases of companies engaging in opinion shopping, this study uses an adaptation of the model developed by Lennox (2000). The model is based on the idea that companies can condition their decision to switch auditors depending on whether the incumbent or successor auditor is more likely to issue a favorable opinion. Opinion shopping, therefore, depends on whether significant reporting differences exist between the current and new auditors (Lennox, 2002).

The process involves two steps. The first step consists of determining if the opportunity for opinion shopping exists, and, if so, whether companies are in fact using the opportunities to

avoid receiving unfavorable opinions from auditors. This is determined by estimating the predicted probabilities that a company will receive an unfavorable audit opinion using the following opinion prediction probit model (Chung et al., 2019; DeFond et al., 2002; Lennox, 2000):

$$\Pr(UnfOp_{jt} = 1) = \alpha_0 + \alpha_1 AudChg_{jt} + \alpha_2 UnfOp_{jt-1} + \alpha_3 AudChg_{jt} * UnfOp_{jt-1} + \alpha_4 Controls_{jt} + \alpha_5 AudChg_{jt} * Controls_{jt} + \varepsilon_{jt} \quad [1]$$

where the subscript *j* represents the company and *t* represents the year. The dependent variable, *UnfOp*, is an indicator variable equal to 1 if the firm receives an unfavorable opinion, and 0 otherwise. The variable *AudChg* is an indicator variable equal to 1 if the firm switches its auditor, and 0 otherwise. $UnfOp_{jt-1}$ represents the audit opinion of the previous year and captures the persistence of audit opinions over time; it equals 1 if the firm received an unfavorable opinion in the previous year, and 0 otherwise. $Controls_{jt}$ is a vector of control variables for firm *j* in year *t*, commonly used in studies examining determinants of audit opinions. The specific controls used in each model are discussed in a later section.

The expected outcomes of this step include a statistically insignificant coefficient (α_1) on the auditor change variable (*AudChg*) providing no evidence that changing audit firms will be followed by the issuance of a clean opinion by the successor auditor. This supports the finding of previous research (Chung et al., 2019; J. Krishnan, 1994; J. Krishnan & Stephens, 1995). Additionally, a statistically significant positive coefficient (α_2) on the audit lag variable ($UnfOp_{jt-1}$) suggesting that unfavorable audit opinions from the previous year tend to influence the likelihood of receiving an unfavorable opinion in the subsequent year. This is not unexpected, as previous literature has documented persistency in audit opinions (Lennox, 2002). Finally, the

interaction term between the auditor change variable and control vector (*AudChg * Controls)* is included to examine whether the opinion prediction model differs across companies that switch auditors and those that retain them. It is worth noting that the use of the auditor change variable may introduce self-selection bias into the model, as the indicator variable is endogenous. However, Lennox (2000) finds no evidence suggesting that self-selection bias ($E(\upsilon_{jt}) = E(\upsilon_{jt} \mid AudChg_{jt}) = 0$) is present in the data.

The estimates from Equation [1] are then used to calculate the conditional probability that a firm would receive an unfavorable opinion from the auditor in two scenarios: (*P0*) if the incumbent audit firm remained (i.e., $\Pr(UnfOp_{jt} = 1 \mid AudChg_{jt} = 0)$) and (*P1*) if a successor auditor was brought on (i.e., $\Pr(UnfOp_{jt} = 1 \mid AudChg_{jt} = 1)$). The difference in the probabilities of receiving an unfavorable opinion between the successor and incumbent auditors provides the opinion shopping measure (Amin et al., 2021; Chen et al., 2016; Lennox, 2000; Newton et al., 2016), expressed in the following equation:

$$Prob\_OS_{jt} = \underbrace{\Pr(UnfOp_{jt} = 1 \mid AudChg_{jt} = 1)}_{P1} - \underbrace{\Pr(UnfOp_{jt} = 1 \mid AudChg_{jt} = 0)}_{P0} \quad [2]$$

where *Prob_OS* represents the probability of company *j* engaged in opinion shopping in year *t*. If *P1* is found to be less than *P0*, there exists a greater motivation for the company to switch to a new auditor. Adversely, if *P1* is found to be greater than *P0*, there is greater motivation to retain the incumbent auditor.

Opinion Shopping Model and CEO Narcissism

The second step in the Lennox (2000) model involves another probit model to examine whether a firm's decision to change auditors is motivated by opinion shopping. Mostly important,

it also investigates the first hypothesis – whether CEO narcissism influences those decisions to engage in opinion shopping. This is determined by estimating the following auditor switch model, which includes the opinion shopping probability variable (*Prob_OS*) from Equation [2], CEO narcissism, and other control variables:

$$\Pr(AudChg_{jt} = 1) = \beta_0 + \beta_1 Prob\_OS_{jt} + \beta_2 CEONar_{jt} + \beta_3 Prob\_OS_{jt} * CEONar_{jt} + \beta_4 Controls_{jt} + \varepsilon_{jt} \quad [3]$$

Because this study investigates the impact of CEO narcissism on the likelihood of a company engaging in opinion shopping, the interaction term *Prob_OS * CEONar* is the key variable for this hypothesis. A statistically significant negative coefficient on *Prob_OS * CEONar* suggests that (1) either the company has a higher propensity to switch auditors when the likelihood of receiving an unfavorable opinion from a successor auditor is lower than from the incumbent auditor, or the company has a higher propensity to retain auditors when the likelihood of receiving an unfavorable opinion from a successor auditor is higher than from the incumbent auditor, thus engaging in opinion shopping and (2) opinion shopping is more prevalent when the company is headed by a narcissistic CEO. Thus, a negative β_3 supports H1.

Models for Testing H2 and H3

To test the hypothesized relationships in H2 and H3, the process begins with the second step in Lennox's (2000) two-step model. The first step, the opinion prediction model, serves as the baseline. The hypotheses examine the moderating effects of CEO duality and managerial ability on the tendency of narcissistic CEOs to engage in opinion shopping. Two versions of the auditor switch model are run, one for each hypothesis.

Opinion Shopping Model and CEO Duality for H2

Based on the information obtained from equations [1] and [2], the auditor switch model used in H1 is employed once again to detect instances of opinion shopping and analyze the impact of increased power on the relationship between opinion shopping and CEO narcissism. Certain modifications have been made to the model to incorporate the triple interaction among CEO narcissism, duality, and opinion shopping. Thus, for H2, the following probit model is utilized to forecast audit switches:

$$\Pr(AudChg_{jt} = 1) = \beta_0 + \beta_1 Prob\_OS_{jt} + \beta_2 CEONar_{jt} + \beta_3 Dual_{jt} + \beta_4 Prob\_OS_{jt} * Dual_{jt} + \beta_5 CEONar_{jt} * Dual_{jt} + \beta_6 Prob\_OS_{jt} * CEONar_{jt} * Dual_{jt} + \beta_7 Controls_{jt} + \varepsilon_{jt} \quad [4]$$

where the dependent variable, *Dual*, is an indicator variable equal to 1 if the firm's CEO also serves on the board as the chair, and 0 otherwise. Similar to equation [3], $Controls_{jt}$ represent a vector of control variables for firm *j* in year *t*.

A significantly positive coefficient on *Dual* (β_3) indicates that companies with CEOs serving as board chairs are more likely to change auditors compared to those with independent CEO-chair positions. Additionally, and similar to that of the interaction term from H1, a statistically significant and negative coefficient on the interaction term *Prob_OS * Dual* (β_4) suggests that companies that are led by dual CEOs are more likely to change auditors for opportunistic opinion shopping reasons. Furthermore, significantly positive coefficient on the interaction term *CEONar * Dual* (β_5) suggests that dual CEOs with increased narcissistic behavior are more likely to change auditor.

Since H2 examines the moderating effect of CEO duality on the relationship between CEO narcissism and a company's likelihood to engage in opinion shopping, the interaction term of interest in this model is *Prob_OS * CEONar * Dual*. A statistically significant and negative coefficient on this interaction term (β_6) suggests that when a narcissistic CEO also serves as the chair of the board, the additional power received from the dual position further influences the likelihood that he will engage in opinion shopping, thus supporting H2.

Opinion Shopping Model and Managerial Ability for H3

To test H3, a similar analysis to the one used for testing H2 is performed. A modified version of Lennox's (2000) auditor switch model, including the estimates from the baseline model (i.e., equations [1] and [2]) and the managerial ability (*ManInAb*) indicator variable are employed to determine whether managerial inability has a positive moderating effect on the relationship between CEO narcissism and the likelihood of opinion shopping occurring. The following auditor switch model is used to test H3:

$$\Pr(AudChg_{jt} = 1) = \beta_0 + \beta_1 Prob\_OS_{jt} + \beta_2 CEONar_{jt} + \beta_3 ManInAb_{jt} + \beta_4 Prob\_OS_{jt} * ManInAb_{jt} + \beta_5 CEONar_{jt} * ManInAb_{jt} + \beta_6 Prob\_OS_{jt} * CEONar_{jt} * ManInAb_{jt} + \beta_7 Controls_{jt} + \varepsilon_{jt} \quad [5]$$

where the dependent variable, *ManInAb*, is an indicator variable used to identify CEOs who exhibit higher levels of managerial inability (that is, lower levels of managerial ability). This variable is coded as 1 if the CEO earns an MA-score lower than the median of -0.03, and 0 otherwise. Again, similar to equations [3] and [4], $Controls_{jt}$ represent a vector of control variables for firm *j* in year *t*. The specific controls used in all models are discussed in following section.

Comparable results to the second hypothesis are expected. A significantly positive coefficient on *ManInAb* (β_3) in equation [5] suggests that companies with less able CEOs are more likely to change auditors compared to their more able counterpart. Additionally, a statistically significant and negative coefficient on the interaction term *Prob_OS * ManInAb* (β_4) suggests that companies led by a less able CEOs are more likely to engage in opportunistic auditor changes. Lastly, a significantly positive coefficient on the interaction term *CEONar * ManAbIn* (β_5) suggests that narcissistic CEOs with lower managerial ability are more likely to change auditors than those with higher managerial ability.

Similar to H2, H3 examines the moderating effect of managerial inability on the relationship between CEO narcissism and a company's likelihood to engage in opinion shopping. Specifically, the interaction term of interest in this model is $Prob\_OS_{jt} * CEONar_{jt} * ManInAb_{jt}$. A significantly negative coefficient on this interaction term (β_6) suggests that less able narcissistic CEOs are more likely to engage in opinion shopping as a way to compensate for their inadequacies compared to more able CEOs. This result supports H3.

Control Variables

The Lennox (2000) model utilizes two probit regression models to identify instances of opinion shopping. The first model, the opinion prediction model, suggests that an audit opinion is a function of three factors: the decision whether to switch auditors, the audit opinion from the previous year, and a set of company characteristics (i.e., control variables). This model predicts the probabilities of a company receiving an unfavorable audit opinion after opting to switch to a new auditor or retaining the incumbent auditor.

The second model, the auditor switch model, suggests that the probability of switching auditors is a function of a company's likelihood to engage in opinion shopping, as well as other

explanatory factors. In the context of this study, this model estimates the relationship between the opinion shopping measure and CEO narcissism, while also accounting for other controlling factors.

Since each model relies on including control variables, $Controls_{jt}$ is included in each of the model equations. $Controls_{jt}$ represents a vector of control variables for company j in year t. However, since each model focuses on different dependent variables, customized control vectors are developed. These vectors consist of factors that are documented in prior literature as influencing the dependent variables in each model. Furthermore, since H2 and H3 examine the influence that additional power, through CEO duality, and managerial ability has on the relationship between CEO narcissism and opinion shopping using a modified version of the audit switch model, that same control variables used for examining H1 are used for H2 and H3.

Control Vector for the Opinion Prediction Model

For equation [1], $Controls_{jt}$ includes factors that have been documented to influence the likelihood of receiving an unfavorable opinion. These factors include characteristics that are auditor-specific and company-specific.

Previous studies have examined the relationship between the size of the audit firm (i.e., Big N versus non-Big N accounting firms) and opinion shopping motivations. Regarding modified audit opinions, research indicates that Big N audit firms are more likely to issue modified audit opinions compared to non-Big 4 audit firms; though, this does not necessarily translate into an increase number of modified audit opinions are issued (Habib, 2013). Furthermore, studies have shown that Big N audit firms issue going concern opinions more frequently than non-Big N audit firms and with greater accuracy when it comes to receiving a going concern opinion (DeFond et al., 2002; Geiger & Rama, 2006; Weber & Willenborg, 2003).

However, the evidence is inconclusive when examining material weakness opinions. As suggested by Ge and McVay (2005), this lack of support could be due to the increased likelihood of companies changing auditors in the year surrounding material weakness disclosures.

In this study, an indicator variable for audit firm size (*Big4*) is included in the control vector, as in previous studies on opinion shopping (J.-H. Choi et al., 2014; Chung et al., 2019; Chung & Kim, 2022; Newton et al., 2016) and due to the documented complexity regarding the relationship between auditor size and unfavorable opinions, going concern opinions and material weakness opinions.

Several company-specific characteristics are found to influence the likelihood of receiving an unfavorable audit opinion. Krishnan (1994) discovers that the size of the company being audited affects the probability of receiving an unfavorable opinion, with small companies being more likely to receive a modified opinion than large companies. Krishnan's study also finds that financially distressed companies are more likely to receive unfavorable opinions than financially healthy companies. Habib's (2013) meta-analysis of determinants supports these findings and identifies company size, profitability, leverage, default status, and bankruptcy risk as significant predictors of modified audit opinions. As such, this study includes an indicator variable for whether the company is in financial distress (*Loss*); that is the company reported a net loss or a negative cash flow from operations. Additionally, this study includes continuous variables for company size (*Size*) and leverage (*Lev*) in the vector of controls.

As it relates specifically to internal control deficiencies, Doyle et al. (2007) identifies several determinants of material weakness opinions. For instance, the authors find that material weakness opinions are more likely to be issued to rapidly growing or restructuring companies.

To account for these factors, this study controls for growth (*Growth*), and restructuring (*Restruct*).

The issuance of going concern opinions depends on whether the auditor has reasonable doubts that the company can remain in business for the next 12 months. As a result, control variables that capture the financial conditions of the company are included. To control for financial conditions, this study includes the continuous variable liquidity (*Liquid*; Chung et al., 2019; Chung & Kim, 2022; DeFond et al., 2002; Lennox, 2000, 2002). Additionally, an indicator variable for whether the company issued debt or equity in the subsequent year (*FFin*) is included, as future financing is often used to decrease the likelihood of bankruptcy (Mutchler et al., 1997). Finally, controls for year and industry fixed effects are included. For a comprehensive list of variables, including details and calculations, please refer to Appendix B.

Control Vector for the Auditor Switch Model

Equation [3] (and later in equations [4] and [5]) estimates the likelihood that a switch in auditing firm is due to opinion shopping, and whether the act of opinion shopping is further influenced the CEO narcissism (and moderated by either CEO duality or managerial inability). As such, the controls used in these models consist of factors that have been found to affect the likelihood of switching auditors.

Previous studies have shown that many of the factors affecting the likelihood of a company receiving an unfavorable opinion from auditors are also factors that contribute to a company switching auditing firms (M. Ettredge et al., 2011; Landsman et al., 2009). Therefore, the control vectors for each of the auditor switch models are adapted from the vectors used in the opinion prediction models. The control vectors for the auditor switch model consist of indicator variables for audit firm size (*Big4*) and whether the company reported a net loss or negative cash

flow from operations (*Loss*). Continuous variables carried over from the opinion prediction model include company size (*Size*), growth (*Growth*), leverage (*Lev*), and liquidity (*Liquid*).

In addition to the factors mentioned above, this study incorporates new control variables that have been shown to influence a company's decision to switch auditors. Following Chung and Kim (2022), degrees of financial distress is included using Altman's Z-Score (*AltZ*; Altman, 1968). Furthermore, following the work of Amin et al. (2021), the ratio of inventory and receivables to total assets (*InvRec*) is introduced, as well as the log of the company's age (*Age*) and cash holdings (*Cash*). Finally, controls for industry fixed effects are included (Amin et al., 2021).

Chapter 5: Empirical Results

Table C2 presents the breakdown of observations used in equation [1], the opinion prediction model. The observations are categorized based on three factors: whether the company changed auditors, whether the company was issued an unfavorable opinion in the current year, and whether the company was issued an unfavorable opinion in the previous year. These categories are represented in a 2 x 2 table. According to the table, there were a total of 4,119 companies (97.86%) that retained the incumbent audit firm, while 90 companies (2.14%) changed auditors. Of the companies that retained their auditors, 1,720 (1,260) companies were issued a clean (unfavorable) opinion in both the current and previous year. This indicates that 80% (64.3%) of the companies were issued a clean (unfavorable) opinion in the prior year were also issued the same opinion in the following year. Furthermore, of companies that changed auditors, 28 (28) companies were issued a clean (unfavorable) opinion in both the current and prior year, indicating that 75.7% (43.1%) of the companies were issued a clean (unfavorable)

opinion after receiving on the same opinion in the previous year. This consistency in audit opinions over time aligns with the findings of Chung et at. (2019), Krishnan and Stephen (1995), and Lennox (2000).

Descriptive statistics are presented in Table C3. This table includes all variables used in the opinion prediction model (equation [1]) and each of the auditor change models (equations [3], [4], and [5]). The mean value of *UnfOp* is 0.407, indicating that 40.7% of the sample received either an unqualified opinion with additional language, qualified, or adverse audit opinion, or a GCO or MWO in the respective year. The mean value of *AudChg* is 0.021, indicating that 2.1% of the sample changed auditors in the respective year. Regarding the three independent variables of interest, *CEONar*, a continuous variable, has a minimum value of -3.149 and a maximum value of 9.505. It has a mean of 0.016 and a median value of -0.061. *Dual* has a mean of 0.522, indicating that 52.2% of companies in the sample have a CEO that also hold the position of board chairperson. *ManInAb* has a mean of 0.466, indicating that 46.6% of the CEOs in the sample received an MA-score below the median (-0.03), representing less able CEOs. Descriptive statistics of control variables are in line with prior studies.

Table C4 presents the Pearson correlation matrix for variables analyzed. In Panel 1, the variable *UnfOp* shows significant positive correlations with *CEONar* (0.0351), *Dual* (0.0352), and *ManInAb* (0.0349). This suggests that CEOs with higher narcissistic behavior, CEOs who also serve as the board chair, and less able CEOs are more likely to have unfavorable opinions. Additionally, the matrix reveals that *UnfOp* is significantly and positively correlated with *UnfOp_Lag* (0.4423), *Big4* (0.0589), *Size* (0.0830), and *ForSales* (0.0489). This indicates that it is more common for companies to receive unfavorable opinions if they received one in the previous year, if they are audited by a Big 4 auditor, if they have higher total assets, or if they

generate foreign income. Furthermore, the results show significant negative correlations between *UnfOp* and *AltZ* (-0.0814), *Liquid* (-0.0740), *Cash* (-0.0573), and *Restruct* (-0.0594). This suggests that unfavorable opinions are more common in companies that have lower Altman Z-scores, lower liquidity, less cash on hand, or no restructuring in the current fiscal year.

As it relates to auditor changes, Table C4 reveals a significant positive correlation (0.0327) between *AudChg* and *UnfOp_Lag*, suggesting that auditor changes are more prevalent when companies receive unfavorable opinions in the previous year. On the other hand, auditor changes are less frequent when companies are audited by a Big 4 auditor and when companies have increased total assets. This is evident from the negative correlations with *Big4* (-0.1055) and *Size* (-0.0639).

Primary Analysis Results

Table C5 presents the results of the regression for the opinion prediction model, equation [1]. It reports the estimated coefficients and respective z-statistics. Recall that this model is estimated in order to calculate the predicted values used to generate the opinion shopping variable (*Prob_OS*). Column (1) provides the results without the interaction variables, meaning that the coefficients on explanatory variables are the same regardless of the auditor change decision. In contrast, Column (2) includes the interaction variables to account for possible differences between firms that switched auditors and those that did not.

The insignificant coefficients on *AudChg* in both columns (1) and (2) support the findings of Chung et al. (2019), Krishnan (1994), and Krishnan and Stephens (1995), indicating that changing audit firms do not necessarily result in a favorable opinion from the successor audit. The significantly positive coefficient on *UnfOp_Lag* suggests that unfavorable opinions from the prior year have influence on receiving an unfavorable opinion in the following year. In other

words, there is a strong persistence in audit opinions year over year. This finding aligns with the results of Amin et al. (2021), Chung et al. (2019), and Newton et al. (2016).

When considering controlling effects, the results show that companies are more likely to receive an unfavorable opinion if they reported a net loss or negative operating cash flow (*Loss*), which is consistent with findings by Amin et al. (2021), Chen et al. (2016), Chung et al. (2019), and Newton et al. (2016). Companies that are larger in size (*Size*) also tend to receive unfavorable opinions, consistent with Chung and Kim (2022). Additionally, companies that experienced increased growth (*Growth*), consistent with Lennox (2002), Choi et al. (2014) and Newton et al. (2016), and companies that did not restructure (*Restruct*), consistent with Amin et al. (2021) are also more likely to be issued an unfavorable opinion. Conversely, companies with higher liquidity (*Liquid*) are less likely to receive an unfavorable opinion, consistent with findings of Chung et al. (2019).

The area under the ROC curve is 0.8730, suggesting that the model does an excellent job discriminating between firms that received unfavorable opinions and firms that received clean opinions.

The estimates provided in column (2) are used to generate the opinion shopping variable, *Prob_OS,* needed for the following model, equation [3]. Recall, this variable represents the effect that opportunities for opinion shopping have on the decision to change auditors. It is calculated as the difference between the probability of a company receives an unfavorable opinion from the successor auditor versus the incumbent auditor (Chung et al., 2019).

Table C6 provides the results from the auditor change prediction model, equation [3], including the key variable, CEO narcissism. Consistent with the findings of Chung et al. (2019), the coefficient on *Prob_OS* is statistically insignificant. This suggests that, in the sample, it

cannot be determined whether opinion shopping alone is present. Interestingly, the coefficient on *CEONar* is insignificant. This may indicate a narcissistic CEO's preference to retain the incumbent auditor out of comfort and complacency. In other words, a narcissistic CEO, in the absence of incentives to opinion shop, perceives the auditors as familiar with their "wants" and "demands," and therefore avoids the potential conflicts that may arise from changing auditors.

The key variable of interest in this table is the interaction term, *Prob_OS * CEONar*. The statistically significant and negative coefficient on the interaction term (b = -2.441, p = 0.001, 95% CI [-3.93, -0.95]) suggests that companies with a higher incentive to change or retain auditors to avoid receiving an unfavorable opinion are more likely to do so as the CEO's narcissistic behavior increases. This finding supports H1, indicating that companies led by narcissistic CEOs are successfully engaged in opinion shopping.

The area under the ROC curve is 0.7524, indicating that the model does a good job discriminating between firms that change auditors and firms that retain auditors. Additionally, a variance inflation factor test is conducted on the two variables of interest and their interaction (i.e. *Prob_OS*, *CEONar*, and *Prob_OS * CEONar*). The variance inflation factor value for all three variables are well below ten (1.12, 1.11, and 1.12, respectively), indicating that multicollinearity is unlikely to influence the conclusions drawn from this model.

Additional results from this model show that, consistent with Amin et al. (2021), companies with a higher inventory to receivables ratio (*InvRec*) and decreased total assets (*Size*) are more likely to change auditors. Likewise, and consistent with Chung et al. (2019), results indicate that companies with incumbent auditors that are part of the Big 4 (*Big4*) are less likely to change auditors. Other factors that associate with companies changing auditors are higher levels of cash holdings (*Cash*) and lower Altman Z-scores (*AltZ*).

Results of Robustness Tests

This study conducts two additional tests to assess the robustness of the findings. The first test examines a crucial factor in Lennox's (2000) opinion shopping model, which is the occurrence of an auditor change. Recall that opinion shopping can occur in two forms: an auditor change prompted by the fear of receiving an unfavorable opinion from the incumbent auditor, or no auditor change due to the fear of receiving an unfavorable opinion for a new auditor. The primary analysis of this study encompasses all instances of auditor change, regardless of the initiating party. This is because CEO narcissism may influence the decisions to dismiss the incumbent auditor and also influence auditors' decisions to resign due to perceived increased inherent and control risks (Judd et al, 2017). However, not all instances of auditor changes equally represent companies engaged in opinion shopping. Previous studies (see Choi et al., 2014; Chung et al., 2019; Newton et al., 2016) differentiate between auditor-initiated changes (i.e., auditor resignation) and company-initiated changes (i.e., auditor dismissal), arguing that cases of auditor resignation could be motivated by reasons beyond the scope opinion shopping.

To address this, the study conducts the same test using a new variable called *AudDism* instead of *AudChg*. The *AudDism* variable excludes cases where the audit change was initiated by the auditor. It takes the value of 1 if the auditor was dismissed for a new audit firm and 0 if no change was made or the auditor resigned[5]. Table C7 presents the results of this analysis. Column

[5] A separate analysis was run using the same models as described. However, in the analysis, case of auditor resignation were excluded, rather than being coded as 0. This was done to verify that these observations did not

(1) provides the estimates for the audit opinion prediction model. Although the results are comparable to the baseline model's results in Table C5, one interesting difference is found in the coefficient on the *AudDism* variable. In contrast to the insignificant value on *AudChg* in Table C5, the coefficient on *AudDism* is significantly negative, suggesting that when considering only instances of auditor dismissal, the likelihood of receiving an unfavorable opinion decreases after an auditor is dismissed.

Column 2 displays the results of the auditor dismissal prediction model. Like the analysis from Table C6, the variable of interest is the interaction term between auditor dismissal and CEO narcissism, *AudDism * CEONar*. Consistent with the primary analysis, the interaction term remains statistically significant and negative (b = -1.988, p = 0.046, 95% CI [-3.94, -.04]), suggesting that even when focusing solely on instances of auditor dismissal, the association between auditor change and CEO narcissism persists. Additionally, the area under the ROC curve is 0.7160, indicating that the model does a good job discriminating between firms that dismiss auditors and firms that retain or experience auditor resignation. The variance inflation factor value for the two variables of interest and their interaction term (i.e., *Prob_OS*, *CEONar*, and *Prob_OS * CEONar*) are all well below ten (1.14, 1.11, and 1.14, respectively), indicating that multicollinearity is unlikely to influence the conclusions drawn from the model.

The second robustness test, consistent with Chen et al. (2016) and Du et al. (2023), uses the results from the baseline model and subsequent generation of the opinion shopping variable,

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affect the opinion shopping model estimates. The untabulated results align with the findings from the robustness check results described in the paragraph.

Prob_OS, to develop a new dichotomous variable, *P_OS*. This variable identifies whether a firm engages in opinion shopping. It is defined as 1 under the following conditions: the company receives a favorable opinion (*UnfOp* = 0) and either (1) the probability of opinion shopping is less than or equal to -1% (*Prob_OS* ≤ -0.01) and an auditor change occurred (*AudChg* = 1), or (2) the probability of opinion shopping is greater than or equal to 1% (*Prob_OS* ≥ 0.01) and an auditor change did not occur (*AudChg* = 0). Otherwise, *P_OS* takes the value of 0.

Following prior literature (Chen et al., 2016, Du et al., 2023; Lennox, 2000, 2002), this study uses a threshold of ±1% to determine *P_OS* for two reasons. First, values of *Prob_OS* within the threshold show no significant difference in the likelihood of an unfavorable opinion being issued by the incumbent auditor and a successor auditor. Second, because *Prob_OS* is based on estimates from the opinion prediction model, there is a risk of measurement errors. This can result in cases of non-opinion shopping being misclassified as engaging in opinion shopping.

Table C8 presents the results of the analysis using *P_OS* as the dependent variable to examine the relationship between CEO narcissism and opinion shopping. Consistent with the previous results, the coefficient for the variable of interest, *CEONar*, is statistically significant and positive (b = 0.147, p = 0.032, 95% CI [.0125, .281]). This suggests that as the level of CEO narcissism increases, it becomes more likely that a company is engaging in opinion shopping. Additional tests show the area under the ROC curve is 0.8797, indicating that the model is highly effective in distinguishing between companies that engage in opinion shopping and those that do not. Furthermore, the variance inflation factor value for key independent variable (*CEONar*) is 1.08, suggesting that multicollinearity is unlikely to impact the ability to draw conclusions from the model.

Secondary Analysis Results

Results for CEO Power as Moderator

Table C9 presents the results from the auditor change prediction model (equation [4]), which includes both of the key variables, the CEO narcissism (*CEONar*) and CEO duality (*Dual*). Similar to the baseline regression analysis results in Table C6 regarding opinion shopping and CEO narcissism, the coefficient on *Prob_OS* is statistically insignificant. This suggests that, in the sample, opinion shopping cannot be determined solely based on this variable. Additionally, in Column (1), the coefficients on the standalone variable, *Dual*, and the interaction term, *Prob_OS * Dual*, are both insignificant. This indicates that companies where the CEO is also the board chairperson do not necessarily exhibit a tendency to change auditors or engage in opinion shopping.

However, according to H2, this study posits that CEO duality acts as a moderator, strengthening the relationship between CEO narcissism and the propensity to engage in opinion shopping. Therefore, in Column (2), the model includes *CEONar*, which results in a statistically significant and negative coefficient on the triple interaction term, *Prob_OS * CEONar * Dual* (b = -3.222, p = 0.012, 95% CI [-5.74, -0.70]). This suggests that companies with a higher incentive to change auditors to avoid receiving an unfavorable opinion are more likely to do so when the CEO is also the chairperson of the board and exhibits narcissistic behavior. This finding supports H2, implying that companies with a narcissistic CEO who holds more power are more likely to engage in opinion shopping. The area under the ROC curve is 0.7577, once again indicating that the model effectively discriminates between firms that change auditor and firms that retain auditors.

Similar to the analysis to test H1, a variance inflation factor test is conducted on all three variables of interest and the included interactions (i.e. *Prob_OS*, *CEONar*, *Dual*, *Prob_OS * Dual*, *CEONar * Dual*, and *Prob_OS * CEONar * Dual*). The variance inflation factor values for all six variables are well below ten (2.19, 2.21, 2.37, 2.37, 2.17 and 1.20, respectively), indicating that multicollinearity is unlikely to influence the conclusions drawn from this model.

Similar to H1, additional results show that companies with a higher inventory to receivables ratio (*InvRec*) and decreased total assets (*Size*) are more likely to change auditors. On the other hand, the results suggest companies with incumbent auditors from the Big 4 (*Big4*), companies with lower levels of cash on hand (*Cash*), and companies with little to no foreign income generated (*ForSales*) are less likely to change auditors.

Results for Managerial Ability as Moderator

Table C10 presents the results from H3's auditor change prediction model (equation [6]), including the CEO narcissism and the key variable managerial inability, *ManInAb*. Similar to the baseline model, the coefficient on *Prob_OS* is statistically insignificant, suggesting that opinion shopping cannot be determined based solely on this variable. In Column (1), the coefficients on the standalone variable, *ManInAb*, and the interaction term, *Prob_OS * ManInAb*, are both insignificant. This indicates that companies led by CEOs with poorer managerial ability do not exhibit tendencies towards changing auditors or engaging in opinion shopping.

Similar to H2, H3 posits that managerial inability acts as a moderator, further strengthening the relationship between CEO narcissism and the propensity to opinion shop. Therefore, in Column (2), the model includes *CEONar*, resulting in a statistically significant and negative coefficient on the triple interaction term, *Prob_OS * CEONar * ManInAb* (b = -2.798, p = 0.021, 95% CI [-5.17, -0.42]). This implies that companies with a greater incentive to change

auditors in order to avoid receiving an unfavorable opinion are more likely to do so when they are led by a narcissistic CEO with poor managerial abilities. This finding supports H3, suggesting that companies with a narcissistic CEO and inferior managerial abilities are more inclined to rely on opinion shopping to protect their leadership image.

The area under the ROC curve is 0.7181, indicating that the model performs well in discriminating between firms that change auditor and those that retain auditors. The variance inflation factor test including all three variables of interest and the included interactions (i.e. *Prob_OS*, *CEONar*, *ManInAB*, *Prob_OS * ManInAb*, *CEONar * ManInAb*, and *Prob_OS * CEONar * ManInAb*) result in values well below ten (2.71, 1.87, 2.20, 2.87, 1.81 and 1.18, respectively). This suggests that multicollinearity is unlikely to influence the conclusions drawn from this model.

Regarding the control variables, the results indicate a company's likelihood of changing auditors increase when they have higher inventory to receivables ratio (*InvRec*), higher cash holdings (*Cash*), are audited by firms outside of the Big 4 (*Big4*) and have fewer total assets (*Size*).

Chapter 6: Discussion

The primary objective of this study is to investigate the relationship between CEO narcissism and the propensity of a company to engage in opinion shopping. The findings support H1 and suggest that companies led by CEOs with higher levels of narcissistic behavior are more likely to opinion shop in order to avoid receiving unfavorable audit opinions. This behavior aligns with prior research on narcissism, which indicates that narcissistic leaders seek validation and recognition through bold and sometimes questionable actions, regardless of the potential

consequences for others (Chatterjee & Hambrick, 2007). Research has identified several examples of these actions, including an increased likelihood of manipulating performance measures (Olsen et al., 2014), engaging in earnings management (Buchholz et al., 2020; Capalbo et al., 2018), and participating in more severe fraudulent activities (Rijsenbilt & Commandeur, 2013). This study extends literature by identifying opinion shopping as another potential tool that narcissistic CEOs may choose to use in order to protect their image and reputation.

A secondary aim of this study is to investigate the effects of moderating factors that enhance the relationship between CEO narcissism and opinion shopping, this study examines the impacts of CEO power and managerial ability. After incorporating CEO power, measured by CEO duality, to the analysis, the results indicate that narcissistic CEOs who also hold the role of board chair are more likely to engage in opinion shopping compared to otherwise narcissistic CEOs who are not board chairs. This is significant as the CEO does not possess absolute power (Boyd, 1995). Often, the CEO reports to the board, who act as a watchdog on behalf of the shareholders' interests (Fama & Jensen, 1983). However, the results of this study imply that the additional power that is obtained by a dual narcissistic CEO may be leveraged to further influence the board's support towards the CEO's decisions, which are ultimately driven by personal interests.

Finally, after incorporating managerial ability, measured by Demerjian et al.'s (2012) MA-scores, in the analysis, the results suggest that less able narcissistic CEOs are significantly more likely to engage in opinion shopping compared to their more competent counterparts. This builds on the results of prior studies that document that less able CEOs tend to resort to opportunistic behavior, such as embracing lower levels of conservatism in their reporting (Haider et al., 2021) and reducing the frequency and accuracy of management earnings forecast accuracy

(Baik et al., 2011). The results of this study imply that when narcissistic CEOs lack the ability to efficiently convert company resources into value through decision making, they may resort to questionable strategies, such as opinion shopping, to conceal their shortcomings.

The results of this study contribute to two distinct areas of literature. First, by exploring determinants associated with auditor opinion shopping, this study adds to audit literature by identifying a relationship between CEO narcissism and opinion shopping. Extant literature documents the significant consequences of companies engaging in opinion shopping, namely the erosion of audit quality and auditor independence (Chung et al., 2019; DeFond & Zhang, 2014). These adverse effects have prompted researchers to investigate possible factors that further propel companies towards opportunistically shopping for favorable opinions. While prior studies have focused on identifying external factors that influence the opinion shopping decision (Amin et al., 2021; Archambeault & DeZoort, 2001; J. Krishnan, 1994; J. Krishnan & Stephens, 1995; C. Lennox, 2002; Newton et al., 2016), this study provides evidence of the presence of internal behavioral traits, specifically narcissism, in CEOs influences on opinion shopping decision. Building upon the works of Amin et al. (2021), Chung and Kim (2022), DeFond et al. (2016), Lennox (2000, 2002) Newton et al. (2016), and Yuejun (2011), this study continues the research stream focused on opinion shopping, demonstrating that it is still occurring with significant success. The findings of this study offer researchers a new perspective to investigate, by highlighting the influence that CEOs' personality traits can have on important audit issues, such as audit quality and auditor independence, through questionable actions like opinion shopping.

Second, this study contributes to the literature on executive behavior bias by expanding existing research on the behavior of narcissistic CEOs. Previous studies have extensively documented both the advantages and disadvantages of companies being led by narcissistic

leaders (Aabo et al., 2020; Chatterjee & Hambrick, 2007; Gupta & Spangler, 2012; Rijsenbilt & Commandeur, 2013; Wales et al., 2013). In the context of the audit profession, narcissism has been found to drive CEOs towards behaviors that are considered questionable at best. Such behaviors can include using corporate social responsibility for personal gain (Petrenko et al., 2016), manipulating performance measures (Olsen et al., 2014), and engaging in outright fraud (Rijsenbilt & Commandeur, 2013). The studies confirm the notion that CEOs are willing to take bold, risky actions to protect their careers, image, compensation, and reputation (Brunell et al., 2008).

This study's findings contribute further by documenting another questionable tactic: strategic auditor changes, also known as opinion shopping. Drawing on the upper echelons theory (Hambrick & Mason, 1984), this study suggests that CEOs with higher levels of narcissism are likely to influence the top management team members responsible for accounting-related decisions, leading to the use of opinion shopping as a means to avoid negative public reaction from receiving an unfavorable opinion. Furthermore, this study documents that narcissistic CEOs' desires to utilize this questionable strategy of opinion shopping is further strengthened by additional power obtained through dual-CEO roles, as well as deficiencies in their managerial abilities.

While this study provides valuable insights into the effects of CEO narcissism on the propensity to opinion shop in order to avoid receiving an unfavorable opinion from auditors, it is important to acknowledge its limitations. First, the study relies on archival data of large, publicly listed companies to examine the CEO narcissism-opinion shopping relationship. This restricts the ability to draw causal inferences from the findings. Furthermore, this limits the generalizability to smaller public and private companies.

Second, the study measures CEO narcissism using an abridged version of an unobtrusive measure developed by Chatterjee and Hambrick (2007, 2011). Although this method has been previously used and validated in literature, it lacks the same level of robustness as a self-reported personality assessment instrument, such as Raskin and Terry's (1988) Narcissistic Personality Inventory (NPI), would provide.

Third, as pointed out by Chung et al. (2019), the auditor switch model by Lennox (2000) relies on the generation of the opinion shopping variable, *Prob_OS*. This variable is determined using a set of fixed determinant variables. However, due to its reliance on these determinant variables and the possibility of measurement errors and variable omissions, the findings could be influenced.

Fourth, when generating the indicator variable for unfavorable opinions, this study considers all instances of unqualified opinions with explanatory language in the unfavorable opinion variable, as well as qualified and adverse opinions, without distinguishing whether 'harmless' and 'harmful' language was used. Although research finds that receiving an unqualified opinion with any explanatory language often leads to a company having to restate their reports (Czerney et al., 2014), this broad inclusion of the category can influence the results of this analysis. This is particularly evident in the higher percentage of companies that received unfavorable opinions in the sample, compared to the percentages found in previous literature.

Chapter 7: Conclusions and Implications

The practice of opinion shopping, which involves dismissing or retaining an auditor based on the expectation of receiving a more or less favorable opinion from another auditor (Lennox, 2000), has been a concern for national and international audit regulators for decades

(AICPA, 1986; Cadbury Commission, 1992; European Commission, 2010; Institute of Chartered Accountants in England and Wales, n.d.; MacDonald Commission, 1988; PCAOB, 2011; SEC, 1988). This practice of seeking a favorable opinion has significant negative effects on audit quality and raises concerns about the reliability and independence of auditors (Chung et al., 2019; DeFond & Zhang, 2014). Consequently, researchers have set out to identify determining factors that may influence a company's decision to engage in opinion shopping.

Since the publication of Lennox's (2000) seminal work that introduced a new method of identifying cases of opinion shopping, literature has documented several determinants that influence this decision. These determinants include investor sentiment (Amin et al., 2021), audit committee presence (Lennox, 2002) and market competition (Newton et al., 2016). However, these studies primarily focus on identifying extrinsic factors. This study shifts the focus to intrinsic factors by examining the impact of CEO narcissism, a behavior and personality traits, on opinion shopping. Specifically, this study addresses two research questions: 1) How does CEO narcissism impact a company's propensity to engage in opinion shopping? and, 2) How does the power and ability possessed by a narcissistic CEO influence the association with opinion shopping?

Using Lennox's (2000) opinion shopping model, this study finds that companies led by narcissistic CEOs are more likely to be issued an unfavorable audit opinion had the opposite decision regarding auditor changes been made. Therefore, this suggest that narcissistic CEOs are more prone to engaging in opinion shopping tactics compared to CEOs with lower levels of narcissism. This behavior can be attributed to their desire to protect their image and reputation from potential public scrutiny, while also safeguarding their job and compensation.

To further explore the factors that drive narcissistic CEOs to engage in opinion shopping, this study also investigated the potential influences of two moderating factors – CEO power and managerial ability. This study finds that narcissistic CEOs who possess greater power, as indicated by CEO duality (serving as both the CEO and board chair), are more likely to engage in opinion shopping. Additionally, this study reveals that narcissistic CEOs with lower managerial ability, as measured by Demerjian et al.'s (2012) MA-scores, are more inclined to employ to opinion shopping as a means of compensating for their deficiencies.

The findings of this study have several important implications for the audit profession. In line with previous literature (Chung et al., 2019; Newton et al., 2016), these findings can be valuable for regulators, as they provide additional evidence supporting the necessity of developing more effective policies and procedures to limit companies from making opportunistic auditor changes. Furthermore, the inclusion of duality as a moderating factor provides support for the implementation of additional corporate governance guidelines and regulations. These measures would be designed to limit the concertation of power in the hands of a single individual.

In addition to regulators, the findings of this study may also be valuable to investors. The knowledge gained from this study can help investors become more cognizant of the impact CEO narcissism can have on the integrity of a company's financial reporting, specifically due to opinion shopping practices. This knowledge provides evidence to investors about the importance of considering CEO behavior traits, along with additional influence from duality and managerial inability, as factors when assessing risk. Being aware of these behavior red flags can prompt investors to scrutinize audit reports and financial statements more carefully for companies with high-risk leadership and corporate governance.

Furthermore, this study's results may be useful to audit firms and individual auditors. It offers additional evidence on the importance of heightened vigilance, skepticism, and independence for auditors. Ideally, a company should receive the same audit opinion regardless of the auditing firm. However, due to subjectivity in various areas of the audit, this is not always the case. The results of this study should motivate auditors to recognize the significance of CEO behavior as it related to audit integrity risks. This awareness can lead auditors to adapt their approach and planning when dealing with narcissistic (and more powerful) CEOs, communicate more effectively with the audit committees about potential risks, and maintain meticulous documentation and evidence gathering to ensure a robust and defensible audit trail.

While this study addresses the questions at hand, the findings raise further inquiries about the impact of other intrinsic traits on the likelihood of CEOs engaging in questionable behavior, like opinion shopping. However, there is a lack of unobtrusive measures for many other behavioral traits, such as the other members of the dark triad - psychopathy and Machiavellianism (Paulhus & Williams, 2002). Therefore, this paper emphasizes the importance of developing more unobtrusive methods for measuring various behavioral traits among leaders. Additionally, it would be interesting to investigate other moderating factors, such as CEO celebrity, that might influence a narcissistic CEO's tendency to engage in questionable behavior. Future research should focus on these areas.

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Appendix A: IRB Approval Letter

MARSHALL UNIVERSITY
www.marshall.edu

Office of Research Integrity

May 4, 2023

Ali Jon Kooti
189 Bear Cub Way
Bogart, GA 30622

Dear AJ:

This letter is in response to the submitted dissertation abstract entitled "*Don't Make Me Look Bad: A Study on the Relationship Between CEO Narcissism and Opinion Shopping.*" After assessing the abstract, it has been deemed not to be human subject research and therefore exempt from oversight by the Marshall University Institutional Review Board (IRB). The Code of Federal Regulations (45CFR46) has set forth the criteria utilized in making this determination. Since the study does not involve human subjects as defined in DHHS regulation 45 CFR §46.102(e) it is not considered human subject research. If there are any changes to the abstract you provided then you would need to resubmit that information to the Office of Research Integrity for review and determination.

I appreciate your willingness to submit the abstract for determination. Please feel free to contact the Office of Research Integrity if you have any questions regarding future protocols that may require IRB review.

Sincerely,

Bruce F. Day, ThD, CIP
Director

Appendix B: Variable Definition

Variable	Definition
UnfOp	Indicator variable equal to 1 if company *j* receives a non-unqualified audit opinion, a GCO, and/or MWO in year *t*, otherwise 0
AudChg	Indicator variable equal to 1 if company *j* switched auditors in year *t*, otherwise 0
CEONar	CEO narcissism measure, based on an abridged version of Chatterjee and Hambrick's (2011) CEO narcissism index
Prob_OS	Opinion shopping measure; the probability of company *j* engages in opinion shopping in year *t*.
Dual	CEO power; indicator variable equal to 1 if the CEO of firm *j* also holds the chair position of the board in the prior year, otherwise 0
ManInAb	Managerial inability; indicator variable equal to 1 if the CEO of firm *j* in year *t* has a managerial ability score (Demerjian et al., 2012) less than the median score (-0.03), otherwise 0
Control Variables (in alphabetical order)	
Age	Firm age; measured as the natural log pf the number of years the firm has been listed in the Compustat database
AltZ	Degrees of financial distress; measured using the Altman Z-Score, computed at [1.2*(working capital/total assets) + 1.4*(retained earnings/total assets) + 3.3*(EBIT/total assets) + 0.6*(market value of equity/total liabilities) + 1.0*(sales/total assets)]
Big4	Indicator variable equal to 1 if company *j*'s auditor is a Big 4 firm in year *t*, otherwise 0
Cash	Cash holdings; measured as the cash and cash equivalents (*ch*) scaled by lagged total assets (*at*)
FFin	Indicator variable equal to 1 if company *j* issues equity (*sstk* and *mve*) or debt (*dltis*) in the following year, otherwise 0
ForSales	Indicator variable equal to 1 if company *j* pays foreign income taxes (*txfo*) in year *t*, otherwise 0
Growth	Asset growth; measured as the percentage change in total assets (*at*) from year *t-1* to year *t*
InvRec	Measured as the ratio of inventory (*invt*) and receivables (*rect*) to total assets (*at*)
Lev	Leverage; measured as the debt (*dltt*) plus debt in current liabilities (*dlc*) scaled by total assets (*at*; if debt in current liabilities is missing, it is set to 0)

Liquid	Liquidity; measured as the working capital (i.e., current assets minus current liabilities; *wcap*) divided by lagged total assets (*at*)
Loss	Indicator variable equal to 1 if company *j* reporting a net loss (*ni*) or negative cash flow from operations (*cfo*) in year *t*, otherwise 0
Restruct	Indicator variable equal to 1 if company *j* underwent restructuring (*rca* > 0) in year *t*, otherwise 0
Size	Company size; measured as the natural log of total assets (*at*) in millions of dollars

Appendix C: Results Tables

Table C1

Sample Selection Procedure

All observations after merger of all databases	4,848
Less: observations from years 2002 and 2003	(511)
Less: observations from the finance and utilities Fama-French 12 industry categories	(9)
Final sample	4,328

Note. Table C1 reports of the procedure use for sample selection.

Table C2:

Audit Opinions of Switching and Retaining Companies

	Incumbent Auditor Retained (AudChg = 0, N = 4,119)			Successor Auditor Hired (AudChg = 1, N = 90)		
	$UnfOp_{t-1} = 0$	$UnfOp_{t-1} = 1$	Total	$UnfOp_{t-1} = 0$	$UnfOp_{t-1} = 1$	Total
$UnfOp_t = 0$	1,720 (41.76%)	701 (17.02%)	2,421 (58.78%)	28 (31.11%)	25 (27.78%)	53 (58.89%)
$UnfOp_t = 1$	438 (10.63%)	1,260 (30.59%)	1,698 (41.22%)	9 (10.00%)	28 (31.11%)	37 (41.11%)
Total	2,158 (52.39%)	1,961 (47.61%)	4,119	37 (41.11%)	53 (58.89%)	90

Note: Table C2 reports on the distribution of companies categorized based on three categories: (1) whether the company changed auditors, (2) whether the company was issues an unfavorable opinion in the current year, and (3) whether the company was issued an unfavorable opinion in the previous year. These categories are represented in a 2 x 2 table.

Table C3:

Descriptive Statistics

Variables	N	Mean	SD	Min	25%	Median	75%	Max
UnfOp	4328	0.407	0.491	0	0	0	1	1
UnfOp_Lag	4328	0.465	0.499	0	0	0	1	1
AudChg	4209	0.021	0.145	0	0	0	0	1
Prob_OS	4010	-0.000	0.031	-0.615	0.000	0.000	0.000	0.477
CEONar	3869	0.016	1.347	-3.149	-0.930	-0.061	0.666	9.505
Dual	4328	0.522	0.500	0	0	1	1	1
ManInAb	4328	0.466	0.499	0	0	0	1	1
AltZ	4165	3.073	1.567	-1.515	2.076	2.939	3.858	8.109
InvRec	4284	0.276	0.159	0.027	0.150	0.266	0.365	0.732
Loss	4328	0.156	0.363	0	0	0	0	1
Big4	4328	0.948	0.221	0	1	1	1	1
Age	4328	3.202	0.199	1.609	3.178	3.296	3.296	3.332
Lev	4315	0.213	0.167	0.000	0.075	0.201	0.314	0.754
Liquid	4166	0.235	0.204	-0.160	0.084	0.216	0.351	0.848
FFin	4328	0.652	0.476	0	0	1	1	1
Size	4328	7.927	1.526	4.436	6.793	7.805	8.889	11.940
Cash	4327	0.157	0.164	0.002	0.041	0.103	0.213	0.794
Growth	4328	8.304	20.925	-34.209	-1.688	5.267	13.231	121.866
Restruct	4328	0.544	0.498	0	0	1	1	1
ForSales	4328	0.793	0.406	0	1	1	1	1

Note: Table C3 reports on the descriptive statistics for the variables used in this study. All continuous variables are winsorized at the 1st and 99th percentile. For detailed definitions of variables, refer to Appendix B.

Table C4:

Pearson Correlation Matrix

Panel A: Pairwise Correlation

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) UnfOp							
(2) UnfOp_Lag	0.4423*						
(3) AudChg	-0.0003	0.0327*					
(4) Prob_OS	0.0538*	-0.0443*	-0.1242*				
(5) CEONar	0.0351*	0.0453*	0.0156	-0.0384*			
(6) Dual	0.0352*	0.0184	-0.0126	0.0161	0.0862*		
(7) ManInAb	0.0349*	0.0385*	0.0256	-0.0015	0.0287	0.0048	
(8) AltZ	-0.0814*	-0.1002*	-0.0162	0.0294	-0.0554*	0.0711*	-0.2200*
(9) InvRec	-0.0192	-0.0300*	0.0143	0.0133	0.0359*	-0.0038	-0.0304*
(10) Loss	0.0245	0.0413*	0.0176	-0.0554*	-0.0079	-0.1235*	0.0889*
(11) Big4	0.0589*	0.0833*	-0.1055*	0.0412*	0.0674*	0.0594*	-0.0167
(12) Age	-0.0036	-0.0016	-0.0030	-0.0030	0.0086	0.0480*	-0.0352*
(13) Lev	0.0031	0.0082	0.0006	0.0139	0.1147*	0.0768*	0.1306*
(14) Liquid	-0.0740*	-0.0806*	0.0071	0.0253	-0.1228*	-0.1346*	-0.1322*
(15) FFin	0.0182	0.0251	-0.0151	0.0219	0.0984*	0.1156*	0.1299*
(16) Size	0.0830*	0.0996*	-0.0639*	0.0161	0.1452*	0.2912*	-0.0784*
(17) Cash	-0.0573*	-0.0580*	0.0225	-0.0171	-0.1299*	-0.1456*	-0.2020*
(18) Growth	0.0059	-0.0838*	0.0027	-0.0324*	-0.0086	-0.0174	-0.1004*
(19) Restruct	-0.0594*	-0.0976*	-0.0130	0.0293	-0.0760*	0.0026	-0.0611*
(20) ForSales	0.0489*	0.0638*	0.0218	-0.0128	0.0994*	0.0647*	-0.0058

** shows significance at p<.05*

Panel B: Pairwise Correlation, continued from Panel A

Variables	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(9) InvRec	0.3281*						
(10) Loss	-0.3444*	0.0760*					
(11) Big4	0.0500*	-0.0031	-0.0642*				
(12) Age	0.1114*	0.0601*	-0.0676*	0.0149			
(13) Lev	-0.3490*	-0.0422*	0.1190*	0.0723*	0.0229		
(14) Liquid	0.2989*	0.3338*	-0.0142	-0.0445*	-0.0194	-0.4092*	
(15) FFin	-0.1658*	0.0560*	0.0101	0.0843*	0.0322*	0.3496*	-0.3214*
(16) Size	-0.0778*	-0.1183*	-0.1539*	0.2095*	0.1708*	0.2650*	-0.3652*
(17) Cash	0.1634*	-0.1909*	-0.0009	-0.0612*	-0.0354*	-0.3527*	0.6749*
(18) Growth	0.0734*	-0.0866*	-0.2276*	0.0159	0.0067	-0.0183	0.2054*
(19) Restruct	0.2146*	0.0115	-0.1310*	-0.0478*	0.0048	-0.1231*	0.0717*
(20) ForSales	-0.0387*	-0.0054	-0.0804*	0.0509*	0.0537*	-0.0281	0.0504*

** shows significance at p<.05*

Panel C: Pairwise Correlation, continued from Panel B

Variables	(15)	(16)	(17)	(18)	(19)
(16) Size	0.2831*				
(17) Cash	-0.3786*	-0.2209*			
(18) Growth	-0.0035	0.0352*	0.2337*		
(19) Restruct	-0.0441*	-0.0936*	0.0459*	0.1512*	
(20) ForSales	0.0497*	0.1954*	0.0419*	0.0298*	-0.2182*

** shows significance at p<.05*

Note: Table C4 reports on the Pearson correlation coefficients below the diagonal.

Table C5:

Results from Audit Opinion Prediction Model

	Dependent Variable = $UnfOp_{it}$			
	(1)		(2)	
Variables	Coeff.	Z-statistic	Coeff.	Z-statistic
AudChg	-0.155	-1.023	-3.723	-1.526
UnfOp_Lag	0.951	16.948***	0.962	17.065***
Loss	0.161	2.241**	0.185	2.550**
Big4	0.179	1.497	0.181	1.403
Lev	-0.044	-0.243	-0.081	-0.440
FFin	-0.037	-0.667	-0.037	-0.664
Liquid	-0.260	-1.782*	-0.310	-2.117**
Size	0.052	2.821***	0.051	2.725***
Restruct	-0.115	-2.165**	-0.123	-2.292**
Growth	0.005	4.453***	0.006	4.725***
*UnfOp_Lag*AudChg*			-0.475	-0.829
*Loss*AudChg*			-2.922	-3.647***
*Big4*AudChg*			0.545	0.898
*Lev*AudChg*			0.685	0.433
*FFin*AudChg*			-0.760	-1.018
*Liquid*AudChg*			1.978	1.746*
*Size*AudChg*			0.427	1.503
*Restruct*AudChg*			0.473	0.547
*Growth*AudChg*			-0.031	-2.145**
Intercept	-1.433	-4.179***	-1.403	-4.019***
Year Effects	Yes		Yes	
Industry Effects	Yes		Yes	
Observations	4037		4010	
Pseudo R^2	0.3521		0.3538	

, **, * Indicate significance at the 10%, 5%, and 1% levels, respectively, using a two-tailed test.*

Note: Table C5 reports on the results from the audit opinion prediction model, Eq. [1], where the dependent variable, *UnfOp*, equals 1 if firm *j* receives an unfavorable audit opinion in year *t*, otherwise 0. The model includes fiscal year and Fama-French 12 industry fixed effects. Standard errors of coefficients are clustered by firm. For detailed definitions of variables, refer to Appendix B.

Eq. [1]: $\Pr(UnfOp_{jt} = 1) = \alpha_0 + \alpha_1 AudChg_{jt} + \alpha_2 UnfOp_{jt-1} + \alpha_3 AudChg_{jt} * UnfOp_{jt-1} + \alpha_4 Controls_{jt} + \alpha_5 AudChg_{jt} * Controls_{jt} + \varepsilon_{jt}$

The results from Column (2) are used to predict the difference in the probability of an unfavorable audit opinion issuance between a successor auditor and the incumbent auditor (*Prob_OS*).

Table C6:

Results from Auditor Change Prediction Model and CEO Narcissism

	Dependent Variable = $AudChg_{it}$	
Variables	Coeff.	Z-statistic
Prob_OS	0.417	0.256
CEONar	-0.009	-0.231
*Prob_OS*CEONar*	-2.441	-3.214***
AltZ	-0.066	-1.680*
InvRec	0.989	2.104**
Loss	-0.143	-0.785
Big4	-0.761	-4.990***
Age	0.342	0.897
Lev	0.537	1.346
Liquid	-0.662	-1.237
Size	-0.085	-1.999**
Cash	1.377	2.344**
Growth	0.003	1.009
ForSales	0.262	1.524
Intercept	-2.185	-1.682*
Industry Effects	Yes	
Observations	3382	
Pseudo R^2	0.1376	

, **, * Indicate significance at the 10%, 5%, and 1% levels, respectively, using a two-tailed test.*

Note: Table C6 reports on the results from the auditor change prediction model, Eq. [3], where the dependent variable, *AudChg*, equals 1 if firm *j* switches auditors during year *t*, otherwise 0. The model includes Fama-French 12 industry fixed effects. Standard errors of coefficients are clustered by firm. For detailed definitions of variables, refer to Appendix B.

Eq. [3]: $\Pr(AudChg_{jt} = 1) = \alpha_0 + \beta_1 Prob\_OS_{jt} + \beta_2 CEONar_{jt} + \beta_3 Prob\_OS_{jt} * CEONar_{jt} + \beta_4 Controls_{jt} + \varepsilon_{jt}$

Table C7:

Results from Controlling for Company-Initiated Auditor Dismissal

	(1)		(2)	
	Dependent Variable = $UnfOp_{it}$		Dependent Variable = $AudDism_{it}$	
Variables	Coeff.	Z-statistic	Coeff.	Z-statistic
AudDism	-10.148	-2.366**		
UnfOp_Lag	0.944	16.843***		
Prob_OS			-0.493	-0.253
CEONar			-0.009	-0.216
*Prob_OS*CEONar*			-1.988	-1.997**
AltZ			-0.053	-1.165
InvRec			0.662	1.188
Loss	0.150	2.090**	-0.368	-1.494
Big4	0.157	1.351	-0.266	-0.993
Age	-0.104	-0.581	0.144	0.398
Lev			0.719	1.596
Liquid	-0.273	-1.907*	-0.429	-0.738
Size	0.056	3.008***	-0.121	-2.445**
Cash			0.599	0.848
Growth	0.005	4.090***	0.002	0.688
ForSales			0.172	0.957
Intercept	-1.321	-3.464***	-1.616	-1.324
Interact with *AudDism*	Yes		No	
Year Effects	Yes		No	
Industry Effects	Yes		Yes	
Observations	4117		3436	
Pseudo R^2	0.3470		0.1224	

, **, * Indicate significance at the 10%, 5%, and 1% levels, respectively, using a two-tailed test.*

Note: Table C7 reports on the results from both steps of the Lennox model (similar to tables C5 and C6), however, rather than using all cases of auditor change regardless of the whether the switch was by auditor resignation or auditor dismissal, only instances of auditor dismissal are considered. The variable *AudDism*, an indicator variable, equals 1 if the auditor was dismissed for a new audit firm and 0 if no change was made or the auditor resigned. Column (1) provides the results from the following opinion prediction model:

$$\Pr(UnfOp_{jt} = 1) = \alpha_0 + \alpha_1 AudDism_{jt} + \alpha_2 UnfOp_{jt-1} + \alpha_3 AudChg_{jt} * UnfOp_{jt-1} + \alpha_4 Controls_{jt} + \alpha_5 AudChg_{jt} * Controls_{jt} + \varepsilon_{jt}$$

This model includes fiscal year and Fama-French 12 industry fixed effects. Standard errors of coefficients are clustered by firm. For detailed definitions of variables, refer to Appendix B.

Column (2) provides the results from the following auditor dismissal prediction model:

$$\text{PR}(AudDism_{jt} = 1) = \alpha_0 + \beta_1 Prob\_OS_{jt} + \beta_2 CEONar_{jt} + \beta_3 Prob\_OS_{jt} * CEONar_{jt} + \beta_4 Controls_{jt} + \varepsilon_{jt}$$

The model includes Fama-French 12 industry fixed effects. Standard errors of coefficients are clustered by firm. For detailed definitions of variables, refer to Appendix B.

Table C8:

Results from Controlling for Potential Measurement Bias in Opinion Shopping Variable

	Dependent Variable = P_OS_{it}	
Variables	Coeff.	Z-statistic
CEONar	0.147	2.142**
AltZ	-0.080	-1.728*
InvRec	1.755	2.479**
Loss	-0.301	-0.874
Big4	-0.823	-3.774***
Age	1.730	1.483
Lev	-0.525	-1.070
Liquid	-0.351	-0.486
Size	-0.180	-2.553**
Cash	0.765	0.986
Growth	0.002	0.526
ForSales	0.181	0.677
Intercept	-6.582	-1.824*
Industry Effects	Yes	
Observations	2606	
Pseudo R^2	0.2026	

, **, * Indicate significance at the 10%, 5%, and 1% levels, respectively, using a two-tailed test.*

Note: Table C8 reports on the results from the probit regression model presented below, where the dependent variable, *P_OS*, an indicator variable, equals 1 if firm *j* receives a favorable opinion and (1) an auditor change occurs and the value of *Prob_OS* (computed from equation [1]) is less than or equal to -1%, or (2) no auditor change occurs and the value of *Prob_OS* is greater than or equal to 1%, otherwise 0. The model includes Fama-French 12 industry fixed effects. Standard errors of coefficients are clustered by firm. For detailed definitions of variables, refer to Appendix B.

$$\Pr(P\_OS_{jt} = 1) = \beta_0 + \beta_1 CEONar_{jt} + \beta_2 Controls_{jt} + \varepsilon_{jt}$$

Table C9:

The Moderating Effects of CEO Power on CEO Narcissism and Opinion Shopping

	Dependent Variable = $AudChg_{it}$			
	(1)		(2)	
Variables	Coeff.	Z-statistic	Coeff.	Z-statistic
Prob_OS	-2.348	-1.209	-3.277	-1.558
CEONar			0.015	0.254
Dual	0.057	0.492	-0.025	-0.196
*Prob_OS*Dual*	3.324	1.284	7.222	2.086**
*CEONar*Dual*			-0.049	-0.663
*Prob_OS*CEONar*Dual*			-3.222	-2.507**
AltZ	-0.054	-1.734*	-0.065	-1.636
InvRec	0.885	1.940*	1.009	2.057**
Loss	-0.084	-0.565	-0.201	-1.129
Big4	-0.678	-4.825***	-0.720	-4.847***
Age	0.381	1.217	0.386	1.123
Lev	0.406	1.080	0.629	1.513
Liquid	-0.702	-1.599	-0.653	-1.175
Size	-0.119	-3.028***	-0.093	-2.213**
Cash	1.304	2.564**	1.144	1.765*
Growth	0.002	0.665	0.002	0.549
ForSales	0.361	2.183**	0.302	1.717*
Intercept	-2.198	-2.009**	-2.333	-1.939*
Industry Effects	Yes		Yes	
Observations	3737		3382	
Pseudo R^2	.1054		0.1626	

, **, * Indicate significance at the 10%, 5%, and 1% levels, respectively, using a two-tailed test.*

Note: Table C9 reports on the results from the audit opinion prediction model, Eq. [4], where the dependent variable, *Dual*, equals 1 if firm *j* is led by a CEO who also serves are the board chair during year *t*, otherwise 0. The model includes Fama-French 12 industry fixed effects. Standard errors of coefficients are clustered by firm. For detailed definitions of variables, refer to Appendix B.

Eq. [4]: $\Pr(AudChg_{jt} = 1) = \beta_0 + \beta_1 Prob\_OS_{jt} + \beta_2 CEONar_{jt} + \beta_3 Dual_{jt} + \beta_4 Prob\_OS_{jt} * Dual_{jt} + \beta_5 CEONar_{jt} * Dual_{jt} + \beta_6 Prob\_OS_{jt} * CEONar_{jt} * Dual_{jt} + \beta_7 Controls_{jt} + \varepsilon_{jt}$

Table C10:

The Moderating Effects of Managerial Inability on CEO Narcissism and Opinion Shopping

	Dependent Variable = $AudChg_{it}$			
	(1)		(2)	
Variables	Coeff.	Z-statistic	Coeff.	Z-statistic
Prob_OS	-1.042	-0.494	-0.649	-0.265
CEONar			0.020	0.332
ManInAb	0.088	0.786	0.036	0.293
*Prob_OS*ManInAb*	0.659	0.252	1.445	0.440
*CEONar*ManInAb*			0.003	0.032
*Prob_OS*CEONar*ManInAb*			-2.798	-2.308**
AltZ	-0.043	-1.366	-0.059	-1.604
InvRec	0.931	2.138**	1.144	2.372**
Loss	-0.105	-0.708	-0.148	-0.805
Big4	-0.712	-4.990***	-0.775	-4.996***
Age	0.320	1.005	0.415	1.061
Lev	0.405	1.093	0.491	1.223
Liquid	-0.726	-1.647*	-0.715	-1.342
Size	-0.108	-2.761***	-0.080	-1.893*
Cash	1.402	2.783***	1.515	2.598***
Growth	0.002	0.851	0.002	0.885
ForSales	0.321	1.905*	0.206	1.183
Intercept	-2.106	-1.925*	-2.491	-1.877*
Industry Effects	Yes		Yes	
Observations	3737		3382	
Pseudo R^2	0.0926		0.1258	

, **, * Indicate significance at the 10%, 5%, and 1% levels, respectively, using a two-tailed test.*

Note: Table C10 reports on the results from the audit opinion prediction model, Eq. [6], where the dependent variable, *ManInAb*, equals 1 if firm *j* is led by a CEO that earns an MA-score of less than the median (-0.03) during year *t*, otherwise 0. The model includes Fama-French 12 industry fixed effects. Standard errors of coefficients are clustered by firm. For detailed definitions of variables, refer to Appendix B.

Eq. [6]: $\Pr(AudChg_{jt} = 1) = \beta_0 + \beta_1 Prob\_OS_{jt} + \beta_2 CEONar_{jt} + \beta_3 ManInAb_{jt} + \beta_4 Prob\_OS_{jt} * ManInAb_{jt} + \beta_5 CEONar_{jt} * ManInAb_{jt} + \beta_6 Prob\_OS_{jt} * CEONar_{jt} * ManInAb_{jt} + \beta_7 Controls_{jt} + \varepsilon_{jt}$