ADVANCES IN ACCOUNTING BEHAVIORAL RESEARCH

Edited by Dr. Khondkar E. Karim

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VOLUME 26

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AGE DIFFERENCES IN MANAGERS' RESPONSES TO NARCISSISTIC SUBORDINATES' AGGRESSIVE ACCOUNTING

Matthew J. Hayes and Philip M. J. Reckers

ABSTRACT

Prior research in psychology reports an age-based bias against narcissists. We examine whether managers' reactions to narcissistic subordinates exhibit a similar bias. Using an experimental method, where we manipulate subordinate narcissism, we find evidence of an age-based bias. Older managers react to a narcissistic subordinate by making conservative revisions to the subordinate's aggressive accounting estimates. They do so even at the cost of failing to meet a personally beneficial earnings target. A test of moderated mediation shows the actions of older managers (in their late 40s and older) were driven by their negative perceptions of the narcissistic subordinate. Our work demonstrates that not all individuals perceive narcissists the same way, and has implications for manger/subordinate relationships, and group dynamics involving mixed personalities and ages.

Keywords: Narcissism; age differences; perceptions of narcissists; financial reporting; responses to narcissistic subordinates; age-based bias

INTRODUCTION

A growing body of research across a variety of disciplines documents the effects of narcissism in the workplace.[1] Accounting researchers have linked executive narcissism to lower financial reporting quality (Ham, Lang, Seybert, & Wang, 2017; Olsen, Dworkis, & Young, 2013), greater tax avoidance (Olsen &

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Stekelberg, 2015), and higher risk assessments from auditors (Judd, Olsen, & Stekelberg, 2016). These studies suggest that personality traits, like narcissism, are an important component of accounting judgments and decision-making. Although the research to date tends to focus on executives, narcissism may be more prevalent in younger adults who fill subordinate roles in organizations (Roberts, Edmonds, & Grijalva, 2010; Twenge, Konrath, Foster, Keith Campbell, & Bushman, 2008). Despite this evidence, research on subordinate narcissism is less common (some exceptions: Blair, Hoffman, & Helland, 2008; Hayes & Reckers, 2020; Judge, LePine, & Rich, 2006; Wisse, Barelds, & Rietzschel, 2015). We contribute to this research by investigating how managers respond to narcissistic subordinates in a financial reporting setting, and if managers' responses are moderated by their age.

Managers can use the discretion allowed in accounting regulations to manage earnings. They can make aggressive or conservative choices, to adjust earnings to a desired level (Dechow & Skinner, 2000). This behavior can distort the true performance of a company and mislead stakeholders. The context for our study is a financial reporting situation where an aggressive accounting estimate would be beneficial to the manager, and a subordinate proposes an aggressive estimate for manager review. We examine managers' acceptance (or rejection) of the estimate, and whether manager age and subordinate narcissism influence their behavior.

Most of the existing research involving subordinate narcissism focuses on managers' impressions of narcissistic subordinates (e.g., Blair et al., 2008; Judge et al., 2006; Wisse et al., 2015). This research says little about how subordinate narcissism might ultimately influence manager behavior. We contribute to this discussion by examining how differing age-based perceptions of narcissism affect manager behavior. This is important because age differences are a common, often unavoidable part of the workplace environment. Our study sheds light on interpersonal dynamics that could affect not only work relationships but also work output in collaborative environments. We leverage research by Berenson, Ellison, and Clasing (2017) who find that older adults view narcissism less favorably than younger adults. Extending this research, we predict that older adults' unfavorable perception of narcissism will make them less receptive to an aggressive accounting adjustment proposed by a narcissistic subordinate.

We use an experimental design to test our prediction. Participants assume the role of a division manager responsible for estimating the value of damaged inventory. A higher estimate for the damaged inventory results in the reporting of higher division income. If the estimate is high enough, the division will be able to meet a profit target, making the manager look better. We randomly assign participants to one of two conditions where a subordinate is described in either narcissistic or nonnarcissistic terms. In both conditions the subordinate proposes a high inventory value that would allow the division to meet the profit target. The manager must make the final decision on the value of the inventory.

Our findings corroborate and extend Berenson et al. (2017), we demonstrate that managers' unfavorable perceptions of narcissistic subordinates can influence their behaviors. Compared to younger managers, older managers had a more negative perception of the narcissistic subordinate. Manager age did not influence

the perception of the nonnarcissistic subordinate. A test of moderated mediation confirmed that older managers' negative perception of the narcissistic subordinate led them to revise aggressive inventory estimates to be more conservative. Younger managers' perceptions of the subordinate did not influence their inventory estimates. Additional evidence suggests the age bias begins in managers' late 40s and the older managers' revisions were, on average, large enough to prevent achieving an earnings target. We also measured and controlled for managers' own level of narcissism, suggesting that our findings were not caused by differences in narcissism between older and younger managers.

We demonstrate a behavioral bias that can affect managers' judgment over accounting estimates. Our study improves the understanding of the financial reporting process, and how it can be influenced by individual differences and interpersonal dynamics. Prior earnings management studies predominantly focus on managers as individual actors (e.g., Asay, 2018; Brown, 2014; Murphy, 2012), but reporting decisions are often part of a collaborative process. Thus, it is important to consider how participants in this process interact, and how their interactions ultimately influence reporting decisions. Our results suggest that a subordinate's personality can alter a manager's willingness to make aggressive accounting choices. While we found the bias of older managers resulted in larger revisions to narcissists' recommendations, managers could also be favorably biased toward other personalities, resulting in greater acceptance/acquiescence.

We also contribute to research on the effects of narcissism in the workplace. Past research often suggests narcissism has negative effects. For example, a meta-analysis by Grijalva and Newman (2015) finds a consistent positive association between narcissism and counterproductive workplace behaviors (engaging in behaviors harmful to the organization and/or people in the organization). Our results suggest that older managers might be more effective in limiting the negative organizational consequences of subordinate narcissism because they are more wary of narcissists. However, older managers' more negative perception of narcissists may not be universally helpful. For example, some research suggests that narcissism may be linked to innovation (Furnham, Hughes, & Marshall, 2013; Goncalo, Flynn, & Kim, 2010; Wisse et al., 2015). If older managers are more restrictive toward narcissistic subordinates, and less receptive toward their ideas, this could stifle narcissists' innovativeness (and value as employees). Our research is also informative to the management and organizational behavior fields. We show that age plays a role in how one perceives others, and not everyone perceives the same personality (in our case, narcissism) the same way. This is useful knowledge to consider when constructing work teams and assigning supervisors.

The remainder of the chapter is organized in the following manner: in the next (second) section we develop our hypotheses; in the third section we describe our methodology; in the fourth section we report our statistical results; and in the fifth section we present our conclusions, including limitations and directions for future research.

HYPOTHESES DEVELOPMENT

Narcissism in the Workplace

There are many studies examining the effects of narcissistic leaders on subordinate behavior and outcomes (e.g., Braun, Aydin, Frey, & Peus, 2018; Carnevale, Huang, & Harms, 2018; Nevicka, Van Vianen, De Hoogh, & Voorn, 2018; Volmer, Koch, & Göritz, 2016). This research often documents negative outcomes. For example, Braun et al. (2018) find that leader narcissism is associated with subordinates' counter productive work behaviors directed toward the leader (e.g., intentionally interfering with a supervisor's performance). However, leader narcissism can also have positive effects. Using a longitudinal approach, Volmer et al. (2016) document a positive relationship between leader narcissism and objective measures of subordinate success (salary and promotions), and do not find any evidence that leader narcissism affects subordinate job satisfaction or emotional exhaustion.

Research considering subordinate narcissism also provides mixed findings. There is substantial empirical support that employee (subordinate) narcissism is positively related to counter productive work behaviors (Grijalva & Newman, 2015). Employee narcissism is also associated with using deceptive impression management techniques in interviews (Roulin & Bourdage, 2017). Notably, employee narcissism does not appear to be related to measures of actual job performance (O'Boyle, Forsyth, Banks, & McDaniel, 2012). Research on positive outcomes for employee narcissism is less prevalent. However, several studies have documented positive associations between employee narcissism and creative/innovative behavior (Smith & Webster, 2018; Wisse et al., 2015). Some evidence suggests this is attributable to narcissists' penchant for self-promotion (Goncalo et al., 2010), but other research indicates narcissists may actually be more innovative (Smith & Webster, 2018).

The research on subordinate narcissism, including the studies mentioned above, is mostly concentrated on either self-related outcomes, or manager evaluations of narcissistic subordinates. There is little evidence on how the narcissism of a subordinate might influence the *behavior* of a manager. One exception is Hayes and Reckers (2020) who find an interactive effect between subordinate and manager narcissism. They find evidence of narcissistic hypocrisy (Adams, Hart, & Burton, 2015); although narcissistic managers rate narcissistic subordinates as more likable, they are less willing to rely on their input. We contribute to this line of research by examining manager age as a potential moderator of the response to subordinate narcissism, after controlling for differences in manager narcissism.

Narcissism and Age

The media and popular culture often portray today's young people as "generation me" (Stein, 2013), and people, young and old alike, seem to believe this stereotype (Grubbs, Exline, McCain, Campbell, & Twenge, 2019). However, the existence of *generational* differences in narcissism is subject to ongoing debate. Some cross-sectional studies suggest that college students have become more

narcissistic over time (Twenge et al., 2008; Twenge & Foster, 2010). These studies employ meta-analysis of Narcissistic Personality Inventory (NPI) scores from samples taken at various college campuses over the years, concluding that narcissism in college students has increased from the early 1980s to the mid-2000s. However, this finding appears to be sensitive to both data and methodological considerations. For example, Roberts et al. (2010) demonstrate that the increase in narcissism reported in Twenge et al. (2008) disappears once new data are included in the analysis. Further, using a different methodology and sample period (1992–2015), Wetzel et al. (2017) suggest that narcissism in college students has actually *decreased* slightly.

Although the question of generational differences is far from resolved, narcissism is routinely found to have a negative association with age (Foster, Campbell, & Twenge, 2003; Roberts et al., 2010). Some may construe this as evidence supporting the generational differences argument (i.e., older individuals report lower levels of narcissism because their generation is less narcissistic). However, recent longitudinal evidence suggests that is not the whole story. Wetzel, Grijalva, Robins, and Roberts (2019) compare individuals' NPI scores taken at age 18 and again at age 41. They find a significant decrease in NPI scores, indicative of people becoming less narcissistic as they age. They propose the maturity principle (Roberts, Wood, & Caspi, 2008) as an explanation, which is the tendency for individuals to become more conscientious, and less self-centered (i.e., less narcissistic) as they age.

Narcissism is not the only thing that changes with age, so do individuals' perception of narcissism and narcissistic people. Age is associated with more negative opinions of narcissism (Berenson et al., 2017; Grubbs et al., 2019). This does not appear to be caused by differential ability to detect narcissism. When judging personalities, older and younger individuals are equally adept at recognizing narcissists, yet older individuals view narcissistic traits less positively (Berenson et al., 2017). This also cannot be attributed to older individuals being less narcissistic, as Berenson et al. (2017) control for individual narcissism in their analyses. We examine the effects of this age difference in narcissistic perception in a workplace setting, where managers must decide whether to agree with a subordinate's proposed accounting treatment.

Aggressive Accounting Via Estimates

The use of estimates is pervasive in the Generally Accepted Accounting Principles (GAAP) of the United States, and the International Financial Reporting Standards (IFRS) commonly used elsewhere. One example of this is the valuation of inventory. When inventory loses value (due to damage, obsolescence, change in prices, etc.), a "write-down" may be needed to adjust the inventory's book value (FASB, 2015). Once a loss of value is suspected, an estimate for the inventory value is developed. If the estimated value is lower than the book value, a write-down is made to reduce the inventory value to the estimated amount. Write-downs lower income, which could prevent a company (and individual managers) from meeting important financial goals or earnings targets.

Managers place great emphasis on meeting (or beating) earnings targets for a variety of reasons, including maintaining their credibility, maintaining/improving the company stock price, and attaining financial rewards tied to performance (Graham, Harvey, & Rajgopal, 2005). When in danger of missing an earnings target, a common earnings management tactic is to make aggressive, income-increasing estimates (Nelson, Elliott, & Tarpley, 2002). Returning to the inventory example, if a manager makes an aggressive (high value) estimate for the inventory, the write-down will be smaller. This would allow the manager to report higher income and meet the earnings target.

Recognizing the subjectivity and risk in estimates, it is common for companies to have a review and approval process (PCAOB, 2010). However, this may do little to mitigate the incentives to manage earnings if both the preparer and reviewer benefit from reporting higher income. In this instance, a preparer may propose an aggressive estimate, and a reviewer might approve it without much scrutiny. We investigate how subordinate narcissism and manager age influence this process. When reporting higher income is beneficial to managers, we expect managers will generally be accepting of an aggressive (income increasing) estimate prepared by a subordinate. However, we predict that older managers' bias against narcissists (Berenson et al., 2017) will make them less willing to accept an aggressive estimate from a narcissistic subordinate.

H1. Older managers will exhibit a negative bias against narcissists, which will make them less accepting of an aggressive estimate proposed by a narcissistic subordinate.

METHODOLOGY

Participant Recruitment

We recruited 85 working professionals via Qualtrics.[2] We required participants to be living in the United States, at least 21 years of age, with an advanced degree, and currently working full-time. Participants were also required to correctly answer two comprehension checks to verify their understanding of the scenario and their attention (details provided below). Participants were compensated, but the amount of compensation was not disclosed to us, as is the norm for studies done through Qualtrics (Holt & Loraas, 2019).

Procedure

Participants (hereafter, "managers") first answered a series of demographic questions and completed the short form of the Narcissistic Personality Inventory, the NPI-16 (Ames, Rose, & Anderson, 2006). The NPI-16 is a series of 16 paired statements. Each pair consists of a narcissistic and nonnarcissistic option (e.g., "I like to be the center of attention" or "I prefer to blend in with the crowd"). Managers were instructed to read each pair and select the statement they believe best described themselves. Narcissism scores were calculated by summing the number of narcissistic responses chosen.

Managers were then given a scenario where inventory worth $1 million dollars had been damaged and required a write-down. The scenario included information to support both a lower and higher write-down. For example, managers were told the damaged inventory may be repairable, but the extent of the damage and the cost of repairs were uncertain. Managers were provided a range of possibilities for the revised value of the inventory ($500,000–$900,000).

Managers were also given a profit target and shown how various inventory values would affect profit. To meet the profit target the value of the inventory could not be written down below $850,000. To give managers reason to favor a high inventory value, managers were informed that failure to achieve the profit target would result in the loss of a personal bonus, employee bonuses, and increased pressure from management (Brown, 2014). However, there were no "real" economic incentives (i.e., experimental compensation was not linked to the inventory value chosen).

Next, managers were provided a description of a subordinate (an assistant controller). Managers were randomly assigned to receive either a narcissistic description or a nonnarcissistic description of this subordinate. They were then provided with the subordinate's proposed inventory estimate of $875,000, which is high enough to meet the profit target. After reviewing this information, managers made a final decision on the value of the inventory. Following the main experimental materials, managers answered questions about how they made their decision, their impressions of the subordinate, and comprehension and manipulation checks.

Subordinate Narcissism Manipulation

Narcissism is a complex, multidimensional construct. Its precise composition is still a matter of debate, but there is a consensus that narcissism is characterized by grandiosity, callousness, entitlement, manipulativeness, assertiveness, exhibitionism, and risk-taking (Crowe, Lynam, Campbell, & Miller, 2019; Miller, Lynam, Hyatt, & Campbell, 2017). Additionally, research suggests that there is a physical component to narcissism. Narcissists are vain, and are so concerned about their physical appearance that others can successfully identify them by sight alone (Vazier, Naumann, Rentfrow, & Gosling, 2008).

A primary method of manipulating narcissism is to construct one profile using words or traits typically used to describe narcissists, and another profile using the antonyms to these words. For example, a narcissist may be described as aggressive, bossy, flashy, or liking attention and a nonnarcissist as sensitive, submissive, modest, or preferring to blend in with the crowd (Adams et al., 2015; Hart & Adams, 2014; Wallace, Grotzinger, Howard, & Parkhill, 2015). Prior accounting literature has used a similar approach (e.g., Hayes & Reckers, 2020; Johnson, Kuhn, Apostolou, & Hassell, 2013; Johnson, Lowe, & Reckers, 2020). One issue with this methodology is that it creates one profile that is inherently more likable than the other (Burton et al., 2017; Hayes & Reckers, 2020; Johnson et al., 2020; Wallace et al., 2015). This raises the question: are people responding to narcissism, or because they like/dislike the person described? One way to try

and separate the two is to measure and control for likability (Johnson et al., 2020). We elected to create a nonnarcissistic profile that was no more likable than the narcissistic profile because the world is not split into narcissists and their antitheses. Our method allows us to compare the reaction to a narcissist with the reaction to an equally unlikable personality, providing additional evidence that people respond specifically to narcissism.

For each manipulation we described the subordinate's attitudes, behaviors at work and toward others, and how his co-workers perceive him. Examples of phrases in the narcissist's description include "very ambitious," "seeks roles that will bring attention to him," "talks a big game," "can be impulsive or even reckless," "takes great pride in his appearance," "arrogant and entitled." These descriptions captured narcissistic tendencies for extraversion (Miller et al., 2016), ambition (Martinsen, Arnulf, Furnham, & Lang-Ree, 2019), impulsiveness (Vazire & Funder, 2006), vanity (Vazire et al., 2008), and entitlement (Emmons, 1987; Raskin & Terry, 1988).

The nonnarcissist's description included phrases like "not very ambitious," "prefers to work alone," "crass and insensitive," "rather obnoxious," "not attentive to his appearance."

Some of these are in direct opposition to narcissistic characteristics (e.g., ambition, vanity), the rest are meant to create a profile of someone who is difficult to work with, somewhat surly, rough-mannered, and unlikable, but not narcissistic. We kept the subordinate's knowledge, skills, and abilities constant across manipulations. In both descriptions, the subordinate is portrayed as well-educated, intelligent, and hard working.

Dependent Variables

Our primary dependent variable is the final inventory value managers would be willing to accept. We asked managers to record the amount they would approve for the inventory value. They could choose any amount between $500,000 and $900,000. A higher inventory value ($850,000 or more) would allow the division to meet the earnings target.

To test our hypothesis, we also created a measure of managers' positive perception of the subordinate. We asked managers to rate their agreement with the following statements, "I like Casey (the subordinate)," "Casey is competent at his job," and "I am confident in Casey" on 7-point Likert scales (from "strongly disagree" to "strongly agree"). The narcissism literature tends to define and measure "perception" as a general positive/negative reaction to or liking/disliking of narcissists (or their traits and actions). Berenson et al. (2017) measured "desirability" of narcissistic traits via participants ratings on a scale from "extremely negative" to "extremely positive". Adams et al. (2015) asked participants to rate narcissists "likability." Wallace et al. (2015) asked participants to rate the extent to which they had a "positive view" of narcissists.

In the workplace, a manager's perception of an employee is not solely based on the degree to which they like the employee's personality. Thus, in addition to "I like Casey," we included items assessing employee competence and manager