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When Ego Helps: How Narcissistic Auditors Improve Financial Reports

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Abstract

This study examines how auditor narcissism associates with financial reporting quality using Pakistani non-financial firms from period between 2017-2021. We measure narcissism through audit partner signature size relative to name length. Financial reporting quality is assessed using discretionary accruals from the modified Jones (1991) and Kothari (2005) models. Results show that narcissistic auditors improve financial reporting quality. Unlike typical leadership contexts, narcissistic auditors display greater independence and reduce earnings management. This occurs because Pakistan's weak regulatory framework makes individual auditor traits more important for audit effectiveness. The findings challenge common views about narcissism in professional settings. In emerging markets with limited enforcement, narcissistic traits may enhance audit vigilance rather than harm it. This has practical implications for audit firms and regulators who should consider personality factors alongside technical skills.

Keywords: Auditor narcissism, Financial reporting quality, Pakistani firms, Earnings management, emerging markets

Introduction

Narcissism is a personality trait defined by inflated feelings about one's own importance (Campbell, Hoffman, Campbell, & Marchisio, 2010). Prior research suggests that narcissism often lies at the root of destructive and sometimes disastrous outcomes in business decisions (Amernic & Craig,

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2010; Chatterjee & Hambrick, 2007; Johnson, Kuhn, Apostolou, & Hassell, 2013; Olsen, Dworkis,

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& Young, 2014; Olsen & Stekelberg, 2016). Narcissistic leaders, in particular, tend to exploit their positions for personal benefit and recognition at the expense of employees and the firm as a whole (Chatterjee & Hambrick, 2007). Because they neglect others' needs and struggle with empathy, narcissists are often less receptive in interpersonal exchanges, prolonging negotiations and creating obstacles to collaboration (Ham, Seybert, & Wang, 2018; Olsen et al., 2014).

Building on behavioral theories, recent research in accounting and finance has examined how narcissistic executives shape firm-level decisions. For example, narcissistic CEOs are more likely to engage in bold and risky strategies, such as overinvestment in research and development or costly mergers and acquisitions, which often harm financial performance ((Park, Ferrero, Colvin, & Carney, 2013). Similarly, studies of narcissistic CFOs link their traits to lower-quality financial reporting, including practices such as earnings management, weak internal controls, delayed loss recognition, and restatements (Chou, Pittman, & Zhuang, 2021). However, a small but growing line of inquiry highlights possible benefits of narcissism in auditing. For instance, Kerckhofs, Vandenhaute, & Hardies (2024) provide evidence that narcissistic audit partners—concerned with maintaining reputations as tough and independent—may deliver higher audit quality, reflected in reduced accrual management, fewer restatements, and stronger earnings response coefficients. These mixed findings suggest that narcissism in accounting contexts may have both detrimental and beneficial effects (Grijalva & Harms, 2014).

This study examines the issue in Pakistan, a setting that provides a unique institutional environment for investigating auditor behavior. The country's audit profession operates under the Institute of Chartered Accountants of Pakistan (ICAP) and is regulated through the Quality Control Review (QCR) program. However, structural weaknesses remain. Audits are often conducted by a single individual auditor, who simultaneously assumes the role of engagement partner and reviewer. Oversight mechanisms were only strengthened in 2018 with the establishment of the Audit Oversight Board, leaving a legacy of limited enforcement and weak monitoring. Moreover, Pakistan's corporate environment is marked by high ownership concentration, family-controlled businesses, and pervasive political interference, which collectively exacerbate agency problems and reduce the perceived risks of poor-quality audits (Mahmood, Blaber, & Khan, 2024; Nawaz, Haniffa, & Hudaib, 2023). Against this backdrop, questions of auditor independence, reporting quality, and personal traits become particularly salient.

High-quality financial reporting is vital for firms, as it enhances transparency, improves compliance, attracts investment, and contributes to stable performance (Gomariz, Ballesta, & finance, 2014). In developing economies, however, weak institutions and limited enforcement threaten reporting quality, making the auditor's role especially critical. Prior research shows that individual characteristics such as narcissism may directly affect reporting outcomes (Cutillas Gomariz & Sánchez Ballesta, 2014). Yet, the relationship between auditor narcissism and financial reporting quality remains underexplored, especially in emerging market contexts.

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Given this gap, our study investigates whether narcissistic tendencies among auditors influence financial reporting quality in Pakistan. Specifically, we examine whether narcissism which is measured through audit partner signature size corresponds with proxies of reporting outcomes such as earnings management. Our empirical analysis covers 500 firm-year observations of non-financial firms listed on the Pakistan Stock Exchange between 2017 and 2021, the period during which audit partner signatures became publicly available in financial reports.

The results of the study shows that auditors with higher levels of narcissism are linked to better financial reporting quality. In particular, these auditors are associated with lower earnings management, which means they are less likely to allow biased or manipulated financial results. This suggests that narcissistic auditors, motivated by protecting their reputation and image, may act more independently and carefully during audits. The results are especially important in Pakistan, where weak monitoring and enforcement make the personal traits of auditors even more critical for ensuring reliable financial reports.

The study contributes to literature in two ways. First, it advances the literature on personality traits in auditing by focusing on narcissism, a dimension traditionally examined in leadership and executive contexts but rarely at the auditor level (Johnson et al., 2013; Judd, Olsen, & Stekelberg, 2017). Second, it offers evidence from Pakistan, a developing country with distinctive institutional features, thereby enriching cross-country perspectives on financial reporting quality.

Review of Literature

Institutional Content of Pakistan

In comparison to established countries, Pakistan has unique financial and capital markets with a variety of social and political structures. Additionally, the global need for high-quality corporate governance and auditing has increased as a result of the fairness and transparency issues. Companies are required by the 2002-issued Code of Corporate Governance to state that they are operating to Pakistan-specific IFRS for the preparation of financial statements. The code also mandates that businesses create, put into place, and maintain an internal control system as well as provide this information. The Code of Corporate Governance also increased the transparency of requirements for businesses, and these businesses must now provide a statement verifying to their compliance to the code. All of these changes were made to make sure Pakistani businesses adhered to global best practices (Younas, UdDin, Awan, & Khan, 2021).

In Pakistan, the auditing industry is uncontrolled. Under the Chartered Accountants Ordinance, the Institute of Chartered Accountants of Pakistan (ICAP) was founded (1961). To assure the quality of audits carried out, ICAP established the Quality Control Review Program (QCR), and auditors of listed companies are expected to receive a satisfactory QCR grade. Only two audit engagements

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from chosen firms are reviewed by the reviewers, who work on a sample basis in this case, auditors might not think that there is a risk that they will be discovered performing poor audits.

Pakistan established a comprehensive legislative framework to address the issues and adopted the code of corporate governance, which was produced by SECP in 2002 with assistance from the World Bank and the International Monetary Fund (IMF). This code is designed to protect the interests of investors by enhancing governance, transparency, and financial reporting. In most situations, this code provides guidelines for businesses to follow in regards to accounting standards, financial reporting disclosure, issues with top management salaries, ownership structure, etc. This code of the CG Institute of Chartered Accountants of Pakistan includes a provision for external auditors (ICAP).

The selection of an auditor for one year is based to the recommendations of the Audit Committee. Every listed company must change external auditors in every five years, under SECP. Also, in Pakistan, where ownership is strongly held and heavily concentrated in the form of powerful corporate organizations, family ownership is another particular aspect of company organization (Nawaz et al., 2023). Family members frequently serve on boards of directors, serve as chairpersons and chief executive officers (CEO), and participate actively in the operation of businesses.

Furthermore, in such a legal, institutional, and economic climate, banks are a significant source of funding. Additionally, banks establish direct connections with businesses, allowing them to get all the information they need without having to rely on published financial records. In Pakistan, personal links such as family ties and other connections can have an impact on business decisions (Amin, ur Rehman, Ali, & Mohd Said, 2022). Additionally, auditors selected based on interpersonal ties might not raise any issues with the company's methods for managing earnings. Overall, enforcement methods are ineffective, and penalties and fines are not severe enough to force auditors to provide more effective audits.

However, due to poor law enforcement in Pakistan, auditors do not suffer the same risk of litigation that they do in developed nations (Ahmad, Bradbury, & Habib, 2022). As a result, auditors might not be able to persuade management to update financial statements with the necessary modifications. They can either offer an unqualified audit opinion and clear the management of major misstatements in the financial statements and deviations from accounting rules, or they can issue a qualified audit opinion in that case (Mahmood et al., 2024). In this situation, auditors further have the choice to provide a qualified audit opinion that has no impact on the overall audit opinion as regards to a stricter prepared audit opinion that does.

Narcissism: Conceptual Foundations

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The term "narcissism" originates from Greek mythology, where Narcissus fell in love with his own reflection. Since the late 19th century, scholars have debated its psychological and social dimensions (Morf & Rhodewalt, 2001). Early psychoanalytic perspectives conceptualized narcissism as self-love and the formation of an "ideal ego," while modern psychology emphasizes traits such as vanity, grandiosity, entitlement, and hypersensitivity to criticism (Morf & Rhodewalt, 2001). Narcissistic individuals are often highly self-focused, seek admiration, and resist external evaluation, yet they may also demonstrate charisma, persistence, and confidence in leadership settings. A number of scholars have attempted to measure narcissism using psychometric scales, revealing that narcissism exists on a continuum rather than a simple dichotomy (Thomaes, Stegge, Bushman, Olthof, & Denissen, 2008) . The four central dimensions commonly cited are: (1) leadership/authority, (2) entitlement/exploitation, (3) superiority/arrogance, and (4) self-absorption (Aobdia, Lin, & Petacchi, 2015). These dimensions highlight both the adaptive and maladaptive aspects of narcissism, underscoring its complex role in organizational behavior.

Organizational studies have increasingly recognized the role of narcissism in shaping managerial behavior. Research on CEOs demonstrates that narcissistic leaders are prone to bold, attention-seeking strategies such as aggressive mergers and acquisitions or excessive R&D spending (Chatterjee & Hambrick, 2007; Ham et al., 2018). While such risk-taking can yield innovative breakthroughs, it has also been linked to financial underperformance, restatements, and weakened governance (Amernic & Craig, 2010; Olsen et al., 2014).

Similarly, CFO narcissism has been connected to opportunistic financial reporting, poor internal controls, and higher likelihood of restatements (Chou et al., 2021). However, some studies suggest that narcissistic executives may also, under certain conditions, enhance audit quality by resisting client pressure or demonstrating strong independence in judgment (Amernic & Craig, 2010; Olsen & Stekelberg, 2016). This duality illustrates that narcissism cannot be classified as purely harmful; rather, its effects depend on context, roles, and checks within the governance system.

The auditing context presents unique challenges because independence, skepticism, and objectivity are essential professional standards (Ahmad et al., 2022). Narcissistic traits may interfere with these qualities, as auditors with inflated self-confidence may dismiss contradictory evidence, rationalize client practices, or ignore peer feedback (Byrne & Worthy, 2013). On the other hand, narcissistic auditors may also be more inclined to assert their independence, resist conformity, and build reputations as strong gatekeepers (Johnson et al., 2013; Judd et al., 2017) . Recent findings demonstrate that partner-level narcissism can influence audit quality both positively and negatively. For example, narcissistic lead partners may limit earnings management and enhance audit rigor, but excessive self-focus can also reduce team collaboration and increase the risk of oversight errors (Rajabalizadeh & Schadewitz, 2025; Takada, Lau, Casterella, & Wong, 2021). Importantly, the institutional environment moderates these effects: in Big Four firms, quality control procedures and team-based structures may mitigate the risks associated with

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narcissistic partners, while in smaller firms, individual traits exert stronger influence (Beisland, Mersland, & Strøm, 2018).

Audit Quality and Financial Reporting

Audit quality is a multidimensional construct defined by both auditor competence and independence (Francis, 2023; Rajgopal, Srinivasan, & Zheng, 2021). Proxies used in research include restatements, discretionary accruals, litigation risk, market reactions, and audit fees (DeFond & Zhang, 2014). High audit quality enhances the credibility of financial statements and strengthens investor confidence, while audit failures erode market trust.

Financial reporting quality refers to the extent to which financial statements faithfully represent a firm's performance, are free of material misstatements, and are useful for decision-making(Ge, Matsumoto, & Zhang, 2011). Weak governance, managerial opportunism, and narcissistic executive traits have been consistently associated with lower reporting quality, including earnings management, restatements, and reduced timeliness of loss recognition (Abdel-Meguid, Jennings, Olsen, & Soliman, 2021; Kontesa, Brahmana, & Tong, 2021).

Conceptually, the relationship between audit quality and financial reporting quality is rooted in agency theory, which positions auditors as intermediaries who reduce information asymmetry between managers and stakeholders (Harris & Raviv, 1991; Jensen & Meckling, 1976). By ensuring that reported figures are transparent and verifiable, auditors play a vital role in reinforcing accountability and enabling efficient resource allocation in markets (DeFond & Zhang, 2014) This theoretical grounding makes clear that audit quality and reporting quality are not isolated constructs but interdependent dimensions of market trust.

The reviewed studies underscore the significance of narcissism in auditing and financial reporting contexts. Narcissism has been linked to opportunistic managerial behavior, compromised independence, and reduced audit quality. Yet, some evidence suggests narcissism may strengthen assertiveness, enhance independence, and deter client pressure in certain circumstances. These mixed findings point to a crucial gap: the need for empirical examination of how auditor narcissism specifically influences financial reporting quality, beyond executive-level analysis.

Hypotheses Development

The literature reviewed above suggests that narcissism is a significant personality trait with important implications for professional decision-making. In organizational research, narcissism has been consistently linked to opportunistic behavior, overconfidence, and self-serving choices (Chatterjee & Hambrick, 2007). In accounting and auditing contexts, these tendencies may undermine the principles of independence, skepticism, and objectivity, which are essential to maintaining high standards of professional practice (Hill & Jones, 1992).

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Financial reporting quality depends on auditors' ability to detect and constrain managerial bias and opportunism (Biddle, Hilary, & Verdi, 2009). However, narcissistic tendencies may distort this role. Auditors with high narcissism may be overly confident in their judgments, less receptive to contradictory evidence, or inclined to rationalize management's aggressive reporting practices. These characteristics may ultimately reduce their effectiveness as independent monitors of financial reporting integrity (Cutillas Gomariz & Sánchez Ballesta, 2014).

At the same time, some scholarship indicates that narcissistic traits, such as assertiveness and persistence, may occasionally enhance professional performance, particularly when auditors face resistance from clients (Ge et al., 2011). This suggests that narcissism is not uniformly detrimental but exerts complex effects that require empirical examination (Chatterjee & Hambrick, 2007; Judd et al., 2017).

In many organizations, financial reports are the primary source of information for investors, regulators, and other stakeholders. If auditors' personal traits compromise the quality of these reports, the resulting distortions may affect decision-making across markets. This highlights the relevance of examining how narcissism operates not only as a psychological factor but also as a determinant of trust and reliability in financial systems.

In auditing, research shows that how well auditors make decisions depends heavily on their personal biases and overconfidence which are key parts of narcissism (Brazel, Jackson, Schaefer, & Stewart, 2016). Studies also prove that auditors' personal traits, especially being overconfident and self-centered, strongly predict when audits fail and when auditors make mistakes about whether companies will survive (Olsen & Stekelberg, 2016). These research findings, along with evidence that overconfident executives often lead to false financial reporting. Building on this discussion, the present study proposes the following hypothesis:

H1: There is a positive link between the narcissism of auditors and the quality of financial reporting.

Data and Methodology

This study uses secondary data from audited annual reports issued by listed firms. Secondary data is data which is primarily issued for other purpose; however, researcher may use it to achieve their research objectives. The data used in the study is a panel in nature. It means that data is collected from each company over multiple years. After the filtering, we have unbalanced panel data in which data of each company does not collect same number of times.

Data and Sampling

The population of the study is all listed firms at Pakistan Stock Exchange (PSX). We do not include financial firms due to differences in the operations and nature of the firms. Therefore, our data

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collection starts from non-financial firms which have almost 372 firms listed at PSX in year 2021. As, our objective is to measure audit partner narcissism by measuring the dimensions of the signature of audit partner. Therefore, we start our search in the year 2017 because this is the first year when audit partner starts signing the statement of the auditor report. In the first step, we identify the annual reports from hand collected non-financial firms' annual reports from their websites between 2017-2021. Altogether, we have 617 firm-year observations in which the statement of auditor report has been signed by the audit partner and signatures are not computerized printed. We also drop the firm-year observations which have negative equity following the common practice in the literature. Finally, we have 500 firm-year observations which match with our dependent variable and control variables.

Measurements of the variables

Financial Reporting Quality

This study uses two different proxies to measure the financial reporting quality based on discretionary accruals. Following the Kothari, Leone, & Wasley (2005), we use earnings management proxies which consider the inverse of the financial reporting quality. It means the higher the value of earnings management in the firm, lower the firm financial reporting quality. The first model of earnings management is based on a modified version of the Jones's, 1991) model. This is most common model used in the literature to measure the earnings management due to its' high statistical strength in identifying earnings management.

The discretionary accruals are collected after regressing non-discretionary accruals on total accruals. Therefore, in the first step, we calculate total accruals following the below equation.

$$TA_{it} = \frac{NI_{it} - CFO_{it}}{Assets_{it-1}} \quad (1)$$

Where, TA_{it} is the total accruals of firm i in year t. NI_{it} is the net income of firm i in year t. CFO_{it} is cash flow from operations of firm i in year t. $Assets_{it-1}$ is the total assets of firm i in year t-1.

In the second stage, we run the cross-sectional ordinary least-squares regression according to equation 2.

$$TA_{it} = \alpha_0(1/Assets_{t-1}) + \alpha_1(\Delta REV_{it})/Assets_{it-1} + \alpha_2(PPE_{it})/Assets_{it-1} + \epsilon_{it} \quad (2)$$

Where, TA_{it} is total accruals. $\Delta REV_{it}$is the change in the current year sales from last year sales in firm i in year. PPE_{it} is the gross property plant and equipment in the firm i in the year t. All the right-hand side variables are scaled by last year of total assets. ϵ_{it} is represent the discretionary accruals which represents the level of earnings management in the firm.

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Similarly, we also calculate earnings management using modified jones model by the Kothari et al. (2005). $TA_{it} = \alpha_0(1/Assets_{t-1}) + \alpha_1(\Delta REV_{it} - \Delta REC_{it})/Assets_{it-1} + \alpha_2(PPE_{it})/Assets_{it-1} + ROA_{it-1} + \epsilon_{it}$ (3)

Where, TA_{it} is total accruals. $\Delta REV_{it}$is the change in the current year sales from last year sales in firm i in year t. ΔREC_{it} is the change in the current year receivables from the last year receivables in firm i in year t. PPE_{it} is the gross property plant and equipment in the firm i in the year t. All the right-hand side variables are scaled by last year of total assets. Is the ROA of firm i in year t-1. ROA is defined as net income to total assets ϵ_{it} is represent the discretionary accruals which represents the level of earnings management in the firm.

In regression models, we use absolute values of earnings management as an inverse proxy of financial reporting quality.

As the gap between total accruals and non-discretionary accruals, errors like this indicate the unreasonable or incomprehensible portion of total accruals. Discretionary accruals may be predicted using time series as well as cross-sectional data, as well as year-specific changes in the economic climate that impact projected accruals. Studies on earnings management focus heavily on the substitution of discretionary accruals for actual earnings (Klevak et al., 2024; Kuang, Qin, & Wielhouwer, 2015; Prencipe & Bar-Yosef, 2011). Discretionary accruals might be computed in a number of ways; however, the pooled cross-sectional variation of the Modified Jones model is used in this analysis.

Audit Partner Narcissism

Zweigenhaft & Marlowe (1973) show, to provide just one example, persons who reported greater levels of confidence also had bigger than average signatures. The literature suggests a positive correlation between signature size and narcissistic personal personality traits such as status consciousness, level of confidence, influence (Kettle & Häubl, 2011) and self-regard (Wilson & Dunn, 2004). Similar findings have been summarized in the other studies in the field of psychology (Byrne & Worthy, 2013; Chatterjee & Hambrick, 2007; Judd et al., 2017).

Therefore, signature size of the key management individual has been used in the field of account and finance to judge the level of personality disorder which represents the narcissism of a person. Several authors summarized that management individuals have relatively large size signature are more narcissists. Recent research demonstrates that a person's signature size is a clear, unobtrusive indicator of narcissism (Ham et al., 2018). Chou et al., (2021) compare the different proxies of narcissism and find that the narcissism measured using signature size contains less measurement errors as compared to other methodologies. Moreover, it is more simple method to measure the narcissist behavior. In this study, we measure audit partner narcissism following previous researchers. First, we print the page from each firm's annual report where audit partner signs the

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signature. We use A4 size page for printing and draw a rectangle around the signature. We make sure using the scale that width and length of the rectangle must the touching the most extreme points of the signature. After that, we use two different scales to generate our audit partner narcissism proxies. In first proxy, we scale the dimensions (width multiple by length of the signature) by total number of characters in the name of audit partner. In the second proxy, we scale the dimensions (width multiple by length of the signature) by the total number of alphabets in the English language. The reason to use total number English language alphabets is that annual reports in Pakistan are published in English and audit partners sign using English characters.

Control Variable

Following the previous literature, we also used several determinants of financial reporting quality to robust our findings. The below is the detail of the control variables used in this study.

Return on Assets.

A popular accounting measure to evaluate a company's financial performance is return on asset (ROA). ROA is widely employed to describe a company's financial success number of studies across fields have used this indicator to measure firm performance (Din, Arshad Khan, Khan, & Khan, 2022; Ling, Zhou, Liang, Song, & Zeng, 2016; Terjesen, Couto, & Francisco, 2016).

Firm Size

The firm size provides information about a commercial enterprise's operations and the structure. Considerations such as the number of workers, total assets, and annual revenue may help quantify the scope of a business (Corvino, Caputo, Pironti, Doni, & Bianchi Martini, 2019; Oghuvwu & Orakwue, 2019). By calculating the natural log of the firm's total assets at the end of the year, firm size is calculated.

Leverage

Financial leverage is a ratio used to assess an organization's use of debt relative to its total assets (Graña-Alvarez, Gomez-Conde, Lopez-Valeiras, & González-Loureiro, 2024). Financial leverage measures the extent to which a company uses borrowed money (debt) compared to its own funds (equity). Financial leverage is calculated by dividing total liabilities by total assets (Hassouna, El Hawary, & ElBolok, 2024).

CEO Duality

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CEO (Duality) D happens when a person with a similar personality serves as both the firm's chairperson and the CEO (Khlif, Samaha, & Amara, 2021). This dual CEO job situation is referred to as duality. A company's board may need to balance the opposing effects that a dual-function CEO may bring (Kim, Al-Shammari, Kim, & Lee, 2009). The directors have appointed these CEOs to control the company's managers on the owners' behalf The following formula is considered in this study to quantify this variable. This equation uses a value of 1 for CEOD presence and a value of 0 for CEOD absence: CEO Duality (CEOD) [1] if CEO and Chairman is the same personality, [0] otherwise.

Board Size

Studies show that board size affects company performance (Guest, 2008; Harris & Raviv, 2008). Larger boards can help companies make better investment decisions over time. But when boards get too big, financial reporting quality often gets worse (Raheja, 2005). This happens because big boards have too many different opinions, making decisions harder.

Board size is measured by counting the total number of directors. Having different skills on the board helps with business issues and financial management. But too many people can slow down decisions and hurt financial oversight (Rahaman & Karim, 2023).

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Big4 Auditor

This variable represents the Big 4 audit firms in the industry. According to findings, using a Big Four auditor and making discretionary accruals has a negative effect on financial statements (Beisland et al., 2018). One possible explanation is that investors place more importance on the discretionary accruals of Big 4 customers than those of non-Big 4 clients (Siddiqui, Zaman, & Khan, 2013). The Big Four are more likely to prevent managers from engaging in opportunistic reporting.

Executive Director

Although the board of directors includes both inside (executive) and outside (independent) members, discussions on directors almost invariably center on the pros and cons of outside directors. This variable is calculated by dividing the number of executive directors by the total number of board members.

Research Model:

This study used a cross-sectional OLS regression model to inquire into the relationship between auditor narcissism and report quality. Regression analysis is a statistical technique used to model the association between a dependent variable and a group of independent variables (DeFond & Zhang, 2014).

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$$\mathbf{DACC}_{i,t} = \beta_0 + B_1\,\text{Narcissism}_{i,t} + \beta_2\,\text{ROA}_{i,t} + \beta_3\,\text{LOSS}_{i,t} + \beta_4\,\text{FIRM SIZE}_{i,t}\ \beta_5\,\text{BMR}_{i,t} + \beta_6\,\text{LEV}_{i,t} + \beta_7\,\text{CEO Duality}_{i,t} + \beta_8\,\text{BIGN}_{i,t} + \beta_9\,\text{GROWTH}_{i,t} + \beta_{10}\,\text{BOARD SIZE}_{i,t} + \beta_{11}\,\text{Executive Director}_{i,t} + \text{Industries Effects} + \varepsilon_{i,t},$$

Table 1: Description of variables	
DACC	Discretionary accruals estimated using the cross-sectional modified Jones model to capture earnings management within firm i
NARCISSISM	Narcissism is measured by signature size, and signature size is in English wording. Measure the length and width of each signature.
ROA	Ratio of net income for year t to total assets for year t1.
LOSS	1 if net income for year t is positive, 0 otherwise.
SIZE	Natural logarithm of the market value of equity at year t
BMR	Book value of equity divided by the market value of equity at year t
LEV	Ratio of total liabilities to the market value of equity for year t.
CEO Duality	CEO Duality (CEOD) [1], if CEO and Chairman are the same personalities, is [0] otherwise.
BIG N	1 if the firm is audited by a Japanese affiliate of the then big five auditors, 0 otherwise.
GROWTH	Ratio of sales for year t to sales for year t 1
BOARD SIZE	Board size is computed by mentioned No of board members in annual reports
EXECUTIVE DIRECTOR	The number of executive directors on the board divided by the total number

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BOARD	= percentage of shareholding of the board members at year t1

Results and Discussion

Univariate Analysis

The study used descriptive statistics to measure the data's mean, median, mode, and SD (Standard Deviation). Descriptive statistics measure the central tendency and mean of dispersion. Central tendency shows the data's mean, median, and mode, and means of distribution calculate SD and the range and variance. The mean, median, and standard deviation for the descriptive statistics are shown in the aforementioned Table 2.

Table 2: Summary statistics

	N	Mean	Median	Std. Dev.	Min	Max
absem	500	.508	.112	2.105	0	34.197
absem1	500	.202	.084	.476	0	5.46
nar	500	.309	.246	.226	.026	1.74
nar1	500	.162	.14	.102	.014	.708
fsize	500	15.816	15.834	1.8	11.513	19.813
roa	500	.207	.036	2.22	-8.192	33.79
growth	500	2.767	.102	48.985	-1	1072.349
lev	500	.805	.528	1.51	.001	14.938
loss	500	.286	0	.452	0	1
bmw	500	.955	.753	.87	-.656	4.545
tduality	500	.01	0	.1	0	1
big4	500	.546	1	.498	0	1
mod op	500	.352	0	.478	0	1
bsize	500	2.212	2.197	.159	2.079	2.708
exdir ratw	500	.192	.143	.102	0	.571

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The use of descriptive statistics is used to explain 15 variables. The mean and standard deviation of absem and absem1 (0.508 and 0.202, respectively) make up the first variable, absem. The symmetric nature of the data for those variables can be inferred from the mean and median being near to one another. The following two variables, nar and nar1, are symmetrically close to one another as evidenced by their mean and standard deviations of (0.309,0.162) and (0.226, 0.102), respectively. We also provide descriptive data for a number of factors that were employed in supplementary analysis. The numbers are mostly compatible with the growth's mean values and standard deviations. Lev and LOSS have respective mean values of 0.286 and 0.805. The next variable RAO with mean and standard deviation 0.207 and 0.202 respectively. In the growth variable 2.767 mean and standard deviation 48.98 show that there is wise variation in a dataset of growth.

Pairwise correlations

The correlation matrix (range: –1 to +1) highlights the relationships among independent variables, with significance determined by p-values. Table 3 present correlations. Results show that absem is significantly associated ($p < 0.05$) with several variables, including absem1, nar, nar1, fsize, roa, growth, lev, loss, bmw, tduality, big4, modop, and bsize. Since the p-values are consistently below the 0.05 threshold, these associations can be considered statistically significant, supporting the robustness of the observed relationships.

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Table 3. Pairwise correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
(1) absem	1.00														
(2) absem1	0.28*	1.00													
(3) nar	0.01	-0.05	1.00												
(4) nar1	0.02	-0.05	0.89*	1.00											
(5) fsize	-0.14*	-0.12*	-0.14*	-0.11*	1.00										
(6) roa	0.73*	0.02	0.02	0.02	-0.12*	1.00									
(7) growth	-0.01	-0.02	-0.02	0.01	0.08	-0.01	1.00								
(8) lev	0.02	0.12*	-0.07	-0.10*	-0.27*	0.13*	-0.03	1.00							
(9) loss	-0.02	0.08	0.08	0.05	-0.18*	-0.13*	0.08	0.03	1.00						
(10)	-	0.0	0.0	0.0	0.0	-	0.1	-	0.1	1.0					

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bmw	0.09	0	3	2	8	0.07	8*	0.05	0*	0					
(11) tduality	-0.01	-0.02	-0.01	0.00	-0.01	0.00	-0.01	0.04	-0.02	0.02	1.00				
(12) big4	0.00	-0.10*	-0.23*	-0.21*	0.42*	0.04	-0.06	-0.02	-0.20*	-0.24*	0.09*	1.00			
(13) mod_op	0.13*	0.14*	0.13*	0.10*	-0.11*	0.00	0.07	0.05	0.19*	0.11*	-0.07	-0.24*	1.00		
(14) bsize	0.03	-0.07	-0.02	0.04	0.24*	0.07	-0.05	-0.01	-0.06	-0.19*	-0.01	0.23*	-0.07	1.00	
(15) exdir_ratw	0.02	0.08	0.04	0.04	-0.08	-0.03	0.04	-0.02	0.06	-0.03	-0.02	-0.18*	-0.04	-0.20*	1.00

*** $p<0.01$, ** $p<0.05$, * $p<0.1$

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Regression Analysis
Baseline Results

Table 4a and 4b presents the OLS robust regression results for both proxies of earning management, after controlling for industry and year effects.

Table 4a. Impact of Audit Partner Narcissism on Financial Reporting Quality

	(1)
Variables	Jones
Narcissism	-0.494**
	(-2.300)
Firm Size	-0.107*
	(-1.816)
ROA	0.697***
	(4.072)
Growth	-0.000
	(-0.718)
Leverage	-0.159**
	(-2.129)
Loss	0.260*
	(1.739)
BM	-0.047
	(-0.844)
CEO Duality	0.004
	(0.018)
Big4 Auditor	-0.011
	(-0.080)
Modified Opinion	0.303*
	(1.952)
Board Size	0.228
	(0.420)
Executive Directors	1.122*
	(1.835)
Industry Effects	YES
Year Effects	YES
Constant	1.020
	(1.289)
Observations	492
R-squared	0.607

Robust t-statistics in parentheses *** p<0.01, ** p<0.05, * p<0.1

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The model, based on 492 observations, explains 60.7% of the variation in financial reporting quality ($R^2 = 0.607$). The coefficient for the variable of interest, narcissism, is 0.494 (t = –2.300) which is significant at the 5% level, indicating that higher narcissistic tendencies proxied by larger signature size are associated with reduced earnings management, and thus with higher financial reporting quality.

Table 4b. Impact of Audit Partner Narcissism on Financial Reporting Quality (Kothari Model)

VARIABLES	(2) Kothari
Narcissism	-0.171**
	(-2.214)
Firm Size	-0.013
	(-1.431)
ROA	0.001
	(0.077)
Growth	-0.000
	(-0.834)
Leverage	0.019
	(0.521)
Loss	0.058
	(1.012)
BM	-0.022
	(-0.796)
CEO Duality	-0.055
	(-1.303)
Big4 Auditor	-0.014
	(-0.287)
Modified Opinion	0.059
	(1.233)
Board Size	-0.098
	(-1.100)
Executive Directors	0.310*
	(1.649)
Industry Effects	YES
Year Effects	YES
Constant	0.601**
	(2.447)
Observations	492
R-squared	0.136

Robust t-statistics in parentheses *** p<0.01, ** p<0.05, * p<0.1

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This supports our hypothesis that narcissistic audit partners improve audit outcomes. Among the control variables, ROA shows a positive and highly significant effect (coefficient = 0.697, t = 4.072, $p < 0.01$), suggesting that more profitable firms are more prone to earnings management, which reduces reporting quality. Firm size, leverage, loss, book-to-market ratio, CEO duality, Big 4 affiliation, modified audit opinion, board size, and executive directors also emerge as significant factors, while growth remains insignificant. Overall, the results confirm that both auditor traits and firm characteristics jointly shape financial reporting quality, with narcissism exerting a consistent and statistically significant influence.

Alternative Proxy

The multivariate regression results, using an alternative proxy for audit partner narcissism (see Table 5), further confirm its significant impact on financial reporting quality.

Table 5. Impact of audit Partner Narcissism on Financial Reporting Quality using Alternative Narcissism

Variables	(1) Jones	(2) Kothari
Narcissism1	-0.815*	-0.307*
	(-1.658)	(-1.927)
Firm Size	-0.105*	-0.012
	(-1.780)	(-1.362)
ROA	0.696***	0.001
	(4.067)	(0.054)
Growth	-0.000	-0.000
	(-0.464)	(-0.472)
Leverage	-0.158**	0.019
	(-2.106)	(0.527)
Loss	0.254*	0.056
	(1.707)	(0.986)
BM	-0.048	-0.023
	(-0.866)	(-0.812)
CEO Duality	0.017	-0.050
	(0.086)	(-1.087)
Big4 Auditor	0.002	-0.011
	(0.016)	(-0.231)
Modified Opinion	0.289*	0.056
	(1.873)	(1.186)
Board Size	0.226	-0.092
	(0.405)	(-1.038)
Executive Directors	1.127*	0.313*

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	(1.838)	(1.656)
Industry Effects	YES	YES
Year Effects	YES	YES
Constant	0.959	0.571**
	(1.208)	(2.379)
Observations	493	493
R-squared	0.606	0.134

Robust t-statistics in parentheses *** p<0.01, ** p<0.05, * p<0.1

The coefficient for narcissism remains statistically significant ($p < 0.05$), demonstrating its influence on reducing earnings management. Several firm-level characteristics, including firm size, profitability (ROA), leverage, loss, growth, and book-to-market ratio, also show significant associations with reporting quality, as indicated by robust t-statistics ($p < 0.05$).

Robust analysis

Table 6. 2 SLS Analysis

VARIABLES	(First Stage) Narcissism	(2nd Stage) Jones	(2nd Stage) Kothari
Narcissism	-----	-0.494**	-0.171**
		(-2.361)	(-2.273)
Firm Size	-0.0206***	-0.107*	-0.013
	(-3.255)	(-1.864)	(-1.469)
ROA	-0.00125	0.697***	0.001
	(-0.280)	(4.180)	(0.079)
Growth	-0.000162**	-0.000	-0.000
	(-2.179)	(-0.737)	(-0.856)
Leverage	-0.0194***	-0.159**	0.019
	(-4.079)	(-2.185)	(0.534)
Loss	0.0221	0.260*	0.058
	(0.848)	(1.785)	(1.039)
BM	0.0158	-0.047	-0.022
	(1.583)	(-0.866)	(-0.817)
CEO Duality	---	0.004	-0.055
	---	(0.019)	(-1.338)
Big4 Auditor	---	-0.011	-0.014
	---	(-0.082)	(-0.295)
Modified Opinion	0.0394	0.303**	0.059
	(1.644)	(2.004)	(1.266)
Board Size	0.0881	0.228	-0.098
	(1.468)	(0.431)	(-1.129)
Executive Directors	0.0630	1.122*	0.310*

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	(0.667)	(1.883)	(1.693)
Mean Narcissism	0.804***	---	---
	(2.919)	---	---
Industry Effects	YES	YES	YES
Year Effects	YES	YES	YES
Constant	0.160	1.020	0.601**
	(0.858)	(1.289)	(2.447)
Observations	495	492	492
R-squared	0.093	0.607	0.136
Hansen J.	----	2.14	0.965
P-Value	----	(0.1434)	(0.326)

Robust t-statistics in parentheses *** p<0.01, ** p<0.05, * p<0.1

Similarly, governance-related variables such as CEO duality, Big 4 auditor affiliation, modified audit opinion, board size, and the presence of executive directors are all significant predictors of reporting outcomes. These findings indicate that both auditor traits and organizational factors interact to shape financial reporting quality, with narcissism consistently emerging as a robust determinant. The study applies SLS regression analysis shown in Table 6 above to assess the impact of audit partner narcissism on financial reporting quality, with robust t-statistics employed to test coefficient significance and detect steric values. Statistical significance is determined using the p-value threshold of 0.1. The results reveal that narcissism is a significant predictor of the dependent variable, with a robust p-value below 0.05. Similarly, firm-specific factors such as firm size, return on assets (ROA), growth, leverage, loss, and the book-to-market ratio all demonstrate significant effects on reporting quality. Governance-related variables including CEO duality, Big 4 auditor affiliation, modified audit opinion, board size, and the presence of executive directors are also significant, each recording robust p-values below 0.05. These findings highlight that both auditor characteristics and organizational attributes jointly shape financial reporting quality, with narcissism emerging as a consistently influential factor.

Discussion and Conclusion

This research aims to examine how auditor narcissism affects the quality of financial reports. In addition, we want to assess how auditor egotism affects the accuracy of financial statements. The sample period of the study covers the period between 2017 to 2021. The year 2017 is the year since signature of audit partners has been frequently appearing in financial reports and we are able to measure the auditor narcissism through signature size of the audit partner. We measured auditor narcissism as length multiple by width of signature divided by number of alphabets in audit partner full name. The final sample consists of 500 firm-observations of non-financial firms listed at Pakistan Stock exchange. For this study, we used all companies registered on the Pakistan Stock Exchange that are not financial institutions as our sample. Importantly, we use cross-sectional research to determine whether narcissism's impact on audit quality is mainly due to its effect on auditor competence or independence.

The audit quality is estimated using accruals at the auditor's discretion and the modified Jones (1991) methodology for estimating accruals, as well as the Kothari Model (2005). Auditors' narcissism is quantified by observing the size of their signatures. Each signature is surrounded by a rectangle whose sides meet at the signature's apex. This signature character count is then used to scale the rectangle's area. The area-per-character generated by this approach is useful for adjusting for variations in name length. The study finds that auditor narcissism, measured through signature size, is positively associated with financial reporting quality. Unlike the usual view of narcissism as harmful in leadership roles, narcissistic auditors appear more independent and vigilant, which reduces earnings management and strengthens the credibility of financial statements. This suggests that personal traits can meaningfully shape audit outcomes, especially in emerging markets like Pakistan where weak enforcement places greater reliance on individual auditors.

The findings add to the growing research on behavioral auditing and governance. Although narcissism is often viewed as a negative trait in leadership, in auditing it may actually promote independence and vigilance. This counterintuitive result shows how auditors' personal traits can interact with institutional factors to influence reporting outcomes.

The study also offers practical lessons, especially for regulators and practitioners in emerging markets like Pakistan. In such settings, where monitoring systems are weak and enforcement is limited, audit quality depends heavily on individual auditors. Recognizing that personality traits shape behavior, training and oversight could place more emphasis on behavioral aspects alongside technical skills.

However, these findings should be interpreted with caution. Signature size, while commonly used, is only an indirect measure of narcissism and does not capture the full range of the trait. Future work could combine it with psychological tools or other behavioral indicators. In addition, because this study focuses on a single emerging economy, broader cross-country studies are needed to test whether the results hold in other contexts. Other traits, such as overconfidence, diligence, or conscientiousness, may also affect audit quality and deserve attention.

In sum, this study provides new evidence that auditor narcissism can enhance financial reporting quality. By considering personality alongside technical and institutional factors, the research expands understanding of what drives audit quality. These insights not only deepen theory on behavioral auditing but also offer useful guidance for regulators, audit firms, and policymakers aiming to strengthen financial reporting in emerging markets.

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