CEO Psychological Characteristics And Sustainability Report Disclosure In Indonesia

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Abstract.

This study aims to test the upper echelon theory by examining how CEO narcissism and optimism affect sustainability report disclosure. This study uses panel data regression with Eviews 12 on sample data of 238 companies on the Indonesia Stock Exchange (IDX) that published sustainability and annual reports 2021-2023. Frim size, firm age, leverage, and profitability are included as control variables. The results indicate that CEO narcissism negatively influence on sustainability report disclosure while CEO optimism positively influence on sustainability report disclosure. The presence of the firm age control variable changes the findings. CEO characteristics no longer affect sustainability report disclosure after the addition of the company age control variable in the regression model. The results of this study has practical implications for the board of commissioners and shareholders namely the importance of considering psychological aspects, such as narcissistic traits and the level of CEO optimism, when selecting and compiling the structure of the company's board of directors.

Keywords: *CEO Narcissism; CEO Optimism and Sustainability Report Disclosure.*

I. INTRODUCTION

Climate change, environmental pollution and pollution, and the acceleration of biodiversity loss are three planetary crises currently facing the world [1]. These problems make the issue of desire a critical issue to be discussed and highlighted by academics and practitioners around the world [2]. One of the causes of this problem is the various operational activities carried out by companies [3]. The Ministry of Environment and Forestry (KLHK) founds the casees of environmental pollution from hazardous and toxic waste scattered at PT Indofood Tbk in Medan [4]. A similar case of environmental pollution also occurred in Maluku. It was reported by Trendasia.com that in its operations the company under the auspices of the Harita Group has destroyed the area of residents' plantations, polluted water sources, marine ecosystems, and air due to dust and pollution that have an impact on the health of residents, and even triggered social conflict [5].Efforts to address environmental problems and sustainability issues are carried out by world leaders by officially ratifying the goals of sustainable development through the 2030 agenda and requiring its members to commit to the principles therein [6]. In the era of sustainable development, companies are not only required to be economically responsible to gain profits, but companies also have ethical responsibilities related to people's lives and environmental sustainability [7], [8].Sustainability is a long-term vision that characterizes companies that are socially and environmentally responsible [2]. In conveying their sustainability activities, companies disclose sustainability activities in reports containing economic, social, and environmental activities or called sustainability reports.

Therefore, disclosure of sustainability reports is something that must be considered by management and researchers.Indonesia is one of the countries that supports sustainable development. This is evidenced by the issuance of OJK Regulation Number 51/POJK.03/2017, concerning the implementation of sustainable finance for financial services institutions, issuers, and public companies (OJK, 2017). Based on this regulation, issuers in banking sector are required to prepare sustainability reports starting in 2019 and followed by other issuers in 2021. However, in its implementation, based on data from the Pricewaterhouse Coopers report, it is known that only around 88% of listed companies in Indonesia have published their sustainability report disclosures in 2022 (PwC, 2023). Thus, it can be seen that there are still public companies in Indonesia that ignore sustainability reports. The Global Reporting Initiative (GRI) Standard 2021 is a sustainability reporting guideline standard that is effectively enforced for reports published starting

January 1, 2023. However, efforts to implement it are expected to be carried out before the provisions come into effect. As a result, companies are under pressure from stakeholders to disclose information on company activities related to sustainability by complying with applicable regulations and reporting guidelines. This makes research related to the factors driving the disclosure of sustainability reports necessary to continue to be studied so as to contribute to improvements.

Hussain et al., (2018) argue that company management has control over the decision-making process in reporting information to stakeholders. In this case, the CEO is the highest leader in company's management structure who holds responsiblility for formulating the strategies to achieve organizational goals, including the company's sustainability goals [10]. As the highest leader and decision maker, CEO will try to align the company's goals and strategies, including in managing the company's resources [11]. The CEO also has an important role in fulfilling social and environmental commitments to stakeholders [8]. The choices made by the company are highly reflected in the CEO's values, personality, preferences, and motives [12]. The experiences, personal values, and characteristics of CEOs differ from one another and are often used by CEOs in their company's decision-making process [13]. According to the upper echelon theory developed by Hambrick & Mason (1984), the characteristics of top managers play an important role in influencing or predicting strategic decision making in the company. Several literatures have examined the influence of CEO characteristics, such as the presence of a foreign board, board size, board independence, gender, and age on sustainability report disclosure. These literatures focus more on the demographic characteristics of top managers. In fact, the leadership style that drives CEO choices and decisions in dealing with a situation in an organization is more reflected by psychological characteristics such as values and motivations, rather than demographic variables such as age or gender [14].

This motivates researchers to try to fill the existing research gap by examining the psychological characteristics of CEOs.According to Winardi, (2004), individual psychological characteristics include individual perceptions, attitudes, motivations, and personalities. CEO characteristics are very important to consider in adopting sustainability reporting disclosures, because corporate governance mechanisms are an integral part of the company's reporting and disclosure process [16]. A CEO personality trait that is increasingly receiving attention is narcissism. However, currently the role of CEO narcissism as a determining factor in sustainability report disclosure is still under-researched [17]. It is possible that CEO narcissism influences sustainability report disclosure because for narcissistic CEOs, sustainability reports are considered to present a great opportunity to attract attention and improve the CEO's image [18]. Another psychological characteristic that is important to be study in more depth is CEO optimism. Optimism is a personality trait of individuals who believe that good things will happen in the future [19], [20]. An optimistic CEO will feel able to deal with difficulties and problems by forming thoughts, actions and self-control oriented towards beliefs about the positive results of the actions taken [20]. In this case, the problem of the three planetary crises that are currently hitting makes the CEO think about ways and find solutions to achieve sustainability. The characteristics of optimistic CEOs in this study focus on characteristics that reflect themselves, namely the CEO's statement in the board of directors' report contained in the annual report.

This study includes several control variables to overcome potential problems from omitted variable bias and to ensure that the research results are more valid and accurate [21]. The selection of control variables is based on factors that have the potential to influence the disclosure of sustainability reports. Company size, company age, leverage, and profitability are used in this study as control variables. Larger and older companies generally have high visibility and vulnerable to public pressure and have more experience in sustainability activities [22], [23], so they tend to adopt policies and disclose activities that reflect responsibility for sustainability issues. Companies with high leverage and profitability are more likely to make sustainability disclosures as an effort to meet the demands and curiosity of their creditors by showing a certain level of transparency (Kind et al., 2023; Lassoued & Khanchel, 2023). So this will control the decisions taken by the CEO regarding the disclosure of company information in disclosing sustainability reports.This study focuses on how CEO psychological characteristics including narcissism and optimism contribute to sustainability report disclosure, more specifically the contribution of CEO optimism which has not been previously associated with sustainability report disclosure. This study also offers a new perspective on these contributions by introducing control variables such as firm size, age, leverage and also profitability. Thus, this study fills the existing gap by focusing on examining the influence between CEO psychological characteristics including CEO narcissism and CEO optimism on sustainability report disclosure. In addition, this study also aims to test the involvement of control variables. This is done to control other factors that may be confounding and to keep the main variables studied in focus.

Upper Echelon Theory

Upper Echelon Theory is an idea that explains that the characteristics (psychological and observable) of top management play a key role in predicting strategic decisions and company performance [12]. The cognitive basis and personality values reflected in the characteristics (psychological and observable) of top managers influence how they interpret or respond to strategic situations through their choices [12], [24]. Managers based on this view face a lot of complexity, ambiguity, and various stimuli, such as various stakeholder pressures so that they do not achieve rationality in decision making [25]. Thus, top executives often respond to existing situations by incorporating their personal interpretations (values and personality) into alternative actions in decision making.

CEO Narcissism and Sustainability Report Disclosure

Upper Echelon theory presents a concept related to strategic decisions and corporate performance that are driven by both psychological and observable characteristics of the company's top executives. A psychological characteristic that is increasingly receiving attention is narcissism. According to Al-Shammari et al., (2019), narcissism contains motivational and cognitive elements, both of which influence individual behavior. This motivational elements include the externally oriented pursuit of praise, fame, and involvement. Furthermore, cognitive element includes beliefs in one's own strengths and abilities that require continuous reaffirmation of one's views from others [26]. CEO values reflected in personality may encourage CEOs to implement socially and environmentally responsible practices. Because socially and environmentally responsible practices have high visibility in front of the public, so they will fulfill the satisfaction of the CEO's narcissistic needs [22]. Research by Awuah et al., (2024) shows a positive influence of CEO narcissism on sustainability reporting. This is because narcissistic individuals tend to take many attention-grabbing actions and bold initiatives [17]. Thus, more narcissistic CEOs tend to support sustainability actions because they see and believe that implementing sustainability activities is an opportunity to enhance their positive self-image by pursuing socially desirable and sustainable activities [28]. Thus, hypothesis 1 proposed in this study is:

H1. CEO Narcissism positively influence sustainability report disclosure.

CEO Optimism and Sustainability Report Disclosure

This study begins with the belief that resource capacity of decision making regariding company strategy and performance is influenced by the characteristics of the decision maker. Based on upper echelon theory proposed by Hambrick & Mason. In the process of taking an action, individuals will be driven by a force within themselves. One of these drives can be thoughts. The purpose of thinking in this case is to solve problems, therefore it is often said that thinking is an intentional psychic activity [29]. In the process of thinking, individuals can generate optimism within themselves. Optimism includes cognitive elements in the CEO about thought patterns and positive belief perceptions of actions and decision strategies taken in dealing with events including sustainability issues [30]. Individuals' positive thought patterns are seen through their explanatory style of the events they experience. Cognitive psychology reveals that adopting a cognitive style helps CEOs gather information and knowledge that directs organizations towards innovative performance [31]. Cognitive ability is responsible for organizing ideas, knowledge, and information that will be conveyed in language skills [32]. his can be seen from the content and choice of words used in the disclosure of sustainability reports. High positive beliefs and expectations inherent in themselves make CEOs able to respond to all problems and take decisions on actions in the present to be oriented towards future events [33]. Thus, CEOs with high optimism can be drivers of sustainability report disclosure.

H2. CEO Optimism positively influence sustainability report disclosure.

II. METHODS

This study applies an explanatory quantitative approach with secondary data. Data was collected through documentation and content analysis. The population includes companies on the Indonesia Stock Exchange (IDX) that published annual and sustainability reports for 2021-2023, namely 586 companies from 11 sectors. This period was chosen based on the consideration that OJK Regulation No. 51/POJK.01/2017 concerning the obligation for all public companies to report sustainability reports in 2021 has been issued [34]. The research sample was obtained using the proportional cluster random sampling technique. The sample calculation was carried out using the Slovin model.

From this calculation, a sample size of 238 companies was obtained, which was then proportioned according to the population of each cluster. Sustainability reports disclosure is measured by by content analysis in sustainability reports using the GRI Standard 2021 indicators with a total of 88 item indicators. Content analysis using a six-point scale assessment index refers to Janggu et al., (2014). This assessment index not only looks at the disclosure in narrative form but also considers the aspects of the photos and graphics presented. This visual image has influenced stakeholders' perceptions and assessments of company reports [36].

Table 1. Assrssment Index

Score	Description
0	No information disclosure
1	General qualitative disclosure (1-2 sentences)
2	Short qualitative disclosure (3-5 sentences)
3	Detailed qualitative disclosure (>5 sentences)
4	General qualitative (1-2 sentences) and quantitative/monetary (costs/photos/graphs) disclosure
5	Short qualitative (3-5 sentences) and quantitative/monetary (costs/photos/graphs) disclosure
6	Detailed qualitative (>5 sentences) and quantitative/monetary (costs/photos/graphs) disclosure

Source: Janggu et al., (2014)

The sustainability report disclosure assessment score is obtained from the sum of each assessment score item that is in accordance with the GRI 2021 standard indicators and assessment index. Furthermore, the sum of the scores is divided by the maximum score to obtain the final assessment score. The following is the measurement of the sustainability report disclosure score.

$$\text{SR} = \frac{Sum\ of\ the\ item\ scores\ disclosed\ by\ the\ company}{Maximum\ number\ of\ disclosure\ scores\ SR}$$

Psychological Characteristics variables in this study are CEO narcissism and CEO optimism. Ham et al., (2017) introduced an approach to measuring CEO signatures as a proxy for narcissism. Handwriting is not just a physical activity movement, but also reflects personality and depends on a person's cognitive abilities [38]. A signature is used as a visual symbol that reflects a person's self-confidence and tendency to present themselves dominantly. CEO signatures were obtained from annual reports and analyzed by drawing a rectangle around the signature. The signature size was calculated from the area occupied by the signature (multiplying the height and width of rectangle (in cm) surrounding the signature) [22].

This study uses an optimism indicator that focuses on corporate leaders as decision makers. Document text content analysis is applied to measure the optimism scores based on the board of directors' reports in sustainability reports, with the help of the linguistic inquiry and word count (LIWC) application developed by Pennebeker. LIWC-22 is able to identify psychological meanings in word useage, thinking style, and focus of attention [39]. This application applies a scientific method to determine the tone of optimism by dividing the number of positive words by the total number of positive and negative words [40]. This study includes several control variables to overcome potential bias due to missing variables and maintain the validity and accuracy of the research results [21].

Table 2. Control Variable Indicator

Variable	Measure of Indicator
Firm Size	Total Asset
Firm Age	Observation Year – Establishment Year
Leverage	DER = Liability / Equity
Profitability	ROA = Net Profit / Total Asset

The data used in this study is in the form of panel data. The analysis technique applied is panel data regression by utilizing Eviews 12 software. The panel data regression equation used in this study is presented as follows:

$$SR = \alpha + \beta_1 NC_{it} + \beta_2 OPC_{it} + e_{it} \quad (1)$$
$$SR = \alpha + \beta_1 NC_{it} + \beta_2 OPC_{it} + \beta_3 SIZE_{it} + e_{it} \quad (2)$$
$$SR = \alpha + \beta_1 NC_{it} + \beta_2 OPC_{it} + \beta_4 AGE_{it} + e_{it} \quad (3)$$
$$SR = \alpha + \beta_1 NC_{it} + \beta_2 OPC_{it} + \beta_5 LEV_{it} + e_{it} \quad (4)$$
$$SR = \alpha + \beta_1 NC_{it} + \beta_2 OPC_{it} + \beta_6 ROA_{it} + e_{it} \quad (5)$$

SR	= Sustainability report disclosure	SIZE	= Firm size
α	= Constant	AGE	= Firm age
β	= Regression coefficient	ROA	= Profitability
NC	= CEO Narcissism	LEV	= Leverage
OPC	= CEO Optimism	e	= Error

III. RESULT AND DISCUSSION

Based on the results of descriptive statistics in Table 3, the disclosure of sustainability reports shows an avera ge of 0.28 with a minimum value of 0.03 and a maximum of 0.76. his shows that the level of disclosure of corporate sustainability reports in the sample is quite diverse, ranging from very low to almost completely disclosing all indicators. The average value of narcissism is 7.70 with a standard deviation of 4.55. The standard deviation of optimism is 0.06 with an average of 0.89. The standard deviation of the dependent and independent variables is smaller than the average. This means that the data has moderate variation with data distribution at a moderate level. The data values are not too concentrated around the average, but they are also not spread extremely. This condition reflects the diversity of sample characteristics that are quite representative, without distortion from extreme values.

Table 3. Descriptive Statistics

Variable	Obs.	Mean	Max.	Min.	Std. Dev.
Narcissism_X1	238	7.70	39.50	1.07	4.55
Optimism_X2	238	0.89	1.00	0.59	0.06
Firm Size_C1	238	51.84	2174.21	0.029	199.96
Firm Age_C2	238	17.89	47.33	1.00	11.47
Leverage_C3	238	1.75	190.54	-34.93	7.80
Profit_C4	238	0.03	0.68	-1.25	0.11
SR_Y	238	0.28	0.76	0.037	0.13

Processed data in Eviews.

The firm size average of 51.84 with a standard deviation of 199.96 indicates that companies in Indonesia that report sustainability reports tend to have large assets. The large assets reflect that companies in Indonesia have easy access to funding sources. Furthermore, the age of the company has a standard deviation of 11.47 with an average of 17.89, which means that the majority of companies have been operating for more than 17 years. This indicates operational stability and in-depth experience in dealing with sustainability conditions. The leverage variable shows an average of 1.75 with a standard deviation of 7.80. The average of leverage variable is above one, indicating that in funding its business activities, the company uses more funding from debt [41]. Then, profitability has a standard deviation of 0.11 with an average of 0.03. The standard deviation of the control variable is greater than its average value, indicating that the variable data has a wide variation in value. Overall, these results indicate the diversity of sample characteristics in the variables in this study. The results of the hypothesis testing of this study are presented in Table 4.

Table 4. Panel Data Regression Analysis

	Model 1	Model 2	Model 3	Model 4	Model 5
Costant	0.3894	0.3378	0.0000	0.3915	0.3788
	-0.0375	-0.0417	-0.2674	-0.0374	-0.0384
NCEO	0.0374**	0.0421**	0.0561***	0.0400**	0.0378**
	-0.0017	-0.0016	-0.0013	-0.0016	-0.0017

OCEO	0.0000*	0.0000*	0.7746***	0.0000*	0.0000*
	0.3732	0.3654	0.0152	0.3725	0.3736
Firm Size		0.0711***			
		0.0002			
Firm Age			0.0000*		
			0.0305		
Leverage				0.6016***	
				0,0001	
Profitability					0.6161***
					0.0135
Adj R^2	0.8369	0.8377	0.8724	0.8367	0.8367
Prob. (F-stat)	0.000	0.000	0.000	0.000	0.000
Observation	714	714	714	714	714

Source: Processed data in Eviews.

Description : * = 1% significance, ** = 5% significance, *** = 10% significance or < significance

The regression results in Table 4 show that the influence of CEO narcissism and sustainability report disclosure has a statistically significant effect. However, the negative beta coefficient value of -0.0017 indicates that narcissistic CEOs are potentially more likely to ignore or minimize sustainability report disclosure. This finding contradicts the initial hypothesis so that H1 is rejected. Hypothesis H1 states that CEO Narcissism positively influence sustainability report disclosure. One possible cause of this negative relationship is the tendency of narcissistic CEOs to be more oriented towards personal interests than the interests of the company and stakeholders. CEOs who have high narcissism often make short term personal image and gain their main focus rathter than investing in sustainability initiatives that have long term benefits for the company and society [26], [42]. Narcissistic CEOs often hide information that can harm their reputation [28]. They tend to be more careful in disclosing information and avoid overly detailed disclosures to reduce the risk of criticism and critical questions that damage their self-image and the company. In their research, Kind et al., (2023) stated that the negative influence of CEO narcissism on sustainability disclosure is likely due to the tendency of narcissistic individuals to prefer positive attention to negative attention. Narcissistic CEOs will prefer to display selective information and display achievements that benefit themselves rather than disclosing the overall sustainability condition of the company [43].

Narcissistic CEOs may choose to disclose false details, impress stakeholders, or even choose to minimize the information disclosed [44], [45]. In this case, CEOs may view sustainability disclosure as a burden that does not provide direct benefits to them, so they tend to avoid or only make symbolic disclosures (greenwashing) rather than real commitments to sustainability [46]. This finding is in line with the results of Kind et al., (2023) where the value of sustainability reporting disclosure decreases as the level of narcissism increases. However, more recent research shows that narcissism has a positive impact on sustainability reporting disclosure [17], [27]. Hypothesis H2 proposes that CEO Optimism positively influence sustainability report disclosure. Based on the regression results in Table 4 model 1, the significance value of optimism is 0.0000 with a positive beta coefficient value of 0.3732. Hypothesis H2 is accepted because the significance value is les than 0,05. Thus, it is concluded that CEO optimism has a positive effect on sustainability report disclosure. These results are in accordance with the upper echelon theory which states that the characteristics of top executives affect company performance and predict strategic decisions related to sustainability report disclosure [12]. Optimistic CEOs have a long-term view and see sustainability not only as a regulatory obligation but also as an opportunity that can be used to increase company value and build stakeholder trust.

Optimistic CEOs will be more open in reporting because they believe that greater transparency in sustainability aspects can improve the company's reputation, attract investors, and strengthen relationships with business partners [47]. CEOs with high optimism tend to be more innovative and proactive in integrating sustainability into the company's business strategy. Mehmood et al., (2024) found that CEO optimism correlates with the tendency to make broader and more comprehensive disclosures, including in environmental, social and governance aspects. Previous research on the impact of CEO optimism conducted by Arena et al., (2015) showed that optimistic positive language in sustainability report narratives is not merely a reason for managerial opportunism, but rather predicts future environmental performance. Bouzguenda & Jarboui, (2024) observed the role of psychological profiles and CEO behavior and found that CEO optimism is indeed correlated with corporate social and environmental responsibility. Bouzguenda & Jarboui, (2024) stated that companies that seek to preserve the environment are the ones that damage it.

In this case, the environmental concern become more significant when CEOs display high optimism, and therefore encouraged to display conscientious behavior by disclosing sustainability reports.After reviewing the use of control variables, the test results show that the control variables have no effect (significance > 0.05), except for the company age variable (significance < 0.05). In Table 4 model 3, it is known that CEO narcissism and optimism no longer affect the disclosure of sustainability reports after the addition of the company age control variable. This indicates that company age has a more dominant role in influencing sustainability disclosure practices, compared to the psychological characteristics of the CEO. Research by Dissanayake et al., (2016) shows that established companies are more likely to disclose more sustainability information than new companies and old companies are more transparent because they have better organizational structure and more experience in corporate sustainability reporting. Companies that have been established for a longer time generally also have a more mature reporting system, a more stable governance structure, and long-term relationships with stakeholders. This makes them more accustomed and tend to be more responsible in disclosing sustainability information [51]. In other words, longer operational experience encourages companies to be more compliant with non-financial reporting practices, including sustainability. In addition, Long-established companies usually have reputations to uphold in the investor and public sphere. In this case, sustainability disclosure is used as a means of legitimacy and transparency to maintain market trust [52]. Therefore, although CEO characteristics are important, in this context structural factors such as firm age can control the personal influence of the CEO, especially when sustainability reporting practices are already part of the company's system and culture itself.

IV. CONCLUSION

This study aims to determine how CEO narcissism and CEO optimism affect sustainability report disclosure. The results show that narcissism has a negative effect on sustainability report disclosure. This is driven by the desire to control self-image and avoid criticism that can damage the reputation of self and the company. Meanwhile, CEO optimism positively influence sustainability report disclosure. The higher level of optimism owend by the CEO will tend to increase sustainability report disclosure and involvement in the company's sustainability activities and strategies. We also highlight the importance of control variables in analyzing the influence of CEO psychological characteristics and sustainability report disclosure. By including several relevant control variables, this study shows that other factors such as company age can control the influence of CEO character in decision making related to sustainability reports.This study has relevant practical implications for the board of commissioners, shareholders, and companies. The results of this study can help the board of commissioners and shareholders in the process of selecting and determining the board of directors structure. The content of the sustainability report play a role in shaping the company's image and reputation, so the psychological characteristics of the CEO, especially those related to narcissism and optimism, need to be seriuosly considered in relation to the appointment of the company's CEO. This study is not without limitations.

First, the researchers used unobtrusive measures to capture the CEO narcissism variable. Although reliability tests have been conducted by Ham et al., (2017), this measurement still has limitations. The signature used may have been modified by the PR team to fit the report design, so the original size of the signature is not fully reflected. Future research is recommended to verify these findings by using alternative approach in measuring CEO narcissism. One way is through the NPI test by distributing questionnaires. Second, this study is limited to a 3-year observation period. The influence of leadership characteristics on the information disclosed by the company can be gradual and complex. Changes in corporate strategy, sustainability policies, and stakeholder reactions to CEO leadership with narcissistic and optimistic characteristics are often not immediately visible in a short period of time. Future research is advised to conduct observations over a longer period of time. Five or ten year time span can provide a more comprehensive picture of trends and allow us to see whether narcissistic and optimistic CEOs tend to maintain the same disclosure patterns over time or experience changes in their approach to sustainability disclosure.

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