CEO Overconfidence, Narcissism and International Diversification Strategy: Evidence from Chinese Multinational Enterprises

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Abstract

Research Summary: We develop a dual-pathway model linking CEO overconfidence and narcissism to two distinct types of international diversification. Using a sample of international diversification by Chinese multinational enterprises (MNEs) from 2007 to 2021, we find that overconfidence drives inter-regional diversification, whereas narcissism drives intra-regional diversification. Industry peer internationalization attenuates the overconfidence pathway but leaves the narcissism pathway unaffected; institutional marketization amplifies the narcissism pathway but does not similarly affect the overconfidence pathway. This asymmetric pattern suggests that information-based pressures constrain cognitive biases, while institutional infrastructure enables personality-driven strategies.

Managerial Summary: Boards should consider CEO personality when making selection decisions. Our findings show that overconfident CEOs expand into distant regions, while narcissistic CEOs concentrate on familiar clusters. These tendencies respond differently to external conditions. In industries with high peer internationalization, competitive pressures curb overconfident CEOs' cross-regional expansion—but leave narcissistic CEOs' regional deepening unchanged. In provinces with strong market institutions, narcissistic CEOs' regional focus intensifies, yet overconfident CEOs' expansion does not benefit similarly. To optimize strategic outcomes, boards must align governance practices with both the CEO's psychological traits and the specific environmental conditions they face.

Keywords: CEO overconfidence, CEO narcissism, intra- and inter-regional diversification, industry peer internationalization, institutional marketization