The Chronicle [redacted]

CEO emotions hint at firm performance

By TULLIA RUSHTON
March 25, 2011

CEOs might want to note that the way in which they present financial news matters, according to a recent study by two Duke researchers.

William Mayew and Mohan Venkatachalam, professors at the Fuqua School of Business, assert that markets respond favorably to CEOs whose verbal cues indicate a positive emotional state. Management's expression of such emotions in earnings conference calls foretells higher stock prices, unexpectedly high earnings and favorable press releases in the six months following the call, researchers found in a study of almost 700 corporations.

"We were looking at CEO discussions during conference calls... to figure out whether positive and negative emotion in their voices is associated with positive and negative growth in a firm's market," Mayew said. "[The consumer's perception goes beyond] the words [CEOs] say and the numbers they give."

The professors used emotion analysis software to review more than 1,647 conference calls from 691 firms in 2007, which they accessed through the Thomson Reuters' StreetEvents database. The degree to which consumers are aware of the CEOs' underlying tones is still unclear, Mayew said.

Mayew said that CEOs could possibly use the study's results to their advantage, manipulating their voices to portray a favorable outlook of their company's future performance.

"CEOs are already well-trained on how to be public speakers. Whether they can control their emotions if they have them is still to be seen," he said.

Mayew said he was inspired by the installment of Regulation Fair Disclosure, a measure implemented in 2000 that requires that firms disclose financial information to all investors at the same time. Conference calls that were once only available to larger investors are now more readily available.

Mayew said he and Venkatachalam wanted to explore the implications of the measure, which was intended to allow consumers to hear the "tone of management." In specific, the professors measured stock returns in the one or two days immediately following the CEO's public address.

The market also reacted to negative vocal cues, as well, but the connection between the expression of such emotions and the future financial performance of the company was not as clear, Mayew said.

"On the negative side, there's a lack of market response in the study," he said, adding such vocal cues result in a less of a rapid change compared to an increase in the market in response to a positive undertone. Mayew said this is a potential area for further research.

He noted that the study could also be continued by analyzing a wider range of emotional undertones. The Duke researchers' study only differentiated between two unambiguous emotions: excitement and cognitive dissonance. According to their report, cognitive dissonance is an inconsistency between an individual's beliefs and actions, which creates a feeling of discomfort and anxiety.

Mayew noted that the study is part of a new wave of research pertaining to consumer and company relationships and interactions.

RELATED ARTICLES

Fuqua to partner with Synovate
Study finds old age does not affect decision-making quality
Divestment not the answer
President of S&P stresses value of trust
Playing the Market

MOST VIEWED IN RESEARCH AT DUKE

CEO emotions hint at firm performance
Humans share aging trends with primates, study finds
Sleep deprivation leads to risky decisions, study finds
Study shows recent immigrants require less medical care
Researcher develops immunotherapy to control peanut allergies
New clinical research unit shows 'forward thinking'
$10.2M grant to boost stem cell research

“[The study] creates many more questions than it gives answers,” he said. “It’s a starting point in literature in financial markets.”