

Researchers: CEO voices can predict company performance

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Corporate conference calls rank one step higher than root canals on many investors' to-do lists.

But smart stockholders may be able to glean important information by dialing in and paying attention not so much in what is said - but how the CEO says it.

New research from a pair of professors at Duke University's Fuqua School of Business shows that the CEO's voice inflection, tone and attitude could predict his or her company's future stock performance.

"There's information in how people say things," said associate professor William Mayew, who conducted the research with professor Mohan Venkatachalam. "Emotions leak. They're very hard to control."

Mayew and Venkatachalam analyzed the tapes of conference calls for nearly 700 U.S. corporations from a wide range of industries.

They analyzed 1,647 conference calls from 691 companies that took place between Jan. 1 and Dec. 31, 2007. They used computer software to analyze the emotions in the CEO's voices - not the actual words they were saying.

CEOs who spoke with enthusiasm and were positive saw their companies' stock prices rise.

For CEOs who were negative - even if their companies met earnings expectations - stock prices dropped.

"CEOs of top companies go through training to know how to present, keep a level head," Mayew

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William Mayew of Duke

said. "But there's some part of that that is either uncontrollable or some emotions that are genuine."

The results were most telling for companies that missed their earnings expectations, Mayew said. On those calls, analysts tended to ask more pointed questions, and the CEO was put under more pressure to explain financial results. In those cases, however, it generally takes longer for the stock price to react than it does when the CEO has positive news to share.

"Analysts are reluctant to downgrade a firm when they hear something negative," Mayew said. "They want to make sure things are bad before they issue a downgrade. Prices drift downward after the conference call if the feelings were negative."

Trust your instincts

Still, people should be cautious of using only voice analysis to determine what a CEO might be thinking, said Joe Comeau, a speech pathologist from Clayton who works with corporate executives at his Capital Speech Consultants business.

"You would only know if a CEO was excited if you knew that CEO or had listened to previous conference calls," he said. "Just using voice alone, if you're not familiar with that person, it will be very difficult to judge."

And investors should just use their common sense when trying to ascertain whether a CEO is telling the whole truth or trying to downplay certain information.

"There's an old saying that money talks and something else walks," he said. "Most people are able to sense deceit or a lie or dodging the issue."

Ongoing research

Still, Mayew and Venkatachalam say there is a real connection between CEO voice and the financial results of a company. They continue to explore the connection between CEO emotions on conference calls and financial results. Mayew said their current research project examines the relationship between CEOs who express negative emotions and the likelihood that the company will eventually restate its earnings for that quarter. So far, he said, the results show that there is a correlation.

If that's the case, investors might want to consider dialing in for conference calls more often, especially as technology surrounding calls improves. Many companies webcast their conference calls, and some are exploring other ways of broadcasting them.

"It might be easier to control in a conference call setting where there's only audio because there's no camera on you," Mayew said. "But that's coming."



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