

Happy-go-lucky CEOs score better returns

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Companies do better if their senior management is seen as being optimistic when disclosing earnings, finds UBC research

A CEO's natural sunny disposition can have an impact on the way the market reacts to announcements of company earnings, according to research from the University of British Columbia's Sauder School of Business.

The study shows that leaders' inclinations to express themselves with optimism carries over into their tone when disclosing [company performance](#) - a tendency that can create an uptick in [stock price](#).

"Ours is the first study to look at the effect of how managers naturally convey themselves," says Sauder Assistant Professor Jenny Zhang, who

co-authored the paper. "To do this we tracked the way CEOs and CFOs communicate [earnings](#) across their leadership roles at multiple firms to decipher their overall communication style."

Zhang and her colleagues examined transcripts of earnings reports delivered by managers in conference calls. They tabulated the frequency of positive and negative words used and contrasted the information with corporate performance and resulting market activity.

To weed out instances where positive [language](#) was used strategically, they controlled for earnings announcements associated with such things as equity offerings, and mergers and acquisitions.

Their findings reveal that managers whose language displays an optimistic state of mind are more likely to have a positive influence on their firm's position in the market.

The researchers also looked at who tends to be more optimistic, finding that CEOs are more positive than CFOs. Those who began their careers in a recession use less optimistic language. Men tend to convey themselves more positively, as do managers involved with charities.

"Investors should be aware that there are human factors at play when they're listening to reports on firm performance," says Zhang. "We tend to think managers are being strategic in their delivery, but sometimes they just can't help but be human - for better or worse."

Background

The study, The effect of manager-specific optimism on the tone of earnings conference calls, is forthcoming in print in *Review of Accounting Studies*, and is co-authored by Angela K. Davis of the University of Oregon and Weili Ge and Dawn Matsumoto of the

University of Washington.

The researchers sampled managers who had worked for at least two different firms for at least a year each, and compared the language they used while reporting earnings at different firms, for multiple quarters, while also comparing the language used by other [managers](#) at the same firms before and after their time on the job. Their sample included 121 CEOs and CFOs, and involved 2,098 firm-quarters at 225 [firms](#).

More information: *Review of Accounting Studies*,
link.springer.com/article/10.1007/s11142-014-9309-4

Provided by University of British Columbia

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