How company leaders talk about creativity can hurt investor confidence

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Creativity is often touted as a positive activity for organizations, but it is inherently risky. Research led by management professors at UC Riverside has found that when company leaders discuss creativity and innovation, investors react negatively to the perception of risk, displaying a creativity bias.

However, the research also shows that this reaction may not be warranted because creativity-speak is linked with higher firm financial performance. Moreover, investor confidence is affected by the tone company leaders adopt when talking about creativity and innovation. Leaders who talk about creativity in a confident, positive manner reassure investors, while creativity-speak that takes a more negative tone turns them away.

"Companies love to play up innovation and creativity and most research on creativity says it's a good thing," said Michael Haselhuhn, a UC Riverside associate professor of management. "But there is some research that suggests the opposite. Creative ideas are inherently risky and people don't like novelty or uncertainty in leaders. We wanted to see if the creativity bias holds in the real world where it matters so we looked to see how investors respond to executives' discussions of creativity."

Haselhuhn and Elaine Wong, also an associate professor of management at UC Riverside, and Margaret Ormiston at George Washington University, obtained transcripts of conference earnings calls made to investors. They used a computer program to analyze the transcripts for words related to creativity and innovation, tracking how many times these words were mentioned during the conference calls. From other sources, they found stock return data and financial performance data. Then, the researchers ran regressions and robustness checks on the combined datasets and found correlations between creativity-speak, investor confidence, and earnings.

They found that firms whose top executives discussed creativity and innovation to a greater degree had relatively lower stock returns, indicating lower investor confidence. But the same did not hold true for company earnings.

"Surprisingly, and in contrast to the creativity bias expressed by investors, firms with leaders that engaged in creativity-speak actually had higher earnings," said Wong. "The perception of risk, however, was still enough to deter investors, but only in certain circumstances."

When executives talked about creativity with a positive tone and emotions, and communicated confidence and optimism, such as crediting creativity for recent positive performance, the researchers found no negative effect on investor confidence. But when executives talked about creativity in a more negative tone, for example, suggesting that creativity and innovation were solutions to lagging company performance, investors turned away.

"The tone of conversation was more important than the industry or situation. If you mention negative things alongside creativity you'll hurt investor confidence," said Ormiston. "Investors are wary of creativity and innovation as evidenced by lowered stock returns in response to creative expression. Top executives need to understand this concern and make efforts to minimize it."

The paper, "Investors respond negatively to executives' discussion of creativity," is published in *Organizational Behavior and Human Decision Processes*.

More information: Michael P. Haselhuhn et al, Investors respond negatively to executives' discussion of creativity, *Organizational Behavior and Human Decision Processes* (2022). DOI: 10.1016/j.obhdp.2022.104155

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