# Its not what you say, but how you say it – Managerial charisma in earnings conference calls

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# 1. Overview

We identify managerial rhetoric aimed at presenting a positive picture of the firm without conveying relevant information in the Q&A part of conference calls.

→ "Charismatic rhetoric": How and not what information is presented.

Findings:

(i)   Market reacts more positively to charismatic rhetoric than established measures of "tone".

(ii)  Charismatic rhetoric does not predict future firm performance.

→ Market participants are highly susceptible to purely rhetorical means.

# 2. Introduction

Quantifying the qualitative information in public disclosure documents:

1.  Bag-of-words approach: counting business-specific words

    Predicts future firm performance and stock market reactions (e.g., Loughran and McDonald, 2011; Price et al., 2012)

2.  Naïve Bayes approaches: mostly neural networks (e.g., Li, 2010; Huang et al., 2014)

    Advantages: Can capture complex linguistic features, like syntax.

    Main criticism: Black box character

Charismatic rhetoric is characterized by metaphors, imagery, idioms, figures of speech etc. (e.g., Cornelissen and Werner, 2014; Tur et al., 2021).

→ Hard to capture in wordcounts.

VIER Emotion Analytics …
- uses a neural network to evaluate how texts are …
- perceived by laypeople …
- along 22 dimensions.

Based on 38 mil. training texts, which are not finance- or business-specific.
→ Impression of laypeople rather than economically relevant information.

Activision Blizzard Inc. Q3 of 2018:
"[…] Well, we're confident and we're energized by the performance of Black Ops 4. The launch, as I said, is off to a strong start on both console and PC. […] And the Call of Duty team is doing what it knows how to do well, which is build deeply engaging experience. […] And we added Blackout, which is a deeply appealing mode […]."

# 4. Measuring „charismatic rhetoric"

Sample:

Manager answers with more than 500 words from 92,166 conference calls

High correlations among "VIER" dimensions (e.g.: "positive" and "optimistic")
→ Common Factor Analysis:

|         | Eigenvalue | Proportion |
|---------|-----------|-----------|
| Factor1 | 11.6393   | 0.5521    |
| Factor2 | 3.5567    | 0.1687    |
| Factor3 | 2.2575    | 0.1071    |
| Factor4 | 1.4505    | 0.0688    |
| ...     |           |           |

# 4. Measuring „charismatic rhetoric"

Rotated matrix of factor loadings:

| Dimesion: | Factor1 | Factor2 | Factor3 | Factor4 |
|---|---|---|---|---|
| aggressive | -0.2161 | -0.0069 | 0.8953 | -0.0424 |
| authoritative | 0.2537 | 0.8479 | 0.2210 | 0.2210 |
| composed | 0.7033 | 0.4786 | 0.0533 | -0.0132 |
| dramatic | 0.3555 | 0.0533 | 0.5412 | -0.4719 |
| empathic | 0.3021 | 0.1592 | 0.1821 | 0.8746 |
| formal | 0.1721 | 0.9150 | -0.1746 | -0.0845 |
| friendly | 0.7179 | 0.0617 | -0.1149 | 0.6265 |
| goal_oriented | 0.5449 | 0.6930 | -0.2467 | 0.0481 |
| impressive | 0.6096 | 0.5951 | 0.4747 | 0.0446 |
| impulsive | -0.2117 | -0.2413 | 0.8623 | 0.1403 |
| independent | -0.2004 | -0.1647 | -0.2848 | -0.2705 |
| intellectual | 0.3115 | 0.8870 | 0.2475 | 0.0211 |
| motivating | 0.9194 | 0.2791 | 0.2253 | 0.0992 |
| optimistic | 0.9177 | 0.3323 | 0.0309 | 0.0964 |
| philosophical | 0.3206 | 0.3927 | 0.7429 | 0.2620 |
| positive | 0.9388 | 0.2049 | -0.1766 | 0.1444 |
| reliable | 0.3704 | 0.8693 | 0.0540 | 0.2025 |
| self_confident | 0.7437 | 0.5142 | -0.0816 | -0.1762 |
| structured | 0.3071 | 0.9158 | 0.1005 | 0.1096 |
| supportive | 0.7936 | 0.3250 | 0.0042 | 0.4721 |
| unconventional | 0.2384 | 0.3416 | 0.8034 | -0.0508 |
| visionary | 0.8236 | 0.4232 | 0.1441 | 0.1618 |

"communicate with little nervousness and stress"

"communicate benevolently, likeable and warmheartedly"

"communicate captivatingly and leave a lasting impression"

"excite the audience with enthusiasm and activity"

"draw positive conclusions and talk about positive expectations"

# 4. Measuring „charismatic rhetoric"

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| visionary | 0.8236 | 0.4232 | 0.1441 | 0.1618 |

"create a pleasant atmosphere through a positive and cheerful charisma"

"to be in the spotlight and not to avoid confrontation"

"show interest in the well-being of others, to encourage - and to help them"

"talk about great plans and a promising future"

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# 5. Hypothesis

Literature review:

positive, motivating, optimistic, visionary, supportive, self-confident, friendly, composed, impressive, and goal-oriented

→ Characteristics of charismatic rhetoric: painting a positive picture of the firm by various rhetorical means without conveying relevant information

→ Factor1 = Charisma$_{i,t}$

## Hypothesis:

„The extent of charismatic rhetoric is positively related to stock market reactions following conference calls."

# 6. Charismatic rhetoric and stock market reactions

| | (1) $CAR(0,1)_{i,t}$ | (2) $CAR(0,1)_{i,t}$ | (3) $CAR(0,1)_{i,t}$ | (4) $CAR(0,1)_{i,t}$ |
|---|---|---|---|---|
| $Charisma_{i,t}$ | 0.208*** | 0.169*** | 0.145*** | 0.140*** |
| | (36.387) | (29.073) | (21.783) | (20.787) |
| $PresLM_{i,t}$ | | 0.164*** | 0.158*** | 0.158*** |
| | | (30.017) | (28.493) | (28.481) |
| $Q\&ALM_{i,t}$ | | | 0.041*** | 0.037*** |
| | | | (7.411) | (6.561) |
| $Q\&AHIV_{i,t}$ | | | | 0.016*** |
| | | | | (3.304) |
| $EPSsurprise_{i,t}$ | 0.111*** | 0.108*** | 0.107*** | 0.107*** |
| | (20.020) | (19.508) | (19.438) | (19.450) |
| Further Controls | … | … | … | … |
| Observations | 73,181 | 73,181 | 73,181 | 73,181 |
| R-squared | 0.145 | 0.157 | 0.158 | 0.158 |

All models include firm- and quarter · industry-fixed effects.

Similar results when considering:

(i) Changes in analyst recommendations

(ii) Trading volumes (much weaker)

# 7. Deconstructrion of charismatic rhetoric

"Multinomial Inverse Logistic Regression" (Taddy, 2013, 2015):
→ Which trigrams occur frequently in manager answers that are evaluated as charismatic?

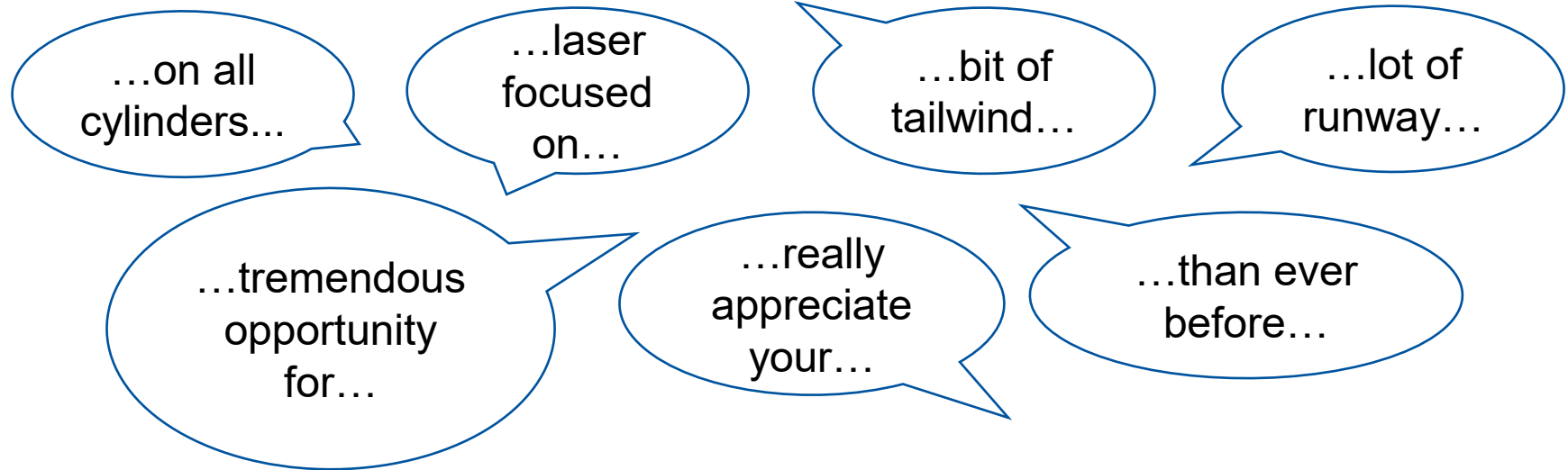What characterizes texts that are "charismatic" but not „positive"?
→ Orthogonalization of „charismatic rhetoric" on bag-of-words-based measures.
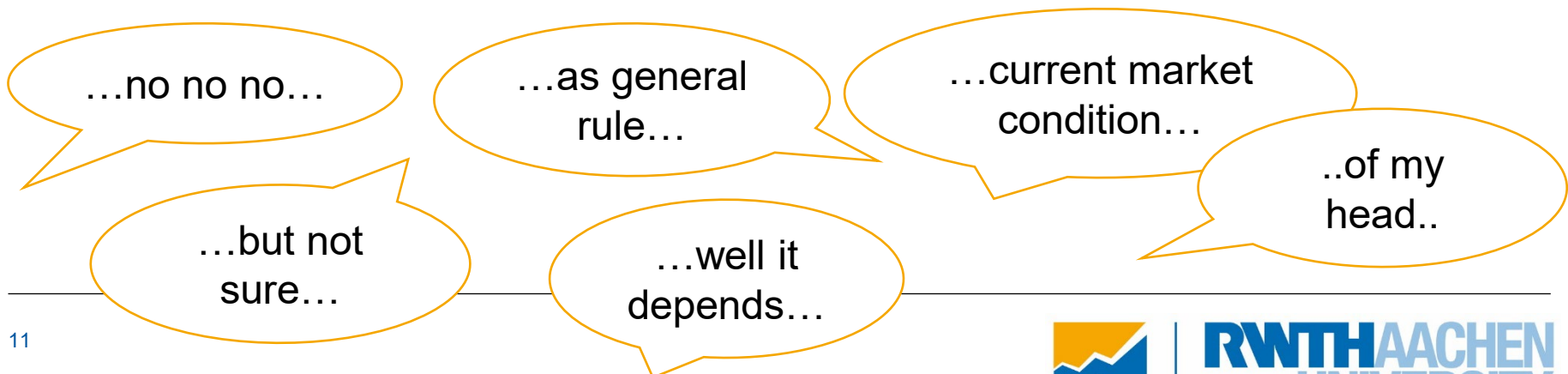
Filtering trigrams:
1. Trigrams must occur in 200 – 30,000 calls.
2. No accounting-specific terminology.
3. Industry- or period-specific trigrams.
→ 46,388 trigrams

# 7. Deconstructrion of charismatic rhetoric

Examples of charismatic trigrams: → CharTri$_{i,t}$

…on all cylinders...

…laser focused on…

…bit of tailwind…

…lot of runway…

…tremendous opportunity for…

…really appreciate your…

…than ever before…

Examples of uncharismatic trigrams: → UncharTri$_{i,t}$

…no no no…

…as general rule…

…current market condition…

..of my head..

…but not sure…

…well it depends…

# 8. Charismatic rhetoric and stock market reactions

| | (1) CAR(0,1)$_{i,t}$ | (2) CAR(0,1)$_{i,t}$ | (3) CAR(0,1)$_{i,t}$ | (4) CAR(0,1)$_{i,t}$ |
|---|---|---|---|---|
| CharTri$_{i,t}$ | 0.079*** | 0.058*** | 0.041*** | 0.037*** |
| | (14.038) | (10.457) | (7.292) | (6.561) |
| UncharTri$_{i,t}$ | -0.011** | -0.005 | 0.000 | -0.001 |
| | (-2.550) | (-1.112) | (0.073) | (-0.163) |
| PresLM$_{i,t}$ | | 0.196*** | 0.170*** | 0.169*** |
| | | (36.132) | (30.698) | (30.551) |
| Q&ALM$_{i,t}$ | | | 0.096*** | 0.085*** |
| | | | (19.626) | (16.586) |
| Q&AHIV$_{i,t}$ | | | | 0.033*** |
| | | | | (6.670) |
| EPSsurprise$_{i,t}$ | 0.114*** | 0.109*** | 0.107*** | 0.108*** |
| | (20.402) | (19.716) | (19.483) | (19.505) |
| Further Controls | … | … | … | … |
| Observations | 73,181 | 73,181 | 73,181 | 73,181 |
| R-squared | 0.130 | 0.147 | 0.152 | 0.153 |

All models include firm- and quarter · industry-fixed effects.

Similar results when considering:

(i) Changes in analyst recommendations

(ii) But NOT trading volumes

# 9. Future earning and stock market reactions

| | (1) | (2) | (3) | (4) | |
|---|---|---|---|---|---|
| | $ROA_{i,t+4}$ | $ROA_{i,t+4}$ | $1YEPSsurprise_{i,t}$ | $1YEPSsurprise_{i,t}$ | All models include firm- and quarter · industry-fixed effects. |
| $Charisma_{i,t}$ | 0.004 | | 0.007 | | |
| | (0.547) | | (0.957) | | |
| $CharTri_{i,t}$ | | 0.000 | | 0.003 | |
| | | (0.016) | | (0.480) | |
| $UncharTri_{i,t}$ | | -0.000 | | 0.003 | |
| | | (-0.036) | | (0.746) | |
| $PresLM_{i,t}$ | 0.022*** | 0.023*** | 0.011** | 0.012** | |
| | (3.523) | (3.599) | (2.051) | (2.178) | |
| $Q\&ALM_{i,t}$ | 0.002 | 0.004 | 0.010* | 0.012** | |
| | (0.316) | (0.603) | (1.733) | (2.395) | |
| $Q\&AHIV_{i,t}$ | -0.004 | -0.003 | 0.011** | 0.012** | |
| | (-0.673) | (-0.574) | (2.180) | (2.320) | |
| $DiscAcc_{i,t}$ | -0.033*** | -0.033*** | -0.014*** | -0.014*** | |
| | (-6.245) | (-6.244) | (-3.208) | (-3.207) | |
| Further Controls | … | … | … | … | |
| Observations | 27,431 | 27,431 | 31,217 | 31,217 | |
| R-squared | 0.652 | 0.652 | 0.681 | 0.681 | |

# 10. Summary and Conclusion

Findings:

(i)   Market reacts positively to charismatic rhetoric.

(ii)  Charismatic rhetoric does not convey relevant information.

→   Market participants are susceptible to pure rhetoric.

Bag-of-words approaches do not capture complex linguistic characteristics.

→   Naive Bayes approaches are an appealing alternative …

→   … especially when their evaluations are partly made transparent.

# References

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