

Breuer, Knetsch, and Uddin (2023) - “It’s not what you say, but how you say it – Charismatic rhetoric in earnings conference calls”

Discussion by Ahmed Guecioueur

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Summary

Comments

Summing up

Context

- ▶ We know that CEOs matter for firm performance, and that this effect is causal (Bennedsen, Pérez-González, and Wolfenzon 2020)
 - ▶ CEOs' impact can be negative: their behavioral biases can lead to suboptimal decisions for the entire firm (Malmendier and Tate 2005)
- ▶ Other than their executive decision-making, how can CEO behavior improve firm-level outcomes?
- ▶ This paper uncovers one channel: CEOs can persuade investors during earnings conference calls to lower their firm's cost of capital
 - ▶ CEOs can deploy their rhetoric for “impression management”
 - ▶ Breuer, Knetsch, and Uddin (2023) argue this is a form of “charisma” (more on that later)
 - ▶ In any case, this mechanism involves emotions
- ▶ Makes sense, because delivery matters – not just message content
 - ▶ In the finance & accounting literatures, see Hu and Ma (2021) and Paugam, Stolowy, and Gendron (2021)

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Setting

- ▶ Breuer, Knetsch, and Uddin (2023) focus on the Q&A section of earnings conference calls, from 2005 onwards, for Russell 3000 firms
- ▶ Specifically, they isolate managers' answers to questions by analysts
- ▶ Then score the text of managers' spoken words using the VIER Emotion Analytics software along multiple **emotion-related dimensions**
 - ▶ This commercial software is a black box; authors also try to reverse-engineer it
- ▶ Then extract a latent measure of "**charisma**" from these scores
 - ▶ **Primary explanatory variable used in this study**

Findings

Extracting a measure of “charisma”

- ▶ The first common factor of the managers’ emotion scores produced by the VIER software explains majority of variation in these emotion scores
- ▶ Dimensions that load the most strongly: positive, motivating, optimistic, visionary, supporting, friendly, composed, impressive, goal-oriented
- ▶ Breuer, Knetsch, and Uddin (2023) argue this is “charismatic rhetoric”
- ▶ Also use their own ML model to pick out examples of charismatic rhetoric

Interesting & novel results: more charismatic communication predicts

1. higher cumulative abnormal returns around the conference call
2. increased (consensus scores of) analyst recommendations
3. abnormal volume around the same window

... with controls

- ▶ tone of the earnings conference call (Loughran and McDonald 2011)
- ▶ earnings surprises
- ▶ various firm-level characteristics

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1. Controlling for information transmission

- ▶ A *lot* of information is released on earnings days, both in the earnings number, any guidance, the call, Q&A, etcetera, ...
- ▶ Empirically *very challenging* to effectively control for this – but essential to support the paper's claim
 - ▶ Ideally, would instrument for charisma, but seems challenging
- ▶ Suggestion: assume changes to the mean analyst revisions capture all information released during the earnings announcement and call, and *add this consensus revision variable as another control in the CAR regressions*
 - ▶ Would help to convince if the market reaction (main variable of interest) cannot fully be explained by analyst revisions (assuming those reflect changes to public information)
 - ▶ Use other analyst consensus revisions (e.g. LTG) for robustness
- ▶ Also: robustness tests using a variety of sentiment/tone measures for the earnings call, *especially that of Garcia, Hu, and Rohrer (2023)*, which is in fact based on market reactions to earnings calls

2. High-frequency identification

- ▶ Another suggestion for identification: consider using intraday returns rather than a 1-day CAR
- ▶ i.e. zoom in on times when the Q&A session is actually occurring – the more high-frequency, the more credible the identification
- ▶ Would support the claim that markets are reacting to charismatic rhetoric directly
- ▶ Two relevant papers that take this approach to identify market responses to FOMC press conferences: Gómez-Cram and Grotteria (2022) and Gorodnichenko, Pham, and Talavera (2023)
 - ▶ Especially Gorodnichenko, Pham, and Talavera (2023), which also discusses emotions

3. Characterizing charismatic rhetoric

- ▶ Paper seeks to understand what language, precisely, is charismatic: authors use Multinomial Inverse Regression (MNIR) to measure the (sparse) association between Q&A charisma and spoken trigrams by managers during the Q&A
 - ▶ Example of Explainable AI: building a model for a model
- ▶ But results raise questions: misclassifications for positive charisma trigrams (“in india we”), “poor fit” for negative charisma trigrams – are these due to the MNIR model, the VIER model, the interpretation that the paper gives to “charisma”, ...?
- ▶ Suggestion: [cut out the middleman](#)
 1. Feed a sample of trigrams into the VIER black-box directly
 2. Extract Charisma scores for these examples using the paper’s factor-based methodology
 3. Interpret the most and least charismatic examples

Other points

- ▶ pp. 7: Why do you describe VIER's deep learning approach as Naive Bayes? Maybe best not to get into this.
- ▶ pp. 26: Description of $CAR(0, 1)$ is a little unclear: if the earnings call takes place on day t , does the return run from the end of day $t - 1$ to the end of day t ? Currently open to interpretation.

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Conclusion

- ▶ Very interesting findings
 - ▶ I agree persuasion is an important force in financial markets
 - ▶ In fact, my job market paper is also about persuasion by (mutual fund) managers (Guecioueur 2023)
- ▶ My main suggestions are empirical: additional work to strengthen the claim to identification, especially potentially confounding information transmission
- ▶ Conceptually, interpreting the findings is also important: what exactly is persuasive? Is it really “charisma”?

Good luck!

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