Chapter 4
The Impact of CEO Charismatic Rhetoric on Firm Performance

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ABSTRACT

Leaders perceived as charismatic tend to have transformational effects on both individuals and organizations. Building on strategic leadership and charismatic leadership theories, this study explores the degree to which one type of charismatic leadership behavior, CEO charismatic rhetoric, influences firm performance. To do so, this chapter examines the charismatic rhetoric of CEOs found in their annual letter to shareholders for large firms listed on the S&P 500 stock index over the years 2001 to 2005. In examining shareholder letters, DICTION’s predefined dictionaries were combined to create measures of charismatic rhetoric dimensions consistent with charismatic leadership theory. Results reveal that, contrary to expectations, charismatic rhetoric dimensions display a significant negative relationship to measures of firm performance. Further, outsider CEOs were found to express greater levels of charismatic rhetoric than insider CEOs.

INTRODUCTION

A key determinant of firm performance is top leaders’ characteristics and leadership behaviors (Finkelstein & Hambrick, 1996). While the primary emphasis in this literature has been on the relationship between top leader characteristics (i.e., values, cognitive structures, personality) and firm performance, a few studies have examined the relationship between observed leader behaviors and firm performance (e.g., Agle, Nagarajan, Srinivasan, & Sonnenfeld, 2006; Boal & Hooijberg, 2001). Among these studies, leader charisma is suggested to be especially salient to firm performance (Waldman & Yammarino, 1999). Charisma...
comprises a set of leader behaviors that exercise diffuse and intense influence over the normative values, beliefs, and performances of followers and other stakeholders (Etzioni 1961; House, Spangler, & Woycke 1991). Examples of charismatic behaviors include breaking with the status quo, championing visionary perspectives, and enacting followers’ self-concepts, which are argued to inspire followers to identify with the leader and motivate followers to transcend individual interests, commit to the collective goals of the organization, and perform at high levels (Conger & Kanungo, 1987, 1998; House, 1977).

The theoretical support for the relationship between top leader charisma and firm performance intersects with complementary theories from two distinct disciplines: strategic management and leadership. First, upper echelon theory, prominent in strategic management, argues that top executives’ characteristics impact strategic decision making and, in turn, firm performance (Finkelstein and Hambrick 1996; Hambrick and Mason 1984). On the other hand, charismatic leadership theory, pervasive in leadership studies, suggests that certain leader behaviors and attitudes influence firm performance by inspiring and motivating followers to high levels of performance (House 1977; Weber 1947; Willner 1984). Considering the two theories together suggests that top level executives (i.e., CEOs) not only influence firm performance through their decision making but also through specific actions that influence followers -- when such actions are attributed as charismatic -- to adopt and implement the vision, objectives, and decisions made by top leaders (e.g., Waldman, Javidan, and Varella 2004). Charismatic leadership studies have primarily investigated the link between charismatic leadership and the task performance outcomes of the leader’s immediate subordinates (Fuller, Patterson, Hester, & Stinger, 1996; Lowe, Krocek, & Sivasubramaniam, 1996; Pillai & Meindl, 1998). A few studies, however, have investigated the role that the charisma of strategic, top-management leaders has on collective firm performance (Agle et al., 2006; Waldman, Ramirez, House, & Puranam, 2001). These studies have demonstrated equivocal results: some studies find a positive significant relationship between CEO charisma and firm performance (Koene, Vogelaar, & Soeters, 2002; Waldman et al., 2004), while others discover no relationship between the two variables (Agle et al., 2006; Tosi et al., 2004; Waldman et al. 2001). Such results suggest that further research is needed to clarify aspects of the CEO charisma and firm performance relationship. This lack of clarity creates a gap between what we know and what we hope to know about this relationship; in other words, we are limited in our ability to understand potential drivers of firm performance.

To address this gap, this chapter explores an under-researched aspect of the CEO charisma and firm performance relationship, that is, CEO charismatic rhetoric. Herein, CEO charismatic rhetoric is defined as the language choices used by CEOs that are consistent with charismatic behaviors (e.g., Bligh, Kohles, & Meindl, 2004a; Shamir, Arthur, & House, 1994). Indeed, rhetorical theories of charismatic leadership suggests that leader rhetoric is a means by which perceptions of a leader’s charisma are aroused in followers and in turn influence followers to perform beyond expectations (Conger, 1991; Fiol, Harris, & House, 1999; Shamir et al., 1994; Willner, 1984). Accordingly, with leadership being considered “a language game” (Fairhurst & Farr, 1996; Pondy, 1978), examining the relationship between rhetorical patterns of CEOs and firm performance will likely provide a glimpse into one way that top leaders effect firm performance.

In this chapter I specifically explore two research questions: First, does CEO rhetoric that corresponds with charismatic leadership behaviors relate to firm performance? Second, are there differences in charismatic rhetoric between different types of CEOs such as incoming and departing CEOs as well as CEOs that were hired from outside the firm (outsider CEOs) versus CEOs that were