Chapter 12
Executives’ Use of Emotional Language and Investor Reactions

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ABSTRACT
Drawing on theories from social judgment and persuasion, this chapter proposes that investors will be sensitive to the use of emotional language by top executives in their communication. In addition, the effect of emotional language on investors will depend on investors’ prior beliefs about the firm. Using a sample of 8,990 transcripts of presentations by executives of 632 organizations at investor conferences between 2004 and 2010, results support the prediction that executives’ use of emotional language has a significant influence on investors and that different ways of expressing emotion have differential effects on investor judgment. Moreover, the effect of emotional language is stronger when the firm’s uncertainty level is high and growth prospect is low. The results provide insights into how organizations can use language strategically to manage their relationships with stock investors, thereby contributing to a growing literature on symbolic management of organization.

INTRODUCTION
Strategy and organizational scholars have long been interested in investors’ reactions to various organizational decisions and executive behaviors in order to understand how organizations can effectively manage their relationships with an important group of stakeholders – stock investors. Prior research has explored how stock investors react to various organizational decisions, such as the decision to change their names to include “.com” (Lee, 2001) and to make corporate strategic investments (Woodridge & Snow, 1990), and executive behaviors, such as trading activities (Coff & Lee,
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2003) and management succession events (Lee & James, 2007); (Tian, Haleblian, & Rajagopalan, 2010). In recent years, there has been growing interest in understanding the role of language as a way to manage the demands and expectations of external stakeholders and help organizations seek and maintain external resources and support (Gregoire, Koning, & Oviatt, 2008; Martens, Jennings, & Jennings, 2007; Wade, Porac, & Pollock, 1997; Zajac & Westphal, 1995).

While there is increasing interest in these matters, this area is still nascent and the types of language and settings that have been explored in this literature remain limited. Prior research demonstrated how different types of verbal accounts (e.g. denials and acknowledgements) help organizations restore legitimacy following a controversial event (Elsbach, 1994) and how alternative explanations based on different logics can help organizations achieve legitimacy for specific compensation practice (Westphal & Zajac, 1995; Wade, Porac, & Pollock, 1997). While prior studies provide provocative insights into how organizations use language effectively to respond to stakeholder concerns and demands, they provide little insight about how external stakeholders respond to organizations’ use of different types of language in their regular communications with stakeholders without the instance of a negative event. Understanding such reactions is important because executives communicate with external stakeholders frequently to maintain and motivate their support.

Accordingly, the current paper extends this line of inquiry by focusing on how one important type of language – emotional language – can influence investors’ evaluation of a firm during managerial presentations at conferences. While some corporate leaders (e.g. Steve Jobs) receive a significant amount of media attention and compliments on their exceptional presentational styles that are passionate, enthusiastic, and exciting, others (e.g. Bill Gates) are blamed for their boring and tedious presentation style. It is clear that corporate leaders are being watched carefully by important stakeholders on how they communicate. Yet we do not know much about how external stakeholders (e.g. investors and analysts) will react to managers’ use of emotional language.

Emotional language is language that either expresses emotions or appeals to emotions (Merriam-Webster, 2010). Research in social psychology has long recognized the importance of emotional language in persuasion (e.g. Ray & Batra, 1982; Broadbent, 1977). Specifically, these studies argue that there are “two routes to persuasion”: persuasion with reasoning and persuasion using emotion (e.g. Petty, 1977; Petty & Cacioppo, 1981; Chaiken, Liberman, & Eagle, 1989; Chaiken & Trope, 1999). When decision-makers have to make quick judgments or decisions, they are less likely to use a systematic processing of persuasive argument that rely on logical reasoning; instead they will use heuristic processing that relies on mental shortcuts or heuristics and therefore become subject to the influence of emotional language (e.g. Petty & Cacioppo, 1981). Numerous empirical studies have demonstrated that the amount of emotional information contained in a message can influence the message’s effectiveness (Forgas, 1995; Janis, Kaye, Kirschner, 1965; Levinthal, 1970; Petty & Cacioppo, 1981; Shelton & Rogers, 1981).

Here, I quantify the amount of emotional language contained in managerial presentation transcripts and examine its impact on changes in the firm’s stock prices the day following the presentation. Managerial presentations at conferences provide a good context to examine the influence of managerial language for two reasons. First, managerial presentations at conferences provide managers an opportunity to manage the impression of the firm and the management team face-to-face before investors. Although investors and analysts have access to accounting data that can help them assess the fundamental value of a firm, they choose to attend conferences because managerial presentations provide them the opportunities to interact with managers. The presentations will