MODESTY IN THE TOP MANAGEMENT TEAM

Research to appear in the *Journal of Management* explores the effects of managers' expressions of modesty during quarterly earnings calls. They find that expressions of modesty, like crediting success to others in the organization, relate positively to short-term investor reactions. Calls during which top managers express more modesty are also followed by better financial performance over the next fiscal quarter.

Key Takeaways:

- Top manager modesty during earnings calls may stand out and have an impact because it is unusual or unexpected.
- Expressed levels of modesty reflect culture that is shared among a firm's top management, not just a characteristic of individuals.
- Top manager modesty during quarterly earnings calls resulted in a short term increase in stock price, and improved financial performance over the next quarter.

The authors looked at transcripts from over 5,000 earnings calls from 453 publicly traded firms. The calls frequently included CEOs and CFOs, among others. They measured the number of times that executives praised others during the call, and the number of times they referenced themselves with words like "I" or "we." They built a measure of modesty in the call from these counts. They found that modesty was similar across a firm's top management team members, suggesting that it reflects firm culture rather than the traits of individuals. Then, controlling for things like industry, general market movement, and prior firm performance, they tested the effects of modesty on performance. They found that more modest calls were followed by an increase in stock price over the next two days, and by higher ROA in the next quarter.

The researchers reasoned that modesty can capture the attention of investors because self-interested behavior might be more expected. Additionally, expressions of modesty might make management's message more credible. The authors explained that a culture of modesty might lead to more positive emotions in the workplace, and improve relationships among workers, which could account for better performance in the longer term. Last, they attribute part of the performance effect to the fact that modest managers have more realistic views of their strengths and weaknesses, which can help firms make better strategic decisions.

The research team noted that more research is needed to understand the effects of modest managers on outcomes like adaptation and risk-taking, and to explore its possible downside.

Ridge, J. W., & Ingram, A. (2016). Modesty in the top management team: Investor reaction and performance implications. *Journal of Management, In Press.*