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How disclosure medium affects investor reactions to CEO bragging, modesty, and humblebragging[☆]

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ABSTRACT

We examine if investor expectations of two common disclosure mediums (conference calls and Twitter) interact with a CEO's communication style to influence investor judgments. Consistent with theory, results show that when the disclosure medium is a conference call, investors are less willing to invest when the CEO is modest about positive firm performance compared to when the CEO brags. In contrast, when the disclosure medium is Twitter, investors are less willing to invest when the CEO brags about positive firm performance compared to when the CEO is modest. Further analysis reveals that perceived CEO credibility mediates the influence of a CEO's communication style and disclosure medium on investor judgments. Additionally, we find that regardless of the disclosure medium, investors are less willing to invest in a firm when the CEO humblebrags about positive firm performance relative to when he brags or is modest. Our study contributes to the emerging literature on social media and disclosures, and to the literature investigating how style features of disclosures influence investor judgments. Our results also have practical implications for firms and managers developing communication strategies for new disclosure mediums like Twitter.

1. Introduction

Investors regularly access social media to obtain financial information (Brunswick, 2014). To help meet this demand, CEOs and firms are increasingly disclosing financial information on social media (e.g., by using Twitter). It is now common practice for firms to tweet highlights from press releases or live tweet quotes from conference calls (Joyce, 2013). The explosive use of social media to disclose financial information raises an interesting question: Do investor reactions to a CEO's communication style depend on whether the interaction is on a traditional disclosure medium (like conference calls) or a new disclosure medium (like Twitter; Miller & Skinner, 2015)? We help answer this question by examining if investor expectations of conference calls and Twitter interact with a CEO's communication style to influence investor judgments. Specifically, we examine if investor reactions to a CEO's use of bragging, modesty, or humblebragging to describe positive firm performance depend on whether the disclosure medium is a conference call or Twitter.

Recent research suggests that style features of disclosures influence investor judgments and decisions (e.g., Hales, Kuang, & Venkataraman, 2011; Libby & Emett, 2014; Rennekamp, 2012; Tan, Wang, & Zhou, 2014). We examine bragging, modesty, and humblebragging because they are common communication styles used to influence how individuals perceive a presenter (Leary & Kowalski, 1990; Marwick & Boyd, 2011; Smith, 2010; Tice, Butler, Muraven, & Stillwell, 1995; Wosinka, Dabul, Whetstone-Dion, & Cialdini, 1996). Examining these communication styles is important because bragging and modesty are present to varying degrees in almost every firm or CEO disclosure that contains more than mere facts, while humblebragging is becoming increasingly popular, especially on Twitter (Sezer, Gino, & Norton, 2018; Wittels, 2012). Bragging refers to attributing success to internal factors such as one's own ability or effort (Wosinka et al., 1996; Zuckerman, 1979) and is typically accompanied by intensifying words (e.g., 'innovative,' 'state-of-the-art,' 'gigantic,' and 'slash; ' Miller, Cooke, Tsang,

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& Morgan, 1992).[1] Conversely, modesty refers to attributing success to external factors such as luck or assistance from others (Carlston & Shovar, 1983; Miller et al., 1992; Tice et al., 1995) and typically lacks intensifying language (Miller et al., 1992). Finally, humblebragging refers to making a seemingly modest statement that is meant to draw attention to one's admirable or impressive qualities or achievements (Humblebrag, 2017; Wittels, 2012). In Appendix C, we provide examples of CEOs bragging, being modest, and humblebragging on Twitter.

We predict that investors' reaction to a CEO's communication style depends on investors' expectations of the disclosure medium. Expectations reflect the anticipated behavior of another person in a particular situation (Burgoon, 1978, 1993). The disclosure medium sets investors' expectations, which are then either confirmed or disconfirmed with each disclosure. Expectancy violations theory suggests that if individuals expect one thing but see something different, it violates their expectations and draws their attention. This increased attention causes them to spend more time processing and evaluating the violation. Based on their evaluation, they interpret the violation in a positive or negative manner, which affects their perception of the violator's credibility and influences subsequent judgments and decisions (Burgoon, 1978, 1993; Clor-Proell, 2009; Griffin & McClish, 2011). In our context, if investors expect a particular communication style from a CEO, but the CEO surprises them and uses a different communication style, they react by questioning the CEO's behavior and credibility. If the CEO is presenting positive information, we expect questioning the CEO's behavior and credibility will mute investors' reaction to the positive information, thereby lowering their perception of the company's investment potential.

We expect that investors' expectations of social media differ from their expectations of traditional forms of CEO communication, like conference calls. Conference calls are a venue where the CEO typically highlights the successes and positive qualities of their firm (Bowen, Davis, & Matsumoto, 2002; Kimbrough & Wang, 2013; Larcker & Zakolyukina, 2012; NIRI, 2013; Rehm, 2013). Therefore, investors likely expect some degree of CEO bragging about their accomplishments during a conference call. On the other hand, social media is a venue for CEOs to interact with investors and other stakeholders on a more personal level (Elliott, Grant, & Hobson, 2018a; Elliott, Grant, & Hodge, 2018b; Kaplan & Haenlein, 2010). Psychology research has shown that in such social settings, modesty tends to strengthen relationships, while bragging tends to weaken them (Davis et al., 2013; Forsyth, Berger, & Mitchell, 1981; Kelley, 1987).

These arguments lead to an interaction between disclosure medium and a CEO's communication style. In our experimental setting, they imply that investors who read a CEO's comments about his firm's positive performance made during a conference call will view the CEO and his message less positively when the CEO violates expectations by being modest rather than bragging. In contrast, they predict that investors who read a CEO's comments about his firm's positive performance on Twitter will perceive the CEO and his message less positively when the CEO violates expectations by bragging rather than being modest. Underlying both of the above predictions is our expectation that questioning the CEO's behavior will affect assessments of the CEO's credibility, which in turn, will influence investment decisions. Finally, we expect that when investors read a CEO's comments about his firm's positive performance and the CEO humblebrags, investors will view the CEO least positively regardless of the disclosure medium; no one likes humblebragging regardless of how it is disclosed.

We test our hypotheses using a 2 × 2 + 2 between-subjects experiment. Our independent variables are communication style (brag vs. modest + humblebrag) and disclosure medium (conference call vs. Twitter). In our study, graduate and senior undergraduate accounting students assume the role of prospective investors evaluating a potential investment. Participants first learn about a firm and its CEO, and then view a press release containing the firm's 3rd Quarter financial results. The press release contains financial metrics and a narrative section that indicate that the firm performed better than the same quarter last year, with increases in revenue, earnings, and cash flow from operations. In the narrative section, the increases in revenue, earnings, and cash flows are each attributed to both an internal and external event.

After making a preliminary investment assessment, participants read comments from the CEO about the firm's performance. Embedded in the comments is our communication style manipulation. The CEO's comments reflect bragging or modesty. We run two additional conditions where the CEO's comments reflect humblebragging (making a seemingly modest statement that is meant to draw attention to one's admirable or impressive qualities or achievements). We hold information constant across conditions; the CEO's comments only refer to attributes already stated in the press release. We manipulate our second independent variable, disclosure medium, by providing the CEO's comments via a conference call transcript or via Twitter. After viewing the CEO's comments, participants make a final investment judgment, answer questions about the CEO's credibility, and complete the post-experiment questionnaire.

Results support our predictions, and reflect that a CEO's communication style interacts with disclosure medium to influence investor perceptions and investment judgments. Specifically, we find that participants who read a CEO's comments about his firm's positive performance made on a conference call (on Twitter) are *less* likely to invest in the firm when the CEO is modest (brags) compared to when the CEO brags (is modest). We also find, consistent with theory, that perceived CEO credibility mediates the relationship between our dependent variable (willingness to invest) and the interaction between communication style and disclosure medium. Finally, regardless of the disclosure medium of the CEO's comments, we find that participants are least willing to invest in the firm when the CEO humblebrags.

Our study makes several contributions. First, we contribute to the emerging literature on social media and disclosure (Blankespoor, Miller, & White, 2014; Miller & Skinner, 2015). Recent research has examined benefits of CEOs communicating with investors through Twitter compared to traditional mediums while holding constant the style of the communication (Elliott et al., 2018b). We contribute by providing evidence of the importance of matching the CEO's communication style with disclosure medium expectations. We find that the communication style that is effective when using traditional disclosure mediums (like conference calls) may backfire when using new disclosure mediums (like Twitter), causing investors to react negatively. We use an experiment because it allows us to hold constant factors that have been previously shown to affect investor perceptions (e.g., macroeconomic conditions, firm characteristics, management's incentives, etc.), and allows us to isolate the effects of a CEO's communication style. While it is possible to examine CEO sentiment (Chen, Hwang, & Liu, 2017; Davis, Ge, Matsumoto, & Zhang, 2015), measuring the various communication styles using archival methodologies would be difficult. An experiment allows us to test for these effects using a counterfactual, which will likely never be cleanly observable in an actual business setting as CEOs self-select into communication styles. Additionally, an experiment allows us to assess investor perceptions of CEO credibility, an important determinant of investor judgments.

Second, we contribute to the literature investigating how style

[1] Hales et al. (2011) examine the construct of vivid language, which they define as "(a) emotionally interesting, (b) concrete and imagery-provoking, and (c) proximate in a sensory, temporal, or spatial way." To operationalize our bragging manipulation, we examine the construct of intensifying language which includes emotionally-laden words as well as specific graphic language. Intensifying language is a style feature related to word choice, and thus is a narrower construct than vivid language (Hosman, 2002). For example, prior research also considers vivid language to be that which is communicated face-to-face as opposed to in print (Herr, Kardes, & Kim, 1991), or has specific grammatical structures such as active voice and present tense (Burns, Biswas, & Babin, 1993). We operationalize our bragging manipulation using intensifying language to hold these other factors constant across conditions and only vary the communication style.