New Utah State University Research Linking CEO Personality to Stock Price Featured in Harvard Business Review

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October 30, 2019 - A CEO's personality traits can impact a company's stock price, according to groundbreaking new research by Utah State University's Jon M. Huntsman School of Business that was recently featured in *Harvard Business Review*.

The research, which will be published in its entirety in the *Academy of Management Journal*, studied how the market reacts to CEOs' observable personalities. Specifically, the study focused on what's known as the "Big Five" personality traits of CEOs: conscientiousness, neuroticism, extroversion, openness to experience, and agreeableness.

"This is the first research of its kind that studies how the Big Five personality traits affect the value and volatility of a stock as well as how firms can translate given levels of risk into shareholder returns," said Gary Thurgood, assistant professor in the Management Department at Utah State University's Huntsman School. "We discovered that the market actually picks up on CEOs' personalities in a measurable way. A firm's stock will perform differently if a CEO is highly conscientious, or in other words, tends to be more cautious and dependable, as compared to a CEO who exhibits neurotic personality tendencies like impulsiveness or emotional instability."

Over the past 5 years, the research team, led by Joseph S. Harrison of Texas Christian University, and which includes Thurgood, Steven Boivie of Texas A&M University, and Michael D. Pfarrer of University of Georgia, developed a machine learning algorithm by studying and comparing personality traits of 200 S&P 1500 CEOs based on video clips of the CEOs in combination with written transcripts of what they said during Q&A portions of quarterly earnings calls. The team then applied the algorithm to more than 3,000 CEOs of S&P 1500 companies between 1993 and 2015 to examine the impact of these personality traits on stock volatility and shareholder returns.

The *Harvard Business Review* article cites the following findings from the research:

- More conscientious (relative to less conscientious) CEOs' firms experienced a 2.59% lower stock risk (i.e. stock beta), on average, yet achieved a 3.83% increase in returns for their firms, whereas the same level of risk decreased returns by 1.70% in firms led by less conscientious CEOs.
- -More neurotic (relative to more emotionally stable) CEOs' firms experienced a 2.04% higher stock risk, on average, and increasing risk did not yield a corresponding increase in returns in their firms, whereas firms led by more emotionally stable CEOs increased returns by 2.68%.
- More extroverted (relative to more introverted) CEOs' firms experienced a 2.40% higher stock risk, on average, and having increasing levels of risk actually reduced returns by 3.30% in their firms, whereas it increased returns by 5.43% in firms led by more introverted CEOs.

Thurgood says analysts, shareholders, and investors consciously and subconsciously pick up on CEOs' patterns of language and behaviors that impact perception of risk by affecting their assessment of the leadership capabilities of the CEO. In financial markets where even a small percentage change has a significant impact on a firm's value, it would benefit companies and managers to consider these research findings.

To speak with Professor Thurgood, please contact him directly at gary.thurgood@usu.edu or 435.797.6388; or contact Huntsman School Associate Dean Dave Patel at dave.patel@usu.edu or 435.797.7878.