KORN FERRY

LEADERSHIP SIGNALS IN EARNINGS CALLS

Decoding CEO Communications

Thought Leadership

INTRODUCTION

As businesses face unprecedented change, they need better ways to assess new CEOs early in their tenure. New CEOs bring fresh perspectives and may introduce transformative initiatives, but the impact of those changes can take years to show. Financial metrics alone aren't enough to evaluate their performance—these indicators lag and may obscure early signs of strategic misalignment and other leadership troubles. A timely and multidimensional assessment helps stakeholders identify a leader's strengths and vulnerabilities before they affect financial outcomes, allowing for better support or intervention.

We propose a new way to evaluate CEO leadership: leveraging nontraditional data sources like earnings call transcripts. Using large language models (LLMs), we studied earnings calls from S&P 500 firms following CEO successions. Our analysis uncovered speech patterns that revealed underlying leadership qualities and identified eight distinct dimensions that distinguish high-performing CEOs from those who underperform. CEOs who scored highly on these dimensions led companies with an average 12% higher stock growth than industry peers. Those who scored low, on the other hand, led companies that saw 15% lower growth, creating a striking 27% performance gap.

Unlike conventional metrics, evaluating how CEOs communicate in real time can offer early signs of leadership effectiveness before financial outcomes are fully realized. The results have important implications, as insights from earnings calls analysis can:

- Inform tailored onboarding strategies that align with a CEO's strengths, as well as address potential blind spots.
- Guide CEOs in refining their messaging to better convey strategic clarity and stakeholder alignment.
- Provide benchmark leadership qualities to inform coaching and development programs for emerging leaders.
- Give boards a proactive tool to monitor CEO performance beyond financial metrics, enhancing oversight and decision-making during critical early tenure periods.

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THE CEO'S MICROPHONE

Why Earnings Calls Matter More Than You Think

For publicly traded companies, earnings calls are a critical communication. They allow CEOs and other executives to share financial results, business initiatives, and future plans directly with analysts and investors. These calls, which include a management presentation and Q&A session, help stakeholders understand a firm's current situation and strategic direction.

Some argue that earnings calls are too scripted to offer meaningful information, but this criticism overlooks the value of authenticity in public communication. While prepared remarks may be polished, CEOs face pressure to be transparent, limiting how much they can spin the message. The Q&A portion, in particular, is unscripted and harder to rehearse or control. Executives need to respond directly to investor questions; any attempt to dodge, delay, or deflect is noticed immediately. Research shows that when executives rely too heavily on scripted responses, the market reacts unfavorably. Investors see a lack of spontaneity as a red flag, and analysts often downgrade their forecasts due to reduced confidence in transparency and leadership.

Despite some skepticism, earnings calls are considered an important source of insight into a company's operations and market positioning. Research has linked them to outcomes such as investor confidence, stock performance, and the likelihood of corporate bond defaults. Earnings calls, in other words, can help predict how the market views an organization's future.

EARNINGS CALLS

A Window into CEO Leadership

Most research on earnings calls focuses on the emotional tone and delivery of CEO speech, known as "soft information." Unlike hard financial data, soft information captures the nuance of executive communication—sentiment, hesitation, avoidance, even pronoun choice. And studies have shown that these subtle cues can shape investor reactions, influence analyst behavior, and impact market dynamics.

In one study, researchers at the Norwegian School of Economics analyzed 6,605 earnings call transcripts from 356 Scandinavian firms (2014-2024) and found that sentiment strongly predicted stock price movements. Companies with positively toned calls saw share prices increase 2.7% on the day of the release, while those with negative sentiment experienced a 1.9% decline. In another study, University of Illinois researchers analyzed 10,976 earnings call transcripts from S&P 500 firms (2019-2024) and found that non-responses during Q&A sessions—instances where executives dodged or declined to answer investors—were linked to greater analyst forecast errors and increased uncertainty. Moreover, these evasive behaviors were associated with increased stock price volatility and higher trading volume for up to 60 days after the call. Both studies used mainstream LLMs for their analyses.

Our research builds on this existing body of work in two ways. First, we examined earnings calls from a leadership perspective rather than a financial one. Second, instead of analyzing how CEOs speak, we focused on the substance of what they said. Through this lens, we uncovered leadership qualities that predict future company performance. This approach offers a new framework for evaluating CEO effectiveness early in their tenure, positioning earnings calls as a valuable yet underutilized source of leadership insight.

APPLYING LARGE LANGUAGE MODELS TO EARNINGS CALLS

Since the early 2000s, researchers have explored how textual data from financial news and corporate disclosures can uncover insights into firm performance and market behavior. But progress has been slow, constrained by traditional methods that rely on rigid keyword matching, manual coding, and shallow linguistic features. They are inefficient at capturing the nuance and context in how executives communicate.

LLMs have changed this. These models, trained on massive datasets and built with billions of parameters, capture intricate language patterns and perform well across a wide range of natural language tasks. Unlike standard approaches that analyze words in isolation, LLMs interpret context, infer meaning, and detect subtle cues in how executives communicate. This allows us to move beyond basic sentiment analysis to uncover deeper insights into CEO communication, giving us a more holistic view of leadership. Our research leverages these capabilities to identify leadership qualities in CEO speech and evaluate how they relate to overall effectiveness.

Data Collection

Our sample comprised CEO successions that occurred at S&P 500 companies during 2015-2016, allowing us to analyze subsequent performance data through year-end 2019. We selected this time frame intentionally to avoid the COVID-19 pandemic's confounding effects on firm performance. Initially, we identified a total of 113 CEO successions at S&P 500 companies but excluded cases where significant organizational changes—such as privatization, diversification, or acquisition—could distort post-succession performance analysis. The final sample involved 90 companies, each with three years of post-succession financial data. These firms represent a broad range of industries, including life sciences, consumer goods, utilities, high technology, financial services, and industrials.

After identifying the CEOs, we collected earnings call transcripts from the first 18 months of each leader's tenure using Capital IQ. We extracted all CEO statements and structured the text for sentence-level analysis.

To measure outcomes, we used industry-adjusted market performance, gathering share price data from Capital IQ for the year before and three years after each succession. We compared price changes during a CEO's tenure to industry trends over the same period. To account for differences in tenure length—particularly in cases of early departure—we annualized the performance measure.

Based on this analysis, we grouped CEOs into three performance categories:

- **Outperformers:** at least 0.5 standard deviations above the mean
- **Underperformers:** at least 0.5 standard deviations below the mean
- **Average performers:** within ±0.5 standard deviations of the mean

On average, companies led by outperforming CEOs saw 12% higher share price growth than their industry peers. Average performance aligned closely with the industry mean, with a marginal 0.06% advantage. Underperformers lagged, with 15% lower growth compared to their industries.

Text Analysis

Text analysis turns unstructured, natural language into structured, quantitative data. Traditional methods divide datasets into multiple subsamples to build and test topic classification models. This approach, however, is not feasible for our research due to the limited sample size. To address this constraint, we used a Human-AI hybrid method, combining human judgment with AI capabilities to extract meaningful leadership insights.

We began our analysis by identifying a set of leadership topics and developing rubrics to capture meaningful CEO communication likely to influence market reactions. We reviewed science literature to

understand how leadership behaviors of new CEOs affect firm performance. The research by scholars from the Center for Executive Succession in the University of South Carolina was particularly informative. Their findings highlighted several leadership dimensions during early transition stages that can significantly shape organizational outcomes. Building on their work and other studies, we created five categories of leadership behaviors, each with three to five themes. These themes include clear definitions and observable indicators from CEO communication. Appendix A presents the structure of this initial model.

We analyzed a random sample of earnings call transcripts using ChatGPT-4, instructing it to identify broadly applicable indicators across industries and organizational contexts to ensure generalizability. We also established thematic anchoring by having the model abstract examples for each indicator to illustrate how it might manifest in real-life CEO language. We repeated this process until no new indicators appeared. Two researchers then reviewed the examples independently to confirm alignment and accuracy. Appendix B offers an illustrative example of one leadership theme.

We generated our initial model through the hybrid approach, which we then applied to classify all transcripts. For the classification task, we employed a modified version of Google's SBERT (Sentence-BERT), a transformer-based model for sentence-level analysis. Appendix C details the SBERT-based classification process.

We tallied the frequency of each distinct leadership theme in CEO speech, aggregating counts for each earnings call. To account for speech length, we divided each count by the total number of sentences spoken by the CEO. The resulting ratios indicate the relative prevalence of each leadership theme, providing a standardized measure of behavioral emphasis across earnings calls.

EIGHT LEADERSHIP THEMES ASSOCIATED WITH MARKET PERFORMANCE

In this research, we set out to identify leadership qualities in earnings calls that predict firm performance. We captured communication behavior by averaging theme scores from six earnings calls early in each CEO's tenure. We then assessed their predictive relationships by linking these scores to industry-adjusted market performance.

Our analysis found that some underperforming CEOs had long tenures, suggesting alternative criteria for evaluating success. To reduce bias, we excluded those with tenures over nine years. We then used Welch's t-tests to assess whether theme prevalence differed significantly between underperforming and outperforming CEOs. Of the 19 themes analyzed, eight showed significance at the one-tailed level ($p < .05$). See the table below.

Table 1. Eight leadership themes that are associated with market performance

Leadership Theme	Definition
External Awareness	Awareness of competitive dynamics, industry trends, and macro risks.
Strategic Foresight	Insight into market trends, emerging opportunities, and long-term shifts.
Competitive Position	Articulation of a unique, differentiated path forward.
Portfolio Management	Selecting, prioritizing, and managing a collection of projects or initiatives to align with strategic objectives.
Resource Allocation	Distribution of capital, talent, and other organizational resources to initiatives that best support strategic objectives.
Value Integration	Creating, distributing, and aligning value across stakeholder groups, balancing short-term performance with long-term stakeholder outcomes.
Managing Accountability	Setting clear expectations for senior leaders, empowering them with authority, and holding them accountable for delivering results.
Egocentricity	Centering communication and decision-making around themselves, with minimal acknowledgment of team contributions, collaboration, or shared leadership.

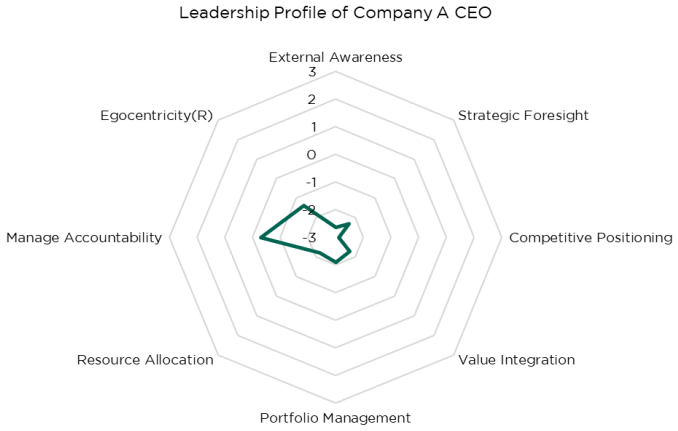
We ran 100,000 Monte Carlo simulations to generate normalized distributions based on observed means and standard deviations. The two figures compare two CEOs against these simulated distributions across eight leadership themes, alongside each company's stock performance through the third year of their tenure. In each figure, the octagon 0 marks the normative benchmark.

Company A's CEO (Figure 1) assumed leadership in March 2016. In the year before the transition, the company slightly outperformed its industry peers. However, after the CEO stepped in, performance began to decline, and the gap widened over time. This drop appears to be tied to leadership deficiencies: the CEO scored well below the benchmark (octagon 0) on seven of the eight dimensions.

In contrast, Company B's CEO (Figure 2) showed strong leadership signals, scoring well above the benchmark on five dimensions. The company's market performance reflected this leadership profile. Under the new leadership, it reversed its prior underperformance and began to outperform the industry average, suggesting improved business results and investor confidence.

We assessed leadership qualities during the first 18 months of each CEO's tenure and used early behavioral patterns to predict market performance. Specifically, we looked at firm outcomes by the end of year three—a critical point when strategic initiatives typically yield tangible results. This timing reinforces the value of these signals as early indicators of CEO success, offering insights into organizational trajectory and executive effectiveness.

Figure 1. CEO leadership qualities and corresponding firm performance for Company A



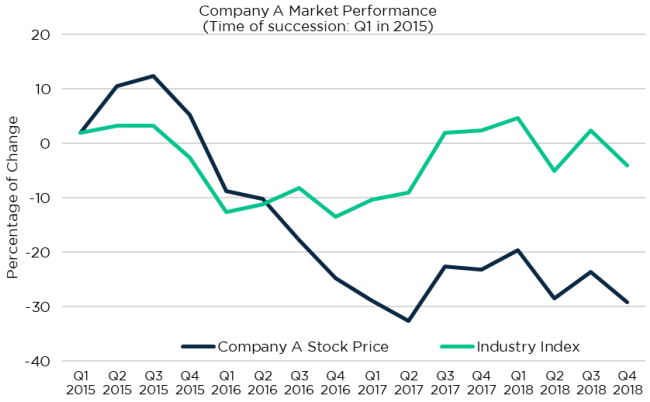
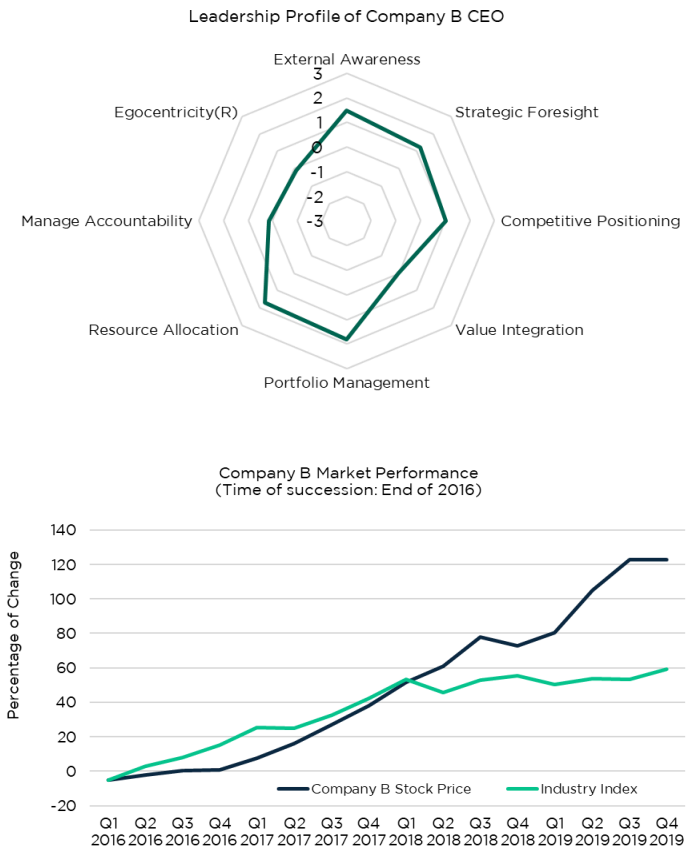


Figure 2. CEO leadership qualities and corresponding firm performance for Company B



BEYOND THE BALANCE SHEET

More than ever, what leaders say in public forums carries unprecedented influence.

Our research shows that we can assess leadership effectively using nontraditional data sources—specifically, the language CEOs use during earnings calls. These public communications act as a form of accountability, offering insight into leadership qualities and their organizational impact. Often, perception becomes reality as stakeholders interpret these messages to gauge effectiveness.

Advances in artificial intelligence have made this approach both feasible and scalable. By applying AI, we can systematically analyze the linguistic and rhetorical patterns in CEO speech to uncover leadership style, strategic focus, and behavioral tendencies. Language, after all, can shape perceptions, influence investor confidence, and drive business outcomes. Our methodological breakthrough underscores just how powerful CEO communication can be.

This study offers an initial look at CEO leadership through earnings call transcripts, though it has its limitations. Our sample includes CEO successions from nearly a decade ago, which may not reflect today's dynamic business environment. The post-pandemic acceleration of remote work, global supply chain complexity, and AI-driven transformation have fundamentally reshaped the context in which leaders operate.

To strengthen the relevance of our findings, future research should examine a larger, more recent sample of CEOs across industries and regions. Incorporating broader performance metrics—such as return on assets, profitability, employee sentiment, and market indicators—will offer a more comprehensive view of CEO impact. As LLMs continue to evolve, using the latest models will improve the accuracy and depth of theme identification.

While our study offers valuable insights into the language of leadership, ongoing research is needed to keep pace with the shifting demands of business. By refining our methods and expanding our datasets, we can build a stronger framework for evaluating and supporting executive leadership in an era defined by rapid technological transformation.

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APPENDIX A.

The initial topic model for text classification.

Category	Definition	Sub-themes
Strategic Vision	A forward-looking articulation of how an organization will leverage internal strengths and navigate external dynamics to achieve sustainable competitive advantage, linking short-term actions to long-term goals.	▪ Internal awareness ▪ External awareness ▪ Strategic foresight ▪ Competitive positioning ▪ Strategic cohesion
Operational Excellence	The systems, processes, and practices that ensure an organization's strategic goals are executed efficiently and effectively.	▪ Portfolio management ▪ Resource allocation ▪ Performance metrics
Stakeholder Engagement	The degree to which a CEO identifies, connects with, and integrates the interests of diverse stakeholders to build a resilient, value-creating enterprise ecosystem.	▪ Stakeholder mapping ▪ Ecosystem building ▪ Value integration ▪ Narrative framing
Role Transition	The process by which a new CEO adapts to their leadership role by learning the organization, shaping the leadership team, and establishing performance expectations.	▪ Learning the job ▪ Building the team ▪ Managing accountability
Risk Factors	Recurring patterns in a CEO's communication that reveal underlying leadership traits or characteristics that may alienate stakeholders, discourage collaboration, or suppress new ideas, ultimately leading to strategic misalignment or operational stagnation.	▪ Cognitive rigidity ▪ Overconfidence ▪ Defensiveness ▪ Egocentricity

APPENDIX B.

Theme indicators and speech examples

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Topic: Role Transition

Leadership theme: Managing Accountability

The CEO sets clear expectations for senior leaders, empowers them with authority, and holds them accountable for delivering results. This includes defining leadership roles, aligning incentives, and reinforcing performance discipline at the top of the organization.

Indicator examples	Speech examples
Signals empowerment with oversight	We're giving leaders the tools to succeed
References to performance reviews and consequences	We reinforce performance discipline and hold leaders accountable for results
Sets expectations for senior leadership	Each business has aggressive working capital targets.
Aligns incentives with outcomes	Short-term incentive compensation is aligned with performance
Links strategy to leadership execution	We're using our Operating & Execution Model across the enterprise

APPENDIX C.

Text classification using SBERT.

We employed SBERT to evaluate whether individual sentences in CEO communications exemplified predefined leadership themes. The analysis was conducted on one topic at a time, allowing each sentence to be tagged with one or more thematic labels. To train the model, we adopted a few-shot learning paradigm, supplying a rubric that included clear definitions and representative example statements for each theme. This prompt-based approach enabled the model to learn thematic distinctions from a limited number of annotated examples.

Each embedded sentence was passed through the SBERT classification model, which was trained to recognize thematic patterns in CEO language. For every theme, the model generated a confidence score indicating the likelihood that a given sentence reflected that theme. A default threshold of 0.35 was applied: if a theme's confidence score exceeded this threshold, the sentence was labeled accordingly. Sentences falling below the threshold were excluded from thematic analysis to reduce noise and improve precision. This threshold was selected to account for the strategic vagueness and context-dependence often present in CEO discourse, where subtle cues may carry significant meaning.

To further optimize sentence-level classification, we implemented several model refinements. We incorporated paraphrasing augmentation and a contrastive loss function to enhance the model's ability to capture semantic relationships among sentences. The model was trained over eight epochs, allowing it to refine its understanding of thematic patterns iteratively. Each input sentence was paraphrased into three variants by default, with approximately 20% of the words replaced by synonyms to simulate natural linguistic variation and improve generalization.

One inherent limitation of sentence-level classification is the loss of broader contextual information when transcripts are segmented into isolated units. To mitigate this, we trained the model using each sentence along with its immediate predecessor, allowing it to preserve thematic coherence better and understand the progression of ideas in executive communication. This approach helps the model maintain continuity and capture transitions in tone, intent, or strategic emphasis that may span across multiple sentences.