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How Does Managers' Humor Influence Investor Judgments?

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**Abstract**

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Managers use humor when communicating with market participants, and research finds that successfully using humor can provide several benefits for managers. However, theory suggests that these benefits could give rise to potential costs for managers. Furthermore, using humor in financial reporting settings is risky because there is a possibility that humor could fail. I conduct an experiment to examine how managers' humor influences investors' information processing and subsequent valuation judgments. Drawing on psychology theory, I predict and find that investors engage in greater information processing when managers' humor fails than when managers' humor is successful. To test for differences in information processing, I examine investors' processing of information about a firm's earnings persistence. Consistent with differences in information processing, investors' valuation judgments are more sensitive to differences in earnings persistence after failed humor than after successful humor. My study contributes to the literature examining how manager disclosure style influences investor judgments and also has practical implications for managers considering the costs and benefits of using humor.

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## I. INTRODUCTION

Managers use humor in the same disclosure settings in which they communicate with investors and analysts. For example, recent research finds that managers use humor during the Q&A portion of earnings conference calls (Call, Flam, Lee, and Sharp 2023), as well as on social media (Yue, Thelen, Robinson, and Men 2019). Managers' opportunities to use humor are likely to increase as the financial disclosure environment evolves in a way that allows for greater interaction between managers and market participants. Importantly, the consequences of using humor likely differ depending on the outcome of managers' humor. Specifically, using humor in a financial disclosure setting is risky because there is a possibility that managers' humor could fail (i.e., the humor does not elicit amusement from the audience). In this study, I examine how managers' humor differentially influences investors' judgments depending on whether the humor is successful or fails. Specifically, I examine how successful versus failed humor influences investors' information processing and subsequent investment judgments.

Understanding how managers' humor influences investor judgments is important for several reasons. First, advances in technology are shifting the disclosure environment towards a model that allows for greater two-way communication between managers and market participants. For example, CEOs increasingly use social media platforms, such as Twitter, to communicate with stakeholders (BNY 2016; Lee 2021). Even traditional disclosure settings, such as earnings conference calls, are incorporating videoconferencing technology, allowing managers to communicate face-to-face with investors and analysts (Quartz 2019). Because humor is a social phenomenon that occurs more frequently during interpersonal interactions, this shift in disclosure technologies has the potential to increase the likelihood that managers use humor (Martin and Ford 2018). Second, managers are likely to be drawn to the positive effects of using humor. For

example, using humor successfully can increase perceptions of managers' competence (Bitterly, Brooks, and Schweitzer 2017) and likeability (Yeo, Cacciatore, Su, McKasy, and O'Niell 2021). However, theory suggests that managers' successful use of humor could result in less thorough processing of information by investors, thus undermining managers' ability to communicate valuable information. Therefore, the positive effects attained from successful humor could give rise to potential costs for managers. Furthermore, these positive effects are conditional upon humor being successful. However, successfully using humor is challenging due to the wide variation in investors' sense of humor. Consequently, there is a possibility that managers' humor could fail (Warren and McGraw 2013; Bitterly et al. 2017; Warren, Barsky, and McGraw 2018). If managers' humor fails, it could backfire by frustrating and irritating investors.

Drawing on psychology theory, I predict that managers' humor will differentially influence investors' judgments depending on whether the humor is successful or fails. Humor is defined as an attempt to elicit amusement from the audience (Warren et al. 2018). Thus, managers' humor is successful if it elicits amusement from investors, which is a positive affective response (Bitterly et al. 2017; Warren et al. 2018). Conversely, not only does failed humor not elicit amusement, but failed humor is also likely to evoke frustration and irritation from investors in a financial reporting setting (Flaherty, Weinberger, and Gulas 2004), which is a negative affective response (Watson, Clark, and Tellegen 1988). Psychology research suggests that affect can influence how individuals process information, where positive affect leads to less information processing and negative affect leads to more information processing (Bless, Bohner, Schwarz, and Strack 1990; Bless, Mackie, and Schwarz 1992; Schwarz and Clore 2003). Therefore, I predict that investors will engage in more information processing when managers' humor fails than when managers' humor is successful.

To examine the effect of managers' humor on investor judgments, I utilize a setting where a manager discloses information about a firm's earnings persistence, in which the increase in reported earnings is expected to be either persistent or transitory. To process the earnings persistence information, investors must complete each of the three stages of information processing: acquisition, evaluation, and weighting (Maines and McDaniel 2000; Hodge, Kennedy, and Maines 2004; Blankespoor, deHaan, and Marinovic 2020). Theory suggests managers' humor could influence investors' judgments by altering any of the stages of information processing. Consistent with the processing effects of affect, I expect investors will engage in more processing of the earnings persistence information when the manager's humor fails than when the manager's humor is successful. Accordingly, I predict that investors' valuation judgments will be more sensitive to differences in earnings persistence when managers' humor fails than when managers' humor is successful.

To test my predictions, I conduct an experiment with a  $2 \times 2$  between-subjects design with managers' humor (*Successful* or *Failed*) and earnings persistence (*Persistent* or *Transitory*) as manipulated independent variables. Participants assume the role of prospective investors evaluating a potential investment. Participants view a summary of the firm's financial statements, which shows that revenue increased from the prior year. After viewing the financial statements, participants listen to an audio excerpt from the Q&A portion of the firm's earnings conference call, which contains both of my manipulations. During the call, an analyst asks for details on what caused the increase in revenue. Before answering the analyst's question, the firm's CEO uses humor that is either successful (as indicated by laughter from the audience) or fails (as indicated

by lack of laughter from the audience).<sup>1</sup> Importantly, the joke is held constant across conditions. The CEO then responds to the analyst's question, disclosing key information about the persistence of the increase in revenue. In the persistent condition, the CEO explains that the increase in revenue is expected to be recurring. In the transitory condition, the CEO explains that the increase in revenue is expected to be one-time. As part of their evaluation, participants compute financial ratios for the firm, make a valuation judgment, and complete other post-experimental questions. In the *Persistent Earnings* conditions, processing the revenue information disclosed by the CEO results in the firm's financial ratios being *better* than the industry average. Conversely, in the *Transitory Earnings* conditions, processing the revenue information disclosed by the CEO results in the firm's financial ratios being *worse* than the industry average. Therefore, greater differences in valuation judgments between the *Persistent Earnings* conditions and *Transitory Earnings* conditions is consistent with more information processing. Accordingly, I predict that the difference in valuation judgements between the *Persistence Earnings* and *Transitory Earnings* conditions will be greater when managers' humor fails than when managers' humor succeeds.

Results from my experiment are consistent with my predictions. I find that earnings persistence has a main effect on investors' valuation judgments, where investors' valuation judgments are lower when the increase in earnings is transitory than when the increase in earnings is persistent, whether managers' humor fails or succeeds. Importantly, when the increase in earnings is transitory, investors' valuation judgments are lower when managers' humor fails than when managers' humor is successful. As a consequence, the effect of earnings persistence on

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<sup>1</sup> Results from a pilot study provide evidence my managers' humor manipulation is effective at eliciting amusement from investors in the *Successful Humor* conditions, but not in the *Failed Humor* conditions, which is consistent with the theoretical definitions of successful and failed humor, respectively. Moreover, results also indicate that the humor elicits negative affect from investors in the *Failed Humor* conditions. I discuss the design and results of the pilot study in greater detail in Section IV.

investors' valuation judgments is stronger when managers' humor fails than when managers' humor is successful, which supports my predictions.

I examine a path model to test for differences in information processing. Results are consistent with investors engaging in more processing of the earnings persistence information when managers' humor fails than when managers' humor succeeds. I also conduct analysis to examine the specific stage of information processing that managers' humor influences. Results suggests managers' humor affects investors' processing by influencing investors' weighting of information, where investors assess the valuation implications of the earnings persistence information and incorporate the implications into their valuation judgments to a greater extent when managers' humor fails than when managers' humor is successful.

My study makes several contributions. First, I contribute to the literature examining how disclosure style influences investor judgments. Prior research has investigated how disclosure features such as tone, readability, vividness of language, and communication style influence investor reactions to disclosures (Henry 2008; Hales, Kuang, and Venkataraman 2011; Rennekamp 2012; Grant, Hodge, and Sinha 2018). Call et al. (2023) demonstrate that managers use humor on earnings conference calls, and that managers' humor is associated with capital market outcomes. I extend this literature by examining how *failed* humor influences investor judgments. Call et al. (2023) proxy for managers' humor by identifying instances of laughter on earnings conference call transcripts. As a result, it is challenging for archival research to examine situations in which managers' humor fails. Understanding how failed humor influences investors' judgments is important because it is common for humor to fail (Warren and McGraw 2013; Bitterly et al. 2017; Warren et al. 2018), and theory suggests failed humor will differentially influence investors' judgments compared to successful humor. In addition, I complement archival research examining

the effect of managers' humor on capital markets by identifying and examining information processing as a mechanism through which humor influences investors' judgments. Prior research focuses on how managers' humor could influence investors' perceptions of the manager (Call et al. 2023). Understanding whether information processing is one mechanism through which managers' humor influences investor judgments is important because it has implications for investors' judgment quality. My results suggest that successful humor leads to less information processing compared to failed humor, thus resulting in lower investor judgment quality.

My results also have several important practical implications. First, my study helps inform managers on the consequences of using humor when communicating with market participants. Conference calls and other disclosure settings provide managers with an important opportunity to communicate valuable information. However, my results suggest that successful humor can actually hinder investors' processing of information, thus undermining managers' abilities to inform investors and other stakeholders of valuable information. In addition, my results shed light on the negative consequences if managers' humor were to fail. Specifically, failed humor could backfire on managers by frustrating and irritating investors. Second, although my study focuses on the consequences of humor from managers' perspectives, my results also have important implications for investors. While successful humor can elicit positive feelings, my results suggest that humor can potentially reduce investor judgment quality by impairing their processing of information. Thus, investors should be cautious when in the presence of successful humor.

## **II. BACKGROUND AND HYPOTHESIS DEVELOPMENT**

### **Background**

Managers interact with stakeholders in many financial reporting settings, such as road shows, investor meetings, and through social media. These settings allow managers to explain the

firm's performance, provide their interpretation of current developments impacting the firm, and answer questions from investors and analysts. A particularly important venue for managers to interact with stakeholders is the Q&A segment of the earnings conference call. Recent archival research finds that managers and analysts use humor during the Q&A portion of conference calls. Using earnings conference call transcripts to identify instances of laughter, Call et al. (2023) find that managers used humor during approximately 12 percent of conference calls during their 2011-2016 sample period. Their findings also indicate that approximately 54 percent of managers used humor at least once, suggesting that a significant number of managers are willing to use humor during an earnings conference call. Appendix A, Panels A and B provide examples of managers using humor in response to analysts' questions during conference calls. Call et al. (2023) also examine whether managers' humor influences capital market outcomes. The authors find that the two-day cumulative adjusted returns are less negative in response to negative information disclosed during the conference call when managers successfully use humor, which suggests successful humor attenuates investors' reactions to bad news.

Importantly, by using instances of laughter as a proxy for humor, Call et al. (2023) only examine situations where managers' humor is successful. However, successfully using humor is challenging. It requires managers to correctly anticipate the audience's reaction and to properly execute the humor. Due to these challenges, it is common for humor to fail (Warren and McGraw 2013; Bitterly et al. 2017; Warren et al. 2018). Anecdotal evidence indicates that managers' failed humor can have negative consequences for managers and firms. After a contentious discussion during an earnings conference call, Albert L. Lord, CEO of Sallie Mae, joked that he was going to make investors walk through a metal detector the next time they met in person. Not only did Mr. Lord's humor not elicit amusement, but it also backfired by frustrating analysts and investors (*The*

*New York Times*, 2007). Evan Spiegel, CEO of Snap Inc, provides another example of how failed humor can lead to unintended consequences. During the firm's Q2 2017 earnings conference call, an analyst asked for additional information about Snap's push notification policy. In response, Mr. Spiegel joked that if the analyst wanted examples of Snap's push notification policy, they could "go for a Google." The joke failed to elicit amusement and instead was cited as a reason for why analysts were frustrated with Snap (CNBC 2017).

Managers' use of humor extends beyond earnings conference calls and into other disclosure mediums. For example, Mark Zuckerberg, CEO of Meta (formerly Facebook), used humor at the F8 Conference in 2019, which is an annual software developer conference hosted by Meta. Instead of eliciting amusement, Mr. Zuckerberg's joke resulted in awkward silence from the audience, thus demonstrating another example of failed humor (CNBC 2019). Managers also use humor on social media platforms, such as Twitter (Yue et al. 2019; see Appendix A, Panel C). As managers continue to grow their presence on social media to engage with investors (BNY 2016; Brandflog 2016; Lee 2021), managers' opportunities to use humor are likely to increase.

### **Hypothesis Development**

I draw on psychology theory to develop predictions about how managers' humor differentially influences investors' judgments depending on whether the humor is successful or fails. The defining feature of successful humor is the experience of amusement by an audience member, which is a positive affective reaction (Warren et al. 2018). In contrast, research suggests that failed humor has the potential to elicit frustration and irritation (Flaherty et al. 2004), which is a negative affective reaction (Watson et al. 1988). Financial reporting events, such as earnings conference calls, represent a high-stakes environment in which managers are expected to act professionally. Furthermore, financial reporting settings provide investors a valuable opportunity

to obtain critical information necessary to make informed investment judgments. Accordingly, I expect that managers' use of failed humor in such a setting is likely to elicit feelings of frustration and irritation. Research suggests that these divergent effects of successful and failed humor on affect are likely to have important consequences for individuals' judgments.

According to psychology theory, affect can influence individuals' judgments by altering *how* individuals process information (e.g., Bless et al. 1990; Schwarz and Clore 2003; Griskevicius, Shiota, and Nuefeld 2010).<sup>2</sup> To elaborate, affect-as-information theory proposes that an individual's affective state provides information about their environment and which type of cognitive response is appropriate for that environment (Schwarz and Clore 2003). Specifically, positive affect signals that an individual is in a benign environment that requires less cognitive processing. Conversely, negative affect signals a potentially problematic environment that requires more cognitive processing.

Consistent with the above reasoning, psychology research finds that positive and negative affect lead to differences in how individuals process information. Specifically, positive affect leads to less in-depth information processing, where individuals instead are more likely to rely on heuristic processing when forming judgments (Bless et al. 1990; Bodenhausen, Kramer, and Susser 1994; Schwarz and Clore 2003). As a result, individuals experiencing positive affect are more likely to rely on information as it is reported. In contrast, negative affect leads to deeper, more systematic information processing (Bless et al. 1990; Schwarz and Clore 2003; Moons and Mackie

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<sup>2</sup> In addition to this processing component, affect-as-information theory also includes individuals' reliance on their affective state *as* information (i.e., informative component) when making judgments (Schwarz and Clore 1983; Schwarz and Clore 2003). For example, Elliott, Jackson, Peecher, and White (2014) show that investors provide higher (lower) fundamental value estimates for a firm after observing positive (negative) CSR performance, even though all financial information is identical. In other words, investors rely on the positive (negative) affect as information in forming their judgments. Importantly, however, prior studies suggest that the informative component of affect-as-information is unlikely to manifest when the source of individuals' affect is clear (Schwarz and Clore 2003). I examine a setting in which the source of affect is likely to be clear to individuals (i.e., managers' humor), which implies that the informative component of affect-as-information is unlikely to occur in my setting.

2007). As a consequence, individuals experiencing negative affect are more likely to analyze information and incorporate decision-relevant information into their judgments than individuals experiencing positive affect. For example, prior research finds that individuals' opinions are more sensitive to variations in the strength of an argument when they are in a negative affective state than when in a positive affective state (Bless et al. 1990; Moons and Mackie 2007). This suggests individuals experiencing negative affect are more likely to carefully analyze the content of the argument when forming an opinion than individuals experiencing positive affect.

The above reasoning suggests that managers' use of humor in financial reporting settings is likely to have important consequences for investors' judgments. Financial reporting settings, such as earnings conference calls, provide managers an important opportunity to communicate value-relevant information to investors (Matsumoto, Pronk, and Roelofsen 2011; Lee 2016). Therefore, consistent with the information processing effects of affect, managers' humor is likely to influence investors' judgments by altering how investors process information. Specifically, I predict that the positive affect induced by successful humor will lead to *less* information processing. In contrast, I predict that the negative affect induced by failed humor will lead to *more* information processing. As a result, I predict investors will process information disclosed in a financial reporting setting to a greater extent when managers' humor fails than when managers' humor is successful.

To test how managers' humor influences investors' judgments, I utilize a setting where a manager uses humor when disclosing information about the firm's earnings persistence, in which the recent increase in reported earnings is expected to be either persistent or transitory. The above logic suggests the manager's humor will influence investors' processing of the earnings persistence information, which will in turn affect investors' valuation judgments. Specifically, I

expect that investors will engage in more processing of the earnings persistence disclosure when the manager's humor fails than when the manager's humor is successful. The earnings persistence variable allows me to provide process evidence consistent with differences in information processing by using a moderation-of-process design (Asay, Guggenmos, Kadous, Koonce, and Libby 2022). Specifically, observing a significant interactive effect of managers' humor and earnings persistence on investors' valuation judgments provides evidence of differences in information processing.

Psychology theory suggests that managers' humor could influence investors' information processing at three different stages: acquisition, evaluation, or weighting (Maines and McDaniel 2000; Hodge et al. 2004; Blankespoor et al. 2020). Acquisition reflects whether an investor extracts the earnings persistence information from the earnings conference call. Evaluation reflects whether an investor assesses the implications of the earnings persistence information for the firm's performance (i.e., makes any necessary adjustments to a firm's reported earnings in accordance with the earnings persistence information). The final phase of information processing is weighting, which reflects whether an investor assesses the valuation implications of the earnings persistence information and incorporates these implications into their investment judgments. Weighting includes an investor incorporating the earnings persistence information into a valuation model, such as financial ratio analyses, and incorporating the results of those analyses into a valuation judgment. I conduct tests ex-post to examine which stage of information processing managers' humor influences.

To summarize, I expect that investors will engage in less (more) processing of the earnings persistence information when managers' humor succeeds (fails). As a result, investors' valuation judgments will be more sensitive to differences in earnings persistence when managers' humor

fails than when managers' humor is successful. This leads to the following hypotheses (see Figure 1, Panel A for a plot of H1):<sup>3</sup>

**H1:** *Investors' valuation judgments will be more sensitive to differences in earnings persistence when managers' humor fails than when managers' humor is successful.*

**H2:** *Managers' humor leads to differences in valuation judgments via differences in investors' information processing.*

### III. EXPERIMENTAL DESIGN

#### Design

To test my predictions, I conduct a  $2 \times 2$  between-subjects experiment, with managers' humor (*Successful* or *Failed*) and earnings persistence (*Persistent* or *Transitory*) as manipulated independent variables. I manipulate managers' humor by varying whether the CEO's humor elicits laughter from the audience (*Successful Humor*) or does not elicit laughter from the audience (*Failed Humor*). I manipulate earnings persistence by varying whether the factor that caused the increase in revenue during the most recent fiscal year is expected to be recurring (*Persistent Earnings*) or one-time (*Transitory Earnings*).

#### Participants

Participants are 195 individuals recruited from Amazon Mechanical Turk (AMT) who completed the experiment for compensation of \$3.<sup>4</sup> Participants have taken on average 2.3 accounting courses and 2.0 finance courses. Overall, 95 percent of participants have invested in individual common stocks or plan to do so in the next five years. Therefore, the participants I

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<sup>3</sup> Figure 1, Panel A graphically depicts the predicted mean values of investors' valuation judgments. In my study, processing information in the *Persistent Earnings* conditions results in the firm's financial ratios being *better* than the industry average. Conversely, in the *Transitory Earnings* conditions, processing information results in the firm's financial ratios being *worse* than the industry average. Therefore, greater differences in valuation judgments between the *Persistent Earnings* conditions and *Transitory Earnings* conditions is consistent with greater information processing.

<sup>4</sup> Approval from the author's university Institutional Review Board (IRB) was obtained for the use of human subjects for the experiment.

recruit are an appropriate proxy for nonprofessional investors. In addition, since my study deals with linguistic characteristics of disclosures, I recruit participants who (1) live in the United States and (2) consider English to be their first language.

### **Task and Procedures**

Participants begin the experiment by accessing a hyperlink on their own computers. When they click on the link, they are randomly assigned to one of four experimental conditions. Participants assume the role of a prospective investor evaluating a potential investment in AnalyzeCorp, a fictitious firm in the data analytics industry.<sup>5</sup> As part of their evaluation of the firm, participants complete a financial ratio computation task (see, e.g., Hodge et al. 2004; Brown, Gale, and Grant 2022; Gale 2022). I train participants on two financial ratios that industry experts consider to be critical to the performance of firms in the data analytics industry. The two financial ratios are marketing productivity (revenue / marketing expenses) and R&D productivity (revenue / research and development expenses). Participants are informed that they will develop their best estimates of each of the ratio inputs for AnalyzeCorp, which should be based on recurring amounts. Participants then respond to five comprehension check questions, which they must answer correctly before proceeding.

After reading instructions and completing the training, participants view the income statement and balance sheet from AnalyzeCorp's 2021 earnings press release (refer to Appendix B, Panel A below). The income statement shows that revenue was \$115 million in 2021, a \$15 million increase from 2020. Based on the amounts reported in the firm's financial statements, AnalyzeCorp's two financial ratios both appear to be better than their respective industry average. However, in the *Transitory Earnings* condition, AnalyzeCorp's CEO discloses that the \$15 million

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<sup>5</sup> The materials were constructed from press releases, Form 10-Ks, and internet websites for companies operating in the data analytics industry.

increase in revenue during 2021 is expected to be transitory. If participants adjust for the transitory revenue item, then the firm's financial ratios are worse than their respective industry averages.

### **Managers' Humor Manipulation**

After viewing the press release, participants listen to an excerpt of an audio recording from the firm's earnings conference call. In the excerpt, AnalyzeCorp's CEO answers a question from an analyst. The analyst asks, "Can you provide additional details on what caused the increase in revenue during fiscal year 2021? That's part one of my three-part question." Before answering the analyst's question, AnalyzeCorp's CEO jokes, "Did you happen to say a three-part question? Oh boy, would you look at the time? Unfortunately that's all the time we have for today's call. Thanks for joining us!" In the *Successful Humor* conditions, the CEO's joke elicits laughter from the audience, which can be heard on the audio. In the *Failed Humor* conditions, the CEO's joke does *not* elicit laughter from the audience.<sup>6</sup> Therefore, the information content of the joke is held constant across all conditions and the only difference between the *Successful* and *Failed Humor* conditions is the presence of laughter.<sup>7</sup>

I use audience laughter as my manipulation of whether the CEO's humor is successful or fails for several reasons. First, individuals are more likely to experience amusement in response to humor when they hear laughter (Sheehy-Skeffington and Fuller 1974; Furnham, Hutson, and McClelland 2011), and theory suggests it is the experience of amusement that influences investors'

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<sup>6</sup> I provide participants with only the audio recording and not the transcript for two reasons. First, according to the concept of comedic timing, features of the joke delivery, such as voice inflection, cadence, and pauses, are an integral feature of successful humor. Therefore, I expect the successful humor condition to elicit a stronger reaction when participants listen to rather than read the CEO's joke. The second reason is to strengthen external validity. Investors can access companies' conference calls by either obtaining the transcript or listening to the audio recording, which is commonly available to investors through a company's investor relations webpage. However, I expect it is unlikely that investors simultaneously listen to earnings conference calls while also reading the transcript.

<sup>7</sup> An alternative way to manipulate managers' humor is to vary the information content of the joke. However, varying the content of the joke introduces the possibility that differences in information content between conditions influence investor judgments instead of differences in investors' affective states.

information processing and subsequent judgments. Second, laughter is a demonstration of amusement (Warren et al. 2018). Thus, laughter indicates to investors that the conference call audience found the CEO’s humor amusing, which is the defining feature of successful humor. Conversely, lack of laughter indicates to investors that the audience did not find the CEO’s humor amusing. Results from a pilot study, which I discuss in greater detail in Section IV, provide evidence that the CEO’s humor elicits amusement in the *Successful Humor* conditions, but not in the *Failed Humor* conditions, which is consistent with the theoretical definitions of successful and failed humor, respectively.

### **Earnings Persistence Manipulation**

After telling the joke, the CEO provides an explanation in response to the analyst’s question. In both conditions, the CEO explains that the \$15 million increase in revenue was due to royalties the firm received from a licensing agreement entered into during fiscal year 2021. In the *Persistent Earnings* conditions, the CEO explains: “Based on the agreement, we expect the \$15 million in royalties will be *recurring* revenues.” In the *Transitory Earnings* conditions, the CEO explains: “Based on the agreement, we expect the \$15 million in royalties will be *one-time* revenues.” In both conditions, AnalyzeCorp’s CEO discloses that the royalties received in 2021 had no effect on expenses (see Appendix B, Panels B and C for the full earnings conference call transcript).

### **Dependent Measures**

#### ***Valuation Judgments***

After listening to the audio excerpt from the earnings conference call and providing their estimates of the inputs for AnalyzeCorp’s two financial ratios, participants provide a valuation judgment, which I measure by asking: “What is an appropriate common stock valuation for

AnalyzeCorp?” Participants respond on a 101-point scale with endpoints 0 (“Much lower than average firm”) and 100 (“Much higher than average firm”), and a midpoint of 50 (“Same as average firm”). When making their valuation judgment, participants are provided their calculations of AnalyzeCorp’s two financial ratios (which are calculated based upon participants’ revenue and expense inputs) and the financial ratios for the average firm in the industry. In the *Persistent Earnings* conditions, processing information disclosed by AnalyzeCorp’s CEO results in AnalyzeCorp’s financial ratios being *better* than the industry average. Conversely, in the *Transitory Earnings* conditions, processing information disclosed by AnalyzeCorp’s CEO results in AnalyzeCorp’s financial ratios being *worse* than the industry average. Thus, greater differences in valuation judgments between the *Persistent Earnings* conditions and *Transitory Earnings* conditions are consistent with greater information processing.

#### ***Acquisition and Evaluation of Earnings Persistence Information***

Prior to providing a valuation judgment, participants provide their estimates of the inputs (i.e., revenue, marketing expenses, and research and development expenses) for AnalyzeCorp’s two financial ratios. I measure acquisition and evaluation of earnings persistence information by examining the magnitude of participants’ adjustments to AnalyzeCorp’s reported revenue when estimating revenue. If participants acquire and evaluate the earnings persistence information appropriately, they should make corresponding adjustments to AnalyzeCorp’s reported revenue in the *Transitory Earnings* conditions, but not in the *Persistent Earnings* conditions.

#### ***Weighting of Earnings Persistence Information***

Recall from Section II that information weighting entails an investor assessing the valuation implications of the earnings persistence information and incorporating these implications into their investment judgment. In my setting, weighting reflects whether a participant conducts

ratio analyses of the revenue information disclosed on the conference call by comparing AnalyzeCorp's ratios to the industry average, and then incorporating the value implications into their valuation judgments. Therefore, I measure information weighting by examining the relation between AnalyzeCorp's financial ratios and participants' valuation judgments. I interpret a stronger (weaker) relation between AnalyzeCorp's financial ratios and participants' valuation judgments as evidence of more (less) information weighting.

#### IV. RESULTS

##### **Pilot Study Results: Managers' Humor Manipulation**

The theory underlying H1 suggests that investors will experience positive (negative) affect when managers' humor succeeds (fails), resulting in differences in information processing. Due to the subjectivity of humor, a potential issue is that my humor manipulation will not result in positive (negative) affect in the *Successful (Failed)* conditions as intended. To address this concern, I conduct a pilot study to provide evidence that my humor manipulation is effective at eliciting the intended effects. Participants are 100 individuals recruited from Amazon Mechanical Turk (AMT). Participants are randomly assigned to either the *Successful Humor* or the *Failed Humor* condition. After listening to the audio excerpt from AnalyzeCorp's earnings conference call, participants rate the funniness of the joke and answer questions designed to measure their affective response to the CEO's humor. Participants rate the joke by responding to the following question: "Please rate your agreement with the following statement: I found the CEO's joke funny." Participants respond on a 101-point scale with endpoints 0 ("Strongly Disagree") and 100 ("Strongly Agree"), and a midpoint of 50 ("Neither Disagree nor Agree"). Next, I measure participants' affective reaction by having participants rate their agreement with the following statements: "The CEO's joke made me

feel [amused, frustrated, irritated].”<sup>8</sup> Participants respond on a 101-point scale with endpoints 0 (“Strongly Disagree”) and 100 (“Strongly Agree”), and a midpoint of 50 (“Neither Disagree nor Agree”). I use participants’ feelings of amusement as my measure of positive affect. I create a single measure of negative affect by averaging the frustrated and irritated responses. A Cronbach’s alpha of 0.93 confirms that the frustration and irritation measures are capturing the same underlying construct.

Results from the pilot study provide evidence that my humor manipulation is effective at eliciting the intended effects. First, the CEO’s joke elicits amusement in the *Successful Humor* condition (mean of 58.83 > midpoint;  $t_{47} = 2.44$ ;  $p = 0.02$ ; untabulated), but not in the *Failed Humor* condition (mean of 31.50 < midpoint;  $t_{51} = -4.44$ ;  $p < 0.01$ ; untabulated). Second, the CEO’s joke elicits negative affect in the *Failed Humor* condition (mean of 59.66 > midpoint;  $t_{51} = 2.46$ ;  $p = 0.02$ ; untabulated), but not in the *Successful Humor* condition (mean of 29.17 < midpoint;  $t_{47} = -5.80$ ;  $p < 0.01$ ; untabulated). Finally, the CEO’s joke is rated as being funny in the *Successful Humor* condition (mean of 57.69 > midpoint;  $t_{47} = 2.02$ ;  $p = 0.05$ ; untabulated), but not funny in the *Failed Humor* condition (mean of 31.96 < midpoint;  $t_{51} = -4.178$ ;  $p < 0.01$ ; untabulated). Overall, these results provide evidence that the managers’ humor manipulation is effective.

### **Test of H1: Valuation Judgments**

H1 predicts that investors’ valuation judgments will be more sensitive to differences in earnings persistence when managers’ humor fails than when managers’ humor is successful (i.e., the effect of earnings persistence on investors’ valuation judgments will be stronger when managers’ humor fails than when managers’ humor is successful). Table 1, Panel A reports descriptive statistics for participants’ valuation judgments. Figure 1, Panel B displays the pattern

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<sup>8</sup> The order of the affect measures is randomized across participants.

of cell means.<sup>9</sup> Since H1 predicts a specific pattern of cell means and an ordinal interaction, I use contrast coding to test for my theoretically predicted pattern (Buckless and Ravenscroft 1990; Guggenmos, Piercey, and Agoglia 2018). I expect that investors will provide lower valuation judgments when the increase in earnings is transitory than when the increase is persistent, whether managers' humor fails or succeeds (i.e., I expect a main effect of earnings persistence on valuation judgments). Importantly, and consistent with my predicted interaction, I expect that when the increase in earnings is transitory, investors will provide lower valuation judgments when managers' humor fails than when managers' humor is successful due to greater processing of the earnings persistence information. In contrast, when the increase in earnings is persistent, I do not expect investors' valuation judgments to differ because no adjustment to revenue is necessary. In other words, deriving an appropriate valuation for AnalyzeCorp requires greater information processing when the increase in earnings is transitory than when the increase in earnings is persistent. Accordingly, I expect managers' humor will lead to differences in valuation judgments when the increase in earnings is transitory, but not when the increase is persistent. Therefore, I use contrast weights of -3 for *Failed Humor / Transitory Earnings*, -1 for *Successful Humor / Transitory Earnings*, and +2 for each of the other two conditions (*Successful Humor / Persistent Earnings* and *Failed Humor / Persistent Earnings*). Table 1, Panel C presents results from the planned contrast, which is statistically significant ( $p < 0.01$ ).<sup>10</sup>

<INSERT TABLE 1 HERE>

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<sup>9</sup> 200 participants completed the study. I exclude five participants from my analysis because they provided revenue estimates that were more than four standard deviations from the sample mean. Results (untabulated) are inferentially identical to Table 1 when I include these participants in my analysis except that the transitory earnings simple effect goes from significant ( $p = 0.035$ , one-tailed) to marginally significant ( $p = 0.063$ , one-tailed).

<sup>10</sup> Visual fit is confirmed with the plot of cell means in Figure 1, Panel B. A semniomnibus test confirms that residual between-cells variance is insignificant after accounting for the planned contrast ( $F_{2,194} = 0.09$ ;  $p = 0.91$ ), and only 0.3 percent of the between-cells variance is not explained by the planned contrast (Guggenmos et al. 2018).

Follow-up simple effects tests reported in Table 1, Panel D reveal the nature of the interaction. Participants' valuation judgments are lower when the increase in earnings is transitory than when the increase is persistent, whether managers' humor fails or is successful (both  $p < 0.01$ , one-tailed). Importantly, when the increase in earnings is transitory, participants provide lower valuation judgments when managers' humor fails than when managers' humor is successful ( $p = 0.04$ , one-tailed), which is consistent with failed humor leading to more processing of the transitory earnings information compared to successful humor.<sup>11</sup> For completeness, I examine valuation judgments when the increase in earnings is persistent, which reveals no difference due to managers' humor ( $p = 0.95$ ). This is consistent with my predictions because no adjustment to revenue is necessary when the increase in earnings is persistent. Taken together, these results suggest that investors' valuation judgments are more sensitive to differences in earnings persistence when managers' humor fails than when managers' humor is successful, thus supporting H1.

### **Path Model: Effect of Managers' Humor on Processing of Earnings Persistence**

#### **Information (Test of H2)**

Results from my experiment are consistent with investors' valuation judgments being more sensitive to differences in earnings persistence when managers' humor fails than when managers' humor is successful. H2 predicts that managers' humor leads to differences in valuation judgments via differences in investors' information processing. I test for differences in information processing

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<sup>11</sup> I interpret lower valuation judgments in the *Transitory Earnings* condition as being consistent with increased information processing because adjusting AnalyzeCorp's revenue for the transitory item results in the firm's financial ratios appearing *worse* than their respective industry averages. Thus, if participants in the *Transitory Earnings* conditions process the earnings persistence information, they should assign AnalyzeCorp a valuation that is lower than the industry average (i.e., less than 50). Participants' valuation judgments in the *Failed Humor / Transitory Earnings* condition are less than 50 ( $t_{51} = -5.203$ ,  $p < 0.01$ ; untabulated), but valuation judgments in the *Successful Humor / Transitory Earnings* condition are not less than 50 ( $t_{43} = -0.96$ ,  $p = 0.34$ ; untabulated). Thus, results are consistent with managers' humor leading to more information processing by investors when the managers' humor fails than when the humor succeeds.

by examining a path model, which provides for a more comprehensive analysis of information processing. In the setting I examine, acquisition and evaluation entail a participant extracting the earnings persistence information from the conference call and making any necessary adjustments to AnalyzeCorp's reported revenue. Participants' estimate of recurring revenue then determines AnalyzeCorp's financial ratios. Information weighting entails a participant using the financial ratios to assess the valuation implications of the earnings persistence information for AnalyzeCorp and then incorporating those implications into their valuation judgments (i.e., weighting entails a participant incorporating both the earnings persistence information *and* financial ratios into their valuation judgment). Therefore, I construct a moderated serial mediation path model that uses *Earnings Persistence* as the predictor (-1 for *Persistent* and +1 for *Transitory*), *Managers' Humor* as the moderator (-1 for *Failed* and +1 for *Successful*), *Revenue Adjustments* and *Financial Ratios* as the mediating variables, and *Valuation Judgments* as the dependent variable. According to the theory underlying H2, humor could influence investors' acquisition and evaluation of the earnings persistence information (i.e., *Managers' Humor* moderates the effect of *Earnings Persistence* on *Revenue Adjustments*) or humor could influence investors' weighting of the earnings persistence information (i.e., *Managers' Humor* moderates the effect of *Financial Ratios* on *Valuation Judgments*). The path model I use is an adapted version of Model 58 from Hayes (2018), which is graphically depicted in Figure 2, Panel A.<sup>12</sup>

Table 2, Panel A and Panel B provide descriptive statistics for *Revenue Adjustments* and *Financial Ratios*, respectively. *Revenue Adjustments* is the magnitude of participants' adjustments to AnalyzeCorp's reported revenue when estimating revenue. Thus, more negative values indicate

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<sup>12</sup> The process model necessary for testing information processing in my setting requires a moderated serial mediation path model, which is not available from Hayes (2018). Therefore, I adapt Model 58 from Hayes (2018) by adding an additional mediating variable, thus creating a moderated serial mediation path model.

larger downward adjustments to AnalyzeCorp's revenue from the reported amount. *Financial Ratios* is calculated by taking the average of the two ratios participants calculate for AnalyzeCorp (i.e., average of the marketing productivity and R&D productivity ratios). Recall that processing information disclosed by AnalyzeCorp's CEO in the *Persistent Earnings (Transitory Earnings)* conditions result in AnalyzeCorp's financial ratios being better (worse) than the industry average ratio, which is 3.5.

First, I test for indirect effects to provide evidence on investors' information processing. If results are consistent with my theory that failed humor leads to greater processing of earnings persistence information than successful humor, I expect that the indirect effect of *Earnings Persistence* on *Valuation Judgments* through *Revenue Adjustments* and *Financial Ratios* will be stronger when managers' humor fails than when managers' humor is successful. To test for indirect effects, I construct 90% confidence intervals with 5,000 bootstrapped resamples of data with replacement (Preacher, Rucker, and Hayes 2007; Preacher and Hayes 2008; Hayes 2018). A statistically significant indirect effect requires that zero not appear within the confidence interval. Figure 2, Panel C presents results for the *Failed Humor* conditions, which are consistent with my expectations. The indirect effect is significant for the *Failed Humor* conditions (90% confidence interval: (-4.144, -1.029)).

Figure 2, Panel D presents results for the *Successful Humor* conditions. The indirect effect is not significant for the *Successful Humor* conditions (90% confidence interval: (-1.435, 2.296)). In addition, the index of moderated mediation is significant (90% confidence interval: (0.274, 4.934)), confirming that the indirect effect of *Earnings Persistence* on *Valuation Judgments* through *Revenue Adjustments* and *Financial Ratios* is stronger in the *Failed Humor* conditions than in the *Successful Humor* conditions. Overall, these results provide additional theory-

consistent evidence that managers' humor affects investors' information processing when making investment judgments. Specifically, these results suggest participants' valuation judgments are more sensitive to differences in earnings persistence when the manager's humor fails than when the manager's humor succeeds due to differences in information processing, thus supporting H2.

Next, I examine the two interaction coefficients in the model to provide evidence on the specific stage of information processing that managers' humor affects. The two interaction coefficients from the model are reported in Figure 2, Panel B. Results show that the interaction of *Earnings Persistence* and *Managers' Humor* on *Revenue Adjustments* is not significant ( $p = 0.64$ ). This suggests that *Managers' Humor* does not influence investors' acquisition and evaluation of the earnings persistence information. In other words, managers' humor does not influence investors' ability to extract the earnings persistence information from the conference call and make any necessary adjustments to reported revenue in accordance with the earnings persistence information. However, I do find that the effect of *Financial Ratios* on *Valuation Judgments* is moderated by *Managers' Humor* ( $p < 0.01$ ). Analysis of the coefficients reported in Figure 2, Panels C and D reveal the nature of this interaction. Specifically, the effect of *Financial Ratios* on *Valuation Judgments* is significant in the *Failed Humor* conditions, but insignificant in the *Successful Humor* conditions. This is consistent with participants engaging in greater information weighting in the *Failed Humor* conditions than in the *Successful Humor* conditions. In other words, investors assess the valuation implications of the earnings persistence information and incorporate those implications into their valuation judgments to a greater extent when managers' humor fails than when managers' humor is successful.

### **Ruling Out Alternative Explanations**

Results from my experiment are consistent with managers' humor influencing investors' valuation judgments via differences in information processing. However, it is plausible that managers' humor influences investors' valuation judgments by influencing investors' perceptions of the CEO instead of altering investors' information processing. To address this possibility, investors answer three control questions about their perceptions of AnalyzeCorp's CEO: 1) "I believe that AnalyzeCorp's CEO is trustworthy," 2) "I believe that AnalyzeCorp's CEO is competent," and 3) "I believe that AnalyzeCorp's CEO is forthcoming." Participants respond to all three questions on a 101-point scale with endpoints 0 ("Strongly Disagree") and 100 ("Strongly Agree"), and a midpoint of 50 ("Neither Disagree nor Agree").

First, I examine whether managers' humor influences investors' perceptions of the CEO. Consistent with prior research, I expect that investors will have higher perceptions of the CEO when managers' humor succeeds than when it fails (Bitterly et al. 2017; Yeo et al. 2021). Results reveal that investors perceive the CEO to be more competent ( $68.60 > 63.92$ ;  $t_{193} = 1.88$ ;  $p = 0.06$ ; untabulated), trustworthy ( $65.57 > 60.87$ ;  $t_{193} = 1.78$ ;  $p = 0.08$ ; untabulated), and forthcoming ( $66.35 > 61.33$ ;  $t_{193} = 1.88$ ;  $p = 0.06$ ; untabulated) in the *Successful Humor* conditions compared to the *Failed Humor* conditions.

Next, I run an ANCOVA with *Managers' Humor* and *Earnings Persistence* as independent variables, *Valuation Judgments* as the dependent variable, and the control measures listed above as covariates. I run a separate ANCOVA for each control measure. Results (untabulated) are inferentially similar to Table 1. Importantly, the planned contrast ( $F_{1,190} = 56.22$ ,  $p < 0.01$ ;  $F_{1,190} = 52.34$ ,  $p < 0.01$ ;  $F_{1,190} = 54.82$ ,  $p < 0.01$ ; respectively) and *Transitory Earnings* simple effect ( $t_{94} = 1.29$ ,  $p = 0.10$ , one-tailed;  $t_{94} = 1.38$ ,  $p = 0.09$ , one-tailed;  $t_{94} = 1.36$ ,  $p = 0.09$ , one-tailed;

respectively) remain significant in each model. Therefore, my results are robust to controlling for investors' perceptions of the CEO.

## V. CONCLUSION

In this study, I examine how managers' use of humor influences investors' information processing and subsequent investment judgments. Results show that investors engage in more information processing when managers' humor fails than when managers' humor is successful. As a consequence, investors' valuation judgments are more sensitive to differences in earnings persistence after failed humor than after successful humor. Furthermore, results show that managers' humor influences investors' processing by affecting the stage of information weighting.

My study has several limitations that provide opportunities for future research. First, I examine how managers' humor influences investor judgments in a setting with positive news valence (i.e., increase in current period earnings). However, research suggests that managers are willing to use humor when disclosing bad news (Call et al. 2023). Therefore, future research could examine whether the effect of humor on investors' judgments is conditional upon the valence of news being disclosed. Second, I hold the disclosure medium constant in my experiment by using an earnings conference call as the setting. Future research could examine whether humor interacts with the disclosure medium to influence investors' judgments (e.g., Grant et al. 2018). Finally, I examine how managers' humor influences investor judgments through information processing. Future research could examine whether humor interacts with manager demographic variables (e.g., gender or ethnicity) to influence investor judgments.

My study contributes to literature and practice in several important ways. First, I contribute to the accounting literature on disclosure style by examining how humor influences individuals' judgments. Second, I complement archival research that examines the effect of managers' humor

on capital markets by identifying and examining information processing as one potential mechanism through which humor influences investors' judgments (Call et al. 2023). My results also have practical implications for managers and firms considering the costs and benefits of using humor in financial reporting settings. Finally, my study has important implications for investors, as my results suggest that investors should exercise caution when in the presence of successful humor.

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## APPENDIX A

### Examples of Managers' Humor

#### Panel A: Examples of Successful Humor

##### Marriott's Q3 2015 Earnings Conference Call

###### **Bill Crow, Analyst, Raymond James**

A couple of questions, Arne. First of all, I think that what has happened in the investment space here is that investors are demanding actual proof that the cycle is not ending as opposed to taking it on faith when we hear commentary by you and Chris and other people. And I think over the last week we've kind of shifted our expectations of proof into the first quarter of next year given October commentary. Is there anything we need to be aware of the first quarter next year? Very difficult comps, maybe holiday shifts, and anything else that might further delay this evidence that things are healthy?

###### **Arne Sorenson, CFO, Marriott International**

New Year's Day is on January 1 in 2016.

###### **Bill Crow, Analyst, Raymond James**

Yes, yes.

(LAUGHTER)

###### **Laura Paugh, Senior VP of Investor Relations, Marriott International**

Easter will fall on a Sunday.

##### T-Mobile's Q1 2019 Earnings Conference Call

###### **Walter Piecyk, Analyst, BTIG**

Shouldn't we expect some type of return on those investments in the form of gross add growth and if not, and we're kind of diminishing marginal returns on churn, isn't this going to impact your ability to do exactly what you did this quarter, which was accelerate your revenue growth? That's the first question. The second one is for Neville. Neville you said in the comments you're bullish about millimeter wave spectrum. I'm just curious, if you can give us a little bit more color on that, what applications are you bullish, how far do you think the signal travels and when specifically do you think dynamic spectrum allocation can occur?

###### **John Legere, CEO, T-Mobile**

So, I'm going to tee this question up, Walt. I think what you meant to say is 0.88% for churn is absolutely incredible, and pays huge dividends, but I'd also like to ask a question about gross adds.

(LAUGHTER)

## **Acadia Healthcare Company's Q2 2015 Earnings Conference Call**

**John Ransom, Analyst, Raymond James**

I need to learn to hit star one faster because all of the smart questions have been asked.

**Joey Jacobs, CEO, Acadia Healthcare**

John, that means you need to come in first all the time. If you are second, you have already lost.  
(LAUGHTER)

**John Ransom, Analyst, Raymond James**

I believe that's a Ricky Bobby quote, right?  
(LAUGHTER)

## **Yahoo!'s Q2 2014 Earnings Conference Call**

**Eric Sheridan, Analyst, UBS**

I have a question. So I guess, two questions. One, on the display advertising side, wanted to understand -- you said not fixable over the next one to two quarters. But just wanted to understand the pricing dynamic you are seeing in the business today, the mix shift. And how much we might see sort of weakness continued in pricing going forward, as opposed to sort of improvement sort of over that one to two quarters. So sort of the unit price dynamic as you work through that mix shift? Then Ken, quick question on the Alibaba announcement. Was any consideration paid by Yahoo, or how exactly -- maybe you can give us a little bit of the story of how you got to the reduction in shares for the IPO transaction? Thanks.

**Ken Goldman, CFO, Yahoo!**

Somehow I thought that you might ask me that question.  
(LAUGHTER)

## **Brunswick Corporation's Q2 2015 Earnings Conference Call**

**Operator**

At this time, we will now turn it back to Dusty McCoy for final remarks.

**Dusty McCoy, CEO, Brunswick**

Thanks for those who've held on for a very long call. I apologize for that. And probably ought to apologize for the length of some of my answers. Bruce is looking at me like, yes.  
(LAUGHTER)

**Panel B: Examples of Failed Humor**  
(Italicized text represents the failed humor)

**Sallie Mae's Q3 2007 Earnings Conference Call**

**Sameer Gokhale-Keefe, Analyst, Bruyette & Woods**

That's helpful and just a quick follow-up, if I may; do you have a sense for what kind of return hurdles you would expect on portfolio purchases versus issuing stock and the return that investors expect? I don't know if that's something you can answer at this point, but I was just curious if you have any thoughts on that.

**Albert L. Lord, CEO, Sallie Mae**

You know what, I failed to mention -- I don't know how I missed it in my notes -- look, I'm going to put myself in front of you folks in January, in mid-January in New York and I would really like to use that occasion to get into more specificity with respect to different -- any returns that may differ from what we've tried to achieve in the past and more specific plans.

As I said, I've been in this seat for three days. I wanted to get to you guys -- look, I have a long history of dealing with shareholders openly. I've been very much under wraps for the last nine months and I wanted to get before you today and so when I stand before you in January, I will be prepared to take all of your questions and *I would suggest maybe you get there early because I can assure you, you'll be going through a metal detector.*

**Snap Inc.'s Q2 2017 Earnings Conference Call**

**Richard Greenfield, Analyst, BTIG**

Maybe just be clear: what exactly is the growth hacking that others do? If you sending push notifications is not growth hacking, what are others doing that you consider to be growth hacking and not real DAU growth?

**Evan Spiegel, CEO, Snap Inc.**

*Yes. I think there are plenty of examples online, if you want to go for a google, but I think the most important thing for us is that when we're telling you about content on this service that is really highly relevant to you and from your very close friends, and I think people, as they become more reliant on push notifications, they sort of relax the standards there and I think it's important for our business.*

**Facebook F8 Developer Conference, 2019**

**Mark Zuckerberg, CEO, Facebook**

*I know that we don't exactly have the strongest reputation on privacy right now to put it lightly, but I'm committed to doing this well and to starting a new chapter for our products.*

## **HubSpot's Q2 2021 Earnings Conference Call**

### **Dharmesh Shah, Co-Founder and Chief Technology Officer, HubSpot**

There are no other leading CRM platforms that have a legit content management system as part of their overall platform offering. If you ask, "why is that" I think the reason is because it's really hard to build a CMS. It's different from everything else. *It's like picking up a trombone, which is like, okay, well, it's kind of hard. You have to use that sliding thing to kind of find them. There's no keys or anything like that. It's difficult. By the way, "sliding thing" is an official musical term in case you're wondering.*

## **Karora Resources' Q2 2022 Earnings Conference Call**

### **John Sclodnick, Analyst, Desjardins Securities**

Yes, looking forward to the strong second half. Congrats.

### **Paul Huet, Executive Chairman and CEO, Karora Resources**

Yes. So are we actually. I think it was Nick who asked that question, "Are you going to achieve that 100,000." *I wanted to put my whole team on notice and say, actually, I'm hoping we're going to do 120,000 tonnes for every month for the rest of the year, and my team are probably very nervous right about now. This is obviously a joke. It's early morning, so hopefully people can laugh a bit.*

## **Zuora Inc Q2 2022 Earnings Conference Call**

### **Tien Tzuo, Chairman and CEO, Zuora Inc**

Yes. I mean I want to make sure that we don't get lost. Look, we're still a growth company. We're still in a marketplace that we believe is growing, that we know is growing. That being said, right, *you've seen how Todd has managed the business over the last two years. He's certainly very prudent. We joke that prudence is his middle name. And, uh, you know.* And so the decision, for example, to make sure that we absorb Zephr into our existing operating plan versus having it be additive to expenses was a smart decision, and you're going to see us continue to be disciplined in our approach.

## **PG&E 2022 Investor Day**

### **Christopher Foster, Executive VP and CFO, PG&E**

We get in the room every Tuesday morning in San Ramon, California into the results ownership center. We call it the rock. *I'm not going to do any Sean Connery jokes, but that happened in California too. And so there's that.* It's ultimately the place where we go to get eyes on the data.

## Panel C: Examples of Humor on Social Media

### Mike Sievert, CEO of T-Mobile



**Mike Sievert** ✓ @MikeSievert · Dec 7, 2021

It's only been 2 years and look how far we've come in providing #5GForAll! We won't stop improving our network... but my acting skills are about tapped out. 🤔

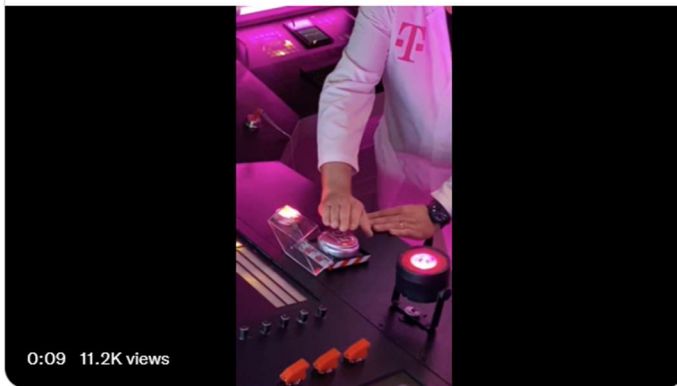


**Neville** ✓ @NevilleRay · Dec 6, 2021

And just like that... @TMobile's network would never be the same. 🤔

Can't believe we launched nationwide 5G two years ago, today! 🎉🎉 to @MikeSievert for his acting skills 😂 #5GForAll

[Show this thread](#)



### Elon Musk, CEO of Tesla



**Elon Musk** ✓  
@elonmusk



## APPENDIX B

### Manipulations and Experimental Excerpts

#### Panel A: AnalyzeCorp's 2021 Income Statement (all conditions)

Below is the income statement and balance sheet from AnalyzeCorp's fiscal year 2021 earnings press release.

#### **Income Statement**

(in millions, except per share amounts)

	<b>FY 2021</b>	<b>FY 2020</b>
Revenue	\$ 115	\$ 100
Cost of revenue	<u>11</u>	<u>10</u>
Gross profit	104	90
Operating expenses		
Marketing	36	35
Research and development	27	24
General and administrative	<u>26</u>	<u>20</u>
Total operating expenses	<u>\$ 89</u>	<u>\$ 79</u>
Operating income	15	11
Interest expense	1	1
Income taxes	<u>2</u>	<u>2</u>
Net income	<u><u>\$ 12</u></u>	<u><u>\$ 8</u></u>
Basic earnings per share	\$ 0.57	\$ 0.38
Number of shares used in calculating EPS	21	21

**Panel A (continued): AnalyzeCorp's 2021 Balance Sheet (all conditions)**

<b>Balance Sheet</b>		
(in millions)		
	<b>FY 2021</b>	<b>FY 2020</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	84	73
Short-term investments	86	83
Accounts receivable	181	186
Prepaid expenses	<u>22</u>	<u>21</u>
Total current assets	373	363
Property and equipment	95	84
Other assets	<u>151</u>	<u>145</u>
Total assets	<u><u>619</u></u>	<u><u>592</u></u>
<b>Liabilities and Stockholder's Equity</b>		
Current liabilities		
Accounts payable	89	83
Accrued expenses	45	42
Deferred revenue	<u>17</u>	<u>15</u>
Total current liabilities	151	140
Long-term debt	201	201
Other liabilities	<u>56</u>	<u>51</u>
Total liabilities	408	392
Stockholder's equity		
Common stock	2	2
Additional paid-in capital	157	157
Retained earnings	<u>52</u>	<u>41</u>
Total stockholder's equity	<u>211</u>	<u>200</u>
Total liabilities and stockholder's equity	<u><u>619</u></u>	<u><u>592</u></u>

**Panel B: *Successful Humor and Persistent Earnings Conditions***

[Operator]: Our next question comes from Dan Miller at Universal Securities.

[Dan Miller, Analyst]: Thanks for taking my question. Can you provide additional details on what caused the increase in revenue during fiscal year 2021? That's part one of my three-part question.

[AnalyzeCorp's CEO]: Did you happen to say a three-part question? Oh boy, would you look at the time? Unfortunately that's all the time we have for today's call. Thanks for joining us!  
(laughter)

But back to your question. So the increase in revenue was due to \$15 million in royalties we received from a licensing agreement we entered into in 2021. Based on the agreement, we expect the \$15 million in royalties will be recurring revenues. I would also like to mention that the royalties we received in 2021 had no effect on expenses.

**Panel C: *Failed Humor and Transitory Earnings Conditions***

[Operator]: Our next question comes from Dan Miller at Universal Securities.

[Dan Miller, Analyst]: Thanks for taking my question. Can you provide additional details on what caused the increase in revenue during fiscal year 2021? That's part one of my three-part question.

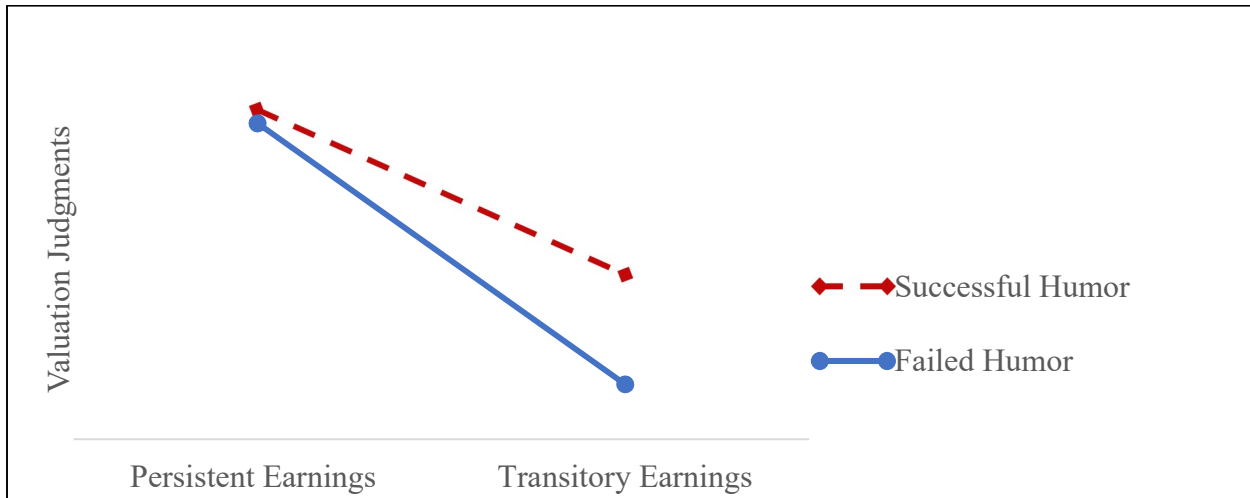
[AnalyzeCorp's CEO]: Did you happen to say a three-part question? Oh boy, would you look at the time? Unfortunately that's all the time we have for today's call. Thanks for joining us!

But back to your question. So the increase in revenue was due to \$15 million in royalties we received from a licensing agreement we entered into in 2021. Based on the agreement, we expect the \$15 million in royalties will be one-time revenues. I would also like to mention that the royalties we received in 2021 had no effect on expenses.

FIGURE 1

How Managers' Humor and Earnings Persistence Affect Valuation Judgments (H1)

**Panel A – Predicted Effects**



**Panel B – Observed Effects**

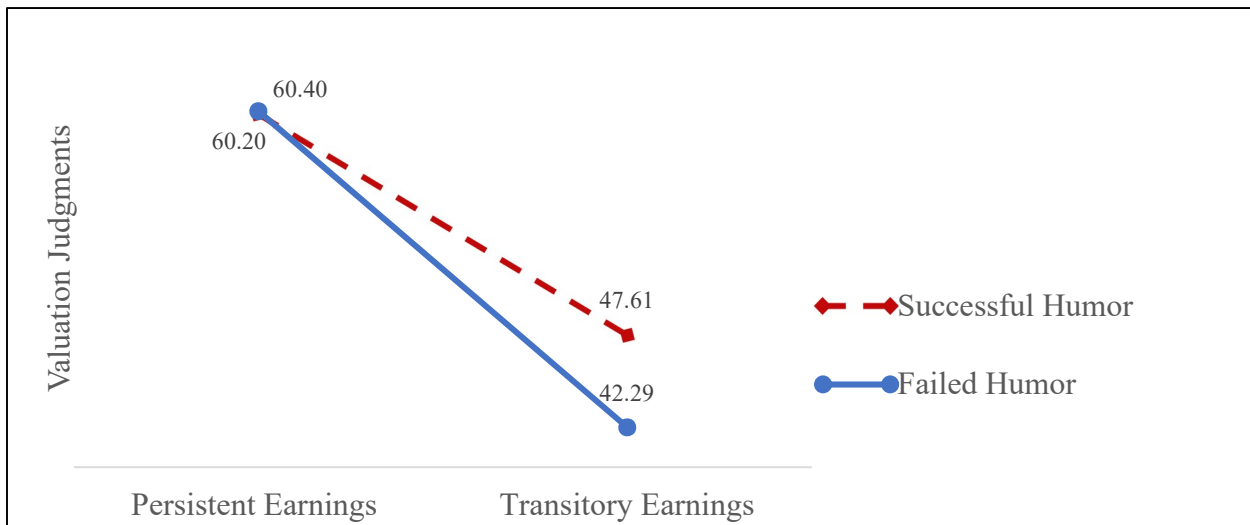
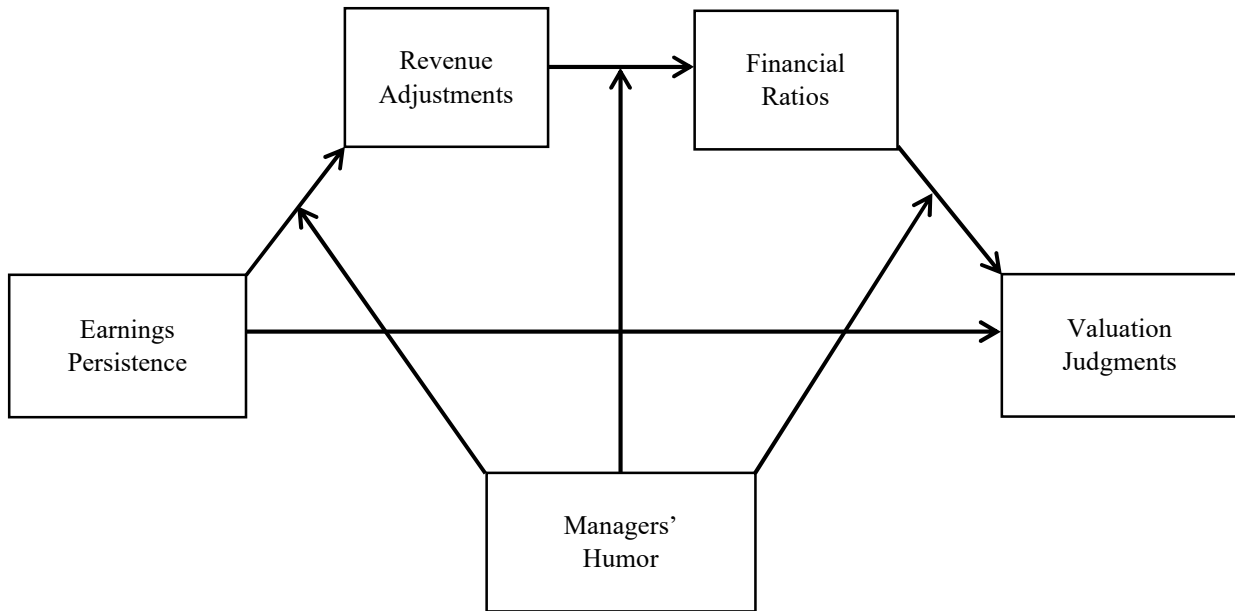


Figure 1 graphically depicts mean values for investors' valuation judgments. Panel A presents predicted effects, and Panel B presents observed effects. Greater processing of information should result in higher valuation judgments in the *Persistent Earnings* conditions and lower valuation judgments in the *Transitory Earnings* conditions. I manipulate *Managers' Humor* by varying whether the CEO's humor elicits laughter from the audience (*Successful Humor*) or does not elicit laughter from the audience (*Failed Humor*). I manipulate *Earnings Persistence* by varying whether the \$15 million increase in revenue in 2021 is expected to be recurring (*Persistent Earnings*) or one-time (*Transitory Earnings*). See Table 1 for descriptive statistics and analysis.

**FIGURE 2**

**Moderated Serial Mediation Path Model: The Effects of Earnings Persistence (Conditional on Managers' Humor) on Valuation Judgments Via Revenue Adjustments and Financial Ratios**

**Panel A:** Conceptual Depiction of Process Model



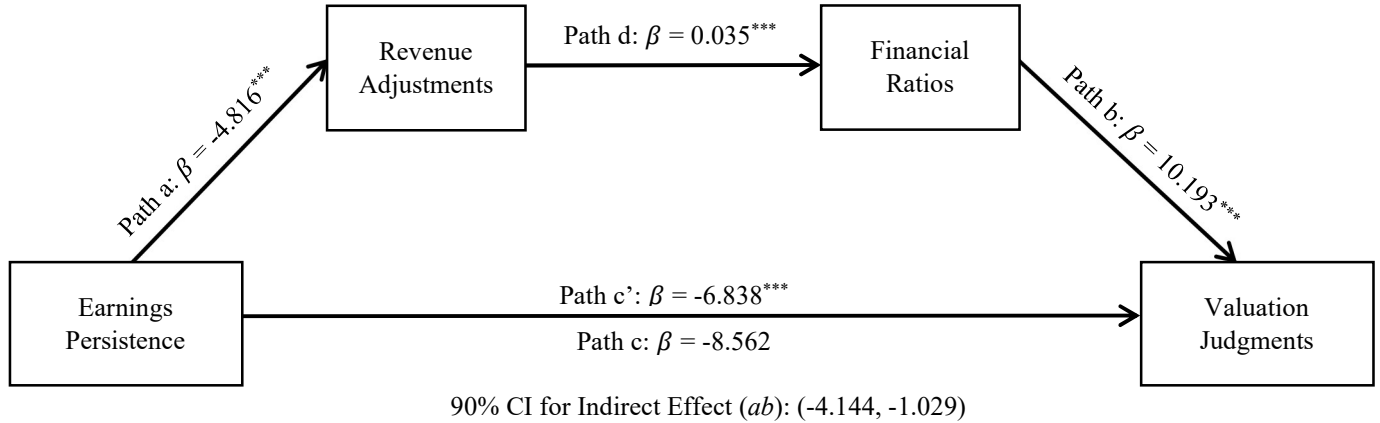
**Panel B:** Interaction Terms from Process Model

<u>Interaction</u>	<u>Dependent Variable</u>	<u>t-statistic</u>	<u>p-value</u>
<i>Earnings Persistence × Managers' Humor</i>	<i>Revenue Adjustments</i>	0.465	0.643
<i>Revenue Adjustments × Managers' Humor</i>	<i>Financial Ratios</i>	-0.146	0.884
<i>Financial Ratios × Managers' Humor</i>	<i>Valuation Judgments</i>	-3.565	< 0.001

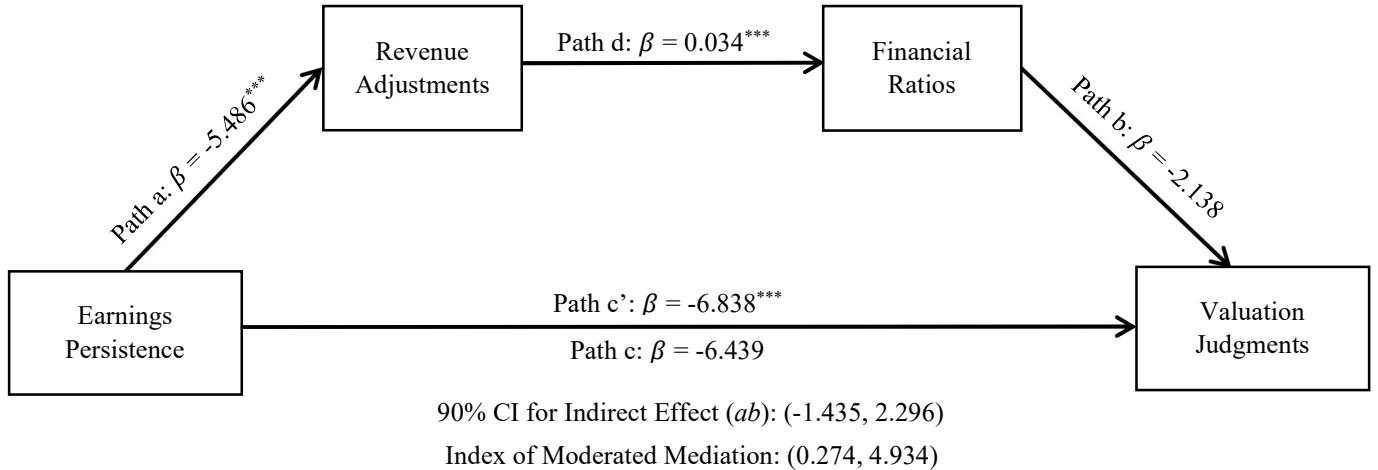
**FIGURE 2 (continued)**

**Moderated Serial Mediation Path Model: The Effects of Earnings Persistence (Conditional on Managers' Humor) on Valuation Judgments Via Revenue Adjustments and Financial Ratios**

**Panel C: Failed Humor Conditions**



**Panel D: Successful Humor Conditions**



This Figure graphically depicts my moderated serial mediation path analysis. For visual simplicity, I present results separately for the *Failed Humor* and *Successful Humor* conditions, even though the model is calculated simultaneously for all conditions using a custom model adapted from Model 58 in the PROCESS macro v4.0 in SPSS (Hayes 2018). *Earnings Persistence* equals -1 (+1) for the *Persistent (Transitory) Earnings* condition. *Managers' Humor* equals -1 (+1) for the *Failed (Successful) Humor* condition. To test for indirect effects, I construct 90 percent confidence intervals for the product of paths *a*, *b*, and *d*. I use 5,000 bootstrapped resamples of data with replacement (Hayes 2018). A statistically significant indirect effect requires that zero not appear within the confidence interval. Path *c'* reflects the direct effect of *Earnings Persistence* on *Valuation Judgments*, while path *c* reflects the total effect (indirect effects plus direct effects). Table 1 presents descriptive statistics for *Valuation Judgments*. Table 2, Panel A and Panel B present descriptive statistics for *Revenue Adjustments* and *Financial Ratios*, respectively.

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.10$

**TABLE 1**  
**How Managers' Humor and Earnings Persistence Affect Valuation Judgments (H1)**

**Panel A: Descriptive Statistics—Valuation Judgments, Mean [Standard Deviation]**

<i>Earnings Persistence</i>	<i>Managers' Humor</i>		Row Means
	<i>Successful</i>	<i>Failed</i>	
<i>Persistent</i>	60.20 [18.02] n = 49	60.40 [12.81] n = 50	60.30 [15.52] n = 99
<i>Transitory</i>	47.61 [16.55] n = 44	42.29 [10.69] n = 52	44.73 [13.87] n = 96
Column Means	54.25 [18.37] n = 93	51.17 [14.83] n = 102	52.64 [16.64] n = 195

**Panel B: ANOVA Model of Valuation Judgments**

Source of Variation	SS	df	MS	<i>F</i> -statistic	<i>p</i> -value
<i>Managers' Humor</i>	319.418	1	319.418	1.480	0.225
<i>Earnings Persistence</i>	11444.157	1	11444.157	53.030	< 0.001
<i>Managers' Humor</i> × <i>Earnings Persistence</i>	370.085	1	370.085	1.715	0.192
Error	41219.064	191	215.807		

**Panel C: Planned Contrasts: Weight of -3 for *Failed Humor / Transitory Earnings*, -1 for *Successful Humor / Transitory Earnings*, and +2 for *Successful Humor / Persistent Earnings* and *Failed Humor / Persistent Earnings***

	df	<i>F</i> -statistic	<i>p</i> -value
Contrast	1	57.725	< 0.001
Residual Between-Cells Variance	2	0.094	0.910

**Panel D: Follow-Up Simple Effects Tests for Valuation Judgments**

	df	<i>t</i> -statistic	<i>p</i> -value
<i>Successful Humor / Persistent Earnings</i> > <i>Successful Humor / Transitory Earnings</i>	91	3.496	< 0.001 <sup>†</sup>
<i>Successful Humor / Transitory Earnings</i> > <i>Failed Humor / Transitory Earnings</i>	94	1.835	0.035 <sup>†</sup>
<i>Failed Humor / Persistent Earnings</i> > <i>Failed Humor / Transitory Earnings</i>	100	7.766	< 0.001 <sup>†</sup>
<i>Failed Humor / Persistent Earnings</i> vs. <i>Successful Humor / Persistent Earnings</i>	97	0.062	0.950

This table presents descriptive statistics, ANOVA results, planned contrast results, and follow-up simple effects tests for participants' valuation judgments. I measure valuation judgments by asking participants: "What is an appropriate common stock valuation for AnalyzeCorp?" Participants respond on a 101-point scale with endpoints 0 ("Much lower than average firm") and 100 ("Much higher than average firm"), and a midpoint of 50 ("Same as average firm"). I manipulate *Managers' Humor* by varying whether the CEO's humor elicits laughter from the audience (*Successful Humor*) or does not elicit laughter from the audience (*Failed Humor*). I manipulate *Earnings Persistence* by varying whether the \$15 million increase in revenue in 2021 is expected to be recurring (*Persistent Earnings*) or one-time (*Transitory Earnings*).

<sup>†</sup>One-tailed given directional prediction (all other *p*-values are two-tailed).

**TABLE 2**  
**Descriptive Statistics for Mediating Variables (Revenue Adjustments and Financial Ratios)**

**Panel A: Descriptive Statistics – Adjustments to Revenue (magnitude), Mean [Standard Deviation]**

<i>Earnings Persistence</i>	<i>Managers' Humor</i>		Row Means
	<i>Successful</i>	<i>Failed</i>	
<i>Persistent</i>	-3.47 [12.83] n = 49	-2.58 [5.47] n = 50	-3.02 [9.79] n = 99
<i>Transitory</i>	-14.39 [10.05] n = 44	-12.21 [8.88] n = 52	-13.21 [9.44] n = 96
Column Means	-8.63 [12.77] n = 93	-7.49 [8.82] n = 102	-8.04 [10.87] n = 195

**Panel B: Descriptive Statistics – Financial Ratios, Mean [Standard Deviation]**

<i>Earnings Persistence</i>	<i>Managers' Humor</i>		Row Means
	<i>Successful</i>	<i>Failed</i>	
<i>Persistent</i>	3.60 [0.48] n = 49	3.69 [0.71] n = 50	3.64 [0.61] n = 99
<i>Transitory</i>	3.31 [0.69] n = 44	3.30 [0.31] n = 52	3.30 [0.58] n = 96
Column Means	3.46 [0.60] n = 93	3.49 [0.58] n = 102	3.47 [0.59] n = 195

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Panel A presents descriptive statistics for the *Revenue Adjustments* variable, which is my measure of participants' acquisition and evaluation of the earnings persistence information. *Revenue Adjustments* is the magnitude of participants' adjustments to AnalyzeCorp's revenue. Adjustment amounts are in millions. More negative values indicate larger downward adjustments to AnalyzeCorp's revenue from the reported amount. Panel B presents descriptive statistics for the *Financial Ratios* variable, which is the average of the two financial ratios participants calculate for AnalyzeCorp (i.e., marketing productivity and R&D productivity ratios).