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Corporate psychology

How to tell when your boss is lying

It's not just that his lips are moving

Aug 19th 2010

"ASSHOLE!" That was what Jeff Skilling, the boss of Enron, called an investor who challenged his rosy account of his firm's financial health. Other bosses usually give less obvious clues that they are lying. Happily, a new study reveals what those clues are.

David Larcker and Anastasia Zakolyukina of Stanford's Graduate School of Business analysed the transcripts of nearly 30,000 conference calls by American chief executives and chief financial officers between 2003 and 2007. They noted each boss's choice of words, and how he delivered them. They drew on psychological studies that show how people speak differently when they are fibbing, testing whether these "tells" were more common during calls to discuss profits that were later "materially restated", as the euphemism goes. They published their findings in a paper called "Detecting Deceptive Discussions in Conference Calls".

Deceptive bosses, it transpires, tend to make more references to general knowledge ("as you know..."), and refer less to shareholder value (perhaps to minimise the risk of a lawsuit, the authors hypothesise). They also use fewer "non-extreme positive emotion words". That is, instead of describing something as "good", they call it "fantastic". The aim is to "sound more persuasive" while talking horsefeathers.

When they are lying, bosses avoid the word "I", opting instead for the third person. They use fewer "hesitation words", such as "um" and "er", suggesting that they may have been coached in their deception. As with Mr Skilling's "asshole", more frequent use of swear words indicates deception. These results were significant, and arguably would have been even stronger had the authors been able to distinguish between executives who knowingly misled and those who did so unwittingly. They had to assume that every restatement was the result of deliberate deception; but the psychological traits they tested for would only appear in a person who knew he was lying.

This study should help investors glean valuable new insights from conference calls. Alas, this benefit may diminish over time. The real winners will be public-relations firms, which now know to coach the boss to hesitate more, swear less and avoid excessive expressions of positive emotion. Expect "fantastic" results to become a thing of the past.

Business

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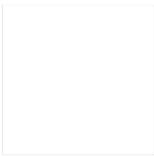
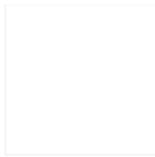
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