

The Leadership Advantage

The Link between Emotional Intelligence and the Bottom Line

By Wiley B. Johnson, Ph.D. & Michael McElhenie, Ph.D.

Leaders face the ongoing challenge of never dimming expectations of key stakeholders; they must continually improve revenues, enhance margins and create sustained profit. There is a constant search for the means to achieve a competitive edge. Walter Wristen, former Chairman of CitiBank notes, “The person who figures out how to harness the collective genius of the organization is going to blow away the

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competition.” Traditionally organizations, in an attempt to tap this genius, have followed a prescribed path depending on variables like technical competence, financial expertise, and management principles--with varied and limited success. The outcomes of the latest research are sure to surprise many and challenge basic business beliefs. Companies that consistently out perform the competition have one thing in common -- leaders and resulting cultures that are strong in the competencies of Emotional Intelligence (EI). Consider the following:

- Partners in a large accounting firm who scored high in Emotional Intelligence competencies added substantially more profit than partners who lacked these skills. Improvement in EI social skill competencies generated 110 percent

more profit. Even more impressive, partners demonstrating improved EI in self-management competencies added 390% or \$1,465,000 more a year.

- Senior managers in a division of a food and beverage company achieved a critical mass of Emotional Intelligence competencies and outperformed other divisions of the organization by 20%. Division leaders without these abilities under performed by an equal amount.
- A major pharmaceutical firm developed EI competencies and became more innovative, reducing the cost of introducing a new drug by \$22 million. Additionally by being first to market, they captured market share and dominated the market.
- An automotive firm improved EI competencies in front line customer service positions resulting in a 20 percent increase in car sales, renewal rate, and additional parts.

Backed by extensive research, we now know with certainty how to take organizations to their next level of potential. With the introduction of EI competencies, breakthroughs of magnitude are impacting organizational cultures in new and exciting ways, enhancing productivity and bottom line profit.

Are leaders born, or made?

According to Warren Bennis, considered by many to be the ultimate guru of leadership, “The most dangerous leadership myth is that leaders are born--that there is a genetic factor to leadership. This myth asserts that people simply either have certain characteristic qualities or not. That’s nonsense: in fact the opposite is true. Leaders are made rather

The Four Domains of Emotional Intelligence

Self Awareness	Self-Management	Social Awareness	Social Skill
<ul style="list-style-type: none"> • Emotional self-awareness: The ability to read and understand your emotions as well as recognize their impact on work performance, relationship, and the like • Accurate self-assessment: A realistic evaluation of your strengths and limitations • Self-confidence: A strong and positive sense of self-worth 	<ul style="list-style-type: none"> • Self-control: The ability to keep disruptive emotion and impulses under control • Trustworthiness: A consistent display of honesty and integrity • Conscientiousness: The ability to manage yourself and your responsibilities • Adaptability: Skill in adjusting to changing situations and overcoming obstacles • Achievement orientation: The drive to meet an internal standard of excellence • Initiative: A readiness to seize opportunities 	<ul style="list-style-type: none"> • Empathy: Skill at sensing other people's emotions, understanding their perspective and taking an active interest in their concerns • Organizational awareness: The ability to read the currents of organizational life, build decision networks, and navigate politics • Service orientation: The ability to recognize and meet customers' needs 	<ul style="list-style-type: none"> • Visionary leadership: The ability to take charge and inspire with a compelling vision • Influence: The ability to wield a range of persuasive tactics • Developing others: The propensity to bolster the abilities of others through feedback and guidance • Communication: Skill at listening and at sending clear, convincing, and well-tuned messages • Change catalyst: Proficiency in initiating new ideas and leading people in a new direction • Conflict management: The ability to de-escalate disagreements and orchestrate resolutions • Building bonds: Proficiency at cultivating and maintaining a web of relationships • Teamwork and collaboration: Competencies at promoting cooperation and building teams

From: Goleman, Daniel, "Leadership That Gets Results", Harvard Business Review, March-April 2000

than born." Supporting this assertion, new research in Emotional Intelligence demonstrates that effective leadership is learned; an acquired skill that once successfully mastered can mean the difference between average yield and exceptional profit.

In becoming emotionally intelligent, leaders learn to generate the best conditions and results for their organizations. Their bottom line typically outpaces the competition by about 30 percent, placing them in the top echelon of their peers. Leaders with strong Emotional Intelligence competence are highly motivated and self-directed. They operate at a higher level of adaptive functioning resulting in greater levels of creativity and problem solving. They demonstrate and communicate understanding and awareness in leading and motivating others to achieve high productivity and sustained revenues. In short, they create superior results.

Daniel Goleman, in his book *Primal Leadership*, explains that EI begins with strong self-

awareness, solid self-management skills, superior social awareness, and interpersonal competence (see chart above). In other words, EI is the ability to recognize and appropriately manage our own feelings and to recognize and effectively respond to the issues and concerns of others. Emotionally intelligent leaders model behavior, mood, and style that create positive resonance throughout their organization impacting commitment, motivation, and productivity.

Is Emotional Intelligence (EI) more important than Intelligence Quotient (IQ)?

Companies whose leadership possesses strong EI competencies outperform annual earnings goals by a minimum of 20 percent—and IQ is not the driver of this performance. The evidence demonstrates that at the executive level there is little variation in IQ, but great variation in EI. Traditionally, in seeking productivity and profitability, organizations have relied upon the

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“hard side” –people with strong intellectual skills and competence in finance, engineering and other technical areas. The evidence shows that individuals with solid but not exceptional intellectual and technical abilities, but who possess strong EI skills, outperform the former by a large margin.

Emotional Intelligence has been found to be *the single most important factor* determining superior performance at every level within an organization. Daniel Goleman found that for exceptional performance, EI-based competencies are twice as important as IQ and technical skill combined. Leaders with the strongest EI skills emerged as the stars in organizations, having the most positive impact on employees, culture, and profit margins.

Emotional Intelligence can be applied to all areas in any business. Some of the applications are answered by the following questions:

Does your leadership impact company culture?

Very often leaders, especially those at the top, have lost touch with how they impact others. Leaders can feel out of the loop, often left wondering “Why didn’t I know about this problem sooner?”

Giving the boss bad news or honest feedback is normally avoided like the plague. Colin Powell said, “The day soldiers

“The day soldiers stop bringing you their problems is the day you have stopped leading them.”

Colin Powell

stop bringing you their problems is the day you have stopped leading them. They have either lost confidence that you can help them or concluded that you don’t care. Either case is a failure of leadership.” EI competent leaders first and foremost are willing to hear difficult feedback. In fact, they go out of their way to seek it out, promoting credibility and trust.

The leader’s ability to create resonance and respond to others can make the difference in the success of a company. Unfortunately, many CEOs do not have an accurate picture of their interpersonal abilities. In a comparative study of high and low performing companies, CEOs from the poorest performing organizations gave themselves the highest ratings on EI competencies. Their peers and subordinates

gave them inversely low scores. Conversely, CEOs from top performing companies scored high on EI competencies with peers and subordinates corroborating their scores.

Leaders have an enormous impact on those around them—far greater than many CEOs realize. The climate created by the CEO determines the culture; specifically the behavioral norms, beliefs, and expectations that are operative in the environment. Research demonstrates that 70 percent of the variance in organizational climate can be explained by differences in leadership. Consistently, up to 40 percent of the variance in financial results is the product of differences in company climates.

Can EI competencies help facilitate change?

Seventy percent of all change initiatives fail because of problems with leadership. This is in large part the product of a leadership teams’ inattentiveness to the due-diligence “human side” of the dynamics of change. Leaders competent in EI skills understand the importance of buy-in from their employees and lead change by modeling the vision, behavior, and attitudes required for change initiatives to be successful. They champion the

process and use every opportunity to communicate the need for change with an acute understanding of how their people will be impacted by the changes. In addition, when EI competencies are

practiced throughout the company, there is less resistance to change and greater cooperation to make the change initiatives successful.

Does EI development improve team performance?

Strong EI skills are at the heart of highly efficient and productive teams. Teams that incorporate EI competencies manifest an emotionally upbeat and positive environment. They employ direct, open, honest communication, manage conflict quickly, and are the most cooperative.

EI competent teams are receptive to change, value diversity, drive innovation, and consistently out produce teams that do not possess developed EI skills This level of functioning results in

emotionally positive teams that create outstanding customer service and increased company profit. For example; research demonstrates that a two percent increase in revenue is realized for every one percent increase in service climate implemented by enhanced EI competencies.

Can EI improve our sales?

Sales people with strong EI competencies function in the top ten percent of performers in their organizations and typically outperform the competition by a significant margin. In a study of 44 Fortune 500 firms, insurance agents who were high in EI skills had a total dollar sales amount 130 percent higher than salesmen with low EI competencies. For high complexity sales jobs the evidence is equally impressive. A financial services organization engaged in an Emotional Intelligence development program realized a 101 percent increase in sales from sales reps that improved proficiency in four EI competencies and 248 percent increase from sales reps mastering five or more EI competencies.

Are selection and turnover improved by EI competencies?

Organizations with emotionally intelligent cultures retain, on average, 50 percent more of the key people that they want to keep. When an assessment of EI competencies is added for selection criteria, the rate of retention success is about 90 percent. In addition, selecting for EI competencies improves the organizational culture, which in turn positively impacts retention. Considering that the average cost for an unwanted turnover is equal to one year's salary, better retention can mean substantial cost reduction.

A study conducted with a global consumer products company found that prior to employing an EI assessment in their selection process 50 percent of all division presidents left within two years of hiring, costing the organization four million dollars. When the firm began selecting for EI competencies, they realized a 94 percent improvement in retention of new hires.

Should you develop EI competencies in your company?

Effective EI leadership skills can be learned and sustained by anyone, at any level in the organization. In fact, once a baseline of leadership competencies has been learned, it starts a positive spiral where new competencies are easily acquired and favorable results compile.

Companies that have created development programs for EI competencies consistently outpace the competition. With today's focus on self-managed teams and horizontally structured organizations, competent leadership in any position adds substantial value. The evidence is clear; companies manifesting strong EI abilities outperform and create more bottom line profit than those lacking these skills.

If the benefits are so obvious, why doesn't every company have an EI development program in place? Old habits and beliefs die hard as people are loathe to leave their comfort zones. The bias toward traditional management practices; technical competence, and a locked-down perspective on financials predispose many top managers to ignore contradictory evidence. The irony is that this kind of bias and denial defeats the intended purpose, creating less than optimal results. Additionally many top executives admit to the erroneous belief that they are incapable of change. Fear and

resistance are often encountered at the prospect of leadership skills development and frequently those that need it the most provide the greatest opposition.

The good news is that study after study invalidates the veracity of these assumptions. Ongoing research at Case Western Reserve demonstrates that leadership competencies can be improved and sustained over time whether you are 25 or 50 plus years of age.

Many companies with EI development programs are reaping the benefits of high performance with highly productive cultures that continually step-up to the next level of innovation. As identified in *Fortune Magazine* "The Worlds Most Admired Companies" recognize the value and competitive advantage of developing people within. By

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Larry Senn

strengthening their people's leadership competencies, these companies remain dominant in market share, top line growth, innovation, and customer loyalty.

Emotional Intelligence leadership development programs, to be successful, must start at the top of the organization with full involvement of the CEO and every other member of the leadership team. This creates the foundation and model for others to follow. "It is absolutely critical to establish leadership alignment and role models at the top," states Larry Senn, CEO of Senn-Delany Leadership. Leading the way by demonstrating your willingness to learn, to grow, and to provide a model for others is the first step toward realizing the benefits of an emotionally intelligent organization. ■

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