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The Relationship between Managers' Emotional Competencies and Organizations' Financial Performances

Agneš Slavić[1]
Maja Strugar Jelača[2]
Nemanja Berber[3]
Radmila Bjekić[4]

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Abstract: *The topic of emotional intelligence has attracted considerable interest from both academics and practitioners. Emotionally intelligent leaders have the ability to express, understand and regulate their own as well as others' emotions. Previous evidence suggests that emotionally intelligent leaders play a crucial role in encouraging employees to perform at their best at work, which in turn can improve the financial performance of the organization. Still, there is little empirical evidence to support these claims from developing countries. Therefore, the research question of this paper is: Which of the leaders' emotional competencies are required for outstanding financial performance of the organization? In this study, emotional competencies are analyzed through the self-awareness and self-management clusters. This study proposed and tested the relationship between managers' emotional competencies and an organization's financial performances, such as growth in profits, profitability, return on assets (ROA) and return on equity (ROE). Empirical data were obtained via a questionnaire survey involving 300 employees from 80 organizations in the Republic of Serbia. The methodology used in the study is a well-known ESCI questionnaire. The findings revealed a weak positive correlation among emotional self-awareness, aspiration for success and adaptability as emotional intelligence competencies and financial performances, whereas emotional self-control and optimism did not have any statistically significant relationship with financial performances. The results provide implications regarding the development of emotionally intelligent leaders, supporting emotional competence at the organizations.*

1. INTRODUCTION

Emotional intelligence can be defined in different ways. The authors Salovey and Mayer defined emotional intelligence as "the ability to monitor one's own and others' feelings and emotions to discriminate among them and to use the information to guide one's thinking and action" (1990, p. 189). According to Boyatzis (2006, p. 124-125), emotional intelligence could be considered an intelligence if it is different from other personality constructs in the way that it adds value to understanding the human personality and behavior if it is related to a set of alternative behavioral manifestations and finally if it is related to life and job outcomes. A higher level of emotional intelligence can be found if one has the desire to improve their listening skills in order to understand others' feelings, express self-reflection, emotional control and wants to change (Rahim & Malik, 2010, p. 192). Furthermore, people having a higher level of emotional intelligence achieve "more success, make better interpersonal relations, work more effectively, and spend healthier life than those people having a lower level of emotional intelligence (Chew, Zain, & Hassan., 2013).

[1] University of Novi Sad, Faculty of Economics in Subotica, Segedinski put 9-11, 24000 Subotica, Serbia
[2] University of Novi Sad, Faculty of Economics in Subotica, Segedinski put 9-11, 24000 Subotica, Serbia
[3] University of Novi Sad, Faculty of Economics in Subotica, Segedinski put 9-11, 24000 Subotica, Serbia
[4] University of Novi Sad, Faculty of Economics in Subotica, Segedinski put 9-11, 24000 Subotica, Serbia

Leaders should have a certain level of emotional intelligence to identify and understand the emotions of their employees (Mura et al, 2021). The crucial part of the emotional intelligence concept is empathy, which can be expressed between leader and employee to develop cooperation and motivation. For this reason, it is believed that modern leaders who strive for effective business must possess skills that involve social and emotional competencies. The established theoretical relations between the mentioned variables lead to the assumption that there is a possible influence of the managers' emotional intelligence on the achieved organizational financial performances. Finally, this paper postulates that the organizational success and failure of today's organizations are determined by the level of emotional intelligence of both the leaders and their employees.

Based on the above mentioned, the research question arises: *Which emotional competencies are sufficient and necessary for outstanding financial performance?* The answer to this research question will provide information on which of the managers' emotional competencies need to be professionally developed in the future in order for them to become exemplary leaders to all employees. Thus, based on the question formulated above, the general aim of this research project is to explore *whether there is a relationship between emotional competencies, such as self-awareness and self-management cluster competencies and financial performance, such as growth in profits, profitability, ROA and ROE.*

In order to achieve the overall aim of this study the following main hypotheses were developed:

H1: There is a statistically significant positive relationship between self-awareness cluster competencies and financial performances.

H2: There is a statistically significant relationship between aspiration for success and financial performance.

H3: There is a statistically significant relationship between adaptability and financial performance.

H4: There is a statistically significant relationship between emotional self-control, as well as optimism on one side and financial performances on the other side.

This study uses quantitative research, i.e., correlation analysis to empirically measure the proposed relationships in the context of 80 medium and large organizations from Serbia.

2. THEORETICAL BACKGROUND

The initial definition of emotional intelligence stated that it was a type of social intelligence that included a person's ability to analyze his/her own as well as others' emotions and to use these analyses to guide his/her actions (Salovey & Mayer, 1990). Likewise, Bar-On defined emotional intelligence as a group of non-cognitive capabilities, competencies and skills that could be used to cope with environmental changes or pressures (Bar-On, 1997). According to the Bar-On model, emotional intelligence skills are intra-personal skills, inter-personal skills, adaptability, stress management and general mood.

This study applied the competency-based model of emotional intelligence defined by the author Goleman (1998). Competencies are in the focus of this model since they can be defined as "underlying characteristics of the person that led to or caused effective or superior performance" (Boyatzis, 1982). Thus, emotional competence is an ability to recognize, understand, and use emotional information about oneself or other people that leads to or causes superior performance (Boyatzis, 1982). In this model, emotional intelligence is taken as emotional and social competencies, which are divided into four clusters: self-awareness, self-management, social awareness, and relationship management. The first two clusters describe emotional competencies while the other two describe social competencies. The basic characteristics of the mentioned clusters are:

1. Self-awareness is the ability to understand one's emotions as well as recognize their impact on others. It is measured through three competencies as *emotional awareness*, meaning the recognition of one's emotions and their effects, then *accurate self-assessment* referring to the ability to recognize one's strengths and weakness and finally *self-confidence,* as a strong sense of one's self-worth and capabilities.
2. Self-management is the ability to manage internal states, impulses, and resources. It is measured through six competencies, like *emotional self-control* meaning the ability to keep calm and control disruptive emotions and hasty impulses, *transparency*, referring to the adaptability from the perspective of change, *achievement* as the ability to improve ourselves and reach the highest standards, *adaptability* – the capacity to juggle multiple demands without losing focus or energy, *initiative* as starting things before anyone asks and *optimism* in reaching goals despite restrictions.
3. Social awareness is the ability to read people and understand situations accurately. It is measured through *empathy*, *organizational awareness,* and *service orientation*.
4. Relationship management is the ability to induce desirable responses in others. It is measured through *developing others*, *inspirational leadership*, *change catalyst*, *influence, conflict management* and *teamwork* and *collaboration*.

It can be deduced that self-awareness is the most fundamental element of emotional intelligence. It is critical to understand how and why people react emotionally to different stimuli in the workplace. By building self-awareness, people could better cope with change (Diggins, 2004). Conversely, one of the most important competencies that motivate employees to higher engagement and therefore to better productivity are: achievement, initiative and optimism, as part of the self-management cluster (Bipath, 2007, p. 32).

The variables most often researched concerning emotional intelligence are different outcomes of organizational performances (Goleman, 2001; Harrison, 1997; Higgs, 2004). The reason for the mentioned link can be found in the core of the process of developing emotional intelligence in an individual, which begins with emotions that influence the creation of opinions and results in actions performed by individuals and the performances they achieve. Furthermore, the emotional competencies can influence managers' leadership style which determines their perceptions and their further behavior. Hence, it can be stated that the managers' emotional intelligence can help them understand all aspects of leadership. High-performance managers were rated significantly higher in emotional intelligence than average-performing managers (HayGroup, 2005).

The focus of research on emotional intelligence is generally on the most often associated variable, namely job performance. It is found that emotional intelligence generally affects work performance and encourages work satisfaction (Ayranci, 2011). Apart from that, emotional competencies will lead to greater personal or group performance in a business environment (Martinez, 1997).

Still, some contradictory research results must be addressed. The majority of research works to date have pointed out the positive impact of emotional intelligence and organizational performance (Bresnik, 2004; Cavallo & Brienza, 2002; Rapisarda, 2002). Some authors emphasize that this impact is more indirect than direct (Rode, Mooney, Arthaud-Day & Near, 2007). On the other hand, there are authors who proved that there is no relationship between emotional intelligence and organizational performance (Bresnik, 2004). Also, there is a research gap, as there is only empirical research on understanding the relationship between emotional intelligence and financial performance in developing countries. Consequently, this study has zoomed in on the analysis of emotional competencies of managers in the organizations in Serbia, as a developing country.

3. METHODOLOGY RESULTS AND DISCUSSION

The adopted questionnaire was implemented to gather data from the managers and employees. The sample consists of 80 middle-level managers and 300 employees, working in 80 medium and large organizations in Serbia. Out of the 80 managers, 69 were male respondents, while 11 were female respondents. Moreover, out of the 300 employees, 197 were male respondents, with 103 female respondents. Concerning the age of the respondents, the majority of them were within the age group of 25 to 54 years.

The implemented questionnaire consists of 68 items related to emotional intelligence, with an additional 4 items related to financial performance. All questions were rated on a five-point Likert type scale, having 1 = strongly disagree up to 5 = strongly agree and 3= neither agree nor disagree. Additional items concerning the gender, age, education level and work position of managers and employees were added to the questionnaire. After completing the questionnaire, the reliability of the statements that measure certain variables was analyzed through Cronbach's Alpha coefficient. Cronbach's alpha is the most commonly used indicator of internal consistency. The generally agreed-upon lower limit for Cronbach's alpha is 0.70 (Hair, Anderson, Taham, & Black, 1998). The value of this coefficient for the questionnaire was 0.815, indicating the very good reliability of the scale as well as the very good internal coherence of the statements in the questionnaire.

The data on emotional intelligence was collected through the well-known questionnaire, ESCI (Emotional social competency inventory) developed by Boyatzis, Goleman and Ferry. It is a 360-degree tool designed to assess the emotional and social competencies of individuals and organizations. It is based on emotional competencies identified by Goleman (1998) described in his work *"Working with Emotional Intelligence"*, and on competencies from Hay/McBer's (1996) *Generic Competency Dictionary* as well as Boyatzis's Self Assessment Questionnaire (SAQ) (HayGroup, 2005). The questionnaire measures emotional and social competencies organized into four clusters: self-awareness, self-management, social awareness, and relationship management. The survey questions deal with critical aspects of each skill that indicate the presence of this skill in the behavior of the individual being assessed. For the purpose of this study, the authors measured only emotional competencies belonging to two clusters: i.e., self-awareness and self-management. Financial performances were examined as an independent variable, as a part of organizational performances. Organizational performances could be defined as the measures of survival and organizational success which can be measured from a different perspective. The objective measure uses real figures from organizations while the subjective measure uses the perception of respondents (Pizam & Ellis, 1999). The financial performances were studied from the angle of the managers' perception as perceptual or subjective measures. These measures can be accurate as objective measures; thus, managers are a more comfortable lending insight into their perception of financial measures than the specific financial measures of their organizations (Ackelsberg & Arlow, 1985). Correlation analysis was used to check the relationship between the dependent variables, emotional intelligence competencies and independent variables, i.e., financial performances.

Table 1 shows the descriptive statistics for the questionnaire containing only emotional competencies from the ESCI questionnaire and financial performances. It summarizes the number of people who participated in the study, the mean scores, the standard deviation, the variances, Skewness and the Kurtosis values for each emotional competency measured.

Table 1. Descriptive statistics for the questionnaire

	Min.	**Max.**	**Mean**	**Std. Deviation**	**Skewness**		**Kurtosis**	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Self-awareness	2,00	4,83	3,6622	,51544	,001	,141	,620	,281
Aspiration for success	2,67	5,00	4,4256	,47102	-1,167	,141	1,974	,281
Adaptability	3,18	4,83	4,0579	,35684	-,295	,141	-,345	,281
Emotional self-control	2,67	5,00	4,0161	,47359	-,152	,141	-,261	,281
Optimism	3,00	5,00	4,2272	,44352	-,386	,141	-,169	,281
Financial performances	1,00	5,00	3,4283	,75946	-,159	,141	,603	,281

Source: Authors

Correlation analysis was applied to examine the hypothesis to determine the existence or non-existence of relations between the managers' emotional competencies and the financial performances of the organizations.

In previous research on this topic, it was found that there was a statistically significant relationship between competencies, such as: self-confidence, adaptability, achievement, and initiative, on the one hand, and organizational performance measured using BSC methodology (financial perspective, marketing perspective, internal perspective, learning and development perspective), on the other hand (Bipath, 2007, p. 162). Further, the author Boyatzis pointed out that emotional competencies predicted the financial performance of leaders, with an indication that 93% of the competencies predicting performance were from the emotional intelligence clusters (2006, p. 130). However, a study conducted by the author Ayranci (2011) found that the combined effects of spiritual and emotional intelligence on financial performance were very weak. The same author also pointed out that some components of emotional intelligence (adaptability, stress management, interpersonal empathy, interpersonal relationships, and intrapersonal self-acceptance) did not have significant effects on financial performance, while self-consciousness and willingness to face challenges had the weakest effects (p. 27).

Based on the results of the correlation analysis (Table 2), it can be concluded that there is a positive correlation of weak intensity between emotional self-awareness and financial performances (ρ=.151, Sig=.009); aspiration for success and financial performances (ρ=.175, Sig=.002) as well as adaptability and financial performances (ρ=.179, Sig=.002). These empirical results indicate that the hypotheses H1, H2 and H3 are supported, while the hypothesis H4 is not supported. Furthermore, there is no statistically significant relationship between emotional self-control as well as optimism and financial performance.

Table 2. The correlation coefficients

		Self-aware-ness	Aspiration for success	Adaptabil-ity	Emotional self-con-trol	Optimism	Financial perfor-mances
Self-awareness	Correlation Coeff.	1,000	,215**	,664**	,109	,203**	,151**
	Sig. (2-tailed)	.	,000	,000	,059	,000	,009
Aspiration for success	Correlation Coeff.	,215**	1,000	,743**	,243**	,343**	,175**
	Sig. (2-tailed)	,000	.	,000	,000	,000	,002
Adaptability	Correlation Coeff.	,664**	,743**	1,000	,371**	,439**	,179**
	Sig. (2-tailed)	,000	,000	.	,000	,000	,002
	N	300	300	300	300	300	300
Emotional self-control	Correlation Coeff.	,109	,243**	,371**	1,000	,260**	-,038
	Sig. (2-tailed)	,059	,000	,000	.	,000	,517
	N	300	300	300	300	300	300
Optimism	Correlation Coeff.	,203**	,343**	,439**	,260**	1,000	,092
	Sig. (2-tailed)	,000	,000	,000	,000	.	,111
	N	300	300	300	300	300	300
Financial performances	Correlation Coeff.	,151**	,175**	,179**	-,038	,092	1,000
	Sig. (2-tailed)	,009	,002	,002	,517	,111	.
	N	300	300	300	300	300	300

* Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

Source: Authors

4. CONCLUSION

Given that there is an empirical gap on the relations between the emotional intelligence of leaders and financial performances in developing countries, the purpose of this study was to seek a better understanding of the relationship between emotional intelligence competencies of managers and financial performance in the business environment of Serbia. Based on the conducted empirical analysis, the authors concluded that there was a weak positive correlation between emotional self-awareness, aspiration for success and adaptability as emotional competencies and financial performances, where emotional self-control and optimism did not have any statistically significant relationship with financial performances. The obtained results helped answer the key question: What emotional intelligence competencies mostly distinguish effective leaders from ineffective leaders? This is a vital issue since it is believed that competencies within emotional intelligence can be learned. Furthermore, it is of great importance since, if managers find reaching the desired level of emotional intelligence difficult, they are more likely to make wrong decisions, which will, in turn, lead to poor business performance (Ayranci, 2011). The study results should be taken as the basis for a proposed program to develop emotional competencies. If one takes into account that self-awareness is the most fundamental element in developing emotional intelligence and that building self-awareness, people would find it easier to cope with change (Diggins, 2004). Moreover, the crucial issue in future training and education programs ought to be the development of self-awareness competencies such as emotional awareness, accurate self-assessment and self-confidence.

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