THE IMPACT OF THE MANAGER’S EMOTIONAL INTELLIGENCE ON ORGANISATIONAL PERFORMANCE

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The problem dealt with in the paper is the impact of manager’s emotional intelligence (EI) on the economic, social, and ecological sides of the organisational activity and the qualitative criteria of the evaluation of the organisational performance from the viewpoint of sustainable development (SD) of the organisation. The aim of the paper is to justify the interrelationship of the EI of the manager of an organization and the performance of the organization in terms of its sustainable development. Methodology: to evaluate EI, the methodology proposed by J. N. Hall (2005) was adopted as a basis, by means of which the EI of the respondents – the heads of eight organisations that provided a wide range of services (logistics, ICT, etc.) – has been measured. To evaluate the effectiveness of the organisational performance, the indicators of effectiveness proposed by R. S. Kaplan and D. P. Norton (1992, 2001) and supplemented by the author – a balanced scorecard (BS) – has been applied. It was established that, in the evaluation of any organisation, the existing BS of economic indicators should be supplemented by social-cultural and environmental instruments. The EI of managers was found to be closely related both to the individual indicators of the organisational performance and with the integrated BS.

Keywords: emotional intelligence, indicators, sustainable development.
JEL codes: O15, M12, M53.

1. Įvadas

Over the last decade, the conception of emotional intelligence (EI) as an alternative to traditional intelligence has become widely known in the science of management. Most of the proponents of the conception argue that EI provides significant benefits to organisations. The ability of organisation managers to establish psychological contacts, to manage the aims, actions, and ideas-coordination mechanisms, to persuade people, to encourage them, and to create non-conflicting relationships with them greatly predetermines the possibility to achieve the set strategic and tactical goals of the organisational activity.

In accordance with the research conducted by a number of scientists, managers of organisations experience high levels of emotional tension as a result of a heavy responsibility and the intensity of interpersonal relations.
In many cases, emotionality (expression of emotions at work, communication of emotions, etc.) is contrasted with rationality (Berkowitz, 1989; Brenner, 1988; Eron, 1983; Mainiero, 1986, and others).

Emotionality is frequently seen as a reason for professional mistakes and consequently for the declining quality of decisions, and also as a factor of reduction of the performance effectiveness in general (Ashforth, 1995; Burrough, 1990).

However, the research conducted over the recent decades proved, contrary to the prevailing opinion, that emotions do not affect decision-making processes (and therefore there is no need to eliminate or reduce them), moreover, they function as "advisers", as they transmit signals that help to make the optimal choice (Ameriks, 2007; 2009).

The challenges faced by contemporary organisations require the ability of their managers to make an active search for the information necessary for decision making, to recognise client's emotional state, to appropriately interpret the obtained information by evaluating its nature, thoroughness, reliability, etc. Manager has to be able to communicate with their partners, subordinates, and CEOs in such a way as to achieve the set goals and to get the desired effect (changes in behaviour, thoughts, ideas, attitudes, etc.).

Therefore, the studies of the impact of the manager's EI on the success of their management and effective organisational performance are of a particular significance. Often a question arises what criteria shall be reliable to evaluate the effectiveness of organizational performance. As is known, the development of any organization has to ensure not only the economic side of its activity, but also social viability of regions, as well as to solve ecological and landscape issues.

The paper deals with the issue of the impact of the manager's EI on the economic, social, and ecological sides of the organisational performance and the quantitative criteria for the assessment of the said performance in terms of the sustainable development (SD) of the organisation.

**The aim of the paper** is to justify the interrelationship of the EI of the manager of an organization and the performance of the organization in terms of its sustainable development.

To achieve the aim, the following objectives have been dealt with: 1) a theoretical analysis of the concept of emotional intelligence has been carried out; and 2) the interrelationship of the emotional intelligence of manager and the organizational performance has been justified.

**Methodology.** The aim and objectives of the research predetermined the choice of the research methods whose application resulted in the achievement of the set goal and the solution of the formulated objectives. To evaluate EI, the methodology proposed by Nicholas Hall was adopted as a basis: it defined the ability to perceive individual's behaviour, represented by emotions, and to manage the emotional sphere on the basis of decision making. The methodology consists of 30 items and contains five scales (Hall, 2005):

- emotional awareness;
- control of one's emotions (emotional compliance, emotional non-rigidity);
- self-motivation (control of one's emotions);
• empathy;
• recognition of other people's emotions (the ability to influence the emotional state of other people).

On the basis of J. N. Hall methodology, a questionnaire for the empirical research was developed. The research was conducted in 8 enterprises. In all the organisations, the top-level executives were chosen as respondents, i.e. the directors of the enterprises, as they represented the highest level of decision making and had the largest impact on the enterprise effectiveness. All the respondents had many years of managerial experience. The number of the staff in the companies ranged from 10 to 40. The range of services provided by the organisations was broad and included logistics, pharmacy, a network of gas stations, and ICT services.

To evaluate the effectiveness of the organisational performance, the indicators of effectiveness proposed by R. S. Kaplan and D. P. Norton (1992, 2001) and supplemented by the author – a balanced scorecard (BS) – has been applied.

The data for the calculation of the BS indicators have been collected over several years in the same organisations whose heads were surveyed with the aim of establishing their EI.

Other methods used in the paper included theoretical analysis, summarisation and interpretation of scientific information, analysis and synthesis, and logical comparison and systematisation. The research data have been processed by means of Excel and SPSS 17.0 software.

2. Research outcomes

2.1. Justification of the conceptions of emotions and emotional intelligence

When establishing the impact of EI on the effectiveness of an organization, it is important to define the nature of the concept emotion. In accordance with the research data of numerous authors (see Table 1), emotions can be characterized as an automatic response of the human body to certain external and internal stimuli.

On the basis of different definitions of the concept of emotion as provided by different authors, emotions can be described as automatically occurring biological responses of the human body to both external and internal stimuli, called the excitation stimuli. Emotions are characteristic of any individual, however, different individuals may respond to different kinds of excitation in different ways. Emotions are evoked both by external and internal environmental factors. It is emotional excitation (a stimulus: an event) that is the principal component of emotion manifestation and the principal factor of interest in the analysis of emotions in the theories of psychology.
Table 1. Definition of the concept *emotion*

<table>
<thead>
<tr>
<th>Author</th>
<th>The definition of emotion</th>
</tr>
</thead>
<tbody>
<tr>
<td>J. George (2000)</td>
<td>Very high intensity of feelings emerging due to specific stimuli (internal or external, with the attention focused on an individual) that affect cognitive processes and an individual's actions.</td>
</tr>
<tr>
<td>C. Izard (1990)</td>
<td>A complex phenomenon that contains neurophysiological and sensory components. That is an outcome of evolutionary and biological processes of an individual.</td>
</tr>
<tr>
<td>C. Ratner (2000)</td>
<td>A natural phenomenon controlled by a biological mechanism that is beyond our control and occurs automatically.</td>
</tr>
</tbody>
</table>

The impact of emotions on human behaviour was defined by R. Brown (2003) who argued that people were emotional beings and their feelings and moods affected their way of thinking, motivation, behaviour, and communication with other people. Emotions, affected by the uniqueness of human personality, the temperament, mood, and rational mind, directly affected human behaviour and decision making. The author emphasised A. Damasio's (1994) idea that emotions played a decisive role in making even the simplest everyday decisions. A. Damasio drew the conclusion after a number of scientific experiments with people who had a damaged brain structure. C. Ratner (2000) suggested that ideas never existed separately from thinking or rational mind. J. M. Freedman, A. L. Jensen and P. E. Freedman (1998) also argued that emotions affected decision making. Rational decisions in the decision making process functioned as a controlling factor.

In order to avoid misunderstandings when investigating the issues of human emotion identification and understanding, in 1990, American psychologists P. Salovey and John D. Meyer proposed a unitary concept of "emotional intelligence" for those skills. The said authors analysed EI as a structural part of social intelligence which covered the ability to observe one's own and other people's feelings and emotions, to distinguish between them, and to use the information for the orientation of the thinking and action directions. The same researchers developed the first and best known EI model in scientific psychology. That is a complex construct which consists of three types of abilities: 1) identification and expression of emotions; 2) management of emotions; and 3) the use of emotional information in thinking and activity.

Based on the analysis of the scientist research, EI can be defined as the *ability of an individual to recognise one's own and other people's feelings, self-motivation, and good management of oneself and one's own relationship-related emotions*. Emotionally intelligent people have good self-control and can effectively communicate with others. Psychologists and researchers from other fields, as well as the managers of numerous
organisations, admit that EI is very important. Some even believe that emotions more than intellectual abilities precondition people's thinking and relationships.

2.2. The Balanced Scorecard

When determining the impact of EI on the organizational effectiveness, it is necessary to decide on the indicators and criteria that shall characterize effectiveness. In our opinion, the effectiveness of an enterprise shall be best characterized by the balanced scorecard (BS) developed by R. Kaplan and D. Norton (1992, 2001). The BS is a mechanism of interrelationship between strategic ideas and decisions and daily objectives and a tool to orient the activity of the entire organisation (or a group) towards their achievement, therefore, the BS is a tool of both strategic and operational management.

As intended by the authors, the advantage of the BS lies in the fact that the organisation which implements the system shall consequently receive a "system of coordinates" of actions in compliance with the strategy at any level of management and thus connect different functional areas, such as, e.g., staff management, finances, information technologies, etc.

The BS system covers not merely financial performance indicators, as they are insufficient for a full and comprehensive (balanced) description of the state of an organization; they have to be supplemented by other indicators. Therefore, R. Kaplan and D. Norton propose a balanced scorecard consisting of four groups of indicators, including relationships (interrelationships) of the organization and its customers, internal production processes, as well as training and professional development of the staff (see Table 2).

However, currently the performance of an organization can (and, in our view, should) be evaluated by qualitative criteria of its sustainable development (SD): economic, social, and ecological ones.

Even though in scientific literature the concept of SD is usually related to the development and implementation of national, regional, and global strategies, as well as the monitoring of their implementation, the author is inclined to support the idea of the researchers who recommend evaluation of the activity of any organization from the viewpoint of its SD.

Currently the evaluation of stability is becoming essential for the complex, integrated, and insightful managerial decision making. "In the end, not knowing where we are and where we are moving makes our future more risky. Therefore, in order to ensure the continuity and functionality for the distant future, the organisation should be considered in the context of index sustainability and the indicators of its development" (Gibson, 2005).

Table 2 presents a balanced scorecard of indicators of organizational effectiveness, supplemented by the author of the present paper:
<table>
<thead>
<tr>
<th>Group of indicators</th>
<th>Theoretical (by R. S. Kaplan and D. P. Norton)</th>
<th>Indicators proposed by the author of the paper</th>
</tr>
</thead>
</table>
| 1. Financial (economic) $X_1$ | Basic indicators | • profitability (ROA);  
• EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation);  
• the financial stability ratio;  
• the debt ratio;  
• the liquidity ratio;  
• the magnitude and changes in domestic and foreign investment. |
| 2. Relationships with customers $X_2$ | • the ability to meet customer's needs;  
• the ability to retain customer;  
• the ability to obtain a new customer;  
• customer's profitability;  
• the volume of the market;  
• market share in the target segment. | • market share;  
• comparative share of transactions in the total customer demand;  
• the index of customer loyalty;  
• the number of new customers;  
• the price level as related to the average price in the industry. |
| 3. Internal production processes $X_3$ | • innovation processes;  
• product development;  
• pre-production;  
• the provision of resources;  
• production;  
• sales;  
• after-sales service. | • average processing time of customer order;  
• cycle time;  
• relative share of administrative costs in the total income;  
• average document processing time;  
• stable part of business processes;  
• measurable business processes;  
• the implemented innovative business processes;  
• the number of external customers' business processes. |
| 4. Staff training and personal development $X_4$ | • staff skills and motivation;  
• availability of information systems;  
• organisational procedures. | • employee productivity;  
• staff satisfaction with motivation;  
• profit per employee;  
• co-efficient of interchangeability in production. |
| 5. Social-cultural events $X_5$ | | • the creation of new jobs;  
• the quality of services;  
• staff development (e.g., mastering foreign languages);  
• the development of sports and health promotion in the enterprise;  
• seminars, conferences, and study tours;  
• staff turnover. |
6. Environmental protection $X_6$

- the maintenance of a clean and healthy environment;
- increasing the use of renewable energy sources;
- use of energy-saving technologies;
- the amount of emitted greenhouse gases;
- increasing the collection of municipal production waste;
- hygiene observation.

Note: The changes proposed by the author of the paper are presented in italics

Thus, to ensure the SD of an organization, the Balanced Scorecard is proposed to be supplemented by two more groups: social-cultural events and environmental protection.

2.3. The interrelation between the manager's emotional intelligence and organisational performance

The success of any operation and the development of organisational activity in general are assumed to be directly related to the intelligence and experience of the manager of the organization. The present paper makes an attempt to establish whether the emotional intelligence of managers and the heads of organisations makes an impact on the indicators of effectiveness of their performance.

First, the emotional intelligence of the heads of enterprises A to H was evaluated in accordance with the methodology proposed by J. N. Hall (Table 3).

Table 3. Integrated level of the emotional intelligence of the heads of enterprises

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Scores</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Enterprise A</td>
</tr>
<tr>
<td>Emotional awareness</td>
<td>14</td>
</tr>
<tr>
<td>Control of one's emotions</td>
<td>14</td>
</tr>
<tr>
<td>Self-motivation</td>
<td>16</td>
</tr>
<tr>
<td>Empathy</td>
<td>4</td>
</tr>
<tr>
<td>Perception of other people's emotions</td>
<td>–3</td>
</tr>
<tr>
<td>Integrated level of EI</td>
<td>45</td>
</tr>
</tbody>
</table>

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As is seen from the presented data, there is a considerable difference between the emotional intelligence of the heads of different organisations: the EI of the heads of enterprises A, D, E, F, and H is rather high, while in enterprises B, C, and G, the indicator is very low (the difference of 2.5 to 4 times).

In the second stage of the empirical research, an attempt was made to establish whether the emotional intelligence of the head of the enterprise had any impact on the indicators of the enterprise effectiveness.

The quantitative expression of the level of indicators, i.e. the data for the calculation of the BS indicators as presented in Table 2, were collected in the enterprises from their statements, and primarily the financial ones. The following indicators were established: financial (economic), the number of new customers over several years, the price level as compared to the average in the sector, those of internal production processes, staff training and professional development, etc.

To identify the values of other BS indicators, competent experts of the field were invited. Moreover, with the help of the experts, the relative weight of each group of indicators was established and, in accordance with formula (1), an integrated BS for each enterprise has been calculated.

\[
CCII = k_1 \sum_{n=1}^{n}(X_1) + k_2 \sum_{n=1}^{n}(X_2) + k_3 \sum_{n=1}^{n}(X_3) + k_4 \sum_{n=1}^{n}(X_4) + k_5 \sum_{n=1}^{n}(X_5) + k_6 \sum_{n=1}^{n}(X_6)
\]

where: \( k_1, k_2 \ldots k_6 \) are coefficients of the relative weight of each group of indicators (established on the basis of the expert data); \( X_1, X_2 \ldots X_6 \) is the value of each group in scores, and \( n \) is the number of indicators in each group.

By means of formulas 2 and 3, the dependence of individual indicators and the integrated BS on the emotional intelligence of the heads of the enterprises has been established.

\[
CCII = a + b * \mathcal{EI}_m
\]

\[
CCII = a + b * (\mathcal{EI}_m)^2
\]

where \( a \) and \( b \) are constant coefficients and \( m \), the number of organisations.

On completing the research in the investigated enterprises, the correlation coefficients between the

- financial,
- new customer segment,
- administrative costs from the gross income,
- and profit per employee

indexes and the manager’s EI were established (see Table 4):
Table 4. Correlation coefficients of the dependence of enterprise indexes on the manager's emotional intelligence

<table>
<thead>
<tr>
<th>Company performance indexes</th>
<th>Financial indexes</th>
<th>New customer index</th>
<th>Administrative costs' share of the gross income index</th>
<th>Staff turnover index</th>
<th>Employee turnover index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correlation coefficient with emotional intelligence</td>
<td>0.8933</td>
<td>0.7175</td>
<td>0.5601</td>
<td>0.5960</td>
<td>0.0205</td>
</tr>
</tbody>
</table>

Thus, a strong correlation was established between the calculated BS financial indexes and the manager's EI (net profit index $R^2 = 0.8933$, gross debt index $R^2 = 0.7703$, and asset profitability ratio $R^2 = 0.6567$). In non-financial index groups, a strong correlation was established between the manager's EI and the index of a new customer segment ($R^2 = 0.7175$), an average correlation, between the EI and the administrative costs' share of the gross income ($R^2 = 0.5601$), as well as the staff turnover indexes, however, the profit per employee index ($R^2 = 0.0205$) showed no dependence.

On the basis of the weights of each SB indicator group, for all the organisations the integrated values of those indicators have been calculated and their interrelation with the EI of the heads of the enterprises has been established (Fig.).

![Graph](Image)

Fig. Interrelation between the principal integrated indicators of the activity effectiveness and the emotional intelligence of the heads of enterprises

Given the correlation coefficient ($R^2 = 0.6783$), one can conclude that the relationship between the enterprise performance indicators and the EI of the heads of enterprises is strong. Thus, the assumption of the existence of a positive relation between the manager's EI and the organisation performance indexes was confirmed by the outcomes of the empirical research and the expert evaluation.
3. Conclusions

1. The manager's EI affected the indexes of effectiveness of their organisations.

2. The EI had a strong correlation both with individual indexes of the organisation performance and with the integrated BS (the correlation coefficient $R^2 = 0.783$).

3. Organisations are recommended to pay attention to the development of managers' EI, as its significance for the enterprise effectiveness was confirmed. Lithuania has developed more than one programme of that kind, and organisations are advised to apply them when pursuing their goals and seeking effective performance. The EI development programmes are complex, and they ensure that the increasing level of the managers' EI results in the development of other managerial competencies (the skills of communication and motivation, team building and management, etc.).

4. The performance of any organization has to be assessed by the quantitative criteria of its sustainable development (SB): economic, social, and ecological. Therefore, the existing Balanced Scorecard of the indicators of enterprise evaluation is proposed to be supplemented by social-cultural and environmental protection instruments.

References


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Raktiniai žodžiai: emocinis intelektas, rodikliai, tvarus vystymasis.

JEL kodai: O15, M12, M53.