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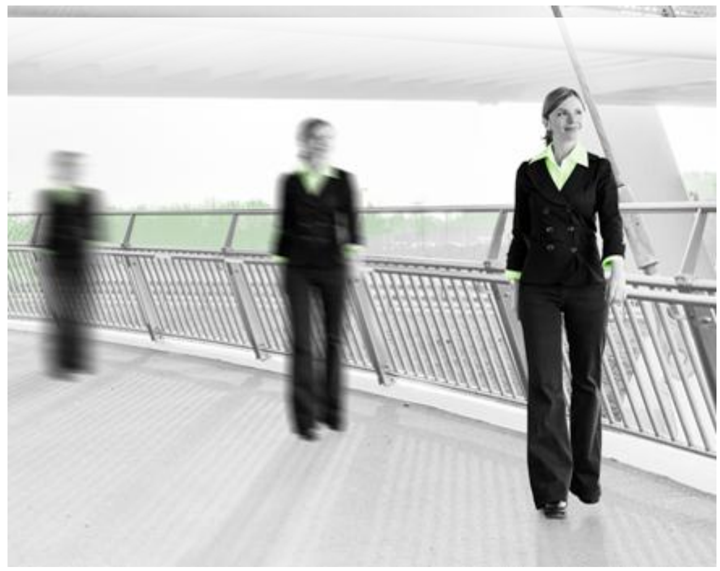

Executive Summary

The Business Case for Emotional Intelligence

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At the **Institute *for* Health *and* Human Potential (IHHP)** we've been studying human potential and leadership since 1998 and we've been bringing that learning to you through our programs and services ever since.

The purpose of this white paper is to help you understand, using a case study, the real, hard, financial return on investment that training in Emotional Intelligence (EI) provides. We have collected data from leading research institutions and along with our own research, we present the business case for developing leaders to be more emotionally intelligent.

What is clear is that EI is no longer a nice to have for organizations aspiring to be high performing; *it is a need to have*.

What we know about Emotional Intelligence:

As one of our clients – Northern Trust Bank – said to us: "Providing training in Emotional Intelligence to our leaders has become like our phone systems – it's not a question of whether we need one, it's a question of which is the best for our organization."

Organizations of the future will no longer question whether there is value in providing Emotional Intelligence training for their leaders, they will focus on which EI program will provide the highest return on investment for their company

- **Over 80%** of competencies that differentiate top performers from others are in the domain of EI.[1]
- Companies, who have executives with higher levels of emotional intelligence, are **more likely to be highly profitable.** [2]
- After supervisors in a manufacturing plant received training in emotional competencies, **lost-time accidents were reduced by 50 percent, formal grievances were reduced** from 15 per year to 3 per year, and the plant exceeded productivity goals by $250,000.[3]
- American Express tested emotional competence training on Financial Advisors; trained advisors **increased business 18.1%** compared to 16.2% for a control group.[4]
- After a Motorola manufacturing facility provided training in stress management and Emotional Intelligence, **93% of employees had an increase in productivity**.[5]

The programs and services we have developed for training in Emotional Intelligence are based on 11 competencies we uncovered during our early research studies. We have since correlated those competencies with the performance of over 10,000 people from around the world.

We have learned that the smartest people in your organization are not always the most effective *(in fact, they can sometimes be your most destructive).* What distinguishes your most productive employees from your average is EI; and the size of the performance gap, as you will see in this paper, is significant.

The Business Case for Emotional Intelligence

Managers and Leaders of the Future

Seven years ago, one of North America's biggest banks faced a daunting predicament: productivity in its IT division was lagging compared to the other divisions within the bank. This was especially concerning as it was the IT division that was responsible for the development and launch of a new technology that was being heralded as the bank's new competitive advantage in how it would interact with *customers (an innovation which was being driven in response to steeply declining client satisfaction scores).*

In fact, the new technology had the capacity to alter the way the entire banking industry connected with customers, and they were not the only ones in the race. Needless to say, there was a lot resting on the shoulders of the banks IT department.

Recognizing the significance of this disparity, the bank began to drill down into the problem. They started by looking at the availability of incentives, resources, skill level, processes and people. Extra bonuses weren't having a significant impact, skill level was high, although stretched – the required resources were available, and the proper processes seemed to be in place. Where they were stumbling was with their people, specifically their 'employee commitment' scores. They were very poor and out of alignment with the other divisions.

Yes, IT's people were showing up for work but, far too many of them were not actively engaged. They were not giving that extra effort or demonstrating the urgency that was required to develop and launch the industry altering technology needed to compete against some of the other big banks and drive their customer satisfaction scores.

With further investigation into the people-side of the business, the bank uncovered that the scores were being driven by strained employee-manager relationships within the division. The IT managers and leaders were good at getting things *(tasks)* done, but not very good at building relationships and creating connection and engagement across the IT division.

In hard times, the soft stuff often goes away. But emotional intelligence, it turns out, isn't soft. If emotional obliviousness jeopardizes your ability to perform, fend off aggressors, or be compassionate in a crisis, no amount of attention to the bottom line will protect your career. Emotional intelligence isn't a luxury you can dispense with in tough times. It's a basic tool that, deployed with finesse, is the key to professional success.

How Effective are Your Managers and Leaders?

As you read this example, does it make you think of your leaders? When you think of your organization, how effective are your managers and leaders at building this connection?

- Do your leaders take the time to stop and listen and really connect with their teams? Or, are they viewed as uncaring, hard rigid or even bullies?
- Do they hold themselves and others accountable and have the tough conversations required? Or, are they looked on by their people as lacking integrity, being too soft or lacking backbone?
- Is your overall pool of employees fully engaged, pulling together and putting in the extra effort? Or, are they building silos, hording available information and resources, and putting in 'just enough' effort to get by?

Upon asking these questions, the bank realized more resources, more skill and more incentives were not going to fix the issue – however, more listening, coaching, and collaboration were critical pieces to the puzzle. Looking at other divisions with higher employee commitment scores, the bank discovered that managers who were more aware of their emotions and capable of managing those emotions in the moment were better able to respond appropriately and productively in difficult situations – the foundation of emotional intelligence. To be innovative and competitive meant that the bank was going to need to focus on their EI leaders and managers.

EI has the faculty to protect leaders and managers from derailment. The Center for Creative Leadership has found that the primary causes of derailment in executives involve deficits in emotional competencies: difficulty in handling change, being unable to work well in a team, and poor interpersonal relations; each having an impact on overall productivity. This interference was further supported by another study which tested 186 executive's emotional intelligence and compared their scores with their company's profitability. The executives with higher levels of emotional intelligence were more likely to be highly profitable. Similar research has returned the same findings in a variety of jobs and levels: people higher in EI outperform those low in EI.

The Value of Emotional Intelligence for Managers and Leaders

Research has shown that over 80% of the competencies that differentiate top performers from others are in the domain of EI, yet the notion of emotions in the workplace is often greatly misunderstood. For many, EI sounds soft and squishy and not of high value; but according to Harvard Business Review, managing emotions is anything but soft and squishy.

What Does an *Emotionally Intelligent* Leader Look Like?

One size does not fit all; every leader will have different style and that style will interact with different environments in different ways. However, our research at IHHP of over 10,000 global leaders revealed that there are some clear distinctions between high and low performing leaders and EI is at the heart of this difference.[6]

Leaders high in EI have a solid level of self-awareness about the link between their behavior and how it makes others feel and, more importantly, perform.

Additionally, there are three abilities that leaders high in EI consistently demonstrate, especially when it is most difficult to do so:

- **They are able to admit to their mistakes and take personal accountability**
- **They are able to listen to others without jumping to conclusions**
- **They do not avoid difficult conversations, and are able to hold people accountable.**

Our work found that leaders demonstrating these three competencies were also described as being best able to both create connection and develop the talent of their employees; two abilities that go hand-in-hand. These leaders honed in on employees' individual strengths, passions and desired career plans and by utilizing a coaching approach, were able to help their employees feel like they were doing meaningful work by seeing how they contributed to the organizations goals.

These findings were of high interest to the bank as employees of the IT department did not feel like they were adequately being developed by their managers nor did they feel that they were doing meaningful work (interesting find considering it was their department that was driving the direction for the entire bank). The impact of their people feeling less connected was that slowly but surely they became less engaged and decided to give less effort, which was the crux of why the technology launch was lagging.

Research shows that people who work for emotionally intelligent managers and leaders choose to give more than what is asked of them in their job *(discretionary effort)* driving overall organizational engagement. In a recent world-wide survey we found that 43% of employees agreed or strongly agreed that 'if my manger had more emotional intelligence, I would give extra effort.'

Employee Commitment and Discretionary Effort

Everyday employees walk into their place of work and subconsciously ask one very profound question: ***How much effort do I want to give to this organization?***

The answer to this question drives whether an employee decides to work until the project is not just good *but great.* It drives whether they take full ownership for their work and the work of a team or choose to blame someone else if a project goes awry. It drives the amount of risk they take such as taking on a new challenge and developing them to serve an organization. This question: how much effort do I want to give my organization is termed 'discretionary effort' and for the bank they realized this was missing in the IT department.

What is the ROI of Training Your Managers and Leaders in EI?

Research in a variety of companies has demonstrated that training leaders and manager's in EI is both possible and brings about significant bottom line effects. Given the relationship between aspects of emotional intelligence and various performance outcomes, training in EI has enormous potential for organizational return on investment.

For instance, training in EI has been found to reduce turnover, absenteeism, and increase engagement, sales performance and productivity. For an overview of ROI studies that demonstrate the value of training and selecting for EI, go to Appendix 2. In Appendix 1, you will find the calculation that your CFO will want to see that makes the hard business case for the value of Emotional Intelligence training.

The ROI goes beyond job performance: a 3-year study of 3,122 Swedish workers showed that transformational managerial behaviors was significantly associated with lower cardiac risk[7] and employees who perceived that their supervisors treated them fairly had 30% lower Coronary Heart Disease incidents after adjustment for other risk factors[8]. Now, there is an important return for Emotional Intelligence training!

Appendix 1: Calculation of EI ROI

To calculate ROI *(Return On Investment)* for EI, start by looking at the average effect size between top 10 percent and lower 75 percent of leaders. The 'effect size' metric is a standardized method for calculating the magnitude of the difference between the two groups. The difference between high and lower EI leaders is 0.72, which is a statistically relevant difference.

Assuming an average leader salary of $75,000 per year, the difference between a high and average EI leader equates to $21,600 per year. For an organization with 2,000 leaders this figure multiplies to $43.2 million in human capital asset value per year.

While this is a large number, it still does not account for the human capital asset value improvement experienced by leaders' direct reports. A leaders' value extends far beyond their individual contributions. Even a slight improvement in EI would lead to large benefits for an organization.

For example, a program yielding a one-percentage point improvement in leader EI would provide incremental human capital value of $2,160. Even if this program cost the organization $500 per person, the ROI would be 332%.

Clearly, investments in improving EI have the potential for dramatically improving the productivity and value of leaders in organizations. It also echoes the results of a study conducted by Bloomberg BusinessWeek and Hay Group: companies ranked in the top 20 for leadership acumen significantly outperformed the S&P 500 in both the short and long terms.

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Appendix 2: Additional EI Business Studies

- In UK's Whitbread group, restaurants with high EQ managers had higher guest satisfaction, lower turnover, and 34% greater profit growth *(Bar-On and Orme, 2003).*

- 75% of careers are derailed for reasons related to emotional competencies, including inability to handle interpersonal problems; unsatisfactory team leadership during times of difficulty or conflict; or inability to adapt to change or elicit trust *(The Center for Creative Leadership, 1994).*

- People who accurately perceive others' emotions are better able to handle changes and build stronger social networks *(Salovey, Bedell, Detweiller, & Mayer, 199 cited in Cherniss, 2000).*

- The reason for losing customers and clients are 70% EI-related (e.g., didn't like that company's customer service) (Forum Corporation on Manufacturing and Service Companies, 1989 – 1995).

- In one year, the US Airforce invested less than $10,000 for emotional competence testing and saved $2,760,000 in recruitment (*Fastcompany "How Do You Feel," June 2000).*

- In a multinational consulting firm, partners who showed high EI those who took the training reported significant improvements in their sales performance. Now all incoming advisors receive four days of emotional competence training *(Fastcompany "How Do You Feel," June 2000).*

- After supervisors in a manufacturing plant received training in emotional competencies, lost-time accidents were reduced by 50 percent, formal grievances were reduced from an average of 15 per year to 3 per year, and the plant exceeded productivity goals by $250,000 *(Pesuric & Byham, 1996).*

- Top performing sales clerks are 12 times more productive than those at the bottom and 85 percent more productive than an average performer. About one-third of this difference is due to technical skill and cognitive ability while two-thirds is due to emotional competence *(Goleman, 1998).*

- Emotions and reason are intertwined, and both are critical to problem solving *(Damasio, 1997).* Social and emotional abilities were four times more important than IQ in determining professional success and prestige *(Feist & Barron, 1996 cited in Cherniss, 2000).*

- At L'Oreal, sales agents selected on the basis of certain emotional competencies significantly outsold salespeople selected using the company's old selection procedure by $91, 370, for a net revenue increase of $2,558,360. Salespeople selected on the basis of emotional competence also had 63% less turnover during the first year (Spencer & Spencer, 1993; Spencer, McClelland, & Kelner, 1997, cited in competencies earned 139% more than the lower EQ partners *(Boyatzis, 1999).*

- American Express tested emotional competence training with Financial Advisors; trained advisors increased business 18.1% compared to 16.2% for a control group (Cherniss, 2000).

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