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Smart Money: How IQ plus EQ puts you at the head of the queue

Peter J. Webb^{*}

Abstract

Financial planners need a high level of both mental ability (IQ) and technical knowledge to practice successfully. But these capabilities are only *threshold* requirements. What separates merely good performers from star performers is the ability to manage the adviser-client relationship. Research strongly suggests that emotional intelligence (EQ) distinguishes between advisers more than IQ and technical knowledge combined, both in terms of client satisfaction and financial results. The smart money goes to those who can regulate their own emotions, accurately respond to emotions in others, and who can *resonate* positive mood. The good news is that these abilities can be learned. This paper gives a background to the field in preparation for engaging in some emotional skills enhancement exercises.

***Peter Webb** is an Executive Coach, Psychologist (reg. NSW), and Principal of ITC (Intentional Training Concepts) Pty Ltd. He holds a Graduate Diploma in Applied Science (Psychology of Coaching) from the University of Sydney, an Economics Degree with Honours (Organisational Psychology) from the University of Queensland and a Degree in Naturopathy from the Australian College of Natural Medicine. He has accumulated 1,000 hours coaching senior executives to achieve a recognized lift in their interpersonal, managerial and leadership competencies.

Intentional Training Concepts Pty Ltd. P.O. Box 148 Camperdown NSW 1450.
<mailto:intentional@bigpond.com>

An Emotional Intelligence Quiz

http://ei.haygroup.com/resources/default_ieitest.htm

Note: The purpose of the following quiz is to provide you with an introduction to Emotional Intelligence (EI). The results you get from this quiz are NOT a comprehensive picture of your EI and the quiz is NOT representative of Hay Group surveys. If you are interested in testing and developing your EI, you should contact us at 617 425 4500 for information on our [Emotional Competence Inventory](#), a tool designed to be administered by accredited users only.

When it comes to Emotional Intelligence, How savvy are you?

1. You are on an airplane that suddenly hits extremely bad turbulence and begins rocking from side to side. What do you do?

- Continue to read your book or magazine, or watch the movie, trying to pay little attention to the turbulence.
- Become vigilant for an emergency, carefully monitoring the stewardesses and reading the emergency instructions card.
- A little of both a and b.
- Not sure - never noticed.

2. You are in a meeting when a colleague takes credit for work that you have done. What do you do?

- Immediately and publicly confront the colleague over the ownership of your work.
- After the meeting, take the colleague aside and tell her that you would appreciate in the future that she credits you when speaking about your work.
- Nothing, it's not a good idea to embarrass colleagues in public.
- After the colleague speaks, publicly thank her for referencing your work and give the group more specific detail about what you were trying to accomplish.

3. You are a customer service representative and have just gotten an extremely angry client on the phone. What do you do?

- Hang-up. It doesn't pay to take abuse from anyone.
- Listen to the client and rephrase what you gather he is feeling.
- Explain to the client that he is being unfair, that you are only trying to do your job, and you would appreciate it if he wouldn't get in the way of this.
- Tell the client you understand how frustrating this must be for him, and offer a specific thing you can do to help him get his problem resolved.

4. You are a college student who had hoped to get an A in a course that was important for your future career aspirations. You have just found out you got a C- on the midterm. What do you do?

- Sketch out a specific plan for ways to improve your grade and resolve to follow through.
- Decide you do not have what it takes to make it in that career.
- Tell yourself it really doesn't matter how much you do in the course, concentrate instead on other classes where your grades are higher.
- Go see the professor and try to talk her into giving you a better grade.

5. You are a manager in an organization that is trying to encourage respect for racial and ethnic diversity. You overhear someone telling a racist joke. What do you do?

- Ignore it - the best way to deal with these things is not to react.
- Call the person into your office and explain that their behavior is inappropriate and is grounds for disciplinary action if repeated.
- Speak up on the spot, saying that such jokes are inappropriate and will not be tolerated in your organization.
- Suggest to the person telling the joke he go through a diversity training program.

6. You are an insurance salesman calling on prospective clients. You have left the last 15 clients empty-handed. What do you do?

- Call it a day and go home early to miss rush-hour traffic.
- Try something new in the next call, and keep plugging away.
- List your strengths and weaknesses to identify what may be undermining your ability to sell.
- Sharpen up your resume.

7. You are trying to calm down a colleague who has worked herself into a fury because the driver of another car has cut dangerously close in front of her. What do you do?

- Tell her to forget about it-she's OK now and it is no big deal.
- Put on one of her favorite tapes and try to distract her.
- Join her in criticizing the other driver.
- Tell her about a time something like this happened to you, and how angry you felt, until you saw the other driver was on the way to the hospital.

8. A discussion between you and your partner has escalated into a shouting match. You are both upset and in the heat of the argument, start making personal attacks which neither of you really mean. What is the best thing to do?

- Agree to take a 20-minute break before continuing the discussion.
- Go silent, regardless of what your partner says.
- Say you are sorry, and ask your partner to apologize too.
- Stop for a moment, collect your thoughts, then restate your side of the case as precisely as possible.

9. You have been given the task of managing a team that has been unable to come up with a creative solution to a work problem. What is the first thing that you do?

- Draw up an agenda, call a meeting and allot a specific period of time to discuss each item.
- Organize an off-site meeting aimed specifically at encouraging the team to get to know each other better.
- Begin by asking each person individually for ideas about how to solve the problem.
- Start out with a brainstorming session, encouraging each person to say whatever comes to mind, no matter how wild.

10. You have recently been assigned a young manager in your team, and have noticed that he appears to be unable to make the simplest of decisions without seeking advice from you. What do you do?

- Accept that he "does not have what it take to succeed around here" and find others in your team to take on his tasks.
- Get an HR manager to talk to him about where he sees his future in the organization.
- Purposely give him lots of complex decisions to make so that he will become more confident in the role.
- Engineer an ongoing series of challenging but manageable experiences for him, and make yourself available to act as his mentor.

Advice for Advisers

What's the definition of a Financial Adviser? Someone who guesses wrong, but with confidence! Clients have become dissatisfied with their financial planners in recent times for a host of reasons, but not all to do with market volatility or commission structures. What seems to be most at risk is *trust*. Financial planners add a lot of perceived value in technical areas that clients don't understand, but recent surveys reveal that *poor communication* is largely responsible for almost 40% of investors changing their financial planners in the last 12 months.

Winning investor trust will always be based on the technical soundness of financial strategies, but is that enough to differentiate one adviser from another? Recent research suggests that intelligence (IQ) and technical competence are necessary but not sufficient conditions for success. What sets the good adviser apart from the *excellent* adviser is "emotional intelligence" (EQ).

For example, sales agents for a cosmetics firm who were selected on the basis of EQ sold \$91,370 more than other salespeople did, for a net revenue increase of \$2,558,360. They also had 63% less turnover during the first year than those selected in the typical way.

Professor of organizational behaviour at Case Western Reserve University, Richard Boyatzis used information about the profits generated by partners at a large financial services firm. He found that strengths in the *Self-Awareness* cluster of emotional competencies added 78% more incremental profit. Strengths in the *Relationship Management* emotional competencies added 110% more, and strengths in the *Self-Management* cluster added 390% more profit! In other words, partners with a higher degree of emotional intelligence added more profit than those partners who exhibited lower EQ, despite the fact that high IQ was a common denominator for all partners.

IQ Meets EQ

So what is emotional intelligence? Research over the past 25 years suggests that it is the ability to perceive, express, understand, and manage emotions, as distinct from general

intelligence (IQ) which focuses exclusively on *general mental abilities*, such as memory and problem solving.

When the term *emotional intelligence* was first coined in 1990, researchers Salovey and Mayer defined it as an ability to use information about feelings and emotions across four dimensions:

- The ability to accurately perceive emotions
- The ability to use emotions to facilitate thinking, problem solving, and creativity
- The ability to understand emotions and emotional knowledge
- The ability to reflectively regulate emotions for personal growth.

But it was Daniel Goleman's 1995 book "Emotional Intelligence" which created the real marketing buzz, setting off a string of articles in the popular press (e.g. "The EQ Factor", TIME Magazine, 1995). Goleman formulated EQ in terms of four major domains: *Self-Awareness*, *Self-Management*, *Social Awareness*, and *Relationship Management*. "Self-awareness", he says, "facilitates both empathy and self-management, and these two, in combination, allow effective relationship management". Goleman later made a distinction between emotional intelligence and *competence*. "Although our *emotional intelligence* determines our potential for learning the practical skills that underlie the four EQ clusters, our emotional *competence* shows how much of that potential we have realized by learning and mastering skills and translating intelligence into on-the-job capabilities".

The emotional intelligence competencies defined by Goleman are:

Self-Awareness

- *Emotional self-awareness*: Reading one's own emotions and recognizing their impact.
- *Accurate self-assessment*: Knowing one's strengths and limits.
- *Self-confidence*: A sound sense of one's self-worth and capabilities.

Self-Management

- *Emotional self-control*: Keeping disruptive emotions and impulses under control.
- *Transparency*: Displaying honesty and integrity, trustworthiness.
- *Adaptability*: Flexibility in adapting to changing situations or overcoming obstacles.
- *Achievement*: The drive to improve performance to meet inner standards of excellence.
- *Initiative*: Readiness to act and seize opportunities.
- *Optimism*: Seeing the upside in events.

Social Awareness

- *Empathy*: Sensing others' emotions, understanding their perspective and taking an active interest in their concerns.
- *Organizational awareness*: Reading the currents, decision networks, and politics at the organizational level.
- *Service*: Recognizing and meeting client needs.

Relationship Management

- *Inspirational leadership*: Guiding and motivating with a compelling vision.
- *Influence*: Wielding a range of tactics for persuasion.
- *Developing others*: Bolstering others' abilities through feedback and guidance.
- *Change catalyst*: Initiating, managing, and leading in a new direction.
- *Conflict management*: Resolving disagreements.
- *Building bonds*: Cultivating and maintaining a web of relationships.
- *Teamwork and collaboration*: Cooperation and team building.

Goleman has claimed that for all kinds of jobs, differences in emotional competencies are twice as predictive of successful job performance as are technical skills and IQ combined. “IQ may be a stronger predictor than EQ of an individual’s career success”, he says.

“But only because it acts as a *threshold* of entry. Within a job or profession, who rises to the top and who plateau’s is more strongly predicted by EQ than IQ”.

EQ however, seems to have a significant overlap with personality factors. For example, *conscientiousness* is a core personality characteristic described as: responsible, careful, persevering, orderly, hardworking, planful. Another important personality factor is *emotional stability*, described as: secure, stable, relaxed, self-sufficient, not anxious, and tolerant of stress. Both of these are consistently valid predictors of job performance across a range of occupations. *Conscientiousness* however, may be closely associated with the EQ dimension of self-regulation of emotions, and *emotional stability* with the EQ domain of stress management. Other personality characteristics also seem to map onto EQ descriptions. *Extraversion* is described as: talkative, assertive, adventurous, energetic, which closely resembles the EQ dimension of social skills. *Agreeableness* (good-natured, flexible, cooperative, caring, trusting, tolerant) appears to overlap with the EQ factor of empathy.

Whether or not EQ exists independently of what is already known from the fields of personality, intelligence, and applied psychology, the notion of emotional intelligence has wide appeal, both conceptually and practically. And research is beginning to show that EQ is a stand-alone characteristic. For example, a recent study by Ben Palmer from the Organisational Psychology Research Unit at Swinburne University found that 41% of the reason for effective leadership was explained by the EQ competency of *understanding emotions*, over and above personality alone.

Oh What a Feeling!

How does EQ make a difference to the adviser-client relationship? Most financial planners rely on the “argument of numbers” to influence clients. Both the accuracy and the “appeal” of financial information is assumed to be the major factor in winning and sustaining client relationships. Emotions are an unnecessary complication in a field dominated by evidence-based decisions.

Yet, it may be impossible to separate emotion from logic. Science is increasingly recognizing the importance of emotion for the fundamental tasks of survival and adaptation. Emotions are our *first* response to the outside world. We *feel*; then we think. Not the other way around. Emotion facilitates decision-making, has significant influence on learning and memory, and provides the motivation for critical action. Intellectual abilities like verbal fluency, spatial logic, and abstract reasoning have been located in specific areas of the neocortex of the brain. In contrast, the circuitry for emotion extends from the limbic (primitive brain) areas of the amygdala and hippocampus right throughout the brain to areas in the prefrontal cortex, the brain's executive centre. In other words, thinking is indivisible from, and influenced by, feeling.

We use our “emotional circuitry” to read another person's face and voice for emotion, and attune our responses accordingly. Getting “on the same wavelength” with a client is a distinguishing feature of a successful adviser-client relationship. It seems that our emotional circuitry also attunes our biology to the dominant range of feelings being expressed so that emotional states converge creating a harmony between interlocking brains – what some researchers have called *limbic resonance*.

Whether an adviser is resonating positive or negative feelings can influence the nature of the relationship. Positive mood has been shown to directly influence the mood of others in teams and work groups. So, empathy is not a kind of “warm and fuzzy” sentimentality, but a critical component of social effectiveness, creating resonance and harmony in relationships. Empathetic advisers are outstanding in meeting the needs of clients. They seem approachable, wanting to hear what the client has to say. They listen carefully, picking up on what the client is truly concerned about, and they respond accurately. Conversely, the tuned-out, dissonant adviser is one of the main reasons clients leave.

Advisers who successfully manage their feelings are also more likely to handle disagreements with clients effectively. Feeling anxious or upset shows up in the brain as elevated activity, particularly in the amygdala. As negative emotion becomes elevated the prefrontal cortex gets aroused causing us to fixate on the cause of our distress. This

emotional circuitry forms a closed loop driving or reverberating the brain's executive control function so that we become captured by our emotions. Goleman called this pattern an "amygdala hijack".

Typically, the disagreeable client provokes irritation in the adviser, who then feels angry in return. But when the adviser does not return aggression and remains in a positive mood, then the client with the aroused amygdala has a chance to calm down, or at least not become more provoked.

Professor Neil Ashkanasay from the University of Queensland Business School outlines a number of tools for managing emotions that are applicable to adviser-client relationships:

- *Maintain open and quality communication*: Provide regular, high-quality information to clients to help reduce uncertainty and anxiety.
- *Display interpersonal sensitivity*: Quickly and appropriately express regret for any adversity experienced by the client as a result of your recommendations. This displays personal ethicality and trustworthiness.
- *Manage "emotional events"*: Deal directly and immediately with emotions expressed by the client or felt by you personally. Accurately identifying emotions in the moment shows understanding and empathy.
- *Recognize the role of both intuitive and analytical decision-making*: Intuitive decision-making can be expected when problems are ill defined or unusual. It may be the preferred style for experienced advisers who are more emotional in outlook, more risk tolerant, and more creative.
- *Engender a positive outlook*: A creative intuitive style to management is associated with positive mood in the client as long as the adviser keeps his or her focus on the task.
- *Effective decisions require an optimum mix of cognitive intellect and emotional regulation*: The most effective approach to decision-making incorporates emotional intelligence as a means to augment cognitive intelligence. Emotions must be managed in a way that maximizes the advisers' cognitive abilities.

Finally, EQ-based competencies seem to play a greater role in the performance of leaders at higher levels in organizations: “The higher the rank of those considered star performers, the more EQ competencies emerged as the reason for their effectiveness,” says Goleman. Despite the need for further research to properly identify what emotional intelligence really is, Goleman and his colleagues sustain the popular belief that, “purely mental abilities help – but EQ competencies help far more”.

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