EMOTIONAL INTELLIGENCE AND FINANCIAL LEADERSHIP: A CRITICAL REVIEW

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Abstract. Financial leaders today face a major challenge in ensuring the function adapts to the changing needs of the business. With growing stakeholder interest in the broader performance of organizations beyond pure financial measures, there is a growing focus on the need to drive improved business performance which can be sustained for the longer term. Finance leaders have a significant role to play in leveraging the capabilities of the finance function to provide insight and commercial support to drive sustainable decision making and bring a broader external market focus to support the strategy of the business, but critically this must be counter balanced by continuing to ensure their traditional fiduciary and controllership responsibilities are met. This need for balanced finance leadership is the hallmark of today's CFO role. This paper examines CFO role in combining the intelligence of smart technologies with the brains, emotional intelligence and interpersonal skills of talented people.

Key words: emotional intelligence, CFO, self-awareness, self-regulation, empathy, social skill

Introduction. Emotions can influence financial decisions in surprisingly predictable ways. We tend to be overconfident in our own knowledge and decisions, we extrapolate recent trends while dismissing the past, we refuse to accept losses gracefully by hanging on to our losers far too long, and so on. Even experienced investors are not immune (Garvey and Murphy, 2004).

Financial decision making is most often perceived as how institutions and consumers interpret and apply professional investment advice, yet it appropriately should also include the challenges of organizational operations, including capital budgeting and evaluation. It is these latter obligations that are on the task list of every corporate chief financial officer (CFO).

Every CFO depends on a team of talented specialists to propose the right mix of financial alternatives to the senior management team. We've often depended on traditional analytic measures to do so, such as discounted cash flows, measures of risk, and classic probability assessment. These measures are typical indicators of cognitive intelligence, which is itself only one component of general intelligence and different completely from emotional intelligence (EI) and its complement, emotional competence (EC).

Emotional intelligence interpersonal components affect the relationship between managers and subordinates, and there is some evidence to indicate that the EI and EC intrapersonal components have a direct effect on personal task performance perhaps even more so than does cognitive intelligence.

What's next for CFOs?

- Increasing complexity and regulation mean that boards are requiring CFOs to possess a strategic mindset in addition to technical/commercial/operational know-how:
  - In particular, a passion for complexity and deep intellectual curiosity characterizes the CFOs who succeed most prominently against this mandate.
  - This breed of CFOs truly can be considered a co-pilot alongside the CEO of their company.
- Growing stakeholder challenges may generate a class of CFOs with stronger attributes around interpersonal and written communications—and a more CEO-like lack of reserve.
- Continued swings in the economic cycle may continue to shift needed CFO attributes, with a higher degree of boldness emerging in more difficult economic times.
- CFOs have an ever greater range of options when they leave the CFO role—the most interesting of which is a pipeline becoming increasingly more direct to the board chairman role.

Emotional Intelligence

A **social skill** is the ability to negotiate the needs and feelings of others to that of yours. It is the proficiency in managing relationships and building networks, and an ability to find common ground.

The first three components of the mixed model namely self-awareness, self-regulation and internal motivation deals with a person's internal emotions. An analysis of these three factors will show us "how well we manage ourselves" and the analysis of the other two components namely empathy and social skills will show us "How well we manage relationships".

A CFO should possess leadership qualities which will enable him to delegate and oversee the financial operations of the company effectively. Emotional intelligence is widely known to be a key component of effective leadership. The ability to understand yourself, your emotions, as well as having sound situational awareness can be a powerful tool for leading a team.

A CFO lacking in emotional intelligence will not be in a position to effectively understand the needs, wants and expectations of his finance team and the board of directors. Unregulated reactions to emotions can adversely affect the work atmosphere and relations. CFOs must be self-aware and also recognize and manage their communications, both verbal and non-verbal, so that it doesn't negatively affect their team.

As per the research findings of Professor Albert Mehrabian, only 7% of meaning in the words is spoken, 38% of the meaning is para-linguistic and 55% of the meaning is in facial expression. Lack of effective communication is the root cause of conflicts and confusions between people. Ineffective communication at work place leads to confusions, conflicts, distrusts & hatred among employees. Effective communication by a CFO will results in alignment and shared sense of purpose among his team. This will help him to better understand his team's emotions and to have the ability to resolve the conflicts, thus, leading them to exceed the goals.

Consciousness can only be understood through relativity. Relativity is an awareness based on comparison. For example for a CFO to know himself as an expert in financial reporting, he must have something that is relative and can define what "expertise in financial reporting" is. A person can only understand consciousness relative to some other experience that can provide the basis to define a person's consciousness.

References:

1. Garvey, R., & Murphy, A. (2005). Are Professional Traders Too Slow to Realize Their Losses? *Financial Analyst Journal*, 60 (4), 35-43.