

## **Do managers' emotional intelligence matter for SMEs' business practices?**

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### **Abstract**

An under-researched question in the current literature is to what extent managers' emotional intelligence (EQ) play a role in driving business practices. To explore this question, we carried out a survey with 320 textile and garment SMEs in Vietnam. We find that one standard deviation increase in EQ of managers is related to 3.87% increase in business practices adoption. Notably, EQ levels of managers have different impact on adoption of each business practices. These effects on marketing practices are strongest, while EQ level of managers has modest effect on financial planning practices.

*Keywords:* emotional intelligence; business practices; experimental survey; managers

*JEL Classification Codes:* G41, D22, D91

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### **1. Introduction**

Identifying drivers of business practices adoption has always been an important question in the business and management research (Ketokivi and Schroeder, 2004). An established finding in the literature is the positive role of business practices in firm outcomes (e.g., Bloom et al, 2013; McKenzie and Woodruff, 2015; Nguyen and Kim, 2019). Extant literature has also stressed the importance of managers' personality traits and competencies, and found characteristics of managers contribute to variations in the performance and behavior of firms (e.g., Bouzguenda, 2018; Souissi and Jarboui, 2018). However, an under-researched question is whether there exists a connection between managers' emotional intelligence and business practices?

To address this question, we explore the link between EQ of managers and business practices for a sample of 320 textile and garment SMEs in Vietnam. To do so, we conducted a firm-level survey in 2018 based on methodology proposed by McKenzie and Woodruff (2015) to measure business practices used in daily operations of small and medium-sized enterprises (SMEs). In addition, we incorporated into the survey the International Positive Affectivity – Negative Affectivity Schedule – Short form (I-PANAS-SF) to measure managers' emotional intelligence (EQ). Consistent with extant literature (Ackert et al., 2020; Charupat et al., 2013) we use this measure as a proxy for the manager's EQ. We focus on SMEs because previous

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studies show that managers play a more crucial role in decision making in small than in large firms (Russo and Perrini, 2010). Further, SMEs are important drivers of the Vietnamese economy's development by substantially contributing to job creation and GDP growth (Nguyen et al., 2018).

Salovey and Mayer (1990) appear to be the first to design the ability model of EQ, and conceptualize it as a set of mental abilities to control one's own and others' feelings and emotions, then process and use emotion-related information to think logically and guide actions. George (2000) further contends that a manager with high EQ possesses capability of sorting out individual and organizational issues. Then Goleman (2001) introduces the EQ-based theory of performance, and describes EQ as sine qua non for organizational effectiveness.

Further, an emerging strand of empirical literature has shown that EQ plays a significant role in the effective performance of firms (e.g., Bachman et al, 2000; Ezzi et al, 2016; Mavroveli et al, 2007; Kim, 2020; Souissi and Jarboui, 2018; Tai et al, 2018). They give support for the notion that an emotionally intelligent manager has ability to motivate idea generation, and makes proper decision and strategy making (Bouzguenda, 2018; Meisler and Vigoda-Gadot, 2014), which may help him to develop relationship with employees, shareholders and customers, to minimize agency and transaction costs (Ezzi et al, 2016; Trehan and Shrivastav, 2012), to be conscious of firms' financial situation (Tai et al, 2018), and to explore the productive capacity of his firm in a positive way (Cote and Miners, 2006).

Building upon these logic and evidence, we hypothesize as follows:

*Hypothesis 1:* EQ levels of managers have positive relationship with SMEs' business practices.

Our findings show that managers' EQ levels do matter to firms' adoption of business practices. An increase of one standard deviation in EQ contributes to 3.87 percent increase in overall business practices. Notably, EQ levels of managers have different impact on adoption of each business practices. Their effect on marketing practices is strongest – adoption of marketing practices increases by 19.56% per 1-point increase in managers' EQ. EQ level of managers has modest effect on financial planning practices.

## 2. Methodology

### 2.1. Sample selection and survey procedure

In this study, we conducted a survey to measure business practices used in day-to-day operations of firms, managers' emotional intelligence (EQ) and demographic profiles. We collaborated with the General Statistics Office of Vietnam (GSO) to select randomly SMEs from all state and privately-owned textile and garment firms in Thai Binh, Hai Duong and Binh Duong provinces, which are three hubs of textile and garment firms in Vietnam. In accordance with the Vietnamese regulation on SMEs, we restricted observation to firms with between 10 to 200 employees. This yielded a sample of 320 potential SMEs.

To ensure the creditability of data set, we hired officials from the General Statistics Office of Vietnam (GSO) to do our survey<sup>1</sup>. The survey consists of three parts, in which part 1 contains questions on managers' demographic characteristics, questions on business practices measurement are on part 2, and the questionnaire on managers' EQ is on the final part. Details on the survey are contained in the Appendix 1.

Our participants are managers, most of them are CEOs, CFOs. As the demographic profiles shown in the table 1, the participants' average age is 49.71 years (SD=10.0629), 51.77% sample managers are younger than 50 years old, and 48.23% of managers are from 50 to 76

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<sup>1</sup> In Vietnam, firms are legally required to response to surveys of GSO.

years old. Of this group of managers, 65.17% are male (n=208), and 34.83% are female (n=112). About 56% of managers in the sample have at least bachelor degrees.

## **2.2. Variable construction**

### *2.2.1. Business practices measurement*

To measure business practices, we follow survey methodology developed by McKenzie and Woodruff (2015). The survey consists of 23 questions, which define and measure key business practices that are considered as “best practices” so all firms might be beneficial to espouse them (McKenzie and Woodruff, 2015; Taylor, 1991). These practices are grouped into three areas: marketing (7 practices), costing and record-keeping (8 practices), and financial planning (8 practices).

In order to assure the reliability of responses, we carry out traditional closed-end question “tick-box” survey design and all questions can be asked regardless of location because as we mentioned above that our survey depends on survey enumerators from the GSO. For each business practice, we ask a firm whether it is doing that practice or not. If the firm is adopting that business practice, the participant will tick “box 1”, and tick “box 0” otherwise. For example, under financial planning practices, we ask whether firms review the financial performance and analyze where there are areas for improvement at least monthly. That practice will be coded 1 if a firm is doing it, and 0 if the firm is not doing it. We detail the business practices and the questions in the same order as they were in the survey in the Appendix 1.

In terms of measurement, scores of marketing, record-keeping, and financial planning practices are generally defined as the average scores of each type of business practices used by firms, namely 7 marketing practices, 8 record-keeping practices, and 8 financial planning practices, respectively. We construct business practices score by calculating the average value of marketing score, record-keeping score, and financial planning score. In a nature manner, all these scores range from 0 (adopting none of business practices) to 1 (adopting all of business practices). Similar to McKenzie and Woodruff (2015), among others, we use the natural logarithm of all these scores in our cross-sectional estimations to control for skewness.

### *2.2.2. EQ measurement*

Although there are many models to measure EQ in the current literature, in this paper, EQ is measured with the self-report measure of emotional intelligence, which is proposed by Schutte et al (1998). Following Charupat et al., (2013), Ackert et al., (2020), and Kim (2020), we generated a group of 10 questions based on the International Positive Affectivity – Negative affectivity Schedule – Short form (I-PANAS-SF). By asking participants how normally they feel in the direction of the state under investigation, the idea of our survey is to draw out a reaction to a collection of negative affectivity (NA) from 5 questions, such as “nervous” or “hostile”, and positive affectivity from 5 other questions, such as “active” or “determined”. Each question is evaluated on 5-point scales ranging from 1 (never) to 5 (always); and the total scores are divided by the number of questions. As such, NA is the average score on 5 questions correspond to negative emotions. We take NA as the proxy for EQ because low negative affectivity is likely to be a characteristic of a person who displays calm, gracefulness under stress (Charupat, 2013); and an emotionally intelligent individual might impede adverse impact deriving from negative emotions (Fallon et al, 2014). In this study, we use 5 minus NA average scores, which implies that a higher value refers to higher EQ.

Table 1. Descriptive statistics.

<i>Variable</i>	<i>Obs</i>	<i>Mean</i>	<i>Std. Dev.</i>	<i>Min</i>	<i>Max</i>
<i>Business Practices score</i>	320	0.7274	0.1784	0.1667	1
<i>Marketing score</i>	320	0.5230	0.3058	0	1
<i>Record-Keeping score</i>	320	0.8199	0.2462	0	1
<i>Financial planning score</i>	320	0.8394	0.1794	0.25	1.00
<i>Emotional intelligence</i>	320	2.5207	0.7207	0	4
<i>Age</i>	320	49.7103	10.0629	26	76
<i>Gender</i>	320	0.6517	0.3546	0	1
<i>Education</i>	320	5.5606	1.9773	1	9
<i>Firm size</i>	320	20.4048	30.5537	10	200
<i>Charter capital</i>	320	85042.42	62918.39	24840.7	152209
<i>Debt</i>	320	55268.46	486167.9	23016.5	212557

Note: Table 1 reports descriptive statistics of business practices score, some firm specific variables, emotional intelligence, and demographic variables of participants.

### 3. Results analysis and discussion

#### 3.1. Characteristics of data

Summary statistics are reported in Table 1. On average the sample firms adopt 72.74% of the 23 business practices measured. Among the business practices, the most often used one is financial planning practices ( $M = 0.8394$ ); the least frequently used practices is marketing practices ( $M = 0.5206$ ). The EQ's mean value of 2.519 is somewhat higher than the mean of 2.42 found in Charupat et al (2013). This finding verbally suggests that sample are characterized by quite high EQ level.

Pearson correlation matrix is displayed in table 2. The correlation between the business practices score and main independent variables reveals some obvious propensity. EQ shows a positive correlation with business practices ( $r = 0.141$ ,  $p < 0.05$ ), which to some extent supports the hypothesis. Similarly, we also observe positive relationships between EQ and each type of business practices, namely marketing practices, record-keeping practices, and financial planning practices ( $r = 0.160$ ,  $p < 0.01$ ;  $r = 0.138$ ,  $p < 0.05$ ;  $r = 0.116$ ,  $p < 0.05$ , respectively).

#### 3.2. The association between managers' emotional intelligence and business practices

Table 3 scrutinizes whether an emotional intelligent manager and/or a manager with higher EQ level can improve adoption of business practices using cross-sectional regression analysis. We investigate managers' EQ and overall business practices in the model 1; we then investigate the effects of managers' EQ levels on the three subcomponent scores, namely marketing score (model 2), record-keeping score (model 3), and financial planning score (model 4)<sup>2</sup>.

Starting with overall business practices, it is asserted that an emotionally intelligent manager is likely to enhance adoption of business practices. The coefficients on EQ are significant in model 1 ( $\beta = 0.0387$ ,  $p < 0.05$ ), which provides support for the hypothesis. The 0.0387 estimated coefficient on EQ suggests that one standard deviation increase in EQ of managers would lead to an increase in the adoption of business practices by 3.87 percent. The reason for this effect might be that an emotionally intelligent manager is self-conscious and mindful

<sup>2</sup> Despite not being reported in this paper, we conducted VIF test to examine the probability of multicollinearity. The VIF statistic was  $VIF = 1.72$ , which suggests that our regression models do not have multicollinearity problems as  $VIF < 10$ . We also carried out White's test for heteroscedasticity issue. From the White's test, we got  $Prob > \chi^2 = 0.5688$ , so the null hypothesis of homoscedasticity could not be rejected. In other words, heteroscedasticity issue is not present in our models.

Table 2. Correlation matrix.

	1	2	3	4	5	6	7	8	9	10	11
<i>Business practices score</i> (1)	1										
<i>Marketing score</i> (2)	0.809***	1									
<i>Record-Keeping score</i> (3)	0.712***	0.293***	1								
<i>Financial planning score</i> (4)	0.627***	0.308***	0.253***	1							
<i>EQ</i> (5)	0.141**	0.160***	0.138**	0.116**	1						
<i>Age</i> (6)	0.007	0.002	0.008	0.015	0.033	1					
<i>Gender</i> (7)	0.025	0.021	0.028	0.009	0.045	0.148***	1				
<i>Education</i> (8)	0.028	0.026	0.022	0.006	0.003	0.177***	-0.004	1			
<i>Firm size</i> (9)	0.049	0.072	0.027	0.061	0.066	-0.007	0.037	-0.005	1		
<i>Charter capital</i> (10)	-0.092*	-0.018	-0.029	-0.038	-0.011	0.017	-0.018	0.003	0.006	1	
<i>Debt</i> (11)	0.023	0.022	0.023	0.004	0.002	-0.147***	-0.029	-0.052	-0.001	-0.0108	1

Note: Table 2 displays the correlation matrix among variables. \* p<0.1, \*\* p<0.05, and \*\*\* p<0.01.

Table 3. Estimation results for overall business practices and each type of business practices.

<i>Dependent variables</i>	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>	<b>Model 4</b>
	<b>Overall business practices</b>	<b>Marketing score</b>	<b>Record-Keeping score</b>	<b>Financial planning score</b>
<i>Emotional intelligence</i>	0.0387** (2.36)	0.1956*** (6.59)	0.0440*** (3.26)	0.0252** (2.17)
<i>Age</i>	0.0149 (0.35)	0.0821 (0.41)	0.0742 (0.79)	0.0733 (0.92)
<i>Gender</i>	0.1641 (1.43)	0.0941* (1.70)	0.0288 (1.07)	0.0203* (1.72)
<i>Education</i>	0.0479** (2.20)	0.0114 (1.17)	0.0778* (1.75)	0.0519 (1.34)
<i>Firm size</i>	0.0119 (0.16)	0.0393 (1.11)	0.0348** (2.24)	0.0577 (0.44)
<i>Charter capital</i>	0.0671** (2.52)	0.0118 (0.98)	0.0655 (1.07)	0.0742 (1.35)
<i>Debt</i>	0.0144 (0.77)	0.0897 (0.14)	0.0473 (0.93)	0.0483 (0.15)
<i>Intercept</i>	5.6833*** (4.92)	-1.4192*** (5.27)	1.9165*** (6.53)	0.2115** (2.01)
<i>Observations</i>	320	320	230	230
<i>Adjusted R-squared</i>	0.201	0.566	0.312	0.611

Note: Table 3 reports the effect of managers' EQ levels on overall business practices and each type of business practice with t-values presented in parentheses. Standard errors are clustered by province to control for heteroscedasticity and serial correlation. Beta coefficients are standardized. \*  $p < 0.1$ , \*\*  $p < 0.05$ , and \*\*\*  $p < 0.01$ .

of his business and life environment (Bouzuenda, 2018), he is devoted to concerns of employees and firms (Muller and Turner, 2010).

Regarding effects of managers' EQ levels on each type of business practices. Interestingly, we find that the estimated coefficients on EQ level are positive and statistically different from zero in all models 2, 3 and 4 ( $\beta = 0.1956$ ,  $p < 0.01$ ;  $\beta = 0.0440$ ,  $p < 0.01$ ;  $\beta = 0.0252$ ,  $p < 0.05$ ), suggesting that EQ level of managers always has impact on business practices adoption regardless of business type. In particular, it has the strongest effect on marketing practices, but has the least effect on financial planning practices. The 0.1956 coefficient says that increasing the EQ level of managers by 1 point would lead to 19.56% improvement in adopting marketing practices. The coefficient of 0.044 implies that one standard deviation of managers' EQ level is associated with a 4.4% increase in record-keeping score. Under financial planning practices, 1-point increase in EQ level of manager is related to 2.52% increase in adopting these practices.

In terms of the control variables, we find a positive association between managers' educational levels and business practices adoption in models 1 and 3 ( $\beta = 0.0479$ ,  $p < 0.05$ ;  $\beta = 0.0778$ ,  $p < 0.1$ , respectively). These findings indicate that managers with higher educational levels are more likely to enhance adoption of business practices. Likewise, empirical results in models 2 and 4 ( $\beta = 0.0941$ ,  $p < 0.1$ ;  $\beta = 0.0203$ ,  $p < 0.1$ , respectively) suggest that male managers are highly likely to enhance marketing and financial planning practices. We also observe that firms' charter capital is positively related to business practices in model 1 ( $\beta = 0.0671$ ,  $p < 0.05$ ). Further, firm size is found to be a significant determinant of record-keeping practices adoption ( $\beta = 0.0348$ ,  $p < 0.05$ ).



#### 4. Conclusion

We explored the impact of managers' EQ levels on firms' business practices by conducting a survey on a sample of 320 textile and garment SMEs in Vietnam. The first empirical contribution is our significant and strong finding that EQ levels of managers do matter to firms' adoption of business practices. One standard deviation increase in EQ level of managers is associated to 3.87 percent increase in business practices adoption. This finding underlines the importance of managers' personality trait and competencies in improving business practices.

Second, we shed new light on the current literature and provide new insights into firms' business practices by examining each type of business practices. We observe that EQ level of managers have the strongest effect on marketing practices. Adoption of marketing practices increases by 19.56% per 1-point increase in EQ level of managers. The effect of EQ on financial planning practices is modest, however.

From managerial standpoint, understanding how EQ levels of managers link to adoption of business practices has meaningful practical implications for firms in general and for managers in particular. Specifically, in the recruitment and management development area, EQ levels should be considered as a vital criterion for recruiting and promoting managers. Those managers can be expected to have great intelligence, grace and positive work attitudes to solve problems and deal with organizational concerns.

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