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Emotional intelligence and competitive advantage: examining the relationship from a resource-based view

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Be the change that you want to see in the world

Mahatma Gandhi (1869–1948)

- *Leaders have an essential role in facilitating strategic change within organizations. As resistance to change is primarily an emotional reaction to change, the study of emotions and the emotional intelligence of the leader is of growing interest in modern organizations.*
- *From a strategic perspective, the process of how the emotional intelligence of a leader contributes to competitive advantage for an organization is unclear.*
- *Based on the resource-based view of the firm, this paper introduces a framework that links emotional intelligence to competitive advantage. Essentially, it is argued that emotional intelligence leads indirectly to competitive advantage by influencing the leadership capability necessary for implementing effective strategic change.*
- *In the current volatile business environment, it is argued that organizations possessing emotionally intelligent leaders will be more likely to obtain competitive advantage. Suggestions for organizations are discussed and directions for future research are also presented.*

Introduction

The architect of one of the most radical political strategic changes in recent history, Mahatma Gandhi, understood the essential requirements for implementing strategic change. Based on his philosophies and capabilities, he single-handedly changed the political strategy of the 'Free India Movement' from violent to non-violent opposition of the ruling British Empire. This he accomplished by embodying and exemplifying the change he wanted to see in the world. We argue that Mahatma Gandhi's philosophy of change is relevant in the contemporary business arena characterized by globalization, fierce competition and technological advancements, where the only constant that organizations can be

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sure of is change itself (Marshak, 2002). The literature suggests that those organizations that can plan, implement and manage change are more likely to achieve competitive advantage. Despite this, contemporary organizations are '*littered with the debris of yesterday's (change) initiatives*' (Mayo, 2002, p. 40), which is increasingly being attributed to the ineffective leadership of change (Gill, 2003). When one views the process of strategic change as an organizational capability that may be a source of competitive advantage, then the importance of an effective leader is accentuated as mounting evidence suggests that strategy implementation is linked to the philosophy and personality of the leader (Parnell and Lester, 2003).

The only constant that organizations can be sure of is change itself

Since the primary task of management today is the leadership of change (Graetz, 2000), a review of Mahatma Gandhi's philosophy of change highlights the paramount importance of a leader who is willing to be a quintessential example for that change to be achieved. Implied in his philosophy is the importance of relating emotionally to followers. For example, in order to '*be the change*' as he states, leaders must clearly relate to the effects of change in followers. The interpersonal dimension of leadership is increasingly being recognized as a key characteristic of leaders in contemporary organizations (Goleman, 1998). Additionally, as strategic change contravenes assumptions about what is needed, especially to those not privy to the forces driving the strategic decision-making process, resistance to the strategic change ensues. As resistance to change is fundamentally an emotional reaction, that is often alogical or even illogical (Werther, 2003), contemporary business leaders not only have to relate to their followers at the cognitive level but also at an emotional level, to enable effective strategic change. Such a leadership capability, characterized by emotional intelligence, is as relevant today as it was 60 years ago in the era of Gandhi.

The primary task of management today is the leadership of change

Emotional intelligence has emerged as a growing area of investigation in organizational change (Doorewaard and Benschop, 2003) and leadership research (Zhou and George, 2003; Humphrey, 2002). Nonetheless, limited understanding exists in explaining from a strategic perspective how emotional intelligence can be harnessed to achieve competitive advantage for organizations. By adopting the resource-based view of the firm as an overarching theoretical framework, this paper introduces a simple framework that associates emotional intelligence with the development of competitive advantage for an organization. **Figure 1** presents the theoretical model, which argues that leadership capability comprises behavioural, emotional and cognitive dimensions. More specifically, the paper focuses upon emotional intelligence as an important concept that influences leadership capability, which has implications for effective strategic change and competitive advantage. The paper then addresses suggestions for strategic managers and implications for research.

Overview of the literature: competitive advantage from a resource-based perspective

Competitive advantage, which explains varying levels of organizational profitability, has been the centrepiece of the strategic management dialogue (e.g. Porter, 1980; Barney,

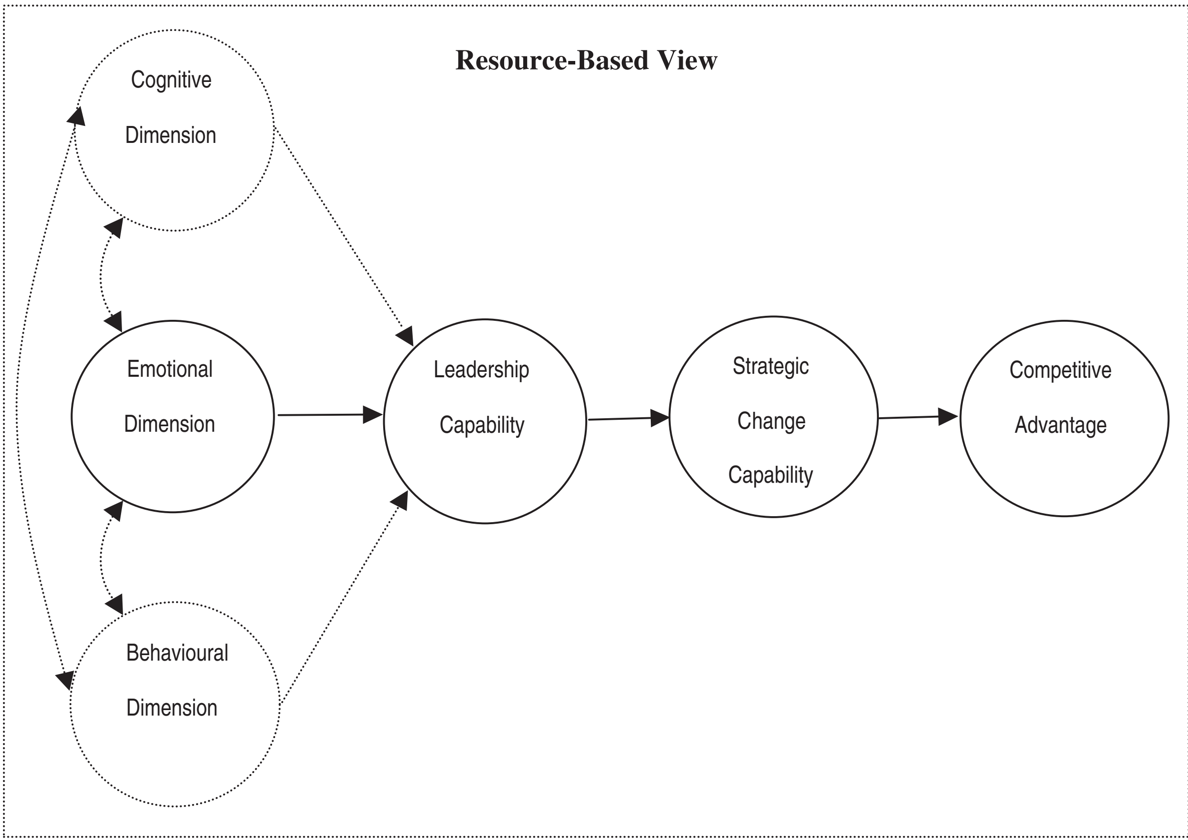

Figure 1. A resource-based view for linking leader emotional intelligence to competitive advantage.

1991). Competitive advantage can be viewed as a superior position in the marketplace that allows for providing superior value to the customer and/or providing relatively lower costs. This is said to lead to a dominant position in market share and comparatively better financial performance (Day and Wensley, 1988). Furthermore, in order for the competitive advantage to be sustainable, a key determinant is how easily competitors can imitate competitive strategies and those capabilities that are the foundation for their development (Grant, 1991). The two dominant paradigms explaining competitive advantage include the positioning school, as advocated by Porter (1980), and the resource-based view (RBV) (Wernerfelt, 1984; Barney, 1991, 2001). The strategy literature has undergone vigorous debate with regard to the relative importance of organizational capabilities or industry factors in explaining competitive advantage (Teece *et al.*, 1997; Mahoney and Pandian, 1992). In recent years, the discipline of strategic management has shifted its focus from the industry to the specific characteristics of the firm (Spanos and Lioukas, 2001; Fahy and Hooley, 2002), primarily due to the increasing empirical evidence highlighting that the firm effect is relatively more important than the industry effect (e.g. Eriksen and Knudsen, 2003).

The RBV argues that the reason for the differences in firm profitability within the same industry is due to the capabilities that are internal to the company (e.g. Wernerfelt, 1984; Barney, 1991). Increasing empirical evidence is giving credibility to this premise of the RBV theorists. For example, Spanos *et al.* (2004), in an investigation of Greek manufacturing organizations, found that firm-specific

Table 1. The core principles of RBV

Core principles	Key sources
Grounded in evolutionary economics	Penrose (1959)
Internal firm capabilities as sources of competitive advantage	Wernerfelt (1984), Barney (1991), Amit and Shoemaker (1993)
Capabilities are heterogeneous within firms and imperfectly mobile	Barney (1991), Barney and Arikan (2001)
Capabilities must be valuable, rare, difficult to imitate and non-substitutable in order to be a source of competitive advantage	Barney (1991), Dierickx and Cool (1989), Peteraf (1993)
Intangible capabilities more likely to lead to competitive advantage	Hall (1992)
Complementarity of capabilities more likely to lead to competitive advantage	Powell and Dent-Micallef (1997)
Sustainability of competitive advantage depends on the deployment of isolating mechanism to protect from imitation, including casual ambiguity, complexity, tacitness, path dependency and legal barriers	Lippman and Rumelt (1982), Dierickx and Cool (1989), Reed and DeFillipi (1990)

strategy variables explained more than twice as much profit variance as industry effects. RBV suggests that competitive advantage is derived through a combination of unique organizational resources in obtaining virtual monopoly positions in their respective markets (Hamel and Prahalad, 1994). As these resources are heterogeneous (Barney, 2001), the uniqueness of a firm is illustrated by how the resources are grouped together to form capabilities (Amit and Shoemaker, 1993). Although there is a debate about the distinction between resources and capabilities, Makadok's (2001) distinction appears to be the clearest (Hoopes *et al.*, 2003). Makadok (2001) views a resource as an asset that can be observed (not necessarily tangible), valued and traded, such as a brand, licence or patent. Conversely, a capability is an asset that cannot be observed (therefore intangible), cannot be valued and is traded only as part of its entire unit. Additionally, a capability can be valuable by itself or enhance the value of a resource. Sustainable competitive advantage arises from the capability being *imperfectly mobile* and *imperfectly inimitable* (Peteraf, 1993). Imperfectly mobile suggests that it is difficult to trade in some capabilities. For example, a capability that has been developed from a complex fusion of a variety of resources will be organization-specific. Thus, it will be difficult to purchase organization-specific knowledge of buyers and workers' capabilities. Imperfectly inimitable suggests that it is difficult for the competition to imitate the organization's capabilities, as it is difficult for the competing firms to determine the processes that lead to efficiencies and subsequent sustainable competitive advantage (Dutta *et al.*, 1999). The reader is referred to **Table 1** for an overview of the key arguments of RBV.

As an emerging theoretical framework, there has been no shortage of criticisms of the RBV paradigm (Priem and Butler, 2001a,b; Barney, 2001). As Connor (2002, p. 313) suggests, '*The RBV literature seems to raise more questions than it answers*'. Although debate about the validity of the RBV as a theoretical framework or as a useful framework for practitioners is beyond the scope of this paper, we agree with Fahy and Smithee (1999, p. 13) who state that as RBV is an emerging area of theory, '*it is not short of confusion, ambiguity*

There has been no shortage of criticisms of the RBV paradigm *and both conceptual and empirical difficulties*'. Recent research has made ground in explaining some of the issues raised by critics (e.g. Ireland *et al.*, 2003; Slotegraaf *et al.*, 2003). Additionally, strategic change by definition adheres itself to the RBV. For example, Werther (2003) suggests that strategic change involves developing and redeploying organizations' *resources* in ways that suggest a potential advantage over rivals, and Bloodgood and Morrow (2003) define it as a major modification to *the set of resources or routines that an organization uses to compete.* From a strategic perspective, the RBV is the dominant paradigm, explaining competitive advantage based on an organization's *resources and capabilities*. As RBV essentially argues that organizational capabilities are a source for competitive advantage, we view the RBV as an appropriate framework for understanding strategic change. Additionally, we view leadership and strategic change as capabilities, as conceptualized by Makadok (2001). Increasingly, leadership and strategic change capabilities are key differentiating factors for organizations. Therefore, an organization with strong leadership and strategic change capabilities is more likely to achieve superior differentiation, partly due to the intangible nature of these capabilities. This makes it difficult for competitors to imitate these capabilities, as the casual nature between the capability and competitive advantage is hard to discern. Additionally, these capabilities, when leveraged through a complex interaction of firm-specific resources, have the potential to be imperfectly mobile and imperfectly inimitable as it may be difficult for competing firms to imitate these firm-specific capabilities.

Emotional intelligence and leadership capability

A key theme in the strategy literature is in explaining the differential between firm performance (Miller, 2002). One explanation for this difference is that of strategic leadership. Strategic leadership is defined as '*a person's ability to anticipate, envision, maintain flexibility, think strategically and work with others to initiate changes that will create a viable future for the organization*' (Ireland and Hitt, 1999, p. 43).

This paper views strategic leadership capability as comprising three dimensions, which interact with each other to develop a superior strategic leadership capability. They include: the *cognitive dimension*, where the leader is able to intellectually and rationally analyse the situation to make decisions; the *emotional dimension*, as the ability to understand oneself and other people; and the *behavioural dimension*, where the leader uses and responds to emotions primarily through communication (Gill, 2003). It is beyond the scope of this paper to discuss all three dimensions that comprise a strategic leadership capability. Thus, we will focus on the emotional dimension as a key component of leadership capability.

Emotional intelligence has been heralded as an essential characteristic of an effective leader (Hooijberg *et al.*, 1997; Humphrey, 2002), where leaders should have a good understanding of their own emotions and the emotions of others. Furthermore, emotionally intelligent leaders are also able to regulate their own emotions when interacting with others (Wong and Law, 2002; Day, 2000). The concept of emotional intelligence has its foundations in the theory of social intelligence (Thorndike, 1920), which has been popularized in recent times by Salovey and Mayer (1990), Mayer *et al.* (1990) and Goleman (1995). Emotional intelligence refers to the ability of a person to identify, evaluate and distinguish among emotions in oneself and others. Furthermore, emotional intelligence requires a person to understand and assimilate emotions in thought and to regulate emotions in oneself as well as others (Mayer *et al.*, 2000).

In reference to Goleman's (1998) research on emotional intelligence, Brian Mitchell, managing director of Oracle Australia, clearly highlights the importance of its application to practice by stating that although the concept is new, it is very logical and highly relevant for developing organizational leaders (Moran, 2003). An example of emotional intelligence in practice is Richard Branson's leadership style and recent commercial successes in the highly competitive and highly volatile (e.g. recent failures of Ansett and Compass airlines) Australian Aviation Industry, with the launch of the Virgin Blue domestic airline. In the short period of Virgin Blue's corporate existence, the company has achieved 30% market share of the Australian domestic air travel market and is due to float on the Australian stock exchange in December 2003 at a capitalization of approximately AUD2.3 billion. Branson's leadership capability, characterized by emotional intelligence, has been evident through his ability to relate to, motivate and unify staff from this industry at a time when many airline employees were disillusioned and sceptical in a third airline's ability to successfully operate in the Australian market.

Emotional intelligence has been implied as a necessary condition for effective leadership, although it has not been explicit until recently (Higgs, 2002). This is evident in the most influential contemporary leadership paradigm of transactional–transformational leadership (Bass, 1985; House, 1995). Transactional leadership essentially involves cost–benefit economic exchanges with followers (Bass, 1985). Transactional leaders tend to maintain the *status quo*. On the other hand, transformational leaders attempt to elevate the consciousness of employees by appealing to visions based on higher ideals and values such as liberty, justice, excellence and equality (Bass and Avolio, 1989). Transformational leadership consists of: *individualized consideration*, where the leader treats employees as essential components of the organization; *inspirational motivation*, where the leader attempts to communicate the organizational vision, challenge workers, provide encouragement and allow autonomy; *intellectual stimulation,* where the leader attempts to intellectually stimulate workers to be creative; and also *idealized influence*, where the leader attempts to portray themselves as a role model (Sarros and Santora, 2001). Transformational leadership clearly implies that the emotional intelligence of the leader is at the core of this style of leadership. Recent research has since found that a positive relationship exists between transformational leadership and emotional intelligence (Duckett and MacFarlane, 2003; Sivanathan and Fekken, 2002). Based on the importance of emotional intelligence in the discourse on transformational leadership, this paper suggests that emotional intelligence is a key component of strategic leadership capability. It is important to note here that strategic leadership capability is formed from the interactions of the emotional, behavioural and cognitive dimensions and it is this interaction that allows for superior leadership capability.

Leadership capability, strategic change and competitive advantage

In the modern business environment, arguably the most important characteristic of strategic leadership is to prepare the organization for the future; a future that is characterized by ever-increasing change requiring organizational responses that either defends against the threat of the change or exploits the opportunities that the change provides. Although there are various factors that may influence the effectiveness of strategic change, measures such as an organizational culture and the simplicity and clarity of change objectives, it has become clear that effective leadership is a very important factor for the successful implementation of strategic change. For example, the importance of effective leadership is illustrated by Patricia Russo from AT&T, who in

The most important characteristic of strategic leadership is to prepare the organization for the future

1993 was given responsibility for the company's $6 billion business communications unit that at the time was making heavy losses. Russo's leadership was characterized by a simple vision to cut costs, improve products and services, earn the trust of customers and return the business to profitability. She is now faced with repeating this clear vision at Lucent Technologies, a subsidiary of AT&T, which is in direct competition with Cisco Systems, a global leader in technology solutions.

It is imperative that change is aligned with a clear vision and business strategy and that all subsequent activities and interventions are coordinated and consistent (Victor and Franckeiss, 2002). Organizational alignment, which is the job of the leader, clearly suggests the importance of effective leadership in facilitating strategic change. When implementing strategic change, *success depends primarily on how employees view the change and the process of change* (Werther, 2003). As most resistance to change is an emotional reaction, how the leader emotionally engages with the employees becomes essential. For example, Christine Nixon, the Commissioner of Victoria Police in Australia, was appointed at a time when the Victoria Police were undergoing strategic change. Her leadership style was based on engagement and open communication as opposed to the command and control style of her predecessors. When she first started as Commissioner, Nixon asked the employees to email her any problems, resulting in 200 weekly staff emails, mainly concerned with low morale. Her leadership style has resulted in a turnaround in annual resignation rate of 2%, from 90% from when she took over. She has been quoted as saying:

> *There are ways to deal with people that have much more successful outcomes and it really does revolve around the way you treat people more than anything else*. (Nader, 2003)

Additionally, recent evidence suggests that the emotional intelligence of the leader is positively related to effective change within organizations (Higgs, 2002).

Within the context of continuous environmental changes, strategic change is not an option but is essential for contemporary organizations (Hamel and Prahalad, 1994; Beaver, 2003). How adept organizations are in implementing strategic change is a key differentiating factor and a source of competitive advantage. From an RBV perspective, an integral component of the strategic change capability is that of an organization's strategic flexibility. This capability has been suggested as the ability of the organization to adapt to substantial, uncertain and fast-occurring changes in the environment that have a meaningful impact on its performance (Prastacos *et al.*, 2002). It is suggested that the capability of strategic flexibility is characterized in an organization by a flexible resource pool that increases effectiveness of communication, plans and strategies, and when integrated with the adapted product, should result in superior firm performance and subsequent competitive advantages (Grewal and Tansuhaj, 2001). Therefore, strategic flexibility enhances strategic change capability, which has implications for obtaining competitive advantage.

Conclusion and implications

Although this paper provides useful insights into the role of emotional intelligence to indirectly affect competitive advantage, the foremost limitation here is that it is currently at the conceptual stage of development. As a result, it suffers from the obvious shortcomings of clearly defined propositions and empirically derived data to produce meaningful and useful outcomes with both theoretical and practical implications. Hence, research is needed to further develop the conceptual ideas and operationalize the constructs with the help of empirically based research data. Further empirical research should employ advanced multivariate statistical analysis such as structural equation modelling to examine the interrelationships between constructs. From a practitioner perspective, managerial activities should focus upon facilitating strategic change through a strong leadership capability, which is dependent on three core dimensions, of which one is emotional intelligence. Organizations should attempt to create a culture that facilitates the development of employees with superior leadership capability through clear organizational human resource policies. More specifically, organizations should seek those traits that comprise a superior leadership capability in potential and current employees. For example, General Electric (GE) is well known as one of the best-managed companies in the world as it has fostered leadership capabilities within the organization that are prevalent throughout its management structure. This attention to the development of managers with outstanding leadership, business and decision-making skills has its roots in GE's Leadership Development Centre in New York. Annually, 10 000 newly hired and long-term managers go through the '*six sigma*' programme for training in quality, performance, processes and customer service. Emotional intelligence is recognized as a key attribute of a GE manager as they are trained in and scored, according to their level of emotional intelligence. Essentially, it is suggested that organizations consider those values that comprise a superior leadership capability, including emotional intelligence, when selecting and recruiting the future leaders of the organizations.

Mahatma Gandhi's philosophy of strategic change, that highlights the paramount importance of a leader who is emotionally intelligent, is as relevant today as it was in his era. This is because the leader cannot 'become the change' if the leader is not emotionally intelligent. Although literature on the role of emotional intelligence is emerging fast in the field, few efforts have been made to provide a single framework that is theoretically grounded in explaining *how* emotional intelligence can lead to developing competitive advantage that is managerially useful. To this end, the contribution of this paper is that an attempt has been made to present a theoretical framework grounded in the resource-based view of the firm and to introduce and discuss a conceptual model for understanding the process of how emotional intelligence may lead to developing competitive advantage. We have argued that emotional intelligence is an important dimension of a superior leadership capability that is essential for effective strategic change to achieve competitive advantage. Thus, emotional intelligence indirectly affects competitive advantage through leadership and strategic change.

Emotional intelligence affects competitive advantage through leadership and strategic change

Biographical notes

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