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LOL: Emotional Intelligence (EQ) for Investment Leaders

"If you have low self-awareness, you won't know you have low self-awareness."
--Doug Lennick, author of *Moral Intelligence*.

Question: If you could spend a day with Warren Buffett or with Daniel Goleman, who would you choose?

Warren Buffet, right?

I assume every reader would make this choice. I mean who wouldn't want to sit at the feet of the Oracle of Omaha? Arguably the greatest investor of all time. And hugely entertaining as well. No brainer, right? Wrong.

Why is it wrong to choose Buffett over Goleman? (I'm guessing many readers don't even recognize the name "Daniel Goleman." Although they may recognize his work on Emotional Intelligence (EQ).) Here's why. As investment experts, you're probably familiar with most of Buffett's wisdom. You've read his annual reports, maybe attended his annual "Woodstock-for-investors" meetings, and certainly seen the many books and articles about him. Is his reputation merited? For sure.

But choosing a day with Warren is wrong because he himself says that temperament, more than IQ or technical skills, is important to winning the investment game. And that's what EQ is all about: temperament. EQ is about how you manage your emotions, and how you leverage that skill to your benefit.

From FCG's extensive work with investment professionals, we know that EQ is not their towering strength. In simple terms, they have massive IQ and modest EQ. Sometimes the gap is remarkable. (Think: *The Accountant*) And in some cases, this gap is acceptable. If a person is an individual contributor—say an analyst or a strategist—then low EQ may be less fatal. Their role is to add value through doing their own work well, and--providing they don't create havoc—this works.

But for investment professionals who must collaborate—especially in a team leader role—then EQ is vital. Here is a simple model of EQ:

	What I see	What I do
Personal Competence	Self-awareness	Self-management
Social competence	Social awareness	Relationship management

The model starts with Self-awareness: knowing your strengths and weaknesses, your thoughts and feelings, and having healthy self-esteem. Then the model moves to self-management: "Ok, I know myself pretty well, can I manage myself?" Do you have the temperament that Buffett refers to, or do you lose control, panic, become irrational, yell at colleagues, pout, and so on? A person with good self-awareness and good self-management appears calm, centered, and responsible (i.e. able to respond as appropriate). Then the model moves beyond the self to others: social awareness. Are you reading others well? Do you have a sense of the environment you're in? If you're leading a meeting, do you recognize that it's time for a break because people are fidgeting and looking at their watches?

These three skillsets—self-awareness, self-management, social awareness—are necessary for the final skillset: relationship management. This final skill is where it all comes together. If you've mastered the first three, you are now in a position to interact—and lead—effectively. You know yourself pretty well, you can manage yourself, and you read others well enough to act effectively on a team.

In FCG's 360 assessment work, we use the following competencies to measure the four quadrants of EQ:

Self-awareness	Self-management
• Know their own strengths and weaknesses • Seeks feedback and attempts to always learn and improve themselves • Consistently practices self-reflection	• Integrity and trust • Temperament • Self-motivated
Social awareness	**Relationship management**
• Has the ability to quickly identify strengths and weaknesses of others • Can accurately assess what an individual is like and how they are likely to perform • Is keenly aware of their social environment and those in it • Understands why others act as they do • Understands what matters and what motivates others	• Builds effective collaboration • Provides direction • Develops others • Addresses and resolves conflict

In FCG's analysis of 360 data from investment professionals, we indeed confirm that self-awareness is the starting point for EQ. The strong positive correlations between self-awareness and the other quadrants are as follows:

- Self-management (r=.77)
- Social awareness (r=.79)
- Relationship management (r=.80)

Goleman makes this point clearly in his writings:[1] EQ starts with self-awareness. If you are clueless about your own "operating system" then you won't be effective in the other quadrants. For example, if you don't recognize and understand why you get frustrated and angry easily, you won't understand why you're collaborating ineffectively. Specifically, you won't try to manage your anger (because you're not aware of it). Therefore, you won't appear appropriately calm and reasonable. And you won't notice that others are avoiding you (because you get angry at them). And you won't understand why your team is ineffective. Importantly, you won't receive vital feedback which is the key to increasing self-awareness. (Because feedback helps identify blindspots.) Therefore:

1. Step one for high EQ is self-awareness. Know your strengths and weaknesses. Be aware of your thoughts and feelings. Know what triggers you to behave badly.
2. Step two is mastering the next two quadrants: self-management and social awareness. Self-management obviously requires self-awareness. You can't manage what you aren't aware of. But self-awareness is also important to social awareness. If you don't understand your own internal landscape, it's nearly impossible to recognize and understand that of others. You won't read people well. You don't read yourself well! As you begin to understand yourself, you begin to understand others better. Do we have proof that self-awareness drives these two other factors? Yes, our regression work indicates this relationship is accurate at the 99% confidence level.

Do these skillsets-- self-management and social awareness—drive higher scores for relationship management? Yes. As Goleman predicts, self-awareness is necessary for high social awareness and self-management, and these two, in turn, determine Relationship Management:

Predicted Relationship Management Score = .62(Social Awareness) + .84(Self-Management) - 2.14

This regression is also significant at the 99% confidence level. These two variables explain 80% of one's relationship management score.

Back to our original question: Buffett or Goleman? Most of you don't need more investment wisdom, and you mostly know what Buffett has to say. What would actually help your team's performance is more EQ.

A recent study of hedge fund managers supports this view that being "people smart" is an advantage:

In the world of high finance, it's been an article of faith among some that the only way to succeed—or even survive—is to be ruthless. But a new study in the latest issue of the Personality & Social Psychology Bulletin suggests those money makers at the top of the food chain, hedge fund managers, could benefit from being a little less mean. [They] actually perform worse than their peers over time… Investing, like other fields, requires collaboration, listening to the ideas of colleagues, and hiring specialists to execute your strategies.[2]

[1] For more on Goleman: Goleman

[2] Ben Steverman, *Being manipulative and mean isn't the secret to success, a new study by two psychology professors says.* https://twitter.com/bsteverman

How does EQ benefit performance? Some examples include:

- Remaining calm in the midst of market chaos
- Creating a safe environment for trust, candor, and constructive debate
- Getting more feedback at all levels: boss, direct reports, and peers
- Managing behavioral biases, such as confirmation bias or hindsight bias
- Improving client relationships through better listening and understanding of their viewpoint

For these reasons and more, you now know the wiser choice between Buffett and Goleman. My guess? Most investors will still pick Buffett. It's just too damn tempting.

Curiously,

JW