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Emotional Intelligence and Financial Decision Making: Are we talking about a Paradigmatic Shift or a Change in Practices?

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1. INTRODUCTION

The issue of decision making has attracted many academics and professionals from several disciplines such as economy, psychology, social sciences, management, and organizational theory. That is to imply that decision making is by far a complex process covering a wide range of real life patterns that is viewed from several perspectives depending on the area of interest (Lerner, Li, Valdesolo & Kassam, 2015).

It is an endeavor for us to attempt to triangulate, cross-examine, and synthesize a rich and abundant literature in the field of decision making. More specifically, the focus is on demonstrating whether there is a paradigmatic shift in explaining the determinants of decision making or whether managerial practices are changing given the challenges of real life situations.

The present paper focuses on capital structure as a particular case of financial decisions. In fact, the issue of corporate financial structure is very classical, yet it still attracts the attention of most of recent works in the field. Theoretical developments have shown that the explanation of financial structure is still a topic en vogue, yet remains not thoroughly elucidated. This renewal has yield to the introduction of the paradigm of behavioral finance.

In fact, research on the determinants of capital structure decisions is marked by a paradigmatic evolution involving diverse views inspired by the conventional financial theory
In reference to conventional financial theory related to capital structure decisions, two main observations may be drawn. On one hand, it is true that financial decisions are influenced by some “objective” and “rational” factors, which in turn makes decisions’ outcomes predictable and “calculated”. In this regard, the outcomes are likely to be determined by market and firm’s factors. On the other hand, the paradigmatic evolution of financial theory has yielded to an “invisible” part of the reality which in turn generates some “hidden” costs. At this level, the behavioral financial paradigm becomes relevant to shed some light on the real dynamic of financial decisions.

Nevertheless, the classical paradigm becomes “blind” and even “myopic” when it comes to explain managerial phenomena from a behavioral perspective. The famous economic assumption “ceteris paribus” has implicitly neglecting “human and behavioral” effects on economic and managerial decisions. This would generate a discrepancy between the theoretical predictions and the reality of decisions managers take.

Therefore, it is argued that the classical finance theory has largely overseen the personality traits of managers as well as the complexity of the decision-making process in apprehending managerial phenomena namely financial structure. Since the phenomenon is related to managerial finance, organizational theory brings about some foundations pertaining to individual, organizational, behavioral, and psychological aspects of decision making (Goleman, 1998; Lam & Kirby, 2002; Côté & Miners, 2006).

Indeed, studies that fit into the framework of the theory of behavioral finance show that funding decisions are partly influenced by managers’ behavior of and more particularly their emotional intelligence (Salovey & Mayer, 1990; Goleman, 1995; Goleman, 1998). By emotional intelligence, Mayer & Salovey (1997) refer to the ability to perceive, feel, understand and regulate emotions in a context of emotional and intellectual growth. It has a prominent place in the workplace: first as a regulator of human action and involvement at work (Carmeli, 2003; Roussillon, 2003), then as a necessary component of professional competence in all activities and complex organizations, and finally as a predictive indicator of professional success in decision making (Idris, 2014; Lam & Kirby, 2002; Goleman, 1998). A recent meta-analysis on the concept of emotions reveals that the number of publications in the field has steadily increased reaching 500 scientific papers from 1970 to 2013 (Lerner, et al, 2015). Furthermore, the 2016 world economic report predicts that emotional intelligence
comes among the most future competencies that would shape future jobs and factually contribute to success.

All these views provide plausible explanations to the phenomenon, a fact that reveals not only the complexity of financial structure decisions but also the implications such decisions may have on the efficiency and effectiveness of organizations (Rosete & Ciarrochi, 2005). Besides, managerial and organizational practical considerations of these decisions, especially for emerging countries, have stirred the interrogation of the present paper.

The paper explores the impact of emotional intelligence on financial decision making related to capital structure. It aims at assessing the relationship between emotional intelligence and managers’ behavioral effectiveness on one hand and the discriminatory effect on decisions’ outcomes and firm’s effectiveness, on the other hand. Consequently, the first section specifies the theoretical framework focusing on the paradigmatic evolution of decision making related to financial structure. The second section is devoted to the empirical study conducted in the Tunisian context in order to test hypotheses related to the weight of emotional intelligence on the outcomes of financial decisions. Managerial considerations and practical implications are discussed in a final section.

2. THEORETICAL FRAMEWORK ON THE DETERMINANTS OF FINANCIAL DECISIONS

Corporate financial decision making has witnessed a paradigmatic evolution leading to several views. From a conventional financial view, it deals with the factors affecting both firms and markets. From a managerial view, the issue is related to how decisions are made and what are the factors influencing such decisions. From a behavioral view, the focus is on the cognitive and mental motifs that drive such decisions.


The conventional financial theory advocates that financial structure is determined by factors related to the firm and/or the market. This implies that the decisions’ outcomes are explained by firm and market driven indicators which meant to be objective and rational.

An examination of the major conventional theories allows distinguishing three major views on capital structure decisions: financial and accounting, aggregated, and contingent. The financial and accounting view is inscribed into the classical and neoclassical approaches according to which it is considered beneficial for the company to borrow as long as the
economic return is higher than the cost of debt (Vernimen, 2002). With the introduction of the income tax, the value of the firm becomes an increasing function of its level of debt (Modigliani & Miller 1958/1963; Miller, 1977).

The aggregated view emerged with the development of the Trade Off Theory (TOT) in the mid-1970s, known as the theory of compromise, according to which debt choices become a matter of arbitration while taking into account various factors, such as tax benefits (Miller, 1977), agency costs (Jensen & Meckling, 1976; Jensen, 1986), and bankruptcy costs (Myers, 1984). It follows that the optimal debt ratio must result from the arbitration between the potential gains from debt and its risks and associated costs.

Within the same view, the Pecking Order Theory, known as the hierarchical theory adjusted the hypotheses pertaining to the optimization of the debt ratio by advancing the principle that the use of information asymmetries and the problems affecting the external financing demand would lead to the prioritization of funding choices in favor for internal at the expense of external sources (Korajczyk & Levy, 2003; Myers, 1984; Myers & Majluf, 1984).

The contingent view is promoted by the Market Timing Theory by focusing on the effect of market timing on capital structure decisions (Baker & Wurgler, 2002). Accordingly, firms issue equity when the market prices are high and then buy back their shares when their value is low.

Even though the conventional financial theory provides plausible arguments in explaining and improving our understanding of the determinants of corporate capital structure, there is a long list of events and issues that are unveiled with the tools and visions of the dominant rational economic standards. Two main arguments are retained: on one hand, there seems to be an oversimplification of the individual’s behavior in a way that the role of the manager is overlooked. Several “hidden” aspects of behavior are not taken into consideration such as personality traits as well as the decision’s maker technical and behavioral competencies. On the other hand, the existence of divergence between theoretical predictions and the real dynamic in making decisions is noted. As a matter of fact, the rapid changes in the economic and financial environments have led to cross-examining the hypotheses of conventional financial theory and at the same time calls for an alternative theoretical underpinning. In this line of thought, Zingales (2000) raises several intriguing questions related to how conventional finance is impacted by the emerging of new forms of organizations (NFO). How can we control a firm if most of its value lies in its human capital, not in its tangible assets? How can we evaluate a business when its main assets are intangible? It follows that
the behavioral paradigm constitutes an alternative vision of apprehending the phenomenon of financial decisions in a more comprehensive manner.

2.2. Contribution of Behavioral Paradigm to Financial Theory

Despite the remarkable evolution of the literature on the determinants of financial structure of firms since the seminal work of Modigliani & Miller (1958), it is not entirely understood what guides managers’ decisions on funding. Diversity, controversy, and sometimes inconsistent results call for inquiring the “hidden” determinants of such decisions from which the focus is on the concept of emotions.

2.2.1. Salience of the Concept of Emotions

Given the fact that the conventional paradigm is based on the explicit hypothesis of substantive and objective rationality according to which it is asserted that, in a given situation, the individual is capable of making an optimal choice among possible alternatives. Such assertion implies that the individual has the capabilities to collect all the information needed, evaluate all the alternatives, and select the most rational decision (Becker, 1993). During the 1960’s, the cross-examining of the presumed hypotheses of substantive rationality has yield to the emergence of the behavioral theory of the firm (BTF) which is considered an epistemological breakthrough that have shaped organizational theory ever since (Simon, 1967). In this regard, Simon affirms that “In order to have anything like a complete theory of human rationality, we have to understand what role emotion plays in it” (1983:29; cited by Lerner, et al, 2015). For the latters, “emotions powerfully, predictably, and pervasively influence decision making” (Lerner, et al, :5). The authors refer to emotions as “coordinated reactions to survival-relevant event, including cognitive and biological changes, facial and/or bodily expressions, subjective feelings, and action tendencies such as approach or withdrawal” (:36).

Hence, a paradigmatic shift in approaching issues related to the study of emotions in decision making is noted. It is not anymore a matter of whether emotions have an impact on decision makers’ behaviors (Damasio, 1994, Greene & Haidt, 2002). It is not further a matter of whether such impact is negative or positive (Lerner & Keltner, 2000). What really matters is to view emotions as “an intrinsic and inseparable component of our decisions and rational choices” (Cecchi, 2016:1). In this regard, we argue that emotions become a situational variable which needs to be integrated in the analysis of behavioral aspects of decision making as well as the search for “satisficing” choices (Simons, 1979). It follows that the change in the decisional reference frame leads to similar change in outcomes, which would yield to a
behavioral “bias”. The latter may “constitute a particular source of inefficiency that would be managed by “re-biasing” judgments (Cecchi, 2016).

Actually, literature review reveals that behavioral bias is not only a very broad issue but also its classification is far from being standardized. The term bias implies the existence of a distortion resulting in a misrepresentation of the reality and thus sub-optimal outcomes. It encompasses a wide range of derivatives, a fact that witnesses its eventual negative effect if it is taken into consideration (Charreaux, 2005). Likewise, the concept of bias stems from two distinct origins whether cognitive or emotional. Cognitive bias is a systematic error in thinking affecting judgments and thus affects decisions’ outcomes. It is generally the result of limitations in the acquisition and/or the processing of information leading to errors and mistakes (Kahneman & Tversky, 1972). Emotional bias implies that the cognitive process, when decision is made, may be influenced by several states such as feelings, moods, effects… that may lead to erroneous and enormous decisions (Lerner, et al, 2015). Ultimately, it is the risk of immoderation that needs to be taken seriously by investigating its causes, symptoms and management mechanisms.

The focus of the present study is on behavioral bias of emotional origin and particularly on emotional intelligence. It is about exploring the possibility of re-biasing behavior by “intelligently” working on emotions in order to improve the quality of decisions. Interestingly, like emotions, intelligence is a multi-form concept (human, economic, artificial…) referring to the mental abilities associated with cognitive operations. It implies the existence of capacities leading to an abstract reasoning (Terman, 1922). As such, the level of abstract reasoning may be used as a differentiating criterion for behavior’s appraisal and an indicator of performance (Sternberg, 1996).

By coupling emotions with intelligence, Salovey & Mayer (1990) argue that emotional intelligence is a form of intelligence that supposes the existence of a capacity to control one’s feelings and emotions and those of others that guides thoughts and gestures. Consequently, an emotionally intelligent individual is assumed to hold a high level of abstract reasoning (capacity) in analyzing a given problem and control the situation (including one’s and others’ emotions) in order to come up with an “emotionally intelligent” solution.

It appears, thus, that as much as the concept of bias has extended the scope of financial decisions, the notion of emotional intelligence has shed some light on the cognitive and behavioral patterns that may guide such decisions. By integrating these concepts, it becomes sounder to describe as accurately as possible the underlying assumptions of critical choices determining the viability of an organization.
Given the situation of some emergent countries characterized by financial crisis, lagging performance, and leadership deficit, it is of no doubt that the integration of the concept of emotional intelligence may constitute a logical and innovative track for analysis and change. The present paper suggests exploring the extent to which emotional intelligence counts and/or would count in explaining financial decisions related to capital structure in the Tunisian context.

2.2.2. Emotional Intelligence Paradigm and Financial Decisions

The movement of behavioral finance is founded on the premise that the explanation of financial phenomena may not be dissociated from the behavioral aspects of the individuals. In fact, several studies demonstrate that the “observed” anomalies in financial markets are not, solely, explained by information inefficiency (Aflation, 2002), in other words by external factors. As such, these anomalies may generate “behavioral costs” as a result of behavioral errors of financial analysts and investors (Sheffrin, 2001). The author argues that since the conventional control systems are insufficient, behavioral governance constitutes a solution to overcome both internal and external bias. Furthermore, Baker, Ruback, & Wurgler (2002) establish the intersection between the behavioral theory of the firm (BTF) and financial phenomena by “infusing” the concept of bounded rationality of Simon (1979) as argued previously.

The present study strives to develop the field of business behavioral finance by adapting a more realistic nature of the individual as generally adopted in economics using approaches inspired by behavioral psychology (Charreaux, 2005). Several studies sustain the underlying hypothesis that emotional intelligence would generally have a positive impact on diverse managerial issues such as leadership, management of change, professional adaptation, team management, and financial structure (Idris, 2014; Naixiao & Zhuoqi, 2012; Gendron, 2007; Roussillon, 2003; Lam & Kirby, 2002…).

It is to note that the focus on financial decisions is not an end by itself. They constitute a particular case of decisions involving a complex process during which several internal, external, and individual factors are overlapping. It is asserted that emotions may be considered as a regulatory mechanism and a “reorganizing” action.

In order to operationalize the concept of emotional intelligence, several models have being designed which may be classified into three main categories based on whether the focus in on capacities, competencies or both. A brief review of these models is presented in table 1:

An overview of these three models underlines the abstraction nature and the multidimensionality of the emotional intelligence construct alleviated by a certain degree of
complementarity. Ultimately, they provide a general framework for operationalization and hypothesis formulation.

3. RESEARCH HYPOTHESES

Given the current state of affairs related to emotional intelligence modeling and operationalization, the salience of emotional intelligence at work may be defended by two main hypothetical arguments namely competency-based and performance-based.

3.1. Emotional Competency-Based Hypothesis and Debt Decision

Based on the principle that emotions are considered as an essential component of professional competence, it is argued that emotional intelligence and the skills associated with are parts of key behavioral competencies that enable individuals to effectively participate in multiple contexts and contribute to the overall success of their lives and the proper functioning of the society in general (Gendron, 2007). Given the fact that emotional intelligence (EI) refers to the ability of an individual to identify, access, and control his/her emotions and those of others, an emotionally intelligent manager is usually aware of the situation of his/her firm. It is about a “positive” effect of emotional states that would guide action for the benefit of the firm (Damasio, 1994).

That is the case when the situation is related to debt decision. Indeed, a manager is supposed to have the conventional technical and specific financial background both on the firm and the market. Nonetheless, knowing that the debt decision is considered risky and complex, the question is to what extent conventional competencies are sufficient to make the “appropriate” choice? At this level, the bounded rationality paradigm supposes that the individual, given the constraints of time, is neither capable of collecting all the information needed nor he is able to generate all the alternatives from which to choose (Simon, 1967). Since a long time ago, Aristotle has argued that we are not primarily responsible for the results of our choices, but for the choices themselves. Besides, the EI paradigm predicts that emotional states may lead to bias and thus to opportunity costs for the firm. Luckily, such deviation may be attenuated by elucidating such bias intelligibly and exploit it as a distinctive competency and thus a source of competitive advantage (Prahalad & Hamel, 1990).

From a financial behavioral point of view and as it appears in table 1, the construct of EI is based on a model which is by essence centered on capacities (Salovey & Mayer, 1990), a combination of aptitudes and personal competencies (Goleman, 1995), and a set of traits and
capacities (Bar-on, 1997). Effectively, current developments in organizational theory have shown the importance of the psychological profile of the individual and/or his/her emotions at work (Rosete & Ciarrochi, 2005; Carmeli, 2003). More specifically, empirical evidence is provided as to the impacts of joy at work (Abramis, 1988), pride (Frese, 1990), communication and organizational culture (Argyle & Martin, 1991), interactions among actors (Hermalin & Isen, 2000), confidence and optimism of investors (Glaser & Weber, 2003), confidence and optimism of managers (Baker et al., 2002) on actors’ behaviors (Gladson & Ahiauzu, 2010). Emotional states become, therefore, an essential and predictable element in understanding the decision making process as well as in unveiling the most relevant behavioral and emotional competencies involved in.

In our case, it is suggested that the awareness, boosted by being emotionally intelligent, enhances manager’s competencies enabling him to persuade bankers to accept a loan contract mainly when external funding is judged as an appropriate option given the situations of the firm and the market. As such, the first hypothesis suggesting a positive relationship between emotional intelligence and a firm’s level of debt is stipulated as it follows:

Hypothesis 1: The higher the level of manager’s emotional intelligence is, the greater the level of debt is.

3.2. Emotional Performance-Based Hypothesis and Firm’s Financial Stability

Based on the idea that emotional intelligence improves effectiveness, it is considered as potentially an indicator of professional success (Idris, 2014; Goleman, 1998). Some studies have already provided theoretical and empirical evidence that emotional intelligence is a good regulator of human action and involvement at work since it is neatly related to performance in terms of decision making and problem solving (Naixiao & Zhuoqi, 2012; Roussillon, 2003). According to Zajonc (1980), emotional processing follows cognitive processing since job performance is not only related to managers’ knowledge and skills but also to their emotions and personality traits (Carmeli, 2003).

Indeed, performance on-the-job depends not only on knowledge and technical competencies but also on emotions and the management of emotional states. It is about treating these emotions intelligibly in terms of avoiding their possible negative impact (as psychological disturbance) while focusing on their positive effect (valence) on behavior favorably to performance (Zajonc, 1980). The underlying principle, hence, is that every choice embroils the risk of erroneous decision which may be costly, it is argued that the integration of the concept of emotions in the decision making equation becomes a question of
common sense. The stake is at its high level when the issue concerns the financial situation of a firm characterized by major tradeoffs among choices to be made.

Even though, debt funding may be the solution, the risk lies in exceeding the target level which may be destructive for the firm. At this level, since a manager is urged to generate funds without endangering the financial stability, he/she may rely on his/her emotional intelligence competencies to obtain needed credits by keeping the target debt ratio at an acceptable and manageable level. In this sense, performance is not measured by the capability of obtaining a credit but rather by having a prospective vision about the firm and the market that makes the “timely” taken decision appropriate and profitable. The “predicted” impact of emotions resides in the fact that they are aroused by external factors (related to actors’ behaviors) and by a mental image (expressed by a thought, feeling, or mood); for it, manager’s behavioral decision making is guided (Damasio, 2003). This situation is best described by referring to Goleman’s definition of emotions as being in a state of both upheaval and conduct’s adaptation (1995). The power of emotions is that the adaptive behavior allows a shift from relying on one’s unconscious state (negative valence) to that of consciousness (positive valence). Consequently, performance is realized if emotions are assessed, screened for disturbance, and regulate human behavior during a cognitive and complex process.

This study focuses on such cognitive process in a situation when a manager is about to explore an investment opportunity sometimes at high risk in order to raise funds (external pressures) and emotionally (paradoxically consciously) finds it profitable for the firm. He/she, then, adapts his/her behavior by regulating his/her emotions and those of his/her interlocutors. Emotions are, thus, supposed to raise self and others’ awareness and improve the ability to regulate one’s and others’ emotions favorably for a “satisfying” solution. Ultimately, the salience of emotions is demonstrated in the reverse case when a manager does not engage his emotions in making decisive decisions related to capital structure. He/she may put the firm at high risk by either exceeding the target ratio or overlooking an investment opportunity which may be costly and even under-performing.

Based on such reasoning, the second hypothesis asserts the following:

**Hypothesis 2:** The higher the level of manager’s emotional intelligence is, the lower the difference between the debt ratio and the target ratio is (ratio of maximum debt).

4. **EMPIRICAL EVIDENCE OF THE IMPACT OF EMOTIONAL INTELLIGENCE ON CAPITAL STRUCTURE DECISIONS**
Undeniably, the integration of behavioral aspects in financial theory has led researchers to overcome the conventional paradigm’s limits and focus on behavioral biases that would affect the quality of decisions. In more operational terms, the reliance on market and firm’s driven determinants of capital structure decisions generates mixed results as to the reliability of predicted measures of effectiveness. In statistical terms, the analysis usually yields to an unexplained residue suggesting the existence of some other variables that would have influenced managers’ preferences during the process of decision making. The focus of this study is to investigate that “unexplained portion” of variance by exploring any impact of emotional intelligence in an emergent country.

As a matter of fact, Tunisian firms are facing challenges in building new democratic system mainly after the revolution. It is with no doubt that these firms are facing difficulties in generating capital especially with the economic, financial, social, and political issues threatening progress at all levels. Besides, building on the main strategic competitive advantage of the country, its intellectual capital may constitute a solution to develop its financial capital more than ever before. More precisely, the study focuses on two critical financial issues that are neatly related to firms’ performance and viability namely debt funding and debt target.

4.1. Sample and Variables

The methodology adopted is deductive upon which a quantitative empirical study is conducted. The choice goes along the objective of the research aimed at assessing the predictive weight of emotional intelligence on the quality of debt decisions. The sample consists of 50 private Tunisian firms belonging to the industrial, commercial and service sectors. Data are collected through a questionnaire judged appropriate for interrogating opinions, attitudes and individual characteristics (Evrard, Pras, & Roux, 1997). Respondents are managers of financial portfolios having a working experience of 10 years on average and whose ages vary between 40 and 60 years. They mostly have financial and accounting educational background.

As for the variables used, table 2 provides a summary of the adopted measures:

It is relevant at this level to highlight some facts about the adopted construct of emotional intelligence used in the empirical study. In fact, by referring to the test of SSREI (Schutte,-el al., 1998), a 33 items scale is designed to assess to what extent respondents are able to
identify with, understand, manage, and regulate their emotions and those of others. The reliance on this scale is justified by two main reasons: First, the scale is conceived based on Salovey & Mayer’s emotional intelligence model (1990); for the latter goes the credit of infusing the concept of emotional intelligence in behavioral finance. Then, such scale has been used and validated in several fields mainly psychology (Bailie & Ekremas, 2006), human resource training and coaching (Grant, 2007), leadership (Jacques & Kline, 2006), marketing (Rozell, Pettijohn & Parker, 2006), task performance (Schutte, Schuttpelz & Lalouff, 2001), and life satisfaction in general (Wing, Schutte & Byrne, 2006).

4.2. Empirical Results

Based on the theoretical framework mobilized, it is asserted that behavioral and emotional traits are supposed to have an impact on the process, nature, and results of decisions made by Tunisian managers in the financial field. In order to substantiate such assertion, an empirical study is conducted aimed not only at apprehending the dynamics of debt decisions but also at evaluating the contribution of emotional intelligence in explaining their outcomes from a managerial perspective.

4.2.1. Descriptive Analysis

Descriptive statistics related to the emotional intelligence construct show that respondents perceive having a relatively high level of emotional intelligence since the median values ranges between 4 et 5 points with a standard deviation’s value less than 1 as shown in table 3.

At a first glance, it seems that Tunisian managers have the tendency to be attracted by the emotional intelligence affirmations. Besides, the mean size is about 16 employees with a standard deviation of 2.69. This may be explained by the fact that over half of the sample has a size superior to 16 employees as the field study covers both large and medium-sized firms knowing that the Tunisian industrial tissue is dominated by small and medium-sized firms.

The mean of firm’s profitability attains 0.17 million Tunisian dinars (MD) with a SD of 0.1; this may be explained by the fact that over 50% of studied firms have a profitability level superior than 0.1040 MD indicating a relatively satisfactory performance.

As for the dependent variables, descriptive analysis allows drawing two main remarks. First, the sample is evenly distributed with respect to the level of debt since 50% of firms have debt levels superior than the median. Second, statistics indicate that 58% of firms have relatively high differences between debt levels and target ratio (superior than the median).
The results of the Pearson’s test show acceptable degrees of signification among the variables witnessing a certain level of reliability of the data and the predictable power of the results.

### 4.2.2. Assessment of the Salience of Emotional Intelligence in some Tunisian Firms

Data collected are analyzed in two steps. In a first step, the validity of the regression is utilized while taking into account, in addition to the explanatory variables; two control variables (size and profitability) are explored.

The quality of the proposed scale is tested for its reliability by calculating the coefficient of alpha Cronbach. The analysis yields to $\alpha$ equals to 0.761 indicating that the internal consistency between the scale items is important and thus is acceptable for proceeding with the factorization. The principal component analysis generates a three-factor structure with a total variance equals to 66.963% as shown in table 4:

These three factors are named as follows:

- **Factor 1 (EI1):** Using one’s emotions in problem solving: Respondents report being aware of their emotions, able to adapt their behaviors according to the opportunities in order to face any obstacles to decision making.
- **Factor 2 (EI2):** Assessing the emotions of others: It combines items invoking the ability to recognize feelings towards others and to manage such feelings in order to control any situation.
- **Factor 3 (EI3):** Evaluating emotions: It deals with the ability to evaluate emotions in a positive manner which expresses self-confidence in making the “right” decision.

Given the results of the purification process, the recourse to the method of logistic regression allows detecting the significant effect of emotional intelligence on respondents’ behavioral pattern in making decisions related to capital structure. The method is a binary logistic model used when the dependent variable is categorical. Logistic regression is generally used to predict the presence or absence of an outcome based on some independent variables called predictors (Menard, 1995).

Based on the study’s hypotheses, the logistic regression allows predicting the outcomes in terms of debt ratio (model 1) and target ratio (model 2) when taken into consideration the effects of emotional intelligence as an independent variable and those of size and profitability of the firm as control variables.
4.2.3. Emotional Intelligence and Managers’ Capabilities

According to the first hypothesis, it is asserted that the debt level of a firm is positively correlated with the level of emotional intelligence competency of the decision maker. It is estimated that the debt level, expressed as high (Superior to the median and coded 1) or low (coded 0), is correlated with manager’s score of emotional intelligence expressed in terms of the three components of emotional intelligence (EI1, EI2, and EI3). If so, meaning that the null hypothesis is rejected, when the coefficient $\beta$ is superior than 0, the model indicates which component of the scale is likely to better explain the outcome. The compilation of the model yields to the following results as shown in table 5:

Based on the results, the first factor "EI1" (Using one’s emotions in problem solving) is positively and significantly correlated with debt level implying that the use of one’s emotions in problem solving explains the differences in the outcomes of decisions made by financial managers. These results also show that the factors (EI2: assessing the emotions of others) and (EI3: evaluating emotions) are not significant ($p = 0.855$) and ($p = 0.170$). Regarding the control variables, only the "size" of the firm is positively and significantly related to debt ($P = 0.02$). Indeed, an emotionally intelligent manager is a human being who has the ability to be self-conscious as well as aware of his business and, in general, his life. In an organizational setting and particularly with regard to debt choices, this awareness enables him to view decisions based on technical competencies in solving problems such as the capabilities to access to external information, choose the most appropriate action based on his preference system, and make “satisficing” choices.

It is, thus, confirmed that emotional competencies intervene, to a relatively significant extent, in adjusting the debt level of large compared to small firms. From a cultural perspective, Tunisian managers have the tendency to be emotionally lever in solving problems even without being able to assess and evaluate the emotions of others. As a matter of fact and based on the matrix of components (table 4), it seems that the emotions used to solve problems are dominated by the “mood” of the respondents. The latter affirm having the abilities to “change their moods”, “easily solve problems when they are in a good mood”, and “use their good mood to face obstacles”.

Based on these results, two main cases are distinguished. The first case is when the firm is in an unfavorable and complex situation, managers use their emotions, and more precisely their “good mood” to take part in the understanding and resolution of the problematic situation. Being aware of the financial situation of their firm contributes to the improvement of their competence. Such awareness drives them to resort to bank loans by seeking to
manage their relationship with creditors in a way that maximizes the chances of adaptation to the situation as argued by Goleman (1995). It follows that emotional intelligence becomes a key skill that enables managers to be involved effectively in multiple situations and contributes to the proper functioning and the overall success of the company notwithstanding the control effect of the variable size.

The second case is when the firm is in a favorable position and is seeking opportunities to increase its market share to face competition and thus improve its profitability. In this case, the manager relies on his self-emotional intelligence to dominate the relationships with external partners. In doing so, he/she intends to maximize the chances of, besides collecting more information on new projects, easily getting a bank loan to exploit opportunities and achieve the firm’s objectives. The intersection between the decision’s situation and emotional intelligence is concretized by the ability to “organize events that others would appreciate” as stated in the fifth item of emotional intelligence scale (table 4).

This implies that there is a positive correlation between emotional intelligence (using one’s emotions to problem solving) and the level of debt. This is why H1 is confirmed partially. In order to substantiate the value added of emotional intelligence for financial decisions, empirical analysis is deepened in order to evaluate its impact on the financial stability of the firm.

4.2.4. Impact of Emotional Intelligence on Firm’s Capabilities of Financial Stability

According to the second hypothesis, it is estimated that the higher the level of emotional intelligence, the lower the difference between the debt ratio and the target ratio. The objective is to assess the importance of emotional intelligence on the outcomes of financial decisions and therefore the financial stability of the firm. Consequently, it is estimated that the difference between the debt ratio and the target ratio, expressed as high (above the median and coded 1) or low (coded 0), is correlated with the manager’s score of emotional intelligence. If so, meaning that the null hypothesis is rejected when the coefficient $\beta$ is superior than 0, the model indicates which component of the emotional intelligent scale is likely to better explain the outcome. The results of the logistic regression are shown in table 6:

The results show that the first factor "EI1" has a positive coefficient which implies that using one’s emotions for problem solving is positively and significantly correlated to the extent to which there is a gap between debt ratio and target ratio. It is to note that the other two factors (EI2: assessing the emotions of others) and (EI3: evaluating emotions) are not significant with respectively $p = 0.772$ and 0.127. Regarding the control variables, the
profitability "ROA" is positively related to debt ($p = 0.083$); a fact that implies that the firm’s financial performance discriminates among managers’ reliance on emotional intelligence. Consequently, hypothesis H2 is partially confirmed.

As a matter of fact, emotionally intelligent manager using his emotions for problem solving expressed in terms of “being or having a good mood” is not likely to reach the target debt ratio; thus the difference between the debt ratio and the target ratio is low. This reflects that the manager uses his/her emotional intelligence in deciding whether or not recurring to debt. He/ she exploits the sources of funding and takes the risk not to exceed the target ratio although he/ she has the key skills to easily have a bank credit.

5. DISCUSSION AND CONCLUSION

The assessment of the impact of emotional intelligence on decision making is substantiated by not only the complexity of the process but also the insufficiency of the conventional paradigm in thoroughly explaining such phenomena. By focusing on intangible assets of the firm, it is argued that intellectual capital constitutes a source of competitive advantage that would generate a strategic value for a firm. This result fits into Salovey & Mayer’s (1997) emotional intelligence dimension pertaining to strategic orientation expressed in terms of capacities of both emotional comprehension and management of emotions (Table 1). Given the financial situation of Tunisian firms in the post-revolution phase, exploring the relevance of integrating the concept of emotional intelligence in the analysis of financial decisions is defendable both theoretically and empirically.

The theoretical analysis presented highlights the role of emotions and emotional intelligence in explaining managerial decisions (Idris, 2014; Carmeli, 2003; Damasio, 2003; Goleman, 1995/1998; Mayer & Salovey, 1997; Bar-On, 1997). These studies have shown that an emotionally intelligent manager implies that he/ she has key traits such as rigor, discipline, creativity, motivation, openness, good mood ....which may enhance decision making process. Such traits enable him/ her, on one hand, to improve his/ her alternatives evaluation’s skills (minimum cost and maximum performance), and on the other hand, to reduce an over or under evaluation of the firm's value.

In this case, the manager is supposed to be aware of the financial situation of his/ her firm and looks for possible alternatives of its capital structure. In a difficult case or when he/ she chooses to invest to improve the firm’s financial situation, he/ she is not reticent vis-à-vis
external funding methods (debt). Hence, emotional intelligence helps decision making and improves the efficiency of financing policies and choices as argued by Naixiao & Zhuoqi (2012).

Empirical analysis in the Tunisian context yields to interesting findings:

- Tunisian managers affirm being emotionally intelligent pertaining to using their emotions to solve problems. They seem to act and react based on their “mood” which differentiates between their emotional intelligence level and the outcomes of financial decisions. Hence, the quality of these decisions is partly attributed to the “good mood” of the decision maker. This result may be explained by the fact that the respondents have an accounting and financial educational background. Contrary to conventional paradigm advocated by Vernimen (2002), Miller (1997), and Myers (1984), it is proved to a certain level of significance that intangible aspects intervene in determining the factors that influence such decisions.

- A positive and significant correlation between the ability of using one’s emotions to solve problems and debt decisions is discerned. This is to corroborate with Goleman's findings related to self-awareness as a primary dimension of emotional intelligence (1995). It is worth noting that the decisions’ outcomes are partially attributed to the “good mood” of the decision maker at the moment the decision is taken. In other words, neither the feelings (main concept of the second factor EI2 related to assessing others’ emotions) nor the positive future expectations (main characteristic of the third factor EI3 pertaining to evaluating others’ emotions) seem to have an impact on the cognitive process the respondents go through when taking decisions related to debt level. In terms of Goleman’s Emotional matrix, three domains are not yet mastered namely self-management, social awareness, and relationship management (1995). It may be then argued that there is a potential of emotional intelligence not yet used which may further enhance the quality of debt decisions in terms of “good governance” and consequently improve the chances of success of studied firms. Furthermore, the ‘limited’ recourse to emotional intelligence is attributed to the fact that the shift to behavioral paradigm is not yet incorporated in the organizational culture. It may be ascribed to change resistance phenomenon preventing organizations from the added value of innovative managerial practices. It is thus argued that it might be a matter of time that such practices would be incrementally adopted.
Likewise, the positive and significant correlation between the ability of using one’s emotions to solve problems and the gap level between the debt ratio and the target ratio implies that the state of mind of the manager at a particular time allows him/her to distinguish between what is right and what is wrong for the firm’s success. His/ her inclination not to exceed the debt target ratio crystallizes the reference frame that guides choices. The latter may be considered as deliberate and not the result of a simple “gut”.

By referring to emotional intelligence models, these results fall into not only Salovey & Mayer’s (1997) experiential dimension related to emotional perception and assimilation but also the fifth dimension of Bar-on (1997) pertaining to adaptability and general humor. It is argued thus that when Tunisian managers are facing a financial problem or an investment opportunity, they are not reticent vis-à-vis the external financing modes. They rely partially on their emotional intelligence abilities in terms of self-awareness, good mood, emotional experience, and management of emotions to facilitate the negotiation of contract and to have successful credits. It is this key competence that allows them firstly, to convince bankers to accept a loan agreement and secondly, not to exceed the target ratio. This is to reiterate on the potential of intellectual capital that some Tunisian firms dispose of and on which actions could be centered.

5.1. Contributions to Scholarship

The present article gives some insights as to the relationship between emotional intelligence and decisions related to corporate capital structure. The relevance of such inquiry may be justified at two complementary levels: theoretical and practical.

At the theoretical level, the evolution of financial theory is associated with questioning the conventional paradigm leading to the emergence of a neglected dimension in explaining financial phenomena. Such dimension is related to behavioral, cognitive, and psychological aspects of decision making. In fact, the paper reveals the significant weight of emotional intelligence in apprehending the reality of capital structure decisions. Such weight is viewed from two complementary axes whether the focus is on managers’ capabilities for enhancing the decision making process and/or on firm’s capabilities for performance improvement. The distinction between these two axes relies on a procedural impact of emotional intelligence through a shift from inward world to outward world.

At the practical level, the critical financial situation of Tunisian firms particularly since the revolution leads to probing the quality of investment decisions and at the same time calls
out to question managers’ behavior during the decision making process. In this regard, the paper highlights the level of emotional intelligence and its impact on debt decisions and thus on firm’s performance.

Empirical study based on a survey allows distinguishing between three dimensions of emotional intelligence related to the ability to using one’s and others’ emotions. The analysis yields to the fact that these dimensions do not have the same impact on managers’ behaviors during the decision making process. Only the first dimension "using one’s emotions to solve problems" is proved to, positively and significantly, explain the outcomes of financing decisions. Based on a second model, it is that same dimension that explains the level of the difference between the debt ratio and the target ratio. It may thus be advanced that Tunisian managers rely on their “good mood” more than on their feelings or expectations of future outcomes. The question that arises is: are we talking about “a selective emotional intelligence” analogous to the “selective perception” of Simon (1979)? If it is so, is it appropriate to propose the concept of “bounded intelligence”? Isn’t it paradoxical when it comes to understand complex phenomena to intersect between “bounded rationality” and “bounded intelligence”?

These questions lead to the evidence that the paradigmatic controversy related to the issue of the determinants of financial decisions may be alleviated by the convergence to the contingency paradigm. In fact, the present empirical study argues on the influence of the cultural specificities of Tunisian firms, the working conditions, the environment, and even the country's political, financial, and economic system on financial outcomes.

5.2. Applied Implications and Future Research

The study has some implications and managerial considerations at several levels. In fact, the intellectual and emotional potential proved to exist in some Tunisian firms needs to be enhanced and mobilized in order to create an added value. In this regard, teaching curriculum may be revisited by integrating courses that foster emotional intelligence competencies such as human development and neuron-linguistic programming. From a pedagogical perspective, active methods focusing on techniques such as role playing, simulation’s games, and computer-based learning are highly recommended. Such implication goes along the demands for future jobs pertaining to socio-emotional competencies as advocated by the 2016 world economic report.

From a managerial perspective, human resource policies and practices may be reconsidered to aim the identification and the development of employees’ potentialities in
order to build a durable competitive advantage. In this line of thought, hiring techniques may be used to detect potential candidates through tests of intelligence. Training methods would be revised to develop employees through a competency-based modeling and knowledge management. The ambition is to capitalize on the existing resources through the development of a culture according to which emotional intelligence becomes not only a value but also a factor of performance on-the-job.

From a structural standpoint, it would be relevant to adapt organizational design to the principles of intangible assets in such a way that emotional intelligence happens to be the core of organizational development. It is about building firm’s capabilities through the development of human’s capabilities.

All these implications would not see the light without a strategic orientation at the top management. Given the leadership deficit in the business arena, people in executive suites are to be aware of the urgent need for more adequate change strategy associated with reengineering actions. Eventually and whatever the standpoint is, researchers and practitioners are urged to analyze the situation from a systemic, contingent, and prospective perspective. The idea is seize the reality and project it into the future; for it action is to be guided.

Future research questions may be abided to these implications while extending the limitations of the present study related mainly to the generalizability of the results. As such, the intersection between emotional intelligence and decision making is not a question of common sense only but also it is a reality associated with ethical and cultural aspects. Such intersection witnesses the multidisciplinary nature of the phenomenon studied. It would be interesting to investigate the potential pitfalls related to the misuse of emotional intelligence for personal gains and self-interest mainly with disguising information and controlling others’ emotions. Likewise, there is risk of manipulating subordinates to accept or reject an alternative leading to the phenomenon of group think.
References


TABLE 1
Models of Emotional Intelligence

<table>
<thead>
<tr>
<th>Model</th>
<th>Principle</th>
<th>Dimensions of emotional intelligence</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Model centered on capacity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Model based on competencies</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bar-On (1997)</td>
<td>Individuals vary in their Intelligence Quotient (IQ) which measures their aptitudes to adapt to external pressures.</td>
<td>1. Intra-personal.  2. Interpersonal.  3. Adaptability.  4. Management of stress.  5. General humor.</td>
</tr>
<tr>
<td><strong>Mixed model</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### TABLE 2

Variables and Measures of the Empirical Study

<table>
<thead>
<tr>
<th>Variables</th>
<th>Measurement</th>
<th>Notations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent Variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indebtedness</td>
<td>Dichotomous variable coded 1 if the firm has a high level of debt (debt level &gt; to the median) and 0 otherwise.</td>
<td>Debt</td>
</tr>
<tr>
<td>Target ratio</td>
<td>Dichotomous variable coded 1 if the firm has a level difference between the debt ratio and the high target ratio (above the median) and 0 otherwise.</td>
<td>Target ratio</td>
</tr>
<tr>
<td><strong>Independent variable</strong></td>
<td>Emotional Intelligence</td>
<td>EI</td>
</tr>
<tr>
<td><strong>Control variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Size</td>
<td>Natural Log of total assets</td>
<td>Size</td>
</tr>
<tr>
<td>Profitability</td>
<td>Profit / total assets</td>
<td>ROA</td>
</tr>
</tbody>
</table>

### TABLE 3

Descriptive Statistics of Metric Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Mean</th>
<th>Variance</th>
<th>Minimum</th>
<th>Median</th>
<th>maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>IE1</td>
<td>50</td>
<td>5.2862</td>
<td>0.87342</td>
<td>2.67</td>
<td>5.33</td>
<td>6.67</td>
</tr>
<tr>
<td>IE2</td>
<td>50</td>
<td>4.0133</td>
<td>0.68333</td>
<td>1.67</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>IE3</td>
<td>50</td>
<td>4.16</td>
<td>0.71027</td>
<td>2</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Size</td>
<td>50</td>
<td>15.9634</td>
<td>2.69217</td>
<td>10.46</td>
<td>16.76</td>
<td>20.47</td>
</tr>
<tr>
<td>ROA</td>
<td>50</td>
<td>0.1164</td>
<td>0.10434</td>
<td>0</td>
<td>0.1040</td>
<td>0.45</td>
</tr>
<tr>
<td>Component</td>
<td>Component</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
<td>-----------</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>When I change my mood, I see new openings.</td>
<td>0.568</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I know when I have to talk about my personal problems to others.</td>
<td>0.548</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I know what people are feeling just by looking at them.</td>
<td>0.871</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I can tell how a person feels from his voice.</td>
<td>0.806</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I organize events in a way that others would appreciate.</td>
<td>0.722</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I expect what happens to me is positive in life.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>When I'm in a good mood, solving problems becomes easy for me.</td>
<td>0.775</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I use my good mood to face an obstacle.</td>
<td>0.802</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal component analysis</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rotation Method: Varimax with Kaiser Normalization</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>
### TABLE 5
Results of the Logistic Regression - Model 1

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>E.S.</th>
<th>Wald</th>
<th>Df</th>
<th>Sig.</th>
<th>Exp(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EI1</td>
<td>0.957</td>
<td>0.452</td>
<td>4.479</td>
<td>1</td>
<td>0.03</td>
<td>2.603</td>
</tr>
<tr>
<td>EI2</td>
<td>-0.089</td>
<td>0.489</td>
<td>0.033</td>
<td>1</td>
<td>0.855</td>
<td>0.915</td>
</tr>
<tr>
<td>EI3</td>
<td>-0.727</td>
<td>0.530</td>
<td>1.884</td>
<td>1</td>
<td>0.170</td>
<td>0.483</td>
</tr>
<tr>
<td>Size</td>
<td>0.315</td>
<td>0.138</td>
<td>5.241</td>
<td>1</td>
<td>0.02</td>
<td>1.370</td>
</tr>
<tr>
<td>ROA</td>
<td>1.703</td>
<td>3.314</td>
<td>0.264</td>
<td>1</td>
<td>0.607</td>
<td>5.488</td>
</tr>
<tr>
<td>Constant</td>
<td>-6.927</td>
<td>3.768</td>
<td>3.380</td>
<td>1</td>
<td>0.066</td>
<td>0.001</td>
</tr>
</tbody>
</table>

### TABLE 6
Results of the Logistic Regression - Model 2

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>E.S.</th>
<th>Wald</th>
<th>Df</th>
<th>Sig.</th>
<th>Exp(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EI1</td>
<td>2.100</td>
<td>0.658</td>
<td>10.199</td>
<td>1</td>
<td>0.001</td>
<td>8.168</td>
</tr>
<tr>
<td>EI2</td>
<td>-0.167</td>
<td>0.578</td>
<td>0.084</td>
<td>1</td>
<td>0.772</td>
<td>0.846</td>
</tr>
<tr>
<td>EI3</td>
<td>1.045</td>
<td>0.684</td>
<td>2.333</td>
<td>1</td>
<td>0.127</td>
<td>2.842</td>
</tr>
<tr>
<td>Size</td>
<td>0.032</td>
<td>0.149</td>
<td>0.045</td>
<td>1</td>
<td>0.832</td>
<td>1.032</td>
</tr>
<tr>
<td>ROA</td>
<td>8.195</td>
<td>4.724</td>
<td>3.010</td>
<td>1</td>
<td>0.083*</td>
<td>3621.785</td>
</tr>
<tr>
<td>Constant</td>
<td>-15.824</td>
<td>5.728</td>
<td>7.631</td>
<td>1</td>
<td>0.006</td>
<td>0.000</td>
</tr>
</tbody>
</table>

* Significant at 10%.