

Emotional Intelligence as a Strategic Driver of Competitive Advantage and Service Quality in the Banking Industry

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ABSTRACT

This research aims to determine whether emotional intelligence (EI), particularly in government-owned commercial banks, is a valid measure of service quality in the banking sector. The study aims to ascertain how emotional intelligence (EI) raises the caliber of services, with a particular emphasis on the departments of operations, credit, and customer service. Using a quantitative methodology, data were collected through purposive sampling from 284 employees in particular bank branches in Kathmandu. The findings show that emotional intelligence (EI) and service quality are highly correlated. Workers with higher EI are more adept at managing their emotions, positively relating to clients, and offering superior customer service. Self-awareness, social awareness, and relationship management are crucial in enhancing service quality, with relationship management exerting the most significant influence. The study's limited scope focusing only on government-owned banks in a particular area may restrict its applicability opening up new avenues for future studies on emotional intelligence in private banking and other sectors of the economy.

1. INTRODUCTION

Emotional intelligence has drawn considerable interest from scholars and professionals as the widely discussed topic in knowledge societies ever since Daniel Goleman's seminal book was released in 1995 (Soriano - Vázquez et al., 2023; Alzoubi & Aziz, 2021; Carminati, 2021; Mayer et al., 2008; Grandey, 2003; Watking, 2000). Emotional intelligence is especially significant in sectors with high emotional demands (Carminati, 2021) since it significantly

impacts individual performance and job-related outcomes (Prentice, 2019). Emotional Intelligence (EI) is becoming increasingly pertinent due to its elevated importance, particularly within service sectors that experience high levels of emotional and social demands (Soriano-Vázquez et al., 2023).

Service organizations are now tasked with reinventing themselves as creators of experiences, aiming to establish enduring customer relationships and bolster customer loyalty and patronage (Beigi &

Shirmohammadi, 2011). Within these organizations, employees have a primary responsibility to foster a positive atmosphere during interactions between customers and service providers (Abraham, 2004; Higgs, 2004; Kunnanatt, 2004). This role is crucial, as employee behavior is identified as an internal factor that significantly impacts service quality (Oktaviana & Safitri, 2023). Evidence suggests that service providers' emotional intelligence substantially affects the quality of their relationship with customers (Yaghoubi et al., 2011; Rahim & Malik, 2010; Hashem, 2010).

Emotional intelligence (EI) is a complex skill set involving the capacity to identify, comprehend, apply, and manage emotions within oneself and others (Soriano-Vázquez et al., 2023). In professional contexts, EI has been associated with several beneficial outcomes, such as enhanced job performance, productive conflict resolution, satisfaction, mental well-being, and service excellence (Roth et al., 2019). This suggests that over time, emotional intelligence can develop into a collection of useful skills for people (Karimi et al., 2021; Aqqad et al., 2019). Employees who demonstrate higher levels of emotional intelligence typically exhibit superior performance and encounter fewer customer complaints due to their effective management of emotions during service interactions. (Chiva & Alegre, 2008; Joseph, Jin, Newman & O'Boyle, 2015).

The service industries are predominantly customer-centric and heavily rely on customer evaluations of service quality (Balachandran, 2004). The banking sector is defined by its dynamic environment, where efficiency, adaptability, and market competitiveness are seen as crucial for the advancement of both employees and organizations (Makkar & Basu, 2019). Due to apex bank regulations, banking institutions are offering similar services which results to heightened competition worldwide. Differentiation is often achieved through a focus on service delivery and quality strategies to improve market position (Singh & Kaur, 2011).

Dealing with demanding customers in this sector requires a higher level of Emotional Quotient (EQ), while retaining customers in any business context necessitates significant levels of Emotional Intelligence (Singh & Singhal, 2015).

Emotional intelligence competency demonstrated by the employee contributed to enhancing customer satisfaction and service quality (Giardini & Frese, 2008; Soraya, 2019; Trisnarningsih, 2013; Naeem et al., 2008). Emotionally stable individuals exhibit traits such as adaptability, empathy, self-awareness, transparency, self-confidence, optimism, and effective management of conflicts and stress. Despite the valuable insights gained, there has been relatively limited research conducted on the relationship between emotional intelligence (EI) and service quality, especially when compared to the extensive research on EI in other domains, including factors like job performance (O'Boyle et al., 2011), leadership (Miao et al., 2016, 2018), employee satisfaction, commitment, and turnover (Miao et al., 2017a), along with organizational citizenship behavior and counterproductive work behavior (Miao et al., 2017). In this context, this study tries to examine whether emotional intelligence serves as a predictor of enhanced service quality within the banking sector or not.

1.1 LITERATURE REVIEW AND RESEARCH FRAMEWORK

Salovey & Mayer (1990) established the concept of emotional intelligence (EI) for the first time who defined emotional intelligence as the subset of social intelligence that involves the ability to monitor one's own and other's feelings and emotions, to discriminate among them, and to use this information to guide one's thinking and actions. Additionally, EI is further highlighted and elucidated by Goleman (1998) and linked it with the performance and behavior of employees as the most influential factor to be considered. Emotional intelligence (EI) is a competency that guides and controls an individual's emotions toward work and performance, and it has an impact on employees' thought

processes and behaviors (Dulewicz & Higgs, 2000; Goleman, 1998). Since then, it has become widely acknowledged as a critical factor in determining one's success in the workplace within the study of industrial and organizational psychology (Ciarrochi, Chan, & Bajgar, 2000; Gardner & Stough, 2002).

1.1.1 EMOTIONAL INTELLIGENCE

Emotional intelligence relates to a person's capacity to observe and understand both their own emotions and those of others, distinguishing between positive and negative emotional impacts, and using this emotional insight to influence their thoughts and behaviors (Hussain & Imran, 2010). Serrat (2017) defines emotional intelligence as the competence or perceived ability to recognize, evaluate, and regulate emotions within oneself, others, and groups. In addition to identifying and controlling their own emotions, emotionally intelligent people are also capable of comprehending, controlling, and regulating the emotions of others, which probably affects other people's attitudes, behaviors, and moods (Prentice, 2019). Having strong emotional intelligence allows employees to enhance productivity, maintain optimism, and exhibit resilience in both professional and personal spheres (Krishnaveni & Deepa, 2011).

Emotional intelligence plays a crucial role in developing and sustaining successful social relationships, anticipating various elements of social interactions, and influencing whether these exchanges thrive or encounter challenges (Reis et al., 2007). Individuals who possess an understanding of emotional intelligence often exhibit multiple traits. Initially, they show greater flexibility, creativity, and engagement in social interactions, maintaining high level of motivation. Secondly, their adept handling of emotions enables them to make informed decisions, driven by a clear self-awareness of their strengths and limitations, thereby boosting their confidence. Emotional intelligence is typically classified into four dimensions: self-awareness, self-management, social awareness, and relationship management

(Nassar et al., 2023). Emotional intelligence encompasses an individual's self-awareness, self-confidence, self-control, commitment, and integrity, along with their ability to communicate effectively, influence others, and drive or adapt to change. It focuses on the management of human emotions. In the banking industry, there is a consistent emphasis on providing high-quality services (Jain & Gupta, 2014).

Top of Form

Bottom of Form

Employees with emotional intelligence often demonstrate a positive attitude, greater satisfaction, dedication, and loyalty to their profession and organization. This contributes to an environment that fosters improved job performance (Miao et al., 2017). Emotional intelligence enables employees to attain their objectives, while qualities such as self-awareness, self-regulation, empathy, and strong social skills play a crucial role in fostering productivity and healthy competition among colleagues in challenging work environments.

1.1.2 SERVICE QUALITY

Service quality can be defined as the evaluation made by customers when they compare their expectations with their actual experiences of the service provided. In essence, it measures the extent to which there is a gap between what customers anticipate and what they perceive (Grönroos, 1984; Parasuraman et al., 1985). According to Kasmir (2017), service quality encompasses the efforts made by individuals and organizations to satisfy the needs and meet the expectations of customers, leaders, and colleagues. According to Grönroos (1990), services generally involve two key components: a "what" element, which denotes the service's outcome or delivered output, and a "how" element, which concerns the procedures and methods employed in the delivery of the service, and this how element of service demands the

emotionally skilled employees to provide superior value to the customer.

Bank and financial institutions are the essential components of the service-based economy. Maintaining a higher quality of service has been a top priority for the financial sector, with many institutions making considerable efforts to maintain high standards in banking services (Harvey, 1998; Radha & Prasad, 2013; Kenbach & Nicola, 2005). The emphasis on service quality has become a fundamental component of banks' operational strategy as they increasingly understand the critical role that customer happiness and loyalty play in their success. Bank and financial institutions are the essential components of the service-based economy. The service sector in any economy regularly encounters challenges from factors like customer preferences, government regulations, competitor strengths, the availability of various service providers, and globalization (Agrawal & Sondhiya, 2013). The evolution from a transaction-centric to a customer-centric approach has reshaped the landscape of banking services. To thrive in this competitive landscape, a workforce that is adaptable in both skills and mental capabilities is essential (Jain, Jain, & Das, 2018). There is a growing need for employees with high emotional intelligence, who can effectively understand and meet customer needs while delivering superior service (Rato et al., 2023).

1.1.3 EMOTIONAL INTELLIGENCE AND SERVICE QUALITY

Employees in the service sector commonly deal with emotionally demanding roles and responsibilities, highlighting the critical importance of emotional intelligence (Lee, 2018). Employee emotional intelligence holds significant importance in effectively managing interpersonal interactions, ultimately contributing to the creation of a positive service experience for both employees and customers. (Kenbach & Schutte, 2005; Varca, 2004). In this context, individuals with high emotional intelligence are adept at forming "empathic

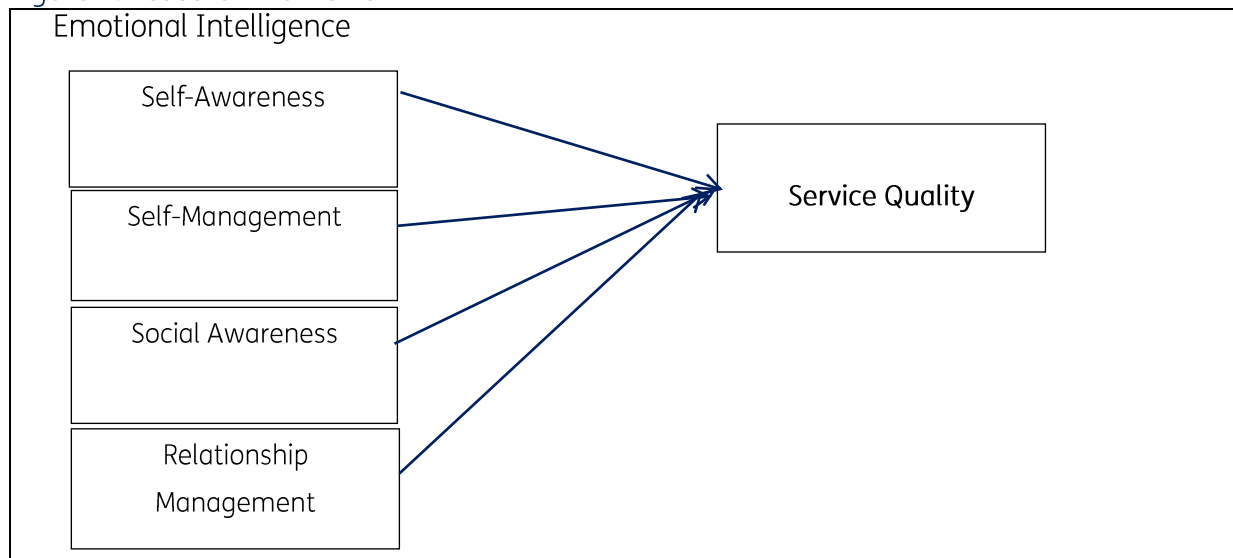
connections" even in brief interactions (Kellett et al., 2006), which are predictive of sustained customer satisfaction and loyalty (Ye et al., 2017). Research findings have shown substantial correlations between how employees perceive the service environment within their organizations and how customers evaluate service quality and satisfaction (Heskett et al., 1997; Schneider et al., 2000). Employee-customer interactions often include the expression and transmission of emotions (Ashkanasy et al., 2017), influencing customers' perceptions of service quality based on the emotions they connect with their experience with service providers (Ashforth & Humphrey, 1993).

Employees with high emotional intelligence are expected to be more adaptable and better prepared to create and implement service delivery strategies that effectively manage customer emotions, leading to enhanced perceptions of service quality (Miao et al., 2016). Empirical evidence suggests that the emotional intelligence of service employees enhances service encounters and contributes to favorable perceptions of service quality (Jain et al., 2011; Kim, 2007; Naeem et al., 2008). Numerous prior research (Soraya, 2019; Trisnaningsih, 2013) have supported the idea that employees with high emotional intelligence are likely to have a favorable impact on the quality of services provided. Emotional intelligence (EI) is closely associated with various aspects of service quality, demonstrating that employees with high EI levels contribute significantly to improving service quality (Naeem et al., 2008). Emotional intelligence (EI) plays a critical role in all service industries, especially in banking. Within the banking sector, every transaction carries a financial value accompanied by human emotional significance tied to money. In sectors like banking, service delivery is focused on ensuring service quality, which is understood as an assessment of how well services are delivered (Harvey, 1998; Radha & Prasad, 2013).

Review of the prior studies revealed that emotional intelligence is crucial for enhancing the quality of services provided

by the banks. The literature relating to this issue leads to the development of the given research framework.

Figure 1: Research Framework



Source: (Supramaniam & Singaravelloo, 2021; Goleman 1995; Kaplan & Norton, 1992)

2. METHODS

2.1 RESEARCH DESIGN

This survey investigates how Nepalese commercial banks manage their employees' emotional intelligence and examines its effect on the quality of customer service. The research framework, detailed in Figure 1, identifies the main factors involved. Emotional intelligence, which includes self-awareness, self-management, social awareness, and relationship management, is treated as the independent variable, while service quality is the dependent variable. The study uses a descriptive and correlational approach to explore the relationship between emotional intelligence and service quality.

2.2 POPULATION AND SAMPLE CHARACTERISTICS

The population for the study was the employees working in Nepalese Commercial Banks. Out of 20 commercial banks, three of them are government-owned commercial banks which are chosen for the study. Service quality issues have consistently posed challenges for government-owned banks that is why the government-owned banks are taken for the purpose of this research. This study includes employees at

the assistant, officer, and manager levels across various branch offices in Kathmandu, specifically within the Customer Service and Credit & Operations Departments of Nepal Bank Limited, Rastriya Banijya Bank Limited, and Agriculture Development Bank Limited.

2.3 SOURCE OF MEASUREMENTS

This study employs Goleman's competence theory, which combines emotional, social, and cognitive intelligence competencies to offer a structured framework for assessing and enhancing talent in workplace environments (Emmerling & Boyatzis, 2012). Data collection involved using a survey questionnaire adapted from various sources (Salovey & Mayer, 1990; Goleman, 1995; Zeitz et al., 1997; Bradberry & Greaves, 2009) to evaluate emotional intelligence, while service quality was assessed using a revised version of the SERVPERF scale (Cronin & Taylor, 1994). The survey was conducted in person during bank visits, employing a five-point Likert scale with closed-ended questions.

2.4 DATA COLLECTION AND ANALYSIS TECHNIQUE

Data were gathered through purposive sampling from employees in the Customer Service and Credit & Operations departments of selected bank branches in Kathmandu. Dornyei (2007) noted that purposive sampling can be highly representative if carried out carefully. Hair et al. (2016) advised that the sample size should be at least five times, and at most ten times, larger than the number of items used in advanced multivariate analyses. The researcher visited ten branches of each bank over thirty days, explaining the purpose and confidentiality terms of the

research and distributing structured questionnaires that collected data on demographics, emotional intelligence, and service quality. Of the 300 responses received, 284 questionnaires were considered valid for analysis. Quantitative techniques were used, with SPSS version 25 for data analysis, descriptive statistics to outline variables, correlation analysis to investigate relationships, and stepwise regression to evaluate the influence of independent variables on dependent variables.

3. DATA ANALYSIS AND RESULTS

Table 1: Respondent's Profile

Respondent's Profile	Specification	Frequency	Percentage
Gender	Male	157	55.28
	Female	127	44.72
Age	20-30 years	83	29.23
	30-40 years	128	45.07
	40-50 years	52	18.31
	Above 50 years	21	7.39
Education Status	Bachelor	193	67.96
	Masters	91	32.04
Service Year	Less than 5 years	106	37.32
	5-10 Years	137	48.24
	Above 10 Years	41	14.44
Position	Assistant Level	138	48.59
	Officer Level	97	34.15
	Managerial Level	49	17.25

Table 1 outlines the demographic details of the study's participants. It shows that 55.28% were male and 44.72% were female, indicating a greater number of male employees. The age distribution reveals that 45.09% of respondents were between 30 and 40 years old, 29.23% were between 20 and 30 years old, 18.31% were between 40 and 50 years old, and 7.39% were older than 50 years. In terms of education,

67.96% of respondents had bachelor's degrees, while 32.04% had master's degrees. For work experience, 48.24% had 5-10 years in the banking sector, 37.32% had less than 5 years, and 14.44% had more than 10 years. Regarding job roles, 48.59% were assistant-level employees, 34.15% were officers, and 17.25% held managerial positions.

Table 2: Descriptive Analysis

Variables	N	Mean	Standard Deviation
Self-Awareness	284	3.52	1.14
Self-Management	284	3.21	0.92
Social Awareness	284	3.44	1.04
Relationship Management	284	3.76	1.28
Service Quality	284	3.69	0.76

Table 2 displays the average scores for self-awareness, self-management, social awareness, and relationship management as 3.52, 3.21, 3.44, and 3.76, respectively, with standard deviations of 1.14, 0.92, 1.04, and 1.28. These scores indicate that respondents generally have a moderate

level of agreement with these aspects. Additionally, the average score for service quality is 3.76, with a standard deviation of 0.76, reflecting that respondents are moderately satisfied with the service quality.

Table 3: Correlation Analysis

Variables	Service Quality
Self-Awareness	0.75**
Self-Management	0.65**
Social Awareness	0.62**
Relationship Management	0.76**

** Correlation is significant at the 0.01 level (2-tailed).

Table 3 illustrates the relationships between various aspects of service quality and emotional intelligence. It shows that the correlation between service quality and self-awareness is 0.75, indicating a strong association. The correlations between service quality and self-management, social

awareness, and relationship management are 0.65, 0.62, and 0.76, respectively. This indicates a moderate correlation between service quality and both self-management and social awareness, while the correlation with relationship management is notably high.

Table 4: Regression Analysis

Model	R	R square	Adjusted R square	Std. Error of Estimate
1	.812	.697	.681	.3815

a. Dependent variable: Service Quality

b. Predictors: Emotional Intelligence

Table 5: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	20.26	0.96	0.67	7.23	.000
Self-Awareness	0.24	0.05	0.39	2.325	.030
Self-Management	0.35	0.05	0.33	1.696	.092
Social Awareness	0.42	0.04	0.28	2.419	.017
Relationship Management	0.46	0.06	0.42	3.407	.012

Table 4 demonstrates the value of R is 0.812, indicating a strong association between the independent variables and service quality. The adjusted R-square value of 0.681 suggests that 68.1% of the variability in service quality is explained by self-awareness, self-management, social awareness, and relationship management, after accounting for the degrees of freedom. This reflects a substantial relationship between the variables under consideration.

The beta coefficient for self-awareness is 0.24, indicating that a one-unit increase in self-awareness results in a 0.24-unit improvement in service quality. In contrast, self-management was found to have an insignificant effect on service quality (P-value 0.092). The beta coefficient for social awareness is 0.42, suggesting that a one-unit increase in social awareness results in a 0.42-unit enhancement in service quality. With a beta coefficient of

0.46, relationship management has the most significant positive impact on service quality among the emotional intelligence variables examined in this study. Overall, the table demonstrates that emotional intelligence has a positive effect on the quality of service provided by employees.

4. DISCUSSION AND CONCLUSIONS

Emotional intelligence significantly enhances work performance (Sanchez-Gomez & Bresó, 2020) by enabling individuals to manage their emotions effectively, handle stress, perform under pressure, and adapt to organizational changes (Lopes et al., 2006). Service quality is a major focus of research due to its effect on customer satisfaction and financial outcomes (Black et al., 2014). Given that emotional factors play a role in service delivery, this study explored the relationship between emotional intelligence and service quality. The goal was to investigate how emotional intelligence affects the quality of service in government-owned commercial banks.

Our findings demonstrate a positive link between emotional intelligence (EI) and service quality, consistent with research by Giardini & Frese (2008), Soraya (2019), Trisnainingsih (2013), and Naeem et al. (2008). The banking sector, being a pivotal component of the economy and crucial for economic development, places a higher demand on EI compared to other sectors, as its performance relies heavily on delivering high-quality services. Of the four EI dimensions examined—self-awareness, social awareness, and relationship management—three were found to enhance service quality. This study confirms a strong relationship between EI and service quality, suggesting that increased EI improves service quality in government-owned commercial banks. This aligns with the conclusions of Begum (2018) and Danquah (2015), who highlighted the significance of EI for bank employees. While Peter (2013) and Karimi (2014) identified self-management as a key factor in service quality, our study found that relationship management plays a more crucial role,

supporting the findings of Supramaniam & Singaravelloo (2021). This research also supports Swarnalatha & Sekar (2016) in illustrating the combined effect of EI factors on banking service delivery and extends the insights of Joseph & Wawire (2015), who emphasized the joint influence of self-awareness, social skills, self-management, and social awareness on service delivery. The positive impact of EI on service quality is further backed by studies from Danquah (2014), Komlosi (2013), Kenbach & Schutte (2005), and Soraya (2019).

Findings of the study suggest that service employees with high emotional intelligence, who effectively recognize, express, and manage emotions in themselves and others, excel in building positive relationships with customers. This ability enhances their problem-solving and decision-making skills, improving service quality. The quality of service in banks is closely linked to their employees' emotional intelligence. This study supports the substantial contribution that emotional intelligence (EI) makes to improving service quality in government-owned commercial banks. Service excellence specifically requires relationship management, social awareness, and self-awareness. The study concludes that workers with high emotional intelligence can better manage difficult situations, cultivate connections with clients, and handle emotional dynamics—all of which enhance service delivery.

These results highlight emotionally intelligent employees' competitive advantage to the banking industry, where customer satisfaction is critical. Although other factors affect service quality, this research highlights the importance of emotional intelligence in upholding high standards for customer service. As a result, banks should give special attention to training and hiring staff members who possess the essential emotional intelligence needed to improve customer service and maintain long-term success in a cutthroat industry. Strong emotional intelligence in employees is something banks need to value and hire in order to remain successful and competitive. While many factors

influence the quality of services, emotional intelligence is one of the most important.

5. LIMITATIONS AND FUTURE DIRECTIONS FOR THE STUDY

Certain limitations of this study could be explored in further research. The findings' limited applicability to other sectors or industries results from the focus of the study on government-owned banks in Nepal. Future studies could examine private banks or other industries to see if the relationship between service quality and emotional intelligence (EI) is consistent in different organizational settings. Moreover, further research on the impact of cultural factors on the relationship between Emotional Intelligence and service quality is imperative. Although the study mainly focuses on the banking context in Nepal, comparative research in other areas could greatly expand our comprehension of how these findings can be applied across the cultural boundaries of different industries. The study focused on the three aspects of emotional intelligence (EI): self-awareness, social awareness, and relationship management. Self-management did not significantly improve service quality. The reason self-management is less critical, particularly in non-banking industries or foreign contexts where it might be more valued, is one of the significant questions raised by this finding and should be investigated in future research. Furthermore, cutting-edge technology, such as AI-assisted customer service, may offer insightful information on the link between emotional intelligence and the creation of service delivery models. In a changing business environment, more research using longitudinal analyses would make evaluating the long-term impact of emotional intelligence on customer satisfaction and service quality easier.

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