

What Matters More for Entrepreneurs: Book Smarts or Street Smarts?

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Why are some ventures more successful than others? In entrepreneurship research, scholars have explored the role of many different factors, including personal characteristics such as emotional and cognitive intelligence. Cognitive intelligence (or “book smarts”) emphasizes traditional academic ability, such as solving scholarly-orientated problems and excelling in academic settings. Emotional intelligence, or “street smarts,” measures the ability to understand and regulate one's emotions, read situations and people at the emotional level, and leverage this understanding to manage relationships and communicate effectively with others.

Many research studies have shown that cognitive intelligence matters far more than emotional intelligence in a professional setting. In fact, it counts more than any other individual characteristic measured to date as a predictor of general job success. Systematic analyses of prior studies have shown that being smart has a bigger impact on job success than being tuned in to others. We wanted to explore what happens when a venture is operating in an environment with high levels of uncertainty, common in entrepreneurial settings. In those cases, will the smartest or the most emotionally intelligent perform better?

Based on our own experience as entrepreneurs, educators and researchers, we had a hunch that emotional intelligence mattered more than expected. This hunch, along with some initial empirical evidence related to emotional intelligence, led us to develop a hypothesis that emotional intelligence would predict entrepreneurial success more strongly than cognitive intelligence. We reasoned that under the extreme

emotional and interpersonal demands of the entrepreneurial task environment, having emotional intelligence would help the entrepreneur make sound decisions; maintain effort and motivation in emotionally difficult situations; and form and maintain key business relationships. These are critical skills for entrepreneurial success, and we reasoned that entrepreneurs with high emotional intelligence are more likely to have them.

Our Study

To test our hunch, we looked at 65,826 observations across 40 previously published studies. The sample included both high-growth firms (referred to as Gazelles in prior work) as well as everyday entrepreneurs (cf. Aldrich and Ruef, 2020). The industries ranged from agriculture to high-technology industries, and across several different countries.

We looked at the relationship of cognitive intelligence and emotional intelligence with several metrics of entrepreneurial success, such as financial performance, firm growth, and how satisfied entrepreneurs are with their ventures. We found that both cognitive intelligence and emotional intelligence indeed both matter for success, but emotional intelligence was 8 times stronger of a predictor of entrepreneurial success relative to cognitive intelligence. These findings held true even in less developed countries where resources are less available.

The full methods and results are published in [Strategic Entrepreneurship Journal \(Allen et al., 2020\)](https://onlinelibrary.wiley.com/doi/abs/10.1002/sej.1377) (<https://onlinelibrary.wiley.com/doi/abs/10.1002/sej.1377>).

Our study also revealed many advantages from each type of intelligence, as we will explain below. While cognitive intelligence helps entrepreneurs analyze and seize opportunities, emotional intelligence helps entrepreneurs develop those opportunities and build ties



over long periods of uncertainty. The upshot for entrepreneurs: build both kinds of intelligence within yourself and in your team.

The Case for Cognitive Intelligence

Cognitive intelligence is a general information-processing capacity that enables reasoning, problem solving, and other higher order thinking skills (Gottfredson, 1997). It has been linked to higher college grade point average, individual income, and career advancement.

It also brings skills that appear to be important for entrepreneurial success. For example, psychologists have found cognitive intelligence helps people quickly process complex information and recognize patterns, which enable entrepreneurs to recognize viable opportunities. High cognitive intelligence individuals are also better at creative problem solving and are better able to draw on their prior knowledge to do so, both critical skills in organizing and managing new ventures. Likewise, cognitive intelligence-based skills should enable entrepreneurs to better produce and evaluate alternative courses of action and formulate effective business plans that are necessary for entrepreneurial success.

Example: Elon Musk

Despite his recent problems at Twitter, Elon Musk is the quintessential example of a high cognitive intelligence entrepreneur. Musk's IQ is estimated to be around 155 (having an IQ above 140 is considered a "genius") (Iq-test, n.d.), which allows him to learn about and apply concepts related to physics and engineering towards his many innovative pursuits. Having an extremely high IQ also allows Musk to quickly process information related to several businesses he owns and operates (SpaceX, Tesla, Boring Company, Neuralink, OpenAI), along with enabling him to solve complex problems and recognize innovative opportunities necessary to achieve success in highly competitive technology industries.

The Case for Emotional Intelligence

Emotional intelligence is an individual capability that helps people monitor their own and others' feelings and emotions, and use this information to understand and regulate emotions and behavior. This helps them manage their own behavior and their relationships with others. (Goldman, 1995). Managing an entrepreneurial business has been described by academics and

practitioners as an "emotional rollercoaster." Entrepreneurs are more likely than people who work for others to face emotionally difficult high-stress situations and negotiate treacherous environments that can overload their information processing. Emotional intelligence, rather than cognitive, helps them stay calm and make sound decisions in emotionally or highly stressful situations.

Entrepreneurs must also sustain their motivation and resilience over many years and through many challenges as they develop their firms. Emotional intelligence increases the likelihood that an individual can sustain their motivation in the face of emotionally difficult situations. Emotional intelligence is also linked to greater resiliency, better adaptation in response to rapid change, responding more positively to failure, and better management of adverse life events. In contrast, studies show cognitive intelligence has no effect on a person's resiliency, effort or motivation and can even make some people *less* adaptable.

Finally, it is also critical that entrepreneurs form relationships and develop social networks with stakeholders outside the firm. Researchers have linked emotional intelligence to social skills such as accurately perceiving other's emotions, making good first impressions, and influencing others in interpersonal interactions. These skills are important for developing business networks, which can aid in signaling legitimacy and in attracting the talent and investment that new ventures need. Cognitive intelligence by comparison has not been shown to be strongly related to perceiving others' emotions or forming social networks.

Example: Daymond John

Daymond John, famous entrepreneur and investor on the hit TV show Shark Tank, has an inspiring rags-to-riches success story of emotional perseverance, social awareness, and hustle. John credits much of his success to his ability to understand and influence others, which are important emotional intelligence-based skills that he uses to compensate for the fact that he has dyslexia. Because of his dyslexia, John struggles with many high cognitive intelligence-based activities (e.g., processing written material) and therefore focuses more on the relationship side of business. In a recent interview John stated, "You have to build influence. Then, you have to negotiate what's in the best interest of the person on the other side of the table. Then, you

have to honor and love that relationship, and work on that relationship forever” (Revolt, 2020). John personifies an entrepreneur who leverages their high emotional intelligence skills to successfully run and operate multiple entrepreneurial ventures.

The Takeaway

Our findings provide interesting takeaways for budding entrepreneurs to consider:

Develop the knowledge and skills necessary for entrepreneurial success

Prior research has shown people can improve their emotional intelligence, while cognitive intelligence tends to be less trainable. This suggests that individuals who develop their emotional intelligence might also be able to develop related skills for entrepreneurial success. Better emotional intelligence can help entrepreneurs acquire valuable skills such as building business networks, creativity and opportunity recognition, becoming more coachable, and enacting adaptive responses to unpredictable events. A formal emotional intelligence training program can help the entrepreneur do this.

Emotional intelligence is primary, yet cognitive intelligence still matters

While our results suggest the impact of cognitive intelligence on entrepreneurial success is small compared to the effects of emotional intelligence, entrepreneurial success is still affected by cognitive intelligence. Learning is a critical component of entrepreneurial success, and high cognitive intelligence individuals learn more from a given amount or type of experience. Because entrepreneurs often run out of financial resources before they can reach profitability, they don't have the luxury of time, which suggests that low cognitive intelligence individuals might be at a serious disadvantage when they need to bring a product to market quickly or raise funds when cash flow is negative. Because cognitive intelligence tends to be less trainable, entrepreneurs without high cognitive intelligence should hire key people who have it.

Opportunity-seeking and advantage-seeking behaviors

Entrepreneurs must not only seek out novel opportunities, but also must attempt to take advantage

of such opportunities. These require two different skill sets. Successfully identifying opportunities requires that entrepreneurs quickly absorb new information and integrate it with existing knowledge. Cognitive intelligence helps them do that because it is linked to better information processing, the ability to process complex information, and pattern recognition. However, entrepreneurs must also take strategic actions to gain an advantage, which can be difficult given the challenges with entrepreneurship. High emotional intelligence individuals are better able to regulate their emotions, are more motivated, and exhibit greater resiliency, which helps them overcome the inevitable challenges in developing the opportunity. As a result, new venture teams could benefit from having both high cognitive intelligence and high emotional intelligence individuals to help them find and develop opportunities.

Explore the Research

[What matters more for entrepreneurship success? A meta-analysis comparing general mental ability and emotional intelligence in entrepreneurial settings](https://onlinelibrary.wiley.com/doi/abs/10.1002/sej.1377) (https://onlinelibrary.wiley.com/doi/abs/10.1002/sej.1377) . Allen, J. S., Stevenson, R. M., O'Boyle, E. H., & Seibert, S. (2021). *Strategic Entrepreneurship Journal*, 15(3), 352-376.

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