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SENSITIVITY TO MARKETING AND THE IMPORTANCE OF EMOTIONAL INTELLIGENCE IN SMALL AND MEDIUM-SIZED SERVICE FIRMS

This paper examines how the perceived sensitivity of customers to marketing policies affects the importance placed on emotion management. The results of the structural equations modelling of data collected from managers of 128 small and medium-sized service firms suggest that the importance placed on the perception of emotion grows in accordance with an increase in the perceived market sensitivity to advertising. The hypotheses concerning the influence of consumer price sensitivity on the importance of dealing with emotions in service firms were not confirmed.

Keywords: emotional intelligence, service marketing, small and medium enterprises

1. INTRODUCTION

Several studies have examined the role of emotions in marketing. However, most of them consider consumer emotions. Almost no previous research has addressed the role of emotions in executives, or how people in executive positions can best use emotions to improve marketing decision-making. Bagozzi, Gopinath and Nyer (1999) noted that these are issues of great importance in the study of emotions in marketing. Emotional intelligence can be defined as the ability to perceive and express emotion, assimilate emotion in thought, understand and reason with emotion and regulate emotion in oneself and others (Mayer and Salovey, 1997). In the case of service personnel who interact directly with customers, it has been proved that this intelligence type impacts on the service climate (Kernbachand Schutte, 2005; Kidwell et al., 2011), as does the emotion-management ability of those who manage “internal clients”(Bardziland Slaski, 2003). Orienting employees toward proper emotion management should come through training from directors which creates a work environment favouring such management (Mattilaand Enz, 2002; Paswan,

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Peltonand True, 2005). The likelihood that executives or managers will influence the behaviour of subordinates depends on their communication skills and on their ability to create feelings of shared identity (Ellemers, De Gilder and Haslam, 2004).

The purpose of the present article is to examine the relationship between emotion management and marketing activity. We study the importance placed on emotion management by executives and relate it to the perceived sensitivity of customers to selected marketing policies. To analyze these issues, we have conducted an empirical study entailing a survey given to executives of Spanish small and medium-sized service firms. This type of enterprises has an undoubted importance in all economies in the world (Culkinand Smith, 2000).

The article is structured in the following manner. In section 2 the literature is reviewed. The hypotheses are proposed in section 3. In section 4 the main features of the empirical study are described. In section 5 the measurement instruments used in the study are outlined. The results are presented in section 6 and, finally, the implications of the research for theory and practice are discussed.

2. THEORETICAL BACKGROUND

The first marketing studies on emotion were based primarily on theories borrowed from the field of psychology. Studies of human emotion, such as that of Izard (1977), were used to explain the effect of emotion on consumption. Although the measurement scale that Izard proposed for emotions—DES II, in its revised form (Izard’s Differential Emotions Scale)—appears to have provided interesting findings on consumption (Westbrook, 1987), this theoretical borrowing presents a number of limitations (Grace, 2007). For this reason, researchers have proposed ways of measuring emotions that are tailored specifically to consumption experiences (Richins, 1997). Many of these proposed methods analyze how the intensity of emotions affects consumer satisfaction (Oliver, 1997).

Studying emotions in a service context raises unique issues. In the first place, service consumption may involve emotions not included on Izard’s inventory. Among these emotions may be excitement, worry and pride. In addition, the impact of emotions on service satisfaction might be different from their impact on the consumption of goods. For example, satisfaction and fear could be connected to each other in the consumption of services such as cinema or adventure sports (Liljanderand Strandvik, 1997), but might not be related to each other in the consumption of goods. Also, given the "experiential, interactive, and dynamic" nature of emotions in services (Menon and Dubé, 2000) it would be particularly interesting to study not only the intensity of emotions, but also the process by which they are formed (Parkinson, 1995).

3. CONCEPTUAL DEVELOPMENT

The present study focuses on the people who make the marketing decisions in service companies, analyzing how the perceived sensitivity of the clients to marketing activity affects the importance that executives give to managing emotion. We focus on two selected elements of the marketing mix: price and advertising. These are variables which previous studies have regarded as representative of marketing programs (Yoo et al., 2000). We also consider the possibility of market diversity as a controlling variable. To evaluate the emotional intelligence of executives, we followed the framework of Salovey and Mayer (Saloveyand Mayer, 1990; Mayer and Salovey, 1997) used extensively in the field of organizational psychology. According to this framework, emotional intelligence is associated with two major abilities: perception and regulation of emotions. Perceiving or recognizing emotions refers to the ability to know and understand emotions in oneself and in others. The regulation of emotions alludes to integrating emotions with one's way of thinking and behaving (Mayer and Salovey, 1997). Both the theory and practice of emotional intelligence indicate that the ability to correctly perceive and regulate emotions in oneself and in others is the key to emotional intelligence (Caruso and Salovey, 2004; Saloveyand Mayer, 1990; Goleman, Boyatzisand Mckee, 2002; Matthews, Zeidnerand Richard, 2002; Goleman, 1995, 1998). Figure 1 shows the proposed conceptual model and hypotheses of our study. In the following section we discuss the proposed relationships.

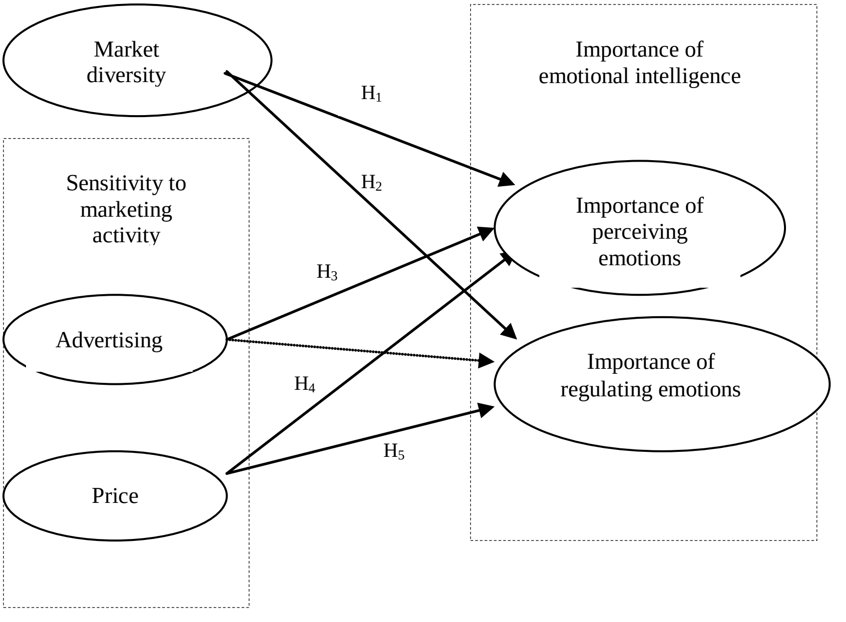

Figure 1. Conceptual model of environmental effects on the importance of emotional intelligence in executives

Note: dotted line means a control effect. A relationship between these variables is not expected but it is introduced in order to avoid spurious conclusions about the other relationships.

Source: authors own

3.1. Market diversity and emotional intelligence

The marketing literature has had a long-standing open debate on the active or reactive nature of commercial operations. The extensive use of the 4Ps model (McCarthy, 1960) promoted the idea of a distinction between controllable factors (marketing variables) and uncontrollable factors (environmental forces). Despite early attempts to defend the proactive nature of the discipline (for example, Mazur, 1958), the idea that the environment imposes a set of restrictions that businesses must accept has prevailed for a long time in marketing theory. Marketing strategies were viewed as a set of adaptive responses, and market research was used to focus business activity on the key factor in the environment, the consumer. From a very different perspective, Zeithaml and Zeithaml (1984) claimed that the main function of marketing is environmental management. According to this view, businesses must have a proactive and enterprising attitude toward the environment. Along this line, Simmonds (1986) suggested marketing is innovation, and marketing professionals are innovation managers.

The theoretical distinction between reactive and proactive, or innovative, marketing is reflected in corporate reality. Some marketing professionals focus their efforts on understanding how to respond to consumer needs with the existing supply. However, others are capable of leading the driving forces underpinning entrepreneurial change. Behind the different roles attributed to the function of marketing, we can find the different characteristics of companies as well as the existence of different executive profiles (Schindehutte et al., 2000). The tendency to facilitate or obstruct organizational change is related to the pattern of emotional management shown by executives (Kiefer, 2002; Huy, 2002). Emotions are, in fact, an inherent part of change. The appearance of emotions is not particularly related to the existence of favourable or unfavourable conditions, but to real or expected changes in these conditions (Frijda, 1988). Neurological studies have shown that emotions offer flexibility by allowing people to reorganize their priorities under changing circumstances (Fredrickson, 2001; Lazarus, 1991). Emotions play this role in informal information processing systems (Schulkin et al., 2003). Dynamic environments, under constant change, intensify the need for a quick and innovative response (Shamir and Howell, 1999). As such, one would expect that:

H1: Perceived market diversity increases the importance that executives place on the perception of emotions.

H2: Perceived market diversity increases the importance that executives place on the regulation of emotions.

3.2. Sensitivity to advertising and emotional intelligence

The inherent intangibility of services implies that consumers cannot test them before their use. From the point of view of consumers, this circumstance increases the level of risk in the buying process. To reduce this uncertainty, marketing professionals must identify tangible signs of service quality. One of those signs is advertising (Wilson, 1985). However, the value of advertising as a sign has never been fully clear. It is an undeniable fact that advertising can influence consumer choice, but it is also clear that the intensity and direction of this influence is not always the same. In fact advertising may be divided into two main types based on its form and intention: informative advertising and persuasive advertising. While informative advertising informs people about the existence of the company's supply, persuasive advertising provides information about product characteristics that are not directly perceived by consumers (Thomas et al., 1998).

For a while, the distinction between informative and persuasive advertising fueled a debate in the marketing literature concerning the signaling power of wasting large amounts of money on making an uninformative (persuasive) advertisement. Nelson (1970), with his distinction between search goods and experience goods, found the first solution to this debate. With experience goods, informative advertising is limited because the essential characteristics of a product cannot be shown directly with images or words, but rather through its use. With these types of products a company's supply can be perceived as high quality merely by virtue of being advertised, even when the advertisement is not directly informative. The true value of an advertisement as a signal rests on the fact that the company has the incentive to use an advertisement only when the signal is backed up by high product quality. The advertising investment required to attract a first buy is, in other words, more likely to be compensated if the products are of sufficiently high quality to generate repeat purchasing. This leads us to suggest that the relevance of persuasive advertising makes the appraisal of emotions a key ability that executives can exploit in order to achieve a competitive advantage. Consequently, we hope to establish a connection between the relevance of persuasive advertising in the reference market of the company and the emotional intelligence of the executives.

H3: Consumer sensitivity to advertising increases the importance executives place on perceiving emotions.

3.3. Price sensitivity and emotional intelligence

In service organizations, the growing interest in developing competencies linked to emotional intelligence comes from the fact that this development appears to be fundamental to achieving an adequate service climate (Bardziland Slaski, 2003). A service climate leads the whole organization toward the needs of the customers. It increases customer satisfaction and loyalty and stimulates positive word-of-mouth communication (Heskett et al., 1997). This type of orientation requires a leadership style which is focused on employees and which attends to their needs and worries (Schneider et al., 1998). If consumers are very price sensitive, the need to maintain an adequate service climate will be much lower. Elevated price sensitivity makes consumers focus primarily on paying low prices (Lichtenstein et al., 1993). This behaviour is accompanied by a rejection of high prices even when higher prices come with distinctive benefits (Monroe and Petroshius, 1981). The dichotomy of the importance of creating an adequate service climate, on the one hand, and low prices, on the other, is so strong that even in sectors such as commercial distribution it has promoted changes in training programs. Training programs for salespeople in commercial formats characterized by high prices (for example, department stores) emphasize variables related to customer service. The same does not occur in situations characterized by low prices (for example, discount stores). As a consequence in a commercial format with a high level of service, the impact of the affective state of the salesperson on the level of service offered to the customers is greater. Moreover, in businesses that operate within a low-price commercial format, the affective state of the employees matters less (Swinyard, 2003). The managers of businesses that operate in markets that are not sensitive to price will place more importance on the perception and regulation of emotions. Therefore in the case of service business managers, it follows that:

H4: Consumer price sensitivity decreases the importance that managers give to the perception of emotions.

H5: Consumer price sensitivity decreases the importance that managers give to the regulation of emotions.

4. METHOD

4.1. Sample and survey procedure

To analyze the effect of the environment on the importance of emotional intelligence in managers, we carried out a national survey with a sample of small and medium service company managers in Spain. We performed a questionnaire pretest by personally interviewing managers of businesses pertaining to various branches of the service sector. The pretests gave us an estimation of the time required to complete the questionnaire and allowed us to correct some minor errors in its design. From the SABI database we selected a sample of businesses. To encourage participation we offered to send to those surveyed a summary of our results if they so desired. The survey was directed at the general managers of the businesses. The instructions included in the introduction letter asked that the highest ranking employee responsible for business decisions complete the survey. This clarification was necessary because business duties can vary greatly within small and medium enterprises, and we wanted to ensure that the survey reached the appropriate person within each business. We sent the questionnaires in three waves, by a combination of mail and fax (with prior telephone contact) and of these, 128 surveys were filled in and returned correctly.

4.2. Measures

The questionnaire covered various factors related to business practice within the company. These included market diversity, price sensitivity, sensitivity to advertising, and the importance of emotional intelligence. To measure sensitivity to marketing variables we used a seven-point Likert-type scale ranging from “totally disagree” (1) to “totally agree” (7). For the importance attached by the managers to emotional intelligence, we developed a multi-item measure with a seven-point Likert scale ranging from “not at all important” (1) to “very important” (7). Below we describe the implementation of these measures.

Market diversity. This was evaluated with three items:

(1) “The market in which my business operates has a wide variety of customers”.

(2) “The service requested varies greatly from one customer to the next”.

(3) “For a given service, customer preferences can vary greatly”.

Sensitivity to advertising. Three items were used to measure the perceptions of those surveyed about sensitivity to advertising in their sector:

(1) “The customers in this sector respond positively to advertising campaigns”.

(2) “Advertising campaigns are effective in this sector”.

(3) “It is possible to significantly increase sales through advertising campaigns”. Similar measures were used by Spake et al. (1999).

Price sensitivity. This was measured with the following three items:

(1) “Customers compare at least two prices before choosing”.

(2) “Customers preferentially go to businesses with lower prices”.

(3) “Customers consider price to be the most important variable in choosing a point of sale”.

This measure was developed based on the scales of price perception developed by Lichtenstein et al. (1990, 1993).

Importance of emotional intelligence. To measure emotional intelligence we used a self-evaluation competency scale based on the recommendations of Schutte et al. (2001). Specifically, the importance of perceiving emotions was measured with the following four items. Degree of importance attributed to:

(1) “the ability to recognize emotions in oneself”,

(2) “the ability to interpret the nonverbal communication of others”,

(3) “the understanding of the meaning of nonverbal signals displayed by others”,

(4) “the ability to recognize emotional changes in oneself”.

The importance of regulating emotions was measured with the following four items. The degree of importance attributed to:

(1) “trying to motivate myself by imagining a positive outcome in the tasks I undertake”,

(2) “giving recognition to others when they perform well”,

(3) “trying to overcome obstacles with my emotions under control”,

(4)“facing new challenges with enthusiasm”.

Reliability and validity. In order to assess the reliability, the convergent validity and the discriminant validity of the scales, a confirmatory factor analysis was conducted with the five constructs. The confirmatory factor analysis yielded a reasonable fit (χ^2 = 180.08, $p < .01$; CFI = 0.93; RMSEA = 0.07). Table 1 shows the factor loadings, the composite reliability coefficients and the AVE indices. The reliability coefficients and AVE indices all exceeded the recommended minimum standards of 0.7 and 0.5 respectively (Hair, Anderson, Tathamand Black, 1995). Moreover, each indicator’s estimated pattern coefficient on its posited underlying construct is significant, which suggests the convergent validity of each factor (Anderson and Gerbing, 1988). Two procedures were used to evaluate the discriminant validity. On the one hand, none of the confidence intervals around the correlation estimates between the factors included the value 1.0. On the other hand, for every pair of factors, the χ^2 value for the model that constrained the correlation to equal 1 was significantly greater ($p < .01$) than the χ^2 value for the model that did not put in place such a constraint. This is further evidence of discriminant validity (Anderson and Gerbing, 1988).

Table 1

Measurement model and Cronbach's alpha

	Standardized coefficient	**Composite reliability**	**AVE**	**Cronbach's alpha**
Market diversity		0.81	0.61	0.78
Item 1	0.50			
Item 2	0.95			
Item 3	0.83			
Sensitivity to advertising		0.93	0.82	0.93
Item 1	0.86			
Item 2	0.94			
Item 3	0.92			
Sensitivity to price		0.77	0.54	0.74
Item 1	0.50			
Item 2	0.76			
Item 3	0.89			
Perceiving emotions		0.80	0.50	0.83
Item 1	0.72			
Item 2	0.62			
Item 3	0.76			
Item 4	0.74			
Regulating emotions		0.83	0.55	0.79
Item 1	0.68			
Item 2	0.70			
Item 3	0.82			
Item 4	0.77			
Goodness of fit				
χ^2=180.08		CFI=0.93		RMSEA=0.07
p=0.00				

Source: authors own

5. RESULTS

In Table 2, we can see a description of the main characteristics of the analyzed sample.

Table 2

Description of the sample

Age of participant (in years)			%
18-24			2.4
25-34			23.2
35-44			30.4
45-54			32.0
55-64			10.4
Over 65			1.6
Number of regular employees (mean)	47.21	**Level of education of the participant**	**%**
		Primary education	3.2
		Secondary education	27.2
		College education	69.6
Shareholder nature	**%**	**Gender of participant**	**%**
Group	28.9	Male	75.8
Family	71.1	Female	24.2

Source: authors own

To test the starting hypothesis, we applied a structural equations analysis using the robust maximum likelihood method. The basic structural model consists of four latent variables and 15 indicators.

The obtained values of the structural parameters indicate that, contrary to H1, perceived market diversity does not affect the importance of perceiving emotions. However, market diversity does affect the importance of regulating emotions, confirming H2. Also, sensitivity to advertising increases the importance of perceiving emotions, in accordance with H3. We were unable to confirm either of the hypotheses regarding the impact of price sensitivity (H4 and H5). Although the corresponding parameters have the expected negative value, they did not reach statistical significance.

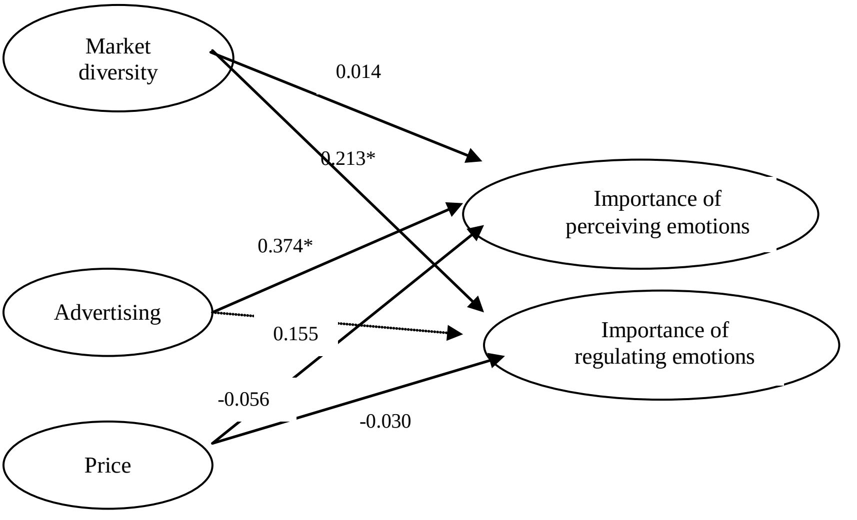

Figure 2. Results of the proposed model
$\chi^2_{S\text{-}B} = 139.96$; $p \leq 0.05$; g.l. = 109; χ^2/g.l. = 1.284; RMSEA = 0.047; CFI = 0.96;
* = $p<0.05$

Note: dotted line means a control effect. A relationship between these variables is not expected but it is introduced in order to avoid spurious conclusions about the other relationships.

Source: authors own

6. DISCUSSION

6.1. Theoretical implications

Our results indicate that market diversity affects the importance executives attach to the regulation of emotions, but it does not affect the importance they attach to perceiving emotions. This suggests that managers perceive emotions as being a useful performance tool in uncertain environments. This constitutes a utilitarian view of emotions, in which executives treat emotional management as a valuable resource. However, we did not detect a positive relationship between market diversity and the importance of emotion perception in oneself or in others.

We have also demonstrated that the importance placed on emotion perception grows with an increase in perceived market sensitivity to advertising. This may be a consequence of the need in these markets to hit the mark with persuasive advertising and the resulting need to have the sufficient sensitivity to identify emotions in oneself and in others.

There was no relationship found between price sensitivity and the importance attached to perceiving or regulating emotions. Although we expected a negative relationship with regard to both, we were unable to support either of the corresponding hypotheses.

Thus, the results suggest that the division between the perception and regulation of emotions is useful in this area. We have shown that the importance of each dimension depends on different factors. While market diversity is a relevant antecedent for the importance of regulating emotions, advertising sensitivity sets the stage for the importance of perceiving emotions.

6.2. Implications for Management

The results offer diverse implications which may be of interest for future research as well as for the manner in which service companies perform marketing management.

Difference between the importance of regulating emotions and the importance of perceiving emotions. Our results indicate that the importance managers give to regulating emotions increases with market diversity. However, this does not occur with the importance of perceiving emotions, which instead depends on customer sensitivity to advertising. Emotional contagion, understood as a transfer of emotional states (Howard et al., 2001), may occur at a conscious or subconscious level. At a subconscious level, emotional contagion produces great harmony among individuals through a spontaneous process in which one person gauges the emotional state of another by subconsciously observing gestures and expressions that reflect emotional states. At a conscious level, on the other hand, emotional contagion involves a deliberate effort to adjust one's mood to that needed by the other person. Attaching importance to the ability to regulate emotions, but not to perceiving them, implies guiding emotional regulation with spontaneous, unconscious effort. It involves succumbing to a form of "primitive emotional contagion" (Hatfield, Cacioppo and Rapson, 1994). Our results indicate that when managers believe customers are sensitive to advertising, the managers also believe they need to make a deliberate and conscious effort to perceive customer emotions. Conversely, when faced with a diverse market, managers recognize the importance of regulating emotions, but this regulation relies on an unconscious level of emotional contagion.

Emotional intelligence of managers and internal marketing in service businesses. Previous studies have shown that when managers are able to project positive emotions toward their business, the influence they have on subordinates causes these subordinates to show positive feelings toward the same organization. This degree of identification and unity within the business is the broad goal of internal marketing (Wieseke et al., 2009). Of course, the probability that managers will promote this aspect of internal marketing will be reduced if the managers are not aware that the perception of their own emotions, or those of their subordinates, is crucial for getting subordinates to express positive feelings when interacting with clients. If managers perceive a greater need to regulate emotions in the face of greater market diversity, this need should be accompanied by increased sensitivity to their own or others´ emotions. This is the only way to trigger the emotional path that begins with the manager and ends with the customer. This is particularly important in the types of organizations we analyzed, small and medium service businesses, since these are the ones in which the manager-employee transfer can occur most intensely (Paswan et al., 2005).

Emotional intelligence and price sensitivity. One of the most significant recent developments in the service sector is the proliferation of various production and sale formulas that allow for ever-lower prices. One would expect that these 'low cost' alternatives would reduce the need to promote a positive emotional flow between the company and its customers. However, our results indicate that service business managers do not believe elevated price sensitivity lowers the importance of perceiving or regulating emotions. This suggests that the emotional competencies of the managers are relevant, irrespective of the priority consumers give to price in their buying decisions. In the case of service companies that direct their activity toward price-sensitive customers, managers should make an effort to influence the expectations of their employees, to make them equally conscious of the need to be emotionally competent. Training and motivational policies, as well as policies relating to the culture of the organization, are the vehicles through which executives can create a favorable environment for transferring positive emotions.

6.3. Limitations and directions for future research

Our study carries certain limitations that restrict interpretation and generalization. One limitation may be the sample size. It is not a representative sample, but it is useful for analyzing the relation between the variables considered. A larger sample size would allow a comparison of these results in different branches of the service sector, which could be very interesting. Moreover, in spite of the importance of the type of enterprises analyzed, small and medium-sized service firms, the nuances of such unique research context should be recognized. A major conceptual limitation is related to the fact that our study takes two marketing mix components into account. Future studies could analyze how the sensitivity to other marketing mix variables has an effect on the importance of emotional intelligence.

Our study analyzes how marketing decision-makers perceive market sensitivity in relation to marketing policies as well as to the importance of emotional intelligence. It would be very interesting to assess the way these managers generate these impressions. In addition, it could be particularly useful to assess the role of the hard (measurable) data and soft (subjective) data. Likewise, future studies could survey customers in order to contrast their answers with those of managers.

We have analyzed the importance that managers give to various aspects of emotional intelligence. Future studies could focus on the relationship between sensitivity to marketing variables and the evaluation of managers. In order to do this, it would be extremely useful to have 360-degree evaluation instruments.

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