

## THE HALO EFFECT IN SMALL ENTERPRISES’ MARKETING

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### **Abstract**

*The paper addresses a less approached topic in the marketing world, namely the halo effect. This phenomenon is described first in the physical world then it is taken over and used in the field of psychology, education, management. In marketing the halo effect is used to monitor how a product / service is evaluated, its influence on the positioning of companies. It also studies the manner in which the marketing mix can be influenced by this effect. The last decades have addressed the halo effect in the fields of brand equity and corporate social responsibility. The paper tries to find out how the halo effect affects the business of small companies, the consequences of these influences. Knowing the halo effect allows companies to gain the ability to ameliorate uncontrolled reactions and make decisions that will have favourable consequences in their respective businesses*

**Keywords:** halo, cognitive bias, conformism, compromise of conclusions

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### 1. INTRODUCTION

Etymologically, the term halo comes from the Greek language, meaning "circle, disc, diameter" (Andrei, 1987). It is used mainly in astronomical physics and refers to the luminous ring around the moon or the sun, which is formed at certain times due to specific physical phenomena.

By analogy, the term halo began to be used in the social sphere, meaning "a generalization of the appreciation of one or more persons starting from a particular feature",

"A tendency to irradiate psychic traits and processes, even if objective data reveals no correlation between them" (Sleahitchi, 2012), "a cognitive bias according to which the perception of a trait (for example, the dominant characteristic of a person or object) is influenced by the perception of another trait of the same person or object" (Phil Rosenzweig, 2007), or "an assumption that an individual's impression of an aspect of a person, product, service or concept affects the views of other aspects. of this." (Rippleout, 2014). Tiffin and McCormick (1965) consider the effect to be the dominance of one trait over all others, and English (1934) views the halo effect as the tendency to judge distinct traits on the basis of a general impression. He considers that the perception of a person largely depends on the general sentiment towards that person. The halo effect has in the social sphere the meaning of extending some sequential qualities to a general entity or an appreciation of attributes belonging to a being, good, service, starting from other visible or well-known aspects. The term was first used in 1920 by

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psychologist Edward Thorndike in a public communication study, describing how people in the US military were being evaluated. Later it began to be used in many other areas, such as education, management, communication, marketing.

The consequence of the halo effect may be positive, when the public image is favourable, or negative in case the interpretation is inadequate. Obviously, however, a certain affectation exists, a distortion of reality is realized. "The halo effect renders an erroneous component in the appreciation of the performances or of the personality traits appeared due to the irradiation of a sequential impression" (H. Schaub & K.G. Zenke, 2001)

This is why "the halo effect harms the general interest, it may harm the evaluators or their employers, as well as those inappropriately evaluated, by taking into account the deceptive appearances. If certain qualities of the people evaluated are overestimated or, on the contrary, underrated, most likely no one will win in the long run" (Hotca, 2019)

Psychologist Asch makes a connection between the halo effect and the degree of conformism of individuals. In his studies he concludes that people are often tempted to comply, either to avoid conflicts or not to be ostracized by the community members from whom they do. part.

„Conformism, as defined in the social sciences, corresponds to a behaviour that is in accordance with what is expected from an individual or a group in a given situation. Being a conformist means that you do not have the freedom to act in a way different from that expected by others.”

Asch studied how the halo effect is manifested according to the personality of the individuals, the conclusions highlighting a stronger contamination in the case of the less creative, with lower intelligence or inferiority complexes.

In the studies carried out over the last decades, there are theories attempting to find the source of the halo effect. The researchers take into consideration the beliefs of the colleagues in a group (Sherif and Sherif (1964)), the popularity of the product, the brand, or the familiarity with the respective product / service (Koltuv (1962)) are discussed. Each of these studies reached different conclusions, as no specific source is clearly highlighted.

On the other hand, analyses used to formulate opinions regarding the factors that influence the halo effect. The importance of the attribute, the importance of the product or the class to which it belongs, the degree of education, culture or communication were discussed. However, there is no consensus regarding these considerations, the authors having different results for the same category of factors. This is why it is considered that the halo effect is not well understood yet and it is reasonable to conduct analyses on individual subjects using criteria that target beliefs by attributes. In fact, experimental research was carried out, which showed that the halo effect was present although the individuals surveyed had all the data that allowed them to have a correct view of the problem discussed. (Ryan, 1977).

Despite all the uncertainties of this topic, the halo effect is considered an important issue and it is the merit of Phil Rosenzweig to have developed this theme in a brave manner, as in areas such as management or marketing there were superficial and simplistic approaches with uncertain purposes. N. Taleb considers Rosenzweig's work "an antidote to the bestsellers written by various gurus who provide us with naive and false conventional arguments."

Although the halo effect is very much analysed in areas such as psychology or education, the marketing specialists have a major concern related to this topic, as they often consider that the success or failure of a product / brand / service is closely linked to the way which this phenomenon is well known.

Within the article the utilized research methodology will be presented, the setting within the specialized literature will be carried out and the contributions of the study will be described.

## **2. THE HALO EFFECT IN MARKETING**

In marketing, the halo effect has been used to identify and monitor how consumers evaluate a product. The assessment of the attributes is important and, if distorted, the evaluation of the product may be wrong, with consequences on the activity of the whole company. "Such distortion, in turn, may result in misleading conclusions about competitive positioning, and may even lead brand managers to make erroneous decisions concerning product modifications and product strategy." (Leuthesser, et al, 1995). If the halo effect has a positive influence, companies may benefit from the favourable evaluation of its products by promoting the most valuable of them. However, if this phenomenon is present, wrong conclusions may be drawn and decisions may lead to wrong positioning. That is why the marketing literature tries to understand the halo effect in its complexity, following the consequences of its action. There are authors who have noticed the halo effect in the case of appreciation of some products, by virtue of the fact that other products of the company meet their requirements and have become familiar. Still, other authors (Koltuv, 1962) they did not observe such attitudes, a situation that increased the uncertainty of the possibility of determining the magnitude of the effect and its consistency. It was appreciated that the most favourable circumstances for the halo effect would be: low familiarity with the analysed products, reason why those questioned resort to mimicry (Koltuv, 1962), subjectivity of the attributes considered when this effect is found (James and Carter, 1977), the special popularity of the products (Leuthesser, et al 1995).

Zollondz (2006) talks about the halo effect also when establishing the marketing mix strategy "... the common effect of the tools is often blurry. This is referred to as an uncontrollable halo effect, as certain measures with positive results for one product may have adverse effects on the other. This uncertainty of the effect of the measures cannot be foreseen unequivocally." The halo effect is all the more powerful in the marketing mix strategy the higher the dynamism of the components proportions of the or the lower the mix stability.

In the last decade, this topic is also analysed in two other sensitive issues: brand equity, and corporate social responsibility. The first problem is based on brand capital.

Basically, the assessment of the brand capital can be done correctly only when the halo effect is closely monitored. The brand capital is defined by Aaker (2009) as "a set of assets and liabilities related to the brand name and symbols, which adds something to the value provided by it". Closely related to the process of building brand capital appears to be the brand equity, defined as the price difference paid for a product well known on the market versus the price paid for an unknown one. Keller (1993) defines the brand equity "in terms of the marketing effects only attributable" to the brand-for example, when certain outcomes result from the marketing of a product or service because of its brand name that would

not occur if the same product or service did not have that name.”, and Leuthesser et al. (1995) consider it as representing “the degree to which a brand's name alone contributes value to the offering (again, from the perspective of the consumer.”) Marketing specialists strive to measure brand capital and “the brand equity measurement literature is classified based on the level at which the brand equity outcome is measured” (Voleti, 2010). That is why some authors seem interested to see if evaluation is influenced by the halo effect so that the elements of performance can be easily detected and the future probabilities refined through better knowledge. Thus, Leuthesser "considers it interesting to see if in the evaluation of brand capital, the halo effect can be measured and what its influence can be". He approaches such a measurement, taking into account the halo effect in his research, which he considers important in the final assessment of brand capital.

As for the second situation, that of corporate social responsibility, Chang-Hyun Jin 1, Jung-Yong Lee 2 studied "the role of the polarity of information or publicity about a company (whether positive, negative, or neutral) and two CSR activities (e.g. environmental preservation and supporting social welfare in developing countries) in the relationships between consumers and brands and also to investigate how a corporate image, as perceived by consumers, affects the formation of an image of a company or brand through the halo effect of Corporate Social Responsibility”.

The Corporate Social Responsibility considered to be "the achievement of the collective good in consensus with the interests of the organisation and to which the law obligates". (Mc Williams A., Siegel D, 2001), it can influence how consumers appreciate the attributes of the respective products / services. For instance, research has shown that a significant percentage of consumers have an extremely favourable perception of the products and services of companies that are known to be invested in protecting the environment, the society as a whole, recognized for their responsible behaviour. These consumers say they see these companies as more concerned about their needs and the manner in which they can be met are more suited to a healthy life and dynamic trends. On the other hand, the negative impression formed due to some greenwashing actions, or simple marketing strategies led to the emergence of a large percentage of consumers who are suspicious when it comes to this issue.

Lemke & Luzio (2014) have shown that consumers' lack of confidence in the companies that display responsible approaches is increasing and is affecting the decision to buy.

### **3. THE HALO EFFECT AND ITS IMPACT ON SMALL ENTERPRISES' MARKETING**

If large companies have major concerns about the halo effect, SMEs do not analyse this aspect and are not interested in how existing distortions could affect their business.

SMEs are an important development factor in all developed countries, generating "most of the GDP in each country, as a rule, between 55%-95%" (Țenea, 2012), being characterised by dynamism, flexibility and high adaptability to market demands.

With a small number of employees (the European Union classification shows that the maximum number of employees cannot exceed 50), it is often asked how they manage to maintain and even develop on markets sometimes suffocated

by competition. (Barbaroş et al., 2011) consider that there are several factors that contribute to maintaining an attractive competitiveness for these companies:

- the role of the owner-manager or the management in general; ·
- the ability to obtain and use the appropriate scientific and technological information; ·
- the quality of the company organisation; ·
- the material investments based on appropriate technologies; ·
- the flexibility; ·
- the strategic market orientation.

But most of the time it is considered that the success of these small companies is determined by the human resource, which always includes visionary, courageous and action-oriented people, the main difference between success and failure being professionalism and motivation.

On the other hand, the evolution of the company is closely related to the age it has reached. Thus appeared the theory of the life cycle of the company, “a theory based on the situational behaviour of the managers, grounded on the concept according to which an effective and efficient behaviour can be obtained when they themselves change, depending on the” maturity “of the subordinates, that is, when they can assume responsibilities.”(Mironov, 2017)

Greiner's model establishes 10 evolutionary phases - 5 ascending and 5 descending as the natural course of a company's life. These phases come one after the other alternatively, the ascending phase causing a descending one, which in turn will be preceding an ascending one. According to this model, small enterprises are characterised by small investments, timid outputs on the market, fluctuation in decisions, poor organisation. The founders are those who are usually involved in most actions and decisions, based on knowledge, experience in the field, intuition. In a short time, if the company is maintained or developed the crisis of management appears, determined by the impossibility of the founder to get involved in all current activities. The management phase appears, along with the apparition of a manager who takes over part of the founder's duties. However, the latter will remain the one who directs and gets involved in the essential actions of the company - investments, modernisation, communication or promotion strategies, company positioning and marketing mix establishment.

In the light of these characteristics specific to small companies, the question arises whether the halo effect is present in such a context, and what this effect is? Does the company register a halo effect determined by the founder's personality? Does this influence the consumer's perception of the products / services offered? Is the affirmation of Barbaroş confirmed, according to which the role of the owner / manager decisively influences the attractive competitiveness of small firms?

In this respect, a survey was conducted among a number of 92 customers of a small company from Reșița, a pizzeria located in the city centre. The pizza place has 6 tables, it is a small company, but well and harmoniously arranged, with a pleasant atmosphere. In the first stage, the questions considered the relation of consumers with the founder of the company. 76% of those surveyed answered yes to this aspect. I know the person who started this business, it is not a familiar relationship, but the founder is appreciated for several qualities: perseverance, culinary skills, serviceability, refinement, involvement. The 70 clients who gave this answer received a second questionnaire asking for their opinion regarding the products and services they benefited from. The questions referred to:

- the quality of the products that have been offered;
- the quality of the services they have benefited from;
- the ethical attitude of the employees.

The unanimous opinion was positive: the products are well prepared, the ingredients correctly chosen, there is attention to detail, correctness, serviceability. As there was a high agreement between the opinions of the two questionnaires, 9 people were selected for a focus group. We tried to detail the problems exposed in the questionnaire and we found a permanent overlap of the qualities enjoyed by the owner of the company with those of the products and services existing in the company, although these were not realized by the respective person. In the discussion we attempted to make a comparison with a nearby competing firm. The comparison benefited the company from the case study, especially in terms of product quality; this was surprising, as the chef of the company had come a short time ago from the competing company and had imposed some of his recipes on the daily menus. It is possible to appreciate that the halo effect existed, the focus group had their objectivity affected and the consequence of the effect was a positive one.

Although the outcome may seem optimistic, the result of the halo effect impacts on the long-term activity of this company. It has an annihilating affection on its owner, the lack of proper appreciation reducing his desire for improvement and development. Also, if he relies on the data obtained from this group, he may get wrongly oriented towards a certain strategy or positioning, the final result being not at all beneficial.

On the other hand, the good faith of those who make these assessments cannot be denied. The subjective and biased opinions are the halo effect, the respective persons, by virtue of the previous judgment, no longer analyse each situation, no longer observe any deviations or deficiencies, the irradiation of the initial opinion being made automatically at any time.

Small firms are therefore strongly exposed to the halo effect, as the consumer generously tends to appreciate the companies whose founders initially made a good impression. On the contrary, it can be appreciated that they ignore or downgrade the activity of companies whose owners have no communication skills or have not made a good first impression to their customers.

### **3. CONCLUSIONS**

Since the halo effect seems to distort the impression of consumers, the consequence for companies is an over- or under-appreciation of the activity, with positive or negative results on the business in general. Being an answer error, the halo effect is important in marketing, where the wrong data can generate marketing decisions that affect the competitive advantage. Wrong data derives from the data appreciation, which in turn depends on the measurement. The measurement in turn is influenced by the correctness with which the specificity of the phenomena under analysis is expressed.

Marketers appreciate that “knowing the consumers, by conducting market studies, represents a starting point and a necessity for the preparation of an effective marketing strategy, in the sense of a favourable influence on the buying behaviour and their loyalty.” (Florin, 2012)

However, they need to understand that uncertainty in data collection is inevitable. The relativity of the data obtained and the risk of the halo effect make the decisions made strictly on the basis of such methods extremely vulnerable. That

is why “business success is the result of decisions made in contexts of uncertainty and shaped by factors beyond our control. In the real world, given the flow of competitive dynamics, even seemingly good choices do not always lead to favourable results” (Rippleout, 2014). Specialists must start from the idea that in this marketing world the cause-effect relation does not always work, whereas the results are only partially predictable. They really have to collect data, evaluate them as objectively as possible and make the choices required. When the halo effect is positive, marketers attempt to exploit this fact and turn satisfied customers into loyal consumers. But at the same time, they have to accept that this strategy cannot be valid in the long run, and they have the obligation to use other techniques in order to maintain the existing competitive advantages at one point. Using the halo effect requires a lot of skill, and the reverse of the medal usually means losing customers, opportunities, and the way the company is perceived by its customers.

In this respect, it is important for business people to avoid applying the formulas or solutions offered in the specialised literature without verifying the existing reality and its dynamics and the manner in which these solutions can be implemented.

„For managerial purposes, the evidence of halo effect on perceived risk doesn't ease managers' job, but it actually raises new preoccupations. The fact that halo effect can stream from different sources, more or less controllable, obstructs the accuracy of failure predictions.” (Florea, 2012).

Small enterprises tend to become the victims of the halo effect, founders often confusing favourable results with their own achievements when in fact they are the consequence of the factors involved in the respective production process. The organisational culture, the skills of the employees, the technology are most often the active factors of success, the decisions of the leader being mere attributions made by virtue of the position held in that company.

As the halo effect ultimately has a negative influence, by compromising the conclusions of an investigation / analysis / survey, independent evidence is a precious ally of reliable decisions. It is necessary to carefully check the data, situations, circumstances, so that the conviction is a result of certain objective factors, which determine consequences favourable to the actions of the company. Knowing the halo effect and the very fine line between influence and manipulation is important for small enterprises' managers. They can thus acquire the ability to control the degree of conformism, to avoid mimicry and to improve the uncontrolled reactions in their business. Benchmarking as accurately as possible against the daily reality and avoiding clichés and prejudices grant business people the opportunities to improve economic and social relations, as well as making decisions in accordance with the existing circumstances.

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