



**University of Pècs**

**Faculty of Business and Economics**

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**The connection between perceived service  
innovation, service value, emotional intelligence,  
customer commitment and loyalty in b2b  
The case of Orian**

**Israel Boxer**

Tutor:

**Prof. Gábor Rekettye**

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## **Abstract**

In a pioneering attempt to integrate the relative impact of rational ('innovation in service') with emotional ('emotional intelligence') dimensions to evaluate the customer's commitment and loyalty to the firm, this research, using two statistical methods, was conducted among the customers and employees of "Orion" Logistic Solutions Company in order to examine the relations between the customers' perception of both emotional intelligence and innovation in the company's services. The findings indicate that the relation between emotional intelligence and innovation increased the perceived value of service in the customers' eyes, leading to higher affective commitment and increased loyalty to the company.

**Keyword(s):** Emotional Intelligence; Service Innovation; Service value; Customer Affective commitment; Customer loyalty; b2b; Israel.

## **1. Introduction**

The swift development in research on emotional intelligence (or EQ= emotional quotient) produced innovative insights about the world of management. EQ research began with a series of emotional intelligence studies, indicating that often the most intellectually brilliant are not the most successful people, whether in business or in personal life (Simms, 2003; Bardzil and Slaski, 2003; Slaski and Cartwright, 2003; Rozell, Pettijohn and Parker, 2004).

EQ is quite complicated and among organization employees it is bounded by the understanding and the insight developed by employees as to what is important for the organization. These insights are based on the accumulative experience of the employees and the organization as to the behaviors expected from the people in the frontline, which also reflect the team's approach and their level of loyalty (Bono and Ilies, 2006; Taylor, 2005; Simms, 2003). A related concept is that of "emotional labor" (Zeithaml and Bitner, 2000; Varca, 2004; Skyrme et al.,

2005), which plays a central role in the employees' service giving, a concept that includes behaviors such as smiling despite feelings of anger or tension and always giving rational and polite answers (Zapf, 2004; Samat et al., 2006).

Service innovation is a rapidly growing area in the global arena, characterized as an interactive move, involving relationships between different functions in the organization's external environment (Laursen and Salter, 2004; Salter, 2004). An important part of the innovation process is the way in which the organization seeks new ideas that have a commercial potential. Thus, the search processes within the organization could be considered an investment in the ability to produce, use and upgrade existing and new knowledge, resulting in enhanced customers' loyalty and extending the relationship's life-expectancy (Terrence and Tellefsen, 2003; Wolf, 2003). According to Oke (2007), "service product innovation" aims at improving the financial state of the firm as well as its customers' level of efficiency. Chang and Tu (2005) and Yi and La (2004) suggest that customers wishing to purchase a specific product or service scan the possibilities and develop a system of factors to be taken into consideration. Within this system, they develop a hierarchy of products or services based on the perceived value of the different transactions. Perceived value is based, among other things, on the quality of the product, its innovative qualities, prestige and other factors that customers deem important.

In the present study, which was conducted among the customers of "Orian" Logistic Solutions Company and its employees, a pioneering attempt was made to integrate the relative impacts of rational dimensions, such as "innovation in service", with an emotional dimension, such as "emotional intelligence", which, as indicated above, contributes to the value of the service (Goyal, 2007a) and to the customers' commitment (CAC) and loyalty to the firm. Thus, the relations, as perceived by the customers, of emotional intelligence and innovation in "Orian" service are examined, as well as the existing gaps between employees and

customers' perceptions regarding a series of dimensions comprising emotional intelligence.

As a dependent variable in the present study, commitment was defined by Bloemer et al., (2003) as the major factor motivating customers to recommend a product/service to their friends and driving their purchase intentions while decreasing their sensitivity to the price. According to Beatty et al., (1988) and Lacey (2007), commitment and loyalty are related, yet by definition they are distinct constructs, with commitment leading to loyalty. Costabile et al., (2003) defined customers' loyalty as solid trust in the supplier's ability to respond to his/her demands on time while always offering the highest value. This belief is related not only to cost-benefit evaluations but also to expectations of future satisfaction of demands at the best possible level. Calabro (2005), Ritson (2004), Favilla (2005) and Costabile et al. (2003), maintain that the loyal customer develops a strong and enduring relationship with the company; thus it can probably be assumed that such customers will speak well about the company and will not be inclined to defect (e.g., Johnston, 2005). In addition, this study also examines the customers' perception of and level of satisfaction with a series of behavioral dimensions displayed by "frontline employees". For the sake of comparison, this research examined the employees' perception of their service behavior on the same behavior dimensions.

## **2. Literature Review**

### ***2.1 Service innovation***

Innovation has emerged from a neglected and marginal status to achieve widespread recognition as being worthy of in-depth study (Evangelista, 2000; Miles, 2000; Djellal and Gallouj, 2001; Drejer, 2004; Tether, 2002). Currently, the contribution of the service sector and the increased role of innovation in the service sector as driver of the innovation agenda are widely recognized (Menor and Roth, 2007; IfM and IBM, 2008). Innovation in service may be expressed either as a new service

(product innovation), of which the book site "Amazon" is one example, or as change and development in the process of service provision (process innovation), expressed by the organization's ability to improve its processes to a level that makes its product/process competitive in quality or price. The American shopping Internet site "Wall Mart" is famous for its process innovation, since it enabled the Internet to offer its products at "market breaking" prices (Christensen et al., 2003; Parnell and Lester, 2008).

### ***2.1.1.Theory, approaches and models of innovation in service***

According to DeVries (2006) and Tether and Howells (2007), service innovation can be found in service outcome characteristics (e.g., new ingredient in a dish, new design of the final report in consultancy), service provider competencies (new knowledge and new skills), service provider technology (new IT systems, new machines and new procedures), and client feedback (e.g., customers provide information on a stock's quality to the supplier). Oke (2007) characterizes "service product innovation" as developments in the service product aimed to improve the financial state of the firm as well as the efficiency level of its customers. Barras (1986, 1990) reverse product cycle model is considered as marking the beginning of the service innovation research stream (Miles, 2006; Tether and Howells, 2007). Barras (1986, 1990) suggests a different pattern for services life cycle, which begins with process innovation, leading to the development of totally new services (Linton and Walsh, 2008). Ark et al., (2003) described innovation in service using a four dimensional model. The first dimension, "new service concept", is nurtured by knowledge about the characteristics of existing and competitive services (Business Intelligence). The second dimension, "new client interface", is related to the first through marketing, where the knowledge concerns the characteristics of existing and potential customers. The third dimension, "new service delivery system", involves the abilities, skills and

existing positions of employees (Human Resources Management). The first dimension is connected to this one through organizational development and the second dimension is connected to this dimension through distribution. The fourth dimension is called "technologies options". According to Tether and Metcalfe (2003), innovation in service is related to external subjects such as opportunities or threats. Since opportunities or threats are dynamic and often change, service innovation, which is connected to these developments, also needs to change in order to provide a swift response to the change in trends and markets.

### ***2.1.2. Organizations encouraging innovation***

Different innovation patterns exist in service firms (Tether, 2005). Some service firms innovate by copying the ideas of their competitors or by adopting off-the shelf technologies. These efforts require little creativity or risk-taking and can therefore hardly be considered as innovation. Nevertheless, other service firms invest substantial resources in areas such as R&D. Innovation is becoming imperative to differentiate players in the market (Cardellino and Finch, 2006). Thus, the British Institute of Facilities Management (BIFM) Annual Awards for Innovation reflects a growing recognition of innovation in the facilities management (FM) sector (Cardellino and Finch, 2006). This has led many organizations to re-evaluate the contribution of FM to making a business successful, searching for value that can be added through effective planning and management (Alexander, 2003). For innovation to flourish, the organization has to create a culture of continuous innovation (DTI, 2003). Thus, the role of innovation management is to create an enabling environment, in which solutions can be conceived, developed and applied (Goyal and Pitt, 2006a, b). According to Goyal (2007a), the creation of an efficient and high-morale working environment can lead to fruitful discussions and to generate innovative ideas. An innovative environment and facilities will also increase demand

and result in augmented commerce and services (Goyal, 2007a). Innovative ideas should not come from a few brilliant people; it is imperative to encourage each and every member of the company to voice their ideas, to continuously encourage employees to innovate and to equip them with the appropriate tools and environment to foster creative ideas (Goyal, 2007a).

### ***2.1.3. Innovation and market orientation***

Studies indicate that the more the organization is aimed at the market (high marketing orientation), the more it is aware of the forces operating in the market and the greater the reciprocal relations and collaborations it develops, leading to greater innovation (Chesbrough, 2003). In support of this, researchers (Webb et al., 2000; Steinman, Deshpande and Farley 2000; Baker et al., 1999) found a positive relation between relationship marketing and innovation: the higher the level of the organization's relationship marketing, the higher the level of innovation.

Many companies regularly update their customers about their innovations, thus gaining an advantage over other companies in terms of purchase intentions (Liao and Chiang, 2005). According to Titus (2004), technological innovation enables the company to gain control over many market segments, to establish new industrial standards based on new technology, to gain a preferred reputation, to define business strategy for the leadership of the market, to enlarge its customer bases, and to improve its economic performances.

## ***2.2 Emotional intelligence***

Emotional intelligence, defined as “the ability to understand people” (Fatt, 2002, p. 57), or as the layout of skills contributing to the precise evaluation and expression of emotions towards one's self and others and as the effective regulation of emotions and utilization of feelings, is rooted in the concept of social intelligence (Matthews et al., 2002).

### ***2.2.1. The emotional intelligence of frontline employees and customers' satisfaction***

The employees' level of emotional intelligence is important in light of the fact that the employee-organization relation determines and shapes the nature of the customer's relation with that organization, since employees who are not happy and satisfied will have difficulty in "transmitting" positive feelings to their customers (Alexandrov et al., 2007). However, it is bound by the understanding and the insight that develop among the employees as to what is important for the organization within that context; that insight is based on the accumulative experience of the employees and the organization as to the behaviors expected from the people in the frontline which are also reflected in the approach of the team and their level of loyalty (Taylor, 2005; White and Schneider, 2000; Simms, 2003). Presently, organizations attach much importance to the service consciousness of their employees (Morris and Feldman, 1996; Zeithaml et al., 1996).

Organizations that are interested in attracting and keeping customers must pay attention to their employees as well, since dissatisfied employees who are not in touch with their emotions cannot provide any kind of emotional value to the customer (Greenbaum, 2000; Cherniss, 2000; Ashkanasy et al., 2002; Kreppa et al., 2003; Price et al., 1995; Roberts et al., 2003; Spencer, 2002). Employees working in service provider organizations are usually more sensitive, more connected with their emotions and more skilled in identifying the feelings of the person facing them. Usually, these service providers "tie" their customers with a very strong emotional bond, during the first stage in which the customer's loyalty develops. Cognitive loyalty develops only later. Finally, the highest level of loyalty, emotional loyalty, is forged (Bardzil and Slaski, 2003; Costabile, 2000; Lemon, White and Winer, 2002; Oliver, 1997).

Bove and Johnson (2000) and Uncles et al., (2003) identify the building of a strong relationship with customers as being dependent on the efforts of the frontline employees, while the customers' experience depends on two factors: the skills of the team with whom they are dealing and the organization's policy of relationship building. The quality of the interaction is closely related to the level of the employees' emotional intelligence, since "people skills" are ascribed by many researchers to this quality (Goleman, 1995, 1998; Goleman, Boyatzis and McKee, 2002; Sojka and Deete-Schmeiz, 2002; Simms, 2003; Deeneve and Cooper, 1998; Bardzil and Slaski, 2003; Slaski and Cartwright, 2002; 2003; Rozell, Pettijohn and Parker, 2003; Cooper and Sawaf, 1997). The customers, according to Simms (2003) and Greenbaum (2000), expect to gain emotionally as part of the service package.

Thus, emotional intelligence strengthens relationships, teamwork and collaboration (Druskat and Wheeler, 2003; Druskat and Wolff, 2001; Goleman, 2000; Goleman et al., 2002; Wolff et al., 2002).

### ***2.2.2. Trust and emotional loyalty***

Trust is a rare commodity (Barlow and Stewart, 2004). Trust in an organization is formed as a result of judgments people make about its behavior over time. Edwardson and Croker (2003) found that only one in twenty customers trusts the organizations that give him/her services, while only one in forty customers believe that the organization trusts him/her. Deeneve and Cooper (1998) claim that the inability to create trust has an "intangible" as well as a tangible price that is particularly high.

Greenbaum (2000) supports the role of emotional intelligence in the creation of emotional loyalty in general and trust in particular, advising organizations to develop a service culture that is encouraging and based on emotions. To achieve this end, employees and managers must first reach a high level of consciousness about their own range of emotions.

### **2.3 Perceived service value**

According to Chang and Tu (2005) and Yi and La (2004), value perception is based on the quality of the product, its innovativeness, prestige and other factors that the customer deems important, leading the customer to choose the product or service that provides the best value. Predication of value is based on the customer's evaluation of the price's fairness. Kukar-Kinney (2005) argues that consumers perceive purchase as worthwhile and valuable when the benefit they gain from the product or the service matches their early expectations and has a reasonable cost. Kukar-Kinney's study explored the inclination to ask for a refund following the purchase of products through the internet which, in his opinion, represents the result of value comparison made after the purchase.

Shaw (2007, p. 97) introduced another approach to the subject of "being valued": *"The meaning of being valued is to feel that the firm considers the customer. This is given expression in the totality of the firm's actions vis-à-vis the customer and in a personal and special attitude, including all it entails, through high evaluations, solutions to problems and a suitable price"*. According to this approach, there are other dimensions of value which influence the firm's future expansion: 1. Extrapolated value - the additional business that the customer will do with the firm in the long range. 2. Incremental value - the additional business the customer will do with the firm in terms of the transaction size compared to the past. 3. Strategic value - the additional business the customer will do with the firm in terms of products or additional services. 4. Social network value - reflects additional business turnover that stems from word of mouth.

Weighing trade-offs helps to understand the term "value for customer" (Flint et al., 1997), since it refers to the benefits customers gain through the price they pay for their purchase, the value being supposed to reflect a balanced perception by the customer of what is received as opposed to what is sacrificed. The fierce competition in the market, fueled by different value

offers, forces customers to compare the various offers and finally choose the offer which, in their opinion, has the highest value (Ulaga and Chacour, 2001; Anderson and Narus, 1998). According to Butz and Goodstein (1996), value incorporates a package of emotional relations that is transferred to the customer by the supplier. Success in such a transference leads to repeated purchases and to the building of a long-term relationship. Therefore, Vandermerwe (2003) argues that customer value should be defined by the customers, rather than by the firm, and that value to the customer is realized not within the firm's internal value chain, but when the customers are satisfied with the total experience.

### ***2.3.1. Value dimensions and emotions***

Emotional loyalty gained consensus among researchers (Calabro, 2005; Ritson, 2004; Favilla, 2004; Costabile, 2000; Costabile et al., 2003) as being the outcome of earlier processes that begin with satisfaction that is based on positive past experiences. Satisfaction increases loyalty, leading to the formation of trust as the basis for the development of the relationship. Shaw (2007) formulated four clusters that either enhance or destroy value for customers, maintaining that a relation exists between the customer's feelings and the firm's sales turnover. The four clusters are: 1. **Destroying**: reflects moments of truth that create negative feelings stemming from an organization that is not focused on its customers. 2. **Attention**: includes feelings that are quite positive and which the organization uses in order to draw in customers. 3. **Recommendation**: forms the emotional basis for establishing loyalty. 4. **Advocacy**: forms the upper level of the value pyramid and contains two emotions only: happiness and pleasure. The organization that manages to create these feelings in the long-term reaps positive fruits in the form of high customer loyalty and customers who are goodwill ambassadors for the organization, willingly and without any incentive.

## ***2.4 Customer affective commitment***

Affective commitment refers to customers' emotional bonding to a firm as well as their sense of belonging and identification with it (e.g., Dwyer et al., 1987; Morgan and Hunt, 1994). It is distinguished from other forms of commitment and exists when individual customers identify with and become attached to their relational partner (Fullerton, 2005; Gruen et al., 2000).

### ***2.4.1. The advantages of affective commitment***

Affective commitment has been identified in various service settings such as automobile dealerships (Brown et al., 2005), automobile repair services (Bansal et al., 2004), insurance services (Verhoef et al., 2002), banking and telecommunications services (Fullerton, 2005), and grocery stores (Fullerton, 2005). The committed customer might enjoy the fulfillment of relational benefits such as individualized treatment, social interactions with the employees and frequent shopper incentives as well as basic shopping benefits. A high level of commitment exists when rational dimensions (net benefits) are added to the emotional dimensions. Thus, according to Meyer and Allen (1997), affective commitment is probably most useful to the organization. Furthermore, Dick and Basu (1994) suggest that the stronger the commitment, the harder customers will try to overcome obstacles in their relationship with the seller. Affectively committed customers were found to be more forgiving of service failures (Tax et al., 1998).

Beatty et al., (1988) indicate that commitment and loyalty are interwoven, with high levels of commitment leading to loyalty.

## ***2.5 Customer loyalty***

Customer loyalty is the individual's behavior based on repeated acquisitions of the same product/service within a certain category compared to his/her total acquisitions in the same category (Fader et al., 2005). However, there is no consensus among researchers (Uncles et al., 2003) about the definition of customer

loyalty. As a rule, three major approaches could be discerned: 1. True loyalty can exist only when positional commitment towards the product or service exists and is expressed through positive positions and perceptions about the product/service. 2. Loyalty is expressed in terms of behavior. Within this framework, loyalty would be defined as the extent to which the customer intends to purchase again from a supplier who provided a certain level of satisfaction (Law and Zhao, 2004). 3. The third approach connects the two previous approaches, claiming that it would be impossible to separate them because loyalty is affected by the relation between positions and behavior and that loyalty is a multifarious factor that includes both positive and negative reactions (Beerli et al., 2004; Zeithaml et al., 1996). Uncles et al. (2003) attempted to identify the major characteristics that are common to all approaches towards customer loyalty: 1. Loyalty is expressed mainly through open behavior (past consuming characteristics), and 2. The purchase is impacted by the customer's characteristics, circumstances and/or purchase conditions. Taking a different approach, Beerli et al. (2004) distinguish between two kinds of loyalties, loyalty based on inertia and true loyalty, which reflects a cognitive decision to continue buying the same product or service, which is accompanied by a positive position and high commitment.

### ***Loyalty engines***

Rowley (2005) examined the question how can services marketers distinguish between a customer's false and true loyalty in order to use marketing resources more effectively? For example, why waste incentive programs on spuriously loyal customers that might switch suppliers due to a lack of commitment? Although there is an abundance of studies on the drivers of loyalty, only a few focused on the question whether the dimensions of loyalty are differentially influenced by various drivers.

In a study by Bhatti et al. (2001), customers were asked which relative advantages they consider as critical for their loyalty. The answers revealed that the key loyalty issues were those that reflect a strong tie between the customer and the organization, while loyalty programs no longer provide a meaningful competitive advantage. Similarly, only 10% of the customers considered promotional sales essential and surprisingly, even the price was found to be critical for only 25% of the customers. A few organizational characteristics and traits were identified as forming strong bonding with the customer, leading to the desired loyalty behaviors. These include the team's approach, fulfilling advertised promises, comfortable return/exchange policy, precise information about the products, treating the customer as a valuable individual, and self service recovery potential (Bhatti et al., 2001; Costabile et al., 2003; Dong et al., 2008).

### **3. Methodology and Measures**

#### ***3.1 The research population***

The research population included representatives of shipment, purchase and logistics departments in Israeli companies that deal with the manufacturing and international distribution of industrial products, including traditional and Hi-Tech industries. There are approximately 100 logistic service companies in Israel and the present study was conducted among the customers and employees of one of these companies.

#### ***3.2 The sample***

Three samples of business customers and employees were chosen randomly from a list that was given to the researchers. Different questionnaires were administered to each sample. The first questionnaire contained an evaluation of customer service dimensions, covering most of the research variables. The questionnaire was administered to 20% (96) of the customers; however, only 49 (10.2%) returned it, that is, approximately half (49%) did not fill out the questionnaire following the first, second

and third application. The second sample was given a questionnaire about the service behavior of the employees, which is connected to their emotional intelligence. The questionnaire was filled by 56 out of the 124 employees (45%) concerning their own service behavior, which is linked to their emotional intelligence, as they believe it is perceived by the customers. In addition, the questionnaire was filled by 53 customers (11% of approximately 482 customers).

### ***3.3 Research tools and data classification (Figure 1)***

The well-validated and comprehensive questionnaires were sent by e-mail and fax over a period of a year and a half. The questionnaires included the "Workers Behavior Questionnaire", based upon Winsted's questionnaire (2000), administered to both the company's customers and employees and another five questionnaires concerning the different aspects of service, which were delivered to customers only. These five questionnaires included:

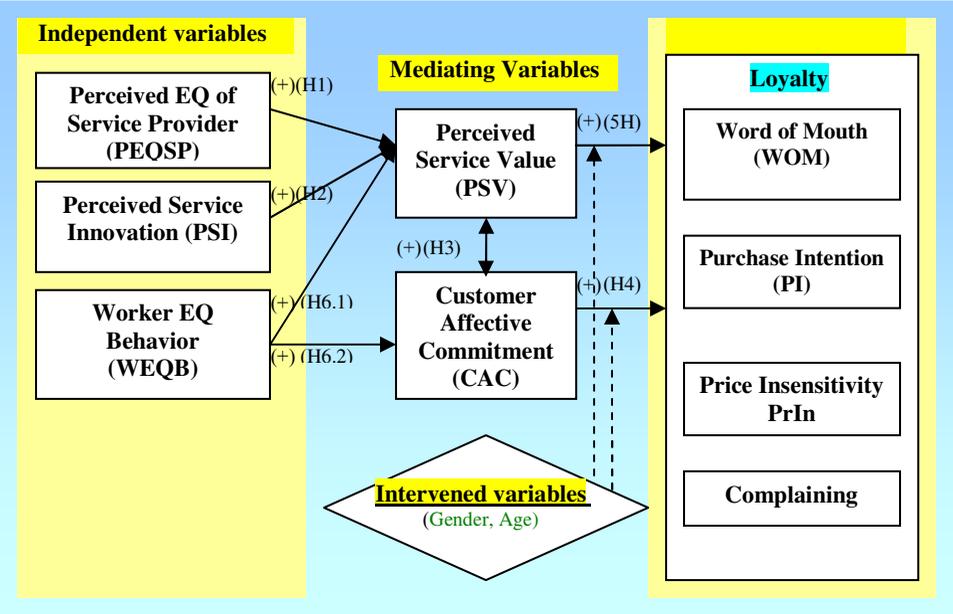
1. Perceived service innovation questionnaire, based on Lievens and Moenaert (2000) and Varca (2004)
2. Perceived Emotional Intelligence service provider questionnaire, based on Varca (2004)
3. Perceived service value questionnaire, based on Chen and Dubinsky (2003) and Soutar and Sweeney (2003)
4. Affective commitment questionnaire, based on Allen and Meyer (1990)
5. Customer Loyalty questionnaires:
  - 5.1. Word-of-mouth questionnaire, based on Zeithaml et al., (1996)
  - 5.2. Purchase intentions questionnaire, based on Allen and Meyer (1990); Zeithaml et al., (1996)
  - 5.3. Price-insensitivity questionnaire, based on Zeithaml et al., (1996)
  - 5.4. Complaint behavior questionnaire, based on Zeithaml et al., (1996).

Originally, Questionnaire 1 consisted of 42 items: six items about innovation perception (PSI), six about the customers' perception of the employees' emotional intelligence (EQ), nine items about the perception of service value (PSV), eight items about customers affective commitment (CAC), three items regarding "word of mouth" (WOM), two items about purchase intentions (PI), four items about price insensitivity (PrIn) and four items about the customers' complaint behavior (COM).

Questionnaire 2 - the **customer's** perception of employees' service behavior dimensions which is linked to their EQ, consisted of 96 items which, after cancelling duplicate questions and performing a reliability test, were reduced to 62 items that were averaged into one variable through the means of all the items.

Questionnaire 3- the **employees'** perception of service behavior (the same questionnaire as in the previous item, only directed to the employees).

**Figure 1: The Research Model**



### 3.4 Variables

The research variables include three independent variables (**innovation**, **EQ** and the **employees'** perception of service behavior); two mediating variables (**CAC: PSV**) and four dependent variables as well as demographic variables; age and gender. The eight variables and their dimensions are specified in Table 1.

**Table 1:** the variables of the research and their characteristics

Variable Type	Variable	Dimension
Independent Variables	Perception of employees' service behavior	Single Dimension
	<b>ation</b>	Single Dimension
	<b>EQ</b>	EQ: External EQ abilities
		EQ: Internal EQ abilities
Mediating Variables	<b>Perceived service value</b>	PSV: Efficient
		PSV: Attractive and Loyal
		PSV: Enjoying without real value
	<b>CAC: Affective commitment</b>	EC: Familial feelings
		EC: Recommendation
		EC: Comfort feelings
Dependent Variables	<b>PI: Purchase intention</b>	Single Dimension
	<b>Word of mouth</b>	Single Dimension
	<b>PrIn: Price insensitivity</b>	Single Dimension
	<b>COM: Complains behavior</b>	Single Dimension

## 4. Results

### 4.1 Factor analysis

Analyzing the factors of the "explaining variables" (Table 28) characterizes them with one factor explaining 85.9% of the variance in which the variable PSI is most strongly connected with the factor (0.91). EQ explains only 9.7% of the variance; PSV explains only 3.4% and CAC only 1.1%. That is to say that the explanation is in fact granted by one central factor connected

with PSV. The other variables have relatively marginal value. EQ leads in all the other explaining variables. However, it should be noted that the term "explaining variables" is used in the context of variables which (supposed to) have an impact over the dependant variables. As such this term refers to independent variables as well as mediating variables. Furthermore, as a "byproduct" of the full path analysis process that will be presented hereafter, these findings are of descriptive nature and should not be viewed as part of the inference process.

**Table 2-** Factor analysis of the independed variables

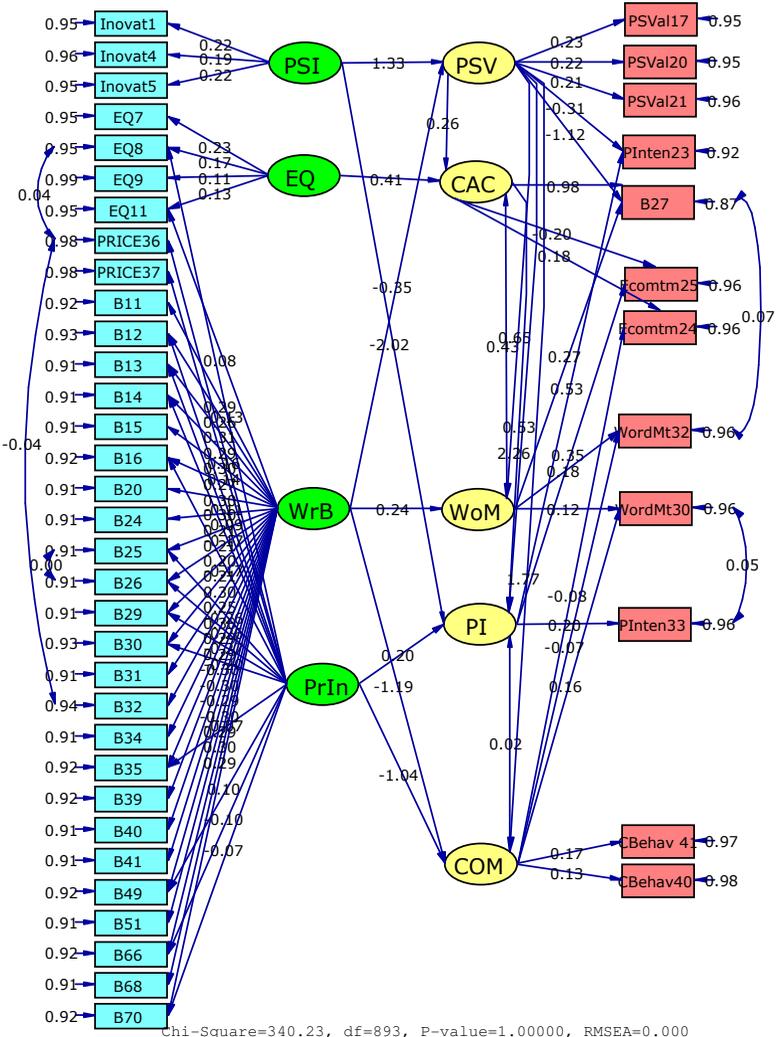
	Component	% of independed variance
PSI- Perceived Service innovation	.908	85.9
EQ- Emotional quotient	.875	9.7
PSV-Perceived service value	.976	3.4
CAC-Customer Affective commitment	.944	1.1

#### **4.2 Relations**

As can be seen from Figure 2, the relation between PSI and PSV was supported. On the other hand, the relation between the employees' perception of emotional intelligence in the eyes of the customers (EQ) and PSV was supported only through the direct relation test but not through the inclusive system of equations using SEM model (For example: Feller, 2002).

The positive relation found between CAC and PI through simple correlations was found to be very strong in the overall model. A positive relation between CAC and PSV would have been expected, since PSV is the mediating variable. Indeed, it has been found that such a relation does exist. That is, that the positive relation found between CAC and PI is a key relation for understanding the true reason for the relations in the model.

**Figure 2: Path Analysis (LISREL)**



**Table 3: Cronbach's  $\alpha$  Reliability test of final study**

The variable	Originally Items	Cronbach's Alpha – Base Line	Remained Items	Cronbach's Alpha - Final
<b>Innovation</b>	<b>1-6</b>	<b>0.953</b>	<b>1,3,5-6</b>	<b>0.967</b>
<b>EQ</b>	<b>7-12</b>	<b>0.875</b>	<b>7-12</b>	<b>0.875</b>
EQ: External EQ abilities	<b>8, 10,12</b>	<b>0.804</b>	<b>8, 10</b>	<b>0.842</b>
EQ: Internal EQ abilities	<b>7, 9, 11</b>	<b>0.804</b>	<b>7, 11</b>	<b>0.821</b>
<b>Perceived service value</b>	<b>13-22</b>	<b>0.772</b>	<b>19, 20</b>	<b>0.970</b>
PSV: Efficient	<b>17, 19,20, 21</b>	<b>0.956</b>	<b>17, 19,20, 21</b>	<b>0.956</b>
PSV: Attractive and Loyal	<b>13,15, 16,22</b>	<b>0.237</b>	<b>13, 16,22</b>	<b>0.723</b>
PSV: Enjoying without real value	<b>18,14</b>	<b>-</b>	<b>18,14</b>	<b>-</b>
<b>EC: Affective commitment</b>	<b>24-29</b>	<b>0.895</b>	<b>24-29</b>	<b>0.895</b>
EC: Familial feelings	<b>27 ,28 ,29</b>	<b>0.844</b>	<b>27 ,28</b>	<b>0.882</b>
EC: Recommendation	<b>24 ,31 ,32</b>	<b>0.792</b>	<b>24 ,31 ,32</b>	<b>0.792</b>
EC: Comfort feelings	<b>25 ,26 ,30</b>	<b>0.764</b>	<b>25 ,26 ,30</b>	<b>0.764</b>
<b>PI: Purchase intention</b>	<b>23, 33,34</b>	<b>0.291</b>	<b>23,33</b>	<b>0.789</b>
<b>Word of mouth</b>	<b>30-32</b>	<b>0.880</b>	<b>30,32</b>	<b>0.941</b>
<b>PrIn: Price insensitivity</b>	<b>35-38</b>	<b>0.819</b>	<b>36-37</b>	<b>0.962</b>
<b>COM: Complain behavior</b>	<b>39-42</b>	<b>0.542</b>	<b>40-41</b>	<b>0.914</b>

### 4.3 Gaps

Gaps were found between dimensions of service behavior of the company's frontline workers and the customers' perception of these behavior dimensions. In all dimensions, there was significantly higher employee evaluation in comparison with the customers' evaluation, except for the item "was very competent" in which reverse orientation is discerned, according to which the customers appreciate the employees more than the employees appreciate themselves.

**Table 4:** Rotated Component Matrix (a) – Innovativeness- (All six data are classified into three factors together explaining 70.8% of the overall variance)

Innovativeness	Component		
	1	2	3
	Specific for the Org	Prestige Influence	Efficiency Influence
% of variance explained	27.7%	26.0%	17.1%
Inovation1	<b>.830</b>	.117	-.240
Inovation2	<b>.786</b>	-.039	.144
Inovation6	.163	<b>.744</b>	-.226
Inovation4	.167	<b>.712</b>	.477
Inovation5	-.385	<b>.641</b>	.148
Inovation3	-.071	.022	<b>.932</b>

**Table 5:** Rotated Component Matrix (a) – EQ- (All six data are classifies into two factors together explaining 49.4% of the overall variance)

EQ	1	2
	Workers External Behavior	Workers Emotional Influence
% of variance explained	27.8%	21.6%
EQ7	<b>.748</b>	-.145
EQ10	<b>.732</b>	.112
EQ11	<b>.629</b>	-.059
EQ8	-.020	<b>.739</b>
EQ9	-.205	<b>.705</b>
EQ12	.369	<b>.481</b>

#### ***4.4 Comparing the SEM model (Figure 2) with the research model (Figure 1)***

Price insensitivity (PrIn) is one of the dimensions that express loyalty. Thus, in the original model, PrIn was added as a dependent variable. Following the use of the Modification Index and the optimal examination of the relations in the model, the variable PrIn became an accounting variable, instead of a dependent variable. In addition, other factors were added from the area of emotional intelligence such as "EQ8- I'm pleased with The Company workers' ability to put themselves mentally in another person's situation and understand how that person feels". This makes sense because the variable is essentially different from the other dependent variables that express behaviors while price insensitivity is not necessarily the result of these but rather a source explaining the customer's behavior and belief that the company employees are empathic and act in his favor. In addition to its being exogenous, the variable CAC is also defined as endogenous and influenced by the exogenous PSV. In the original model the relation was bilateral, not a cause-effect relation. The SEM model points to the direction of the relation and its intensity, in addition to indicating its existence. New relations were added to the dependent variables, which were not expressed in the original model and these give an additional point of view on the causal relations, as detailed later.

**Table 6: Rotated Component Matrix (a) – Service Value-** (All ten data are classified into five factors together explaining 71.5% of the overall variance)

Service Value	Component				
	1	2	3	4	5
	21.7%	16.5%	12.5%	10.7%	10.1%
	Easy to Use	Worthwhile	Unacceptable	Enjoyment	Effectiveness
P_SValue22	<b>.865</b>	-.036	.113	-.033	.155
P_SValue19	<b>.694</b>	.138	-.314	.201	-.108
P_SValue17	.001	<b>.760</b>	-.284	.151	.090
P_SValue13	.461	<b>.729</b>	.182	.086	-.119
P_SValue21	-.188	<b>.592</b>	.173	-.269	.331
P_SValue15	.029	-.020	<b>.914</b>	-.046	.159
P_SValue16	.216	.009	<b>-.582</b>	.179	.513
P_SValue18	-.005	.161	.080	<b>.868</b>	.021
P_SValue14	.115	-.097	-.217	<b>.677</b>	.012
P_SValue20	.013	.111	.093	.000	<b>.864</b>

**Table 7: Rotated Component Matrix (a) – Affective Commitment-** (All six data are classified into three factors together explaining 64.8% of the overall variance)

	Component		
	1	2	3
% of variance explained	27.8%	20.1%	16.9%
Factors	<b>Personal Meaning</b>	<b>Familial Feelings</b>	<b>Happiness</b>
E_Commit29	<b>.804</b>	-.010	.109
E_Commit26	<b>.714</b>	-.179	-.260
E_Commit27	<b>.586</b>	-.088	-.375
E_Commit24	.033	<b>.773</b>	-.273
E_Commit28	.302	<b>.723</b>	.396
E_Commit25	.277	-.205	<b>.750</b>

**Table 8: Rotated Component Matrix (a) – Price Insensitivity-**  
 (The four data are classified into two factors)

	Component	
	1	2
Price elasticity	Pay more for more service	Price is not important
PRICE_I37 If the company were to raise the price by 10%, I would be likely to remain.	<b>.709</b>	-.303
PRICE_I35 I am likely to pay a little bit more for using the company services	<b>.699</b>	-.407
PRICE_I38 I am willing to pay more for this person’s services.	<b>.677</b>	.407
PRICE_I36 Price is not an important factor in my decision to remain with the company	.265	<b>.843</b>

**Table 9: Rotated Component Matrix (a) – Complain Behavior-**  
 (The four data are classified into two factors)

	Component	
	1	2
Complain Behavior	Complain inside	Complain outside
C_Behav41 I complain to an external agency if I experience a problem with the company	<b>.826</b>	-.026
C_Behav42 I complain to the company's employees if I experience a problem with the company	<b>-.729</b>	.362
C_Behav39 I switch to a competitor if I experience a problem with the company	-.066	<b>-.716</b>
C_Behav40 I complain to other consumers if I experience a problem with the company	.344	<b>.693</b>

## **5. Discussion**

The model used in this research (see Figure 1) describes the relationship between service behavior and the perception of customers in general, independently of those of the service providers. The accounting variables are very much interconnected, with "perceived service innovation" appearing as the major component ( $r=0.91$ ). There are also a few dependent variables in the model, justifying the choice of the statistical model SEM, beyond the basic correlations conducted.

### ***5.1 Emotional intelligence and service value***

Emotional intelligence leads in explaining the service value, in accordance with the literature regarding the impact of emotions on commitment and subsequently on customer loyalty. The findings agree with those of Calabro (2005); Ritson (2004) and Favilla (2005), according to which emotionally loyal customers develop a good relationship and such strong and solid ties with the company that they act as the company's goodwill ambassadors. This is in the same vein as Oliver's (1999) findings, according to which in many purchase decisions the person buys emotionally and intends to interpret his/her purchase rationally (to him/herself and to others).

In the EQ area, the major dimension expressed in the present research is that of "Workers External Behavior"- the intelligent use of intense feelings by the frontline employees which focuses the attention of the employee on solving the most urgent and important problems. This contributes to enhanced adaptation capability which would help the employees when coping with similar situations in the future and helps in the creation of emotional relations with the customers (Simms, 2003; Greenbaum, 2000).

The relation between the level of EQ of frontline service providers and customers' loyalty was widely supported in the literature (Cooper and Sawaf, 1997; Bardzil and Slaski, 2003). Accordingly, employees who are unhappy and dissatisfied will

find it difficult to maintain positive customer relations that are based on a tangible utility on the one hand and on the "provision" of positive emotions on the other (Greenbaum, 2000; Pine and Gilmore, 1999).

In the SEM model, the employees' emotional intelligence is linked to CAC, enhancing the importance of developing emotional intelligence among the employees.

The employees' EQ impacts all the dimensions of the customers' PSV. A particularly strong relation was found between the dimension PSV "Attractive and loyal" and general EQ scores as perceived by the customers. Customers tend value loyalty programs that grant them an emotional good feeling, such as a sense of belonging (Youjae and Hoseong, 2003). This yields significant added value to the firm by decreasing the defection of customers and increasing the overall price of "switching costs" (Lam et al., 2004; Wirtz and Mattila, 2003).

Butz and Goodstein (1996) see added value for the customers in the package of emotional relations they are given by the firm. Success in transferring that added value leads to a substantial increase in the rate of repeated purchases and to establishing a relationship with a far longer life expectancy than routine relationships without emotional relations. According to Shaw (2007), once the customer feels appreciated then naturally he will aspire to reach a state in which that feeling will continue for a long time. Shaw argues that the emotional dimension constitutes 50% of the customer's experience.

## ***5.2 Perceived service value and service innovation***

All the dimensions of PSV are positively connected to the customers' PSV. "PSV efficient" and also "PSV attractive" are conspicuous in this relation. Following these findings it may be said that innovative service gives added value to the customer mainly in the areas of efficiency and attractiveness. A firm's attractiveness should be expressed in improved commercial indexes (higher commercial attractiveness), such as increase in

sales, decrease in costs, ability to raise prices; improve profits and more (Urban and Von Hippel, 1998). Gadrey et al., (1995) indicate that innovation in services should be reflected in an improvement in the customer's level of efficiency, which in turn should decrease his/her costs.

In addition, creating continuous added value for the customer, based on a long-term policy of service innovation, gives the organization a durable competitive advantage over its competitors which is expressed in long-term and fruitful relationships with customers and an improved loyalty level (Amable and Palombarini, 1998; Aranda and Fernandez, 2002).

### ***5.3 Perceived service value and customers' affective commitment***

All the PSV dimensions are positively connected also with all the dimensions of the CAC; hence, it is very important that service providers improve the value of the service in the eyes of their customers. The CAC was found to be closely connected to "PSV Efficient". It should be emphasized that CAC, which is based on a package of emotional relations (affective aspect), should be complemented with tangible bonuses (cognitive aspect) that give the customer tangible value dimensions, such as benefit, performance, design, availability, time, place, price, etc. (Brown et al., 1995). In the sharp competition that characterizes markets today, more than added tangible values alone are required. Accordingly, in order to strengthen and preserve the customer's commitment in the long term, the value for the customer must be increased in other areas as well, such as swiftly and effectively responding to new trends in the business environment. An increase in data mining efforts from efficient CRM systems may assist in early identification of the marketing trends (Adam and Roncevic, 2003).

All the CAC dimensions are connected with all the WOM dimensions, a recommendation dimension which, according to Shaw (2007), expresses the customer's loyalty. Indeed, the

highest correlation was found with the variable "CAC\_R EC Recommendation". It should be emphasized that recommendation is a crucial element in examining the customer's loyalty. This finding was supported also by Bloemer et al., (2003), who determined that "affective commitment" serves as major factor in motivating customers to recommend a product/service to their friends (WOM). A firm that nurtures the "social network value" dimension is expected to reap the reward of a substantial sales increase. WOM is also positively linked with total CAC. Thus, it was found that CAC to service providers increases with the level of their exposure to positive WOM recommendations (Patterson and Ward, 2000; Narayandas, 1998). Thus, it seems that the two variables are mutually connected: successful management of CAC increases the use customers make of positive WOM recommendations, and vice versa.

#### ***5.4 Perceived service value and purchase intentions***

PI is very much connected with PSV and especially with the dimension of service value "attractive and loyal". Sheth et al., (1991) characterized five different value dimensions: functional, social, emotional, epistemic and image. At least two dimensions of the five are connected with emotional value: emotional value and social value which focus on the benefits that the customer gains through the enhancement of these feelings and/or his emotional state, while success in transferring the value is supposed to enhance purchase intention and loyalty to the firm.

#### ***5.5 perceived service value and price insensitivity***

PSV was not found to be connected with PrIn directly but through the mediating variable PI when there is an intention to make another purchase anyway. The price is not the dominant component in the decision, depending of course on its height. Within this context it has been found that when a customer experiences familial feelings, he will expect consideration and a

decrease in the price. The price is a pragmatic and direct component for the customer, beyond emotional values. It is translated into operative meaning when there is a tangible intention to purchase, but when there is not, it is less meaningful and the customer is less sensitive to the price.

## ***5.6 Affective commitment and its relation to the research variables***

### ***5.6.1. Affective commitment (CAC) and purchase intentions (PI)***

All CAC dimensions are connected with all the PI dimensions, particularly with the variable "CAC\_R EC: Comfort feelings". There is also a relation between total CAC and PI. This finding was supported by Bloemer et al., (2003) who found that CAC decreased their sensitivity to price. This is also seen in the equation system of the overall SEM model

This strong relation in the overall model between CAC and PI would imply a positive relation between CAC and PSV because PSV is a mediating variable. Indeed, it was found that such relation does exist.

### ***5.6.2. Affective commitment and price insensitivity***

No positive significant relation was found between any of the CAC dimensions and PrIn. The lowest correlation is with the variable "CAC\_R EC: Familial feelings" and the highest is with the variable "CAC\_TOT EC: CAC". In the equation system of the overall SEM model no direct relation was found between the variables, but only an indirect, but strong relation (2.26) through PI. That is, it was expected that commitment would lead to PI, but this is not so: the customers feeling committed to a company want it to take special care of them as part of the "extended family".

### ***5.6.3. Affective commitment and complaints (COM)***

Seemingly, CAC should have a negative relation with COM but in the causal model it has been found to be indirectly positively connected through the mediating variable of PI. A customer's complaining behavior may express caring and affective commitment to the organization. The customer feels that he cares about what is happening, and therefore deems it important to solve problems and complaints through contacts in the organization. The findings of this research indicate that regarding the company, complaining behavior characterizes customers who are not committed to the organization. The greater the COM – especially towards extra-organizational factors - the more CAC is decreased. This index may serve as a criterion for the company regarding the safety level in the relation between the company and its customers. The key to this relation is PI, i.e., the extent to which customers see their relations with the company as continuous or random. The higher the PI, the higher the level of CAC and the less the COM. In fact, a positive relation found is between COM and PI: when a customer sees himself as continuing to buy at the company he will complain to the organization, so that his next purchase experience will be better. Perceiving a customer's complaints as a "business opportunity" and the swift and efficient handling of the complaint, including swift recovery from service failure (Schoefer and Diamantopoulos, 2008), may give the company an advantage in terms of retaining customers. Adding emotional value which is accompanied by effective and active treatment of service failures is the best strategy to foster relationships and create a renewed business opportunity (Greenbaum, 2000; Reichheld, 1996; Oliver, 2006).

## **6. Operational conclusions, research limitations and some future research directions**

### **6.1 Operational conclusions**

- EQ increases the value of service, influences commitment and, consequently, the customers' loyalty. The emotionally loyal customer develops an emotional relationship and a strong and solid relation with the company, with an excellent potential to serve also as the company's goodwill ambassador.
- Emotion management has a considerable influence on the employees' ability to solve problems in their work environment, which is highly influential in the business arena. Customers also expect to receive an emotional relation as part of their service package. Organizations that will opt for assimilating a culture of emotions will attain a higher level of trust and loyalty among their customers.
- The importance of developing skills of EQ among employees is increasing. These skills create a strong CAC among the customers, which in turn creates a long-lasting tendency to establish a relationship with the firm.
- In the era of experience economy, organizations that are interested in developing the ability of providing experiences to their customers must pay attention to the customers' total experiences while constructing and assimilating a cultural system that ensures an emotional experience to the employees' as well.
- All the dimensions of the PSV of service are positively related to the PSI. Based on these findings, it could be concluded that innovative service gives the customer an added value, mainly in the areas of efficiency and attractiveness. In addition, creating a continuous added value for the customer, who is based on constant service innovation, gives the organization a valid competitive advantage, which is expressed in long-term and productive relationships, improving their loyalty level.
- All the dimensions of the PSV are also positively related to all the dimensions of the CAC. Hence the great importance of

frontline employees improving the service value in the customers' eyes. The CAC increases when a combination of emotions and tangible benefits exists. The intensity of the emotional dimension is high and accounts for 50% of the customer's experience.

- CAC is related to WOM recommendations, which, according to Shaw (2007), expresses the major element in customers' loyalty. A positive recommendation is a clear expression of the positive experience during service and the value of service. WOM positive recommendations are a major tool in rating customers' loyalty, leading to the firm's future growth.
- The study findings indicate that in the context of a service company, "extraneous complaint" type of behavior characterizes customers who are not committed to the organization. The more the behavior is "complaining", mainly before extra-organizational parties, the lower the CAC. A positive relation on this measure points to normal and constructive relations between the customers and the firm. Thus, customers should be encouraged to complain and create comfortable communication channels for this purpose. A complaining customer whose complaint is solved quickly becomes the firm's goodwill ambassador and a real potential to increased purchase.

### ***6.3 Research limitations***

The research was conducted among the customers and employees of one organization only because other organizations approached by the researchers refused to cooperate. Other organizations were disqualified due to insufficient data, because of the intricacy of the questionnaires, their length or perhaps due to the respondents' unwillingness to cooperate. Hence it would be pretentious to state that the conclusions deduced may apply to other organizations or even to the branch of logistic services. Another limitation concerns the long period of time devoted to the collection of the questionnaires, which affected the focus of

the research because of the long time gaps in relating to the same situations, while changes may have taken place in the organization.

#### ***6.4 Future research directions***

The researchers believe that future research should delve into the more comprehensive aspects of emotional intelligence among frontline employees and its repercussions on the customers. The relations between emotional intelligence and service innovation should be examined more deeply, since the present research did not manage to locate tangible relations between these two important dimensions. Another direction for future research is a more extensive observation of the subject. This might be achieved by conducting a more extensive research about a line of service organizations in a specific branch or in related branches.

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