The impact of positive and negative emotions on loyalty intentions and their interactions with customer equity drivers

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A R T I C L E   I N F O

A B S T R A C T

Customer equity drivers (CEDs) include value, brand, and relationship equity, which have a strong link with loyalty intentions. This study aims to examine the incremental effects of positive and negative emotions on loyalty intentions and to determine whether these emotions moderate the positive link between CEDs and loyalty intentions. We use customer data with 102 leading firms across eighteen services industries in the Netherlands. The results show that (1) positive and negative emotions have incremental effects on loyalty intentions, (2) positive emotions weaken the positive link (negative interaction), and (3) negative emotions strengthen the positive link, but only for brand and relationship equity (positive interaction). Thus, positive and negative emotions also explain loyalty intentions. However, managers should be cautious when combining CEDs with positive and negative emotions. We provide a strategic matrix to help managers arrive at effective combinations.

1. Introduction

Loyalty intentions are an important outcome that helps firms protect their bottom lines and grow top-lines (Kumar, Pozza, & Ganesh, 2013). The loyalty literature finds three customer equity drivers (CEDs) that significantly influence loyalty intentions (e.g., Rust, Lemon, & Zeithaml, 2004): value equity (VE), brand equity (BE), and relationship equity (RE).[1] CEDs are customers' assessments of value received, brand image perceived, and relationships established. In addition to CEDs, customer emotion is also a pervasive part of customer experiences and might heavily influence customer loyalty (e.g., WARC_1_2016). However, while prior studies have extensively studied CEDs (e.g., Ou, de Vries, Wiesel, & Verhoef, 2014; Ou, Verhoef, & Wiesel, 2017; Rust et al., 2004; Vogel, Evanschitzky, & Ramaseshan, 2009), they ignore how CEDs and customer emotion jointly influence loyalty intentions and hence it is unknown whether emotions affect loyalty beyond the established effects of CEDs. In addition, does a combination of CEDs and customer emotion effectively influence loyalty intentions?

We will take Amazon.com as an example to illustrate the importance of these two questions. To expand its customer base, the e-retailer uses both functional and emotional advertising to promote Fire TV and Prime (Whiteside, 2016). However, as Andy Donkin, Amazon's former head of worldwide brand and mass marketing, points out, "The farther we push from functional into emotional, the more skepticism there is about whether that can deliver" (Whiteside, 2016). This statement indicates that managers still question whether managing customer emotion is the right thing to do. This doubt may stem from two reasons. First, companies strive to create positive emotional experiences, as creating memorable and personalized customer experiences is crucial for competitive advantages in the experience economy (Pine & Gilmore, 1998), which assumes that customer emotion has an enduring effect on retaining customers. However, emotions are short lived and context specific and can be positive or negative (Andrade & Ariely, 2009). Can the effects of positive and negative emotions be proved when we account for regular strategies, such as improving CEDs? That is, while CEDs have a strong link with loyalty intentions, the extent to which customer emotion can incrementally contribute to loyalty intentions remains unclear. Second, services, brands, relationships, and emotions are important ingredients for creating customer experience (Lemon & Verhoef, 2016; Verhoef et al., 2009). One unresolved question is whether the combination of CEDs and customer emotion creates strategic synergies or results in dis-synergies. The current study aims to empirically answer these two

[1] In line with Lemon et al.'s (2001) and Rust et al.'s (2004) definitions, VE refers to customers' objective assessment of what is given up for what is received. BE refers to customers' subjective assessment of brand image in terms of brand strength and brand innovation. RE refers to customers' assessment of their interaction quality with firms. When perceiving higher VE, customers might receive high utility and stay with the firm; when perceiving higher BE, customers might believe that the brand has high credibility or tend to have high self–brand connections, which leads to higher loyalty intentions; when perceiving higher RE, reciprocity might play a role in loyalty decisions (Lemon et al., 2001; Park et al., 2010).

Table 1
Prior empirical studies examining emotions in customer satisfaction and customer loyalty.

Studies	Emotions as main drivers		Including other drivers	Emotions as moderators	
	Positive	Negative		Positive	Negative
Customer satisfaction as dependent variable					
Westbrook, 1987	✓ (interest, joy, surprise)	✓ (sadness, anger, disgust, contempt, fear, shame, guilt)	×	×	×
Oliver, 1993	✓ (interest, joy)	✓ (anger, disgust, contempt, shame, guilt, sadness, fear)	attribute performance, expectations	×	×
Babin & Darden, 1996	✓ (happy, pleased, satisfied, content)	✓ (unhappy, despair, unsatisfied, annoyed)	×	×	×
Kempf, 1999	✓ (happy, pleased, satisfied)	✓ (unhappy, annoyed, unsatisfied)	perceived diagnosticity, brand measures	×	×
Mattila & Enz, 2002	✓ (cheerful, good mood)	✓ (not comfortable, edgy/irritable)	×	×	×
Smith & Bolton, 2002	×	✓ (anger, discontent, disappointment, self-pity, anxiety)	expectations, disconfirmation, justice	×	✓
Homburg et al., 2006	✓ (elation, delight, joy)	×	disconfirmation	×	×
Customer loyalty as dependent variable					
Oliver, Rust, & Varki, 1997	✓ (surprised, happy, delight)	×	disconfirmation	×	×
Chaudhuri & Holbrook, 2001	✓ (good, happy, pleasure)	×	brand trust	×	×
Zeelenberg & Pieters, 2004	×	✓ (regret, disappointment)			
Han et al., 2008	✓ (happy, belonging, likable)	×	quality, fairness, trust, friendship, satisfaction, commitment	×	×
Batra, Ahuvia, & Bagozzi, 2012	✓ (content, relaxed, fun, exciting, calming, helps relax, pleasurable)	×	quality	×	×
Romani, Grappi, & Dalli, 2012	×	✓ (dislike, sadness, discontent, anger, worry, embarrassment)	×	×	×
Current study (loyalty intentions)	✓ (happy, joyful, enthusiasm)	✓ (anger, regret, distrust)	VE, BE, RE[a]	✓	✓

Note: Mattila and Enz (2002) used overall evaluation which combines satisfaction and loyalty intentions. Emotions in this study could be either integral or incidental emotion, which was not clearly defined. They measured "mood" directly after customers' interactions with the employees. They included ethnicity, gender, and interaction duration as control variables.
Note: Chaudhuri and Holbrook (2001) also measured the link between loyalty and market share and relative price.
Note: Han et al. (2008) included cognitive, affective, intention, and behavioral loyalty.
[a] This study includes age, gender, income, relationship length, customer involvement, and consumer confidence as control variables.

questions.

2. Theoretical background

Customer emotion is an important topic in consumer behavior and marketing (e.g., Holbrook & Hirschman, 1982; Pham, 2004; Westbrook & Oliver, 1991). Although emotions are short lived (Andrade & Ariely, 2009), several studies claim that emotions provide customers information and help explain how customers make decisions, in addition to cognitive information (Oliver, 1993; Pham, 2004; Westbrook, 1987). The marketing studies in Table 1 empirically find that customer emotion has a direct impact on customer satisfaction and loyalty, implying that customers likely incorporate short-lived emotions into their evaluation and decisions and showing that customer emotion might have an enduring effect. Customer emotion involves two broadly studied types in the consumer behavior literature: integral and incidental emotions. The former type is relevant to the decision object, such as consumption emotion and advertising-evoked emotion (Holbrook & Hirschman, 1982; Westbrook, 1987); the latter is relevant to things other than the decision object, such as weather-evoked mood (Pham, 2007). In this study, we focus on integral emotions because we aim to examine how firms can effectively use customer emotion to influence loyalty intentions. Incidental emotions are a mood status that is hardly in firms' control.

From a customer experience perspective, experiences come from the interactions across different touchpoints at the pre-purchase, purchase, and/or post-purchase stage (Lemon & Verhoef, 2016). Different touchpoints at the stages may evoke different integral emotions. For example, a customer may experience enthusiasm when reading online reviews about the iPhone 7 at the pre-purchase stage, experience anger when he or she has to wait for two weeks to receive the product when placing an order in the Apple store at the purchase stage, and experience joy when using the phone at the post-purchase stage. One question is whether multiple, short-lived integral emotions (both positive and negative)

influence later decisions. We define positive and negative valence of integral emotions as customers' emotional experiences retrieved from prior interactions with the focal firm at the pre-purchase, purchase, and/or post-purchase stage. To simplify and avoid confusion of the usage of emotion terms, we refer to positive and negative emotions as positive and negative valence of integral emotions, respectively. We also use the term "emotions" to combine the positive and negative valence of integral emotions. Against this background and building on the model of Rust et al. (2004), we thus include positive and negative emotions as additional loyalty drivers and moderators (see Fig. 1). We use a customer data set that includes 102 leading firms across eighteen service industries in the Netherlands.

The study contributes to the literature on customer loyalty and customer emotion in three ways. First, we expand Rust et al.'s (2004) model by examining the incremental effects of positive and negative emotions on loyalty intentions when taking VE, BE, and RE into account. Furthermore, to reduce omitted-variable bias and avoid overestimating the effects of positive and negative emotions, we include other theoretically argued loyalty drivers, such as demographic variables, relationship length, switching costs, customer involvement, and consumer confidence (see Table 1). Note that we are not claiming to have a more complete model than the studies listed in Table 1. For example, Han, Kwortnik, and Wang (2008) provide an integrative model that empirically includes comprehensive loyalty drivers and four types of loyalty as proposed by Oliver (1999).

Second, we provide an initial and in-depth exploration of the moderating impacts of positive and negative emotions on the CEDs–loyalty link. Managing both CEDs and customer emotion is the outcomes of marketing strategies to improve loyalty intentions. CEDs and customer emotion are tightly interconnected with each other. Ignoring the interactions of multiple strategies may lead to the wrong allocation of resources in specific strategies (Siggelkow, 2002). Thus, gleaning more insight into whether managing CEDs and emotions creates strategic synergies or dis-synergies when fostering loyalty is