Does Emotional Value Play a Role in the Relationship between Risk and Loyalty?
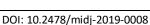
Mircea-Andrei SCRIDON[1*]

[1] *Babes-Bolyai University, Faculty of Economics and Business Administration, Romania*

ABSTRACT Although perceived value is considered essential in any marketing activity, the role it plays regarding the relationship between perceived risk and loyalty in the context of organizational markets is not thoroughly considered. Therefore, this paper addresses the aforementioned issues in the context of the small and medium size enterprise market in Romania. From a sample of 229 entities, data were collected and analysed using structural equation modelling techniques. Results confirmed that different relationships are established between functional or financial risk and emotional value on the one hand, and emotional value and loyalty on the other hand. Discussions of the results integrate main findings with other studies that partially or tangentially study the connections between emotional value, risk and loyalty. The paper end with a brief limitations and avenues for future research.

1. Introduction

Creating emotional value for the consumer has become a strategic imperative for organizations to build and maintain a competitive advantage over competition. It has also been established that a company's loyalty and profitability are strongly linked to the emotional value created and provided to its customers, and the concept of value for consumers has become the central point needed to be addressed in the context of each marketing activity (Sanchez-Fernandez and Iniesta-Bonillo, 2007). In addition, the manifestation of financial or functional risk can lead to a decrease in the total emotional value perceived. The presence of an increased risk, whether financial or functional, can significantly reduce the benefits felt by consumers and, at the same time, can greatly amplify the sacrifices felt by them. Thus, by influencing the perceptions of benefits and sacrifices of individuals, financial risk or functional risk can significantly contribute to diminishing the value perceived by them.

Starting from the aforementioned, causal links established between risk and emotional value on the one hand, and on the other hand, between emotional value and loyalty, will be studied in the present study.

2. Literature review

Perceived risk

Classically, risk is conceptualized as a reflection of the variation in the distribution of possible outcomes as well as their likelihood of occurrence. The risk is measured according to the variance of the probability of distribution of the possible gains or losses associated with a certain alternative (Mitchell, 1998). Theories, which adopt this risk perspective, assume that people in decision-making

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[*] Corresponding author: **Mircea Andrei Scridon** – andrei.scridon@econ.ubbcluj.ro

positions prefer lower risks compared to higher ones, as long as other factors remain constant - such as expected value (Mitchell, 1998).

In the literature on consumer behavior, risk has been defined in many ways. Thus, Kogan and Wallach (1964) consider that risk involves "…two relatively different facets: a" chance "that presupposes a certain probability and a" danger "that deals with the severity of the negative consequences."

Cunnignham (1967) treats the concept of risk in terms of "the amount (time, money, effort) that can be lost if the consequences of an action are unfavorable and the subjective feelings of confidence of the individual regarding that those consequences would be unfavorable.

Similarly, Cox (1967) conceptualizes risk in terms of the importance or magnitude of the desired goals to be achieved, the seriousness of the penalties that could be imposed if the desired goals are not achieved, and the "quantity" of means used to achieve those goals.

Stone and Walker (1987) consider risk as "waiting for a loss." Thus, the more confident an individual is regarding this expectation, the greater the risk to that individual. This way of conceptualizing risk, based on psychological aspects, is in opposition to the traditional theories of approaching this construct, the theories with origins in the field of mathematics and economics. Therefore, risk is defined as an anticipated, subjectively determined, loss. In other words, the higher the probability of loss, the higher the risk perceived by the individual (Mitchell, 1998).

Although there are quite a number of formal models for representing the decision-making process under uncertain conditions, the models that are most often used are those based on subjective utility theory. According to this theory, risk is modeled by reflecting the decision-makers' response to uncertain consequences or outcomes, and this response is defined based on specific risk probabilities (Mitchell, 1998). Also, the theory of subjective utility assumes that the presence of ambiguity in the probabilities of risk manifestation should not influence the way consumers make decisions. An individual should make the same decision regardless of whether the probability of manifesting the risk is assumed to be 15% or somewhere between 5% and 25%. In this type of situation, the probabilities of risk expression are ambiguous or there is uncertainty about uncertainty (Mitchell, 1998).

In concluding the discussion regarding the concept of perceived risk, the author of the present paper shares the view expressed by Mitchell (1998), that an adequate understanding of this concept is needed and an identification of the various sources of uncertainty. First, consumers' knowledge of their own needs, purchasing goals, and the importance attached to these goals are often inadequate (Mitchell, 1998). Secondly, consumers are uncertain about the set of possible alternatives. This type of uncertainty regarding the set of possible alternatives is called the uncertainty of knowledge (Urbany et al., 1989). Third, consumers may be uncertain about the accuracy of attribute predictability, that is, how these attributes can accurately predict future performance (Mitchell, 1998). Fourth, consumers may also be uncertain about their own ability to accurately assess the level of experienced outcomes (Mitchell, 1998). Fifth, consumers may be in difficulty when they are forced to choose a particular alternative from a set of possible alternatives. Sixth and last, uncertainty can also be manifested due to the potential difference that may arise between the results expected by consumers and those actually experienced (Mitchell, 1998). Thus, not only the preferences can change over time, but also the situations in which a product or service is experienced, may be different from the anticipated ones. Also, different consumers can treat the same risk situation in different ways.

The risk can be manifested in various forms. The financial or economic risk is associated with the cost of a new product purchased as well as the potential loss of revenue if that product fails or does not behave as it was promoted (Dwyer and Tanner, 2009; Brennan et al., 2011). Functional risk is the risk that a product will not behave in a functional manner as it was designed. Both the functional and the financial risk can be manifested at the same time if the functionality of a product is a crucial element for the financial performance of the company. For example, if a production machine fails and the production line has to be stopped, then the sales of the company concerned could be affected quite strongly (Dwyer and Tanner, 2009). In this case, both types of risk will manifest at the same time. In contrast, if a machine fails but it is still under warranty and the production would not suffer, then only the functional risk is manifested because the commercial company would not register any financial loss.

However, financial and functional risks are strongly correlated because there are very few situations where a failure has no financial impact on a company (Dwyer and Tanner, 2009).

Emotional value

An object possesses emotional value when it is associated with specific feelings or when it is capable of triggering or perpetuating such feelings (Sheth et al., 1991, p. 161).

In general, products or services, even those that at first seem to possess only functional or utilitarian (functional value) attributes, are associated with emotional responses by consumers. For example, some culinary products may awaken in the minds of consumers pleasant (nostalgia) or unpleasant (sadness) feelings associated with them with various past events in their lives.

Emotional value is viewed as part of time-stable dimensions for various consumer buying situations (Sweeney et al., 1996). Thus, this value component has been included in various studies (Sweeney et al., 1996; Williams and Soutar, 2000, 2009; Pura, 2005) based on value theory proposed by Sheth et al. (1991) to study the influence of value on consumer satisfaction (Pura, 2005; Williams and Soutar, 2009), of purchase intention (Pura, 2005; Williams and Soutar, 2009), commitment (Pura, 2005) and brand loyalty (Wang et al., 2004).

Following the analysis of the data collected in the respective studies (Sweeney et al., 1996; Williams and Soutar, 2000, 2009; Wang et al., 2004; Pura, 2005), the results confirmed the strong influence of this value type on the various concepts investigated - satisfaction, purchase intention, commitment or loyalty.

In all situations investigated in these studies (Sweeney et al., 1996; Williams and Soutar, 2000, 2009; Wang et al., 2004; Pura, 2005), emotional value positively influences directly or indirectly (the concepts analyzed fact which leads to the conclusion that this type of value should not be ignored by the decision makers within the companies when considering the marketing strategies related to the offers offered on the market -organizational or consumers- end).

It is worth mentioning that in the present study, emotional value is defined as a result of the combination of two components, namely benefits and sacrifices. This approach is adopted due to the fact that most authors in the field of value, especially since 2000, consider that this concept implies a compromise between the sacrifices and the benefits perceived by consumers.

In addition, even if there is analytical support for treating emotional value as a construct with a high level of abstraction based on these two components - sacrifices and benefits - (Lapierre, 2000; Ulaga and Eggert, 2005, 2006), however, there are recent arguments (Whittaker et al., 2007; Faroughian et al., 2012) that the two components behave differently. Also added to these arguments are the questions expressed by Edwards (2001) regarding the efficiency of studying structures with a high level of abstraction. Taking into account the aforementioned, in the present study, the two components of emotional value are allowed an independent behavior in forming perceptions of value.

In conclusion, based on the arguments presented in the previous paragraphs, the following research hypotheses will be proposed:

H1. The relationship between functional risk and emotional benefits is negative.
H2. The relationship between functional risk and emotional sacrifices is positive.
H3. The relationship between financial risk and emotional benefits is negative.
H4. The relationship between financial risk and emotional sacrifices is positive.

Loyalty

Loyalty is one of the most frequently reported consequences of value in the literature (Oliver, 1996, 1999; Woodruff, 1997; Woodall, 2003; Faroughian et al., 2012). As for the connection between loyalty and value, this is positive. An increase in the value perceived by consumers, in most cases directly contributes to an increase in the degree of loyalty felt by them. In contrast, a decrease in the value usually perceived is followed by a decrease in the degree of loyalty felt in relation to the consumer experience they have experienced. At the level of value components, an increase in perceived benefits directly contributes to an increase in consumer loyalty regarding the consumer experience in question, while an increase in perceived sacrifices also directly contributes to a decrease in the degree of loyalty in relation to that experience. On the other hand, a decrease in benefits usually results in a decrease in the degree of loyalty, while a decrease in sacrifices usually has an opposite result than in the case of a decrease in benefits, which contributes to an increase in the degree of

loyalty felt by consumers in relationship with a certain consumer experience. Thus, the following hypotheses will be formulated regarding the relationship between emotional value and loyalty:

H5. The relationship between emotional benefits and loyalty is positive.
H6. The relationship between emotional sacrifices and loyalty is negative.

3. Methodology

The target population in this paper is represented by the multitude of SMEs in Romania. From this population an attempt was made to extract a representative sample for the purpose of collecting research data. Due to the fact that the author did not have access to an exhaustive list of statistical units, the research methods that allow the construction of a random sample were not taken into consideration, instead a non-random method was selected. From all non-random methods, the quota method was chosen because it allows the construction of a sample that is very close as a structure to the target population structure. The data were collected with the help of an online questionnaire, the questionnaire being distributed within the sample by e-mail, addressed to the persons holding a management position within the respective SMEs. Thus, a number of 229 usable questionnaires were obtained. The structure of the sample is presented in the following table:

Table 1. Sample structure based on enterprise size and main business activity

Main activity	Size			
	Micro-enterprises	Small enterprises	Medium enterprises	Total
Industry	4.36%	6.55%	2.19%	13.10%
Construction	5.24%	1.74%	1.31%	8.29%
Commerce	25.37%	6.55%	1.74%	33.62%
Transportation	2.18%	1.31%	0.87%	4.36%
Services	23.14%	4.36%	1.31%	28.82%
Other	7.42	3.05%	1.32%	11.79%
Total	67.69%	23.58%	8.73	100%

(*Source:* authors own calculations)

Because the relations that are supposed to exist between the elements of the proposed model are dependency relationships, and within the respective model there are multiple relationships between dependent and independent variables, according to Hair et al. (2010), the statistical technique that should be used for their analysis is that of Structural Equation Modeling.

This statistical technique involves two successive stages in order to analyze the research data. The first stage involves a confirmatory factorial analysis of the variables considered, and the second stage is determined by the analysis of the causal relationships that are established between these variables. In order to evaluate the solutions obtained, the values of several indicators of goodness of the proposed model, the predictive relevance of each dependent variable, as well as the significance of standardized regression coefficients between independent and dependent variables will be examined (Hair et al., 2010; Faroughian et. al., 2012; Chin, 1998; Byrne, 2010).

4. Results and Discussions

Measurement model

The first stage in the modeling of structural equations, involves performing a confirmatory factorial analysis on the constructs considered within the conceptual model. This determines the construction of a so-called "measurement model", which includes all the variables of measurement of the constructs presumed to exist within the conceptual model. The objectives of a confirmatory factor

analysis are (1) to verify the proposed structure of the factors and (2) to identify the need to make significant changes at the level of the proposed structure.

Following the running of the AMOS program, the results obtained for the indicators based on which the quality of this model is evaluated are presented in Table 2.

Table 2. Measurement model – Goodness-of-fit

Category	Acronym	Threshold value	Observed Value
Absolute goodness of fit indicators	GFI	≥ 0.9	0.904
	RMSEA	≤ 0.08	0.083
Incremental goodness of fit indicators	AGFI	≥ 0.8	0.856
	IFI	≥ 0.9	0.955
	TLI	≥ 0.9	0.942
	CFI	≥ 0.9	0.954
Parsimonious goodness of fit indicators	Chi-square/df	≤ 2 or 2.5	2.338

(*Source:* authors own calculations)

From Table 2 it can be observed that for each indicator the minimum requirement values are exceeded, resulting in an acceptable measurement model.

Based on the final measurement model, the degree of confidence and the validity of both convergent and discriminating variables will be evaluated. Regarding the confidence in the measurement variables, it is evaluated with the help of the composite reliability, its value for each constructed construct having to exceed the minimum value of 0.7 (Fornell and Larcker, 1981).

Convergent validity is evaluated by means of the averaged variance extracted where a value greater than 0.5 for this indicator represents a proof of this type of validity (Fornell and Larcker, 1981).Regarding the discriminant validity, in order to confirm it, the square root of the average variance extracted for each individual construct should exceed the bivariate correlation between the respective construct and the other constructs within the measurement model.

The values registered by each construct separately, regarding the degree of trust as well as their validity are presented in Table 3 (reliability and convergent validity), respectively in Table 4 (discriminant validity).

Table 3. Construct reliability and convergent validity

	Composite Reliability	Average Variance Extracted
Financial Risk	0.875	0.638
Emotional Benefits	0.925	0.807
Emotional Sacrifices	0.872	0.695
Functional Risk	0.885	0.723
Loyalty	0.872	0.696

(*Source:* authors own calculations)

Table 4. Construct discriminant validity

	Financial Risk[&]	Emotional Benefits	Emotional Sacrifices	Functional Risk	Loyalty[&]
Financial Risk[&]	0.799				
Emotional Benefits	-0.421	0.899			
Emotional Sacrifices	0.574	-0.427	0.834		
Functional Risk	-0.489	0.649	-0.476	0.850	
Loyalty[&]	0.610	-0.520	0.481	-0.591	0.834

Notes: & - reversed coded

(*Source:* authors own calculations)

As can be seen from the data presented in the two tables, each construct fulfills the minimum conditions for evaluating the degree of trust, convergent validity and discriminant validity.

Structural model

Having as a starting point, the proposed research hypotheses, a structural model for testing the causal relationships assumed to exist between these constructs will be built on the basis of the constructs in the measurement model.

It is worth mentioning that before the structural model was built, using the AMOS program, the values for each construction model were calculated, the values for each particular construct, these behaving and being treated, in the subsequent analyzes as well as directly observed variables. The reason for this approach was to "simplify" the construction of the structural model, as there is no difference in terms of the results obtained between using these newly calculated values or the old values within the measurement model.

Based on the data in Table 5, the causal relations supposed to exist between the constructions within the proposed structural model will be validated or not.

Table 5. Standardized regression weights

Endogenous variable		Exogenous variable	Estimate	p-value
Emotional Benefits	<---	Financial Risk[&]	-.121	**
Emotional Sacrifices	<---	Functional Risk	-.252	***
Emotional Benefits	<---	Functional Risk	.615	***
Emotional Sacrifices	<---	Financial Risk[&]	.497	***
Loyalty[&]	<---	Emotional Benefits	-.392	***
Loyalty[&]	<---	Emotional Sacrifices	.351	***

Notes: p-value - *p<0.05; **p<0.01; ***p<0.001; & - reversed coded

(*Source*: authors own calculations)

As can be seen in the table above, the causal relationships between the different components of value and loyalty are significant, as well as the relationships between the types of risk proposed and the components of emotional value.

After analyzing the collected research data, the results obtained in this study confirm the proposed research hypotheses. Both the benefits and the sacrifices have a statistically significant impact on loyalty.

Regarding the opportunity to include different types of risk in the position of antecedents of the value components, this approach is an adequate one, a fact confirmed by the results of the present study.

Regarding the direct relations supposed to exist between the different components of value and loyalty, these are confirmed for the emotional benefits and sacrifices.

Thus, the proposed model is confirmed by the empirical results obtained from analyzing the collected research data.

Conclusions

Considering the results obtained, the present study makes the following contributions to the general knowledge of the concept of value, although the research is carried out in the context of the organizational market in Romania,

The results of this study confirm the view that risk is a key determinant in forming perceptions of value. Also, these results provide information on how different types of risk act on value.

The different behavior of benefits and sacrifices in relation to loyalty, offers arguments in favor of those (Spiteri and Dion, 2004; Whittaker et al., 2007; Faroughian et al., 2012) that adopt a component-level approach to the concept of value and , at the same time, it questions the results

obtained in the studies that treat this concept from a one-dimensional perspective or as a multidimensional construct with a high level of abstraction.

Although additional research is needed to support the results, this study is in line with Edwards' (2001) concern about the lack of clarity and confounding effects when using high-abstraction constructs.

5. Research limitations and future research

Although the present work has a number of merits and contributes to enriching the general knowledge regarding the concept of value, the present study has a number of limitations, which, in conjunction with the obtained empirical results, offer the possibility of investigating new directions for future research.

First, due to the dynamic and temporal nature of the value, the use of a longitudinal study as an alternative to the cross-sectional study adopted in this paper, would allow to verify the stability of the results obtained in the present research, over time.

Also, this study was conducted in the context of the Romanian organizational market. In order to generalize the obtained results, the conceptual framework proposed for the study of value should be tested in other countries.

In addition, due to the contextual nature of value, constructs such as strategic orientation, organizational values or trust should be considered within the proposed conceptual model.

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