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Effects of perceived employee emotional competence on customer satisfaction and loyalty: The mediating role of rapport

Purpose – During service encounters, emotionally competent employees are likely to succeed in building rapport with their customers, which in turn leads to customer satisfaction and loyalty. However, the relationship between emotional competence and rapport has not been empirically examined. In the present study, we investigate effects of customer perceived employee emotional competence (EEC) on satisfaction and loyalty. We also examine how and to what extent rapport mediates these effects.

Design/methodology/approach – Drawing on the theory of affect-as-information, suggesting that emotions inform human behavior, we develop a structural model and test it on a sample of 247 customers in a personal service setting.

Findings – Customer perceptions of EEC positively influence customer satisfaction and loyalty. Rapport partially mediates both effects.

Practical implications – The extent to which customers perceive employees as emotionally competent is strongly correlated with the development of rapport, customer satisfaction, and loyalty. Managers of high-contact services should therefore pay attention to emotional competence when hiring new employees, and/or encourage and train existing employees to develop this type of competence.

Originality/value – Previous studies have used employee self-reports or supervisor reports of EEC, essentially capturing an employee's potential to behave in an emotionally competent way. We extend emotional competence theories with a customer perspective: the present study is the first to capture customer perceptions of employees' emotional competence.

Keywords Employee emotional competence, Rapport, Customer satisfaction, Loyalty, Service encounter

Paper type Research paper

1. Introduction

Services vary in the extent to which customers interact with employees (Chase, 1978). In high-contact services, interactions between customers and employees are characterized by intimacy, the exchange of content-rich information, long interaction times, and, sometimes, intense emotions (Kellogg and Chase, 1995; Parasuraman *et al.*, 1985). In this type of service, customer emotions on the one hand influence their evaluations of the encounter and on the other hand provide employees with useful information about their needs and wants (Mattila and Enz, 2002). To capture the quality of the interaction between employees and customers, Gremler and Gwinner (2000) introduced the concept of rapport. Rapport, defined as a “personal connection between the two interactants” (Gremler and Gwinner, 2000, p. 92), directly affects important outcomes such as customer satisfaction and loyalty (Gremler and Gwinner, 2000; Hennig-Thurau *et al.*, 2006; Verbeke *et al.*, 2008)—two key variables ultimately related to company profitability (Anderson *et al.*, 1994).

To remain competitive, managers of high-contact services must facilitate high-quality interactions. The ability of contact employees to deal with customer emotions—or their emotional competence (EC) (Cartwright and Pappas, 2008)—represents a potential driver of interaction quality and service evaluation (Härtel *et al.*, 1999). EC “captures many of the key competencies involved in creating and maintaining an appropriate climate for service,” and the development of EC among service employees may “serve to reduce some of the emotional problems inherent in high levels of interpersonal interactions” (Bardzil and Slaski, 2003, p. 98). EC is especially important in service encounters where customers look for directly observable cues, such as employee behaviors, to assess the service (Lin and Lin, 2011; Parasuraman *et al.*, 1985). However, employees vary substantially in their capacity to build relationships with customers and understand their emotional needs (Bitner *et al.*, 1990; Menon and Dubé, 2000). Because high-contact service managers must ensure that employees possess the appropriate competencies (Hartline and Ferrell, 1996), developing a better

understanding of the roles of rapport and employee emotional competence (EEC) in high-contact service encounters is important.

Studies examining the effects of EEC on customer outcomes in service encounters (e.g., Giardini and Frese, 2008; Härtel *et al.*, 1999; Kernbach and Schutte, 2005; Weng, 2008) report conflicting results. For example, while Kernbach and Schutte (2005) show a positive relationship between EEC and customer satisfaction, and Weng (2008) finds a positive, but weak, relationship between EEC and customer trust, Giardini and Frese (2008) find a non-significant relationship between EEC and customer satisfaction. These conflicting findings may be due to one of the following reasons. First, these studies use employee-reported (Giardini and Frese, 2008) or supervisor-reported measures of EEC (Weng, 2008)—sources subject to biases, such as social desirability, faking, and distortion (Day and Carroll, 2008). We do not know any study on EC in service encounters which examines *customer* perceptions of EEC and their effects on customer satisfaction and loyalty. This is surprising, because customer perceptions are considered the most accurate predictors of satisfaction and loyalty (Bitner, 1990). Second, to the best of our knowledge, no study has identified a mechanism (i.e., a mediator) explaining how EEC exerts an influence on customer satisfaction and loyalty. In the present study, we investigate if rapport acts as a mediator.

In an attempt to resolve the aforementioned inconsistencies, we choose a customer perspective, and examine how EEC affects rapport, customer satisfaction, and loyalty in a high-contact service encounter. Specifically, we investigate (1) the effect of customer-perceived EEC on satisfaction and loyalty and (2) the role of rapport as a mediator.

In addressing these issues, our study makes three contributions. First, we conceptualize and measure EEC from a customer perspective. Second, we investigate the effect of EEC on customer satisfaction and loyalty to shed light on contradictory findings in previous studies regarding the effects of EEC on customers. Third, we offer a better

understanding of the mechanism by which EEC affects customer satisfaction and loyalty by investigating the role of rapport as a mediator.

The paper is structured as follows: First, we discuss the concept of EC and then focus on the role of EEC in high-contact service encounters. Second, based upon a review of the literature we develop hypotheses and build a conceptual model. Third, we discuss the design of the empirical research we conducted to test our hypotheses. Finally, we present and discuss the results of our empirical investigation, before concluding with the implications of our findings, limitations, and suggestions for further research.

2. The role of employee emotional competence in service encounters

2.1. Emotional competence

The concept of EC emerged from the notion of social intelligence, which Thorndike (1920, p. 228) defines as “the ability to understand and manage men and women, boys and girls—to act wisely in human relations.” Conceptualizations of EC usually comprise four dimensions (Mayer and Salovey, 1997):

- (1) *To perceive emotions*, or the accuracy with which people identify emotions in themselves and in other people.
- (2) *To use emotions*, or the ability to employ emotions to facilitate thought and assist reasoning by directing these emotions toward constructive activities.
- (3) *To understand emotions*, or the ability to understand one’s own emotions and the emotions of other people, how emotions evolve over time, how emotions differ, and which emotion is most appropriate in a given context.
- (4) *To regulate emotions*, or the ability to manage one’s own and others’ moods and emotions.

2.2. The impact of employee emotional competence in service encounters

Despite its potential as a means to build relationships with customers (Giardini and Frese, 2008; Verbeke *et al.*, 2008), only a few studies have examined EEC in customer–

employee interactions in service encounters (see Giardini and Frese, 2008; Härtel *et al.*, 1999; Kernbach and Schutte, 2005; Weng, 2008). These studies argue that emotionally competent employees ought to be successful in their interactions with customers. Furthermore, they provide some empirical evidence for the power of EEC to predict customer attitudes, like trust and satisfaction in service encounters (Giardini and Frese, 2008; Kernbach and Schutte, 2005; Weng, 2008).

However, these studies suffer from various limitations. First, Härtel *et al.* (1999) conceptually model how EEC affects customer attitudes, intentions, and behaviors, but do not empirically test the hypothesized relationships. Second, Kernbach and Schutte (2005) find, in an experimental design, that EEC increases customer satisfaction. However, they do not provide an EEC manipulation check, which makes it difficult to evaluate the experimental validity of the results. Third, in a field study, Weng (2008) examines the effect of supervisor perceptions of EEC on customer trust and satisfaction. The study finds a weak relationship between EEC and customer trust, but no relationship between EEC and satisfaction. Finally, Giardini and Frese (2008) do not find a significant correlation between self-reported EEC and customer satisfaction in a field study, concluding that these constructs are not related. This surprising finding may be due either to (1) the use of employee self-reports of EC, subject to faking, distortion, and social desirability bias, or to (2) the assumption that EEC is a stable characteristic of the service employee. When researchers measure EEC only once by asking employees to self-report on their EC in general (i.e., across encounters and situations), they treat EEC as a stable trait. However, this assumption appears questionable because employees do not necessarily behave in the same way (in terms of emotionally competent behaviors) with every customer across all service encounters. We contend that EEC is not a stable trait: employees likely vary in terms of emotional performance across encounters because of both individual factors, such as motivation, mood, and emotional state, and contextual factors, such as customer personality and emotional state.

2.3. A customer perspective of employee emotional competence

Considering these conflicting results concerning the effect of EEC on customer outcomes and to address the aforementioned limitations, a different approach is required to examine the role of EEC. We therefore adopt a customer perspective, and examine the role of customer perceptions of employees' emotional competence in discrete service encounters.

People often have difficulty evaluating their own performance. Therefore, self-perceptions of EEC likely differ from customer perceptions of EEC. Kruger and Dunning (1999) demonstrate, in a daily life context, that competent individuals tend to overestimate their performance while incompetent individuals tend to underestimate it. This tendency is in line with previous studies indicating inconsistencies between customer and employee perceptions of what constitutes good service (Swartz and Brown, 1989) due to, among other reasons, employees overrating their performance (Netemeyer and Maxham, 2007). Mattila and Enz (2002) suggest that customers and employees use different criteria to evaluate service employee performance. In their study, customers' evaluations of employee performance and employees' assessments of their own performance do not correlate significantly—suggesting little or no relationship between customer and employee perceptions of employee performance. Past research assumed that employees were in the best position to predict customer evaluations of service quality (Schneider and Bowen, 1985; Schneider *et al.*, 1980). Later studies did not confirm these assumptions—finding either no relationship at all or even a negative relationship between customer and employee perceptions (e.g., Mattila and Enz, 2002). Furthermore, an employee does not necessarily behave in the same way across customers and situations, and customers may respond in different ways to similar patterns of employee behaviors because of their different interests, needs, or capabilities. We therefore contend that in service encounters *employee self-perceptions* and *customer perceptions* of EEC may not be the same.

In summary, what matters most to service managers is that employees are perceived to be emotionally competent by customers. Consequently, we contend that the customer is the best person to evaluate EEC during service encounters. We therefore focus on *customer perceived* EEC, enabling us to address drawbacks of self-reported measures or supervisor-reported measures.

2.4. Effects of employee emotional competence on customer satisfaction

Customer satisfaction is a central construct in marketing research (Luo and Homburg, 2007) and widely studied in services marketing (e.g., Noone *et al.*, 2009). Satisfaction is “an outcome of purchase and use resulting from the buyer’s comparison of the rewards and costs of the purchase in relation to the anticipated consequences” (Churchill and Surprenant, 1982, p. 493). Because the assessment and regulation of customer emotions can help an employee customize the service offering to better address customer needs (Mattila and Enz, 2002), we expect EEC to directly and positively affect customer satisfaction. Previous research has found that customer perceptions of other forms of employee interpersonal behaviors (e.g., familiarity, care, commercial friendship, listening behavior, customer orientation) affect customer satisfaction (Dagger *et al.*, 2007; de Ruyter and Wetzels, 2000; Dean, 2007; Gremler and Brown, 1998; Price and Arnould, 1999). As a key component of employee interpersonal behaviors, EEC is expected to directly affect customer satisfaction. The theory of affect infusion (Forgas, 1995), positing that a person’s affective state influences his or her judgment, supports this expectation: in a positive affective state induced by an emotionally competent employee, customers are less critical and, thus, more satisfied with the service encounter. Accordingly, we hypothesize:

H1. Customer-perceived EEC affects customer satisfaction directly and positively.

2.5. Effects of employee emotional competence on customer loyalty

There are several reasons to expect EEC to have a direct effect on customer loyalty. First, Gremler and Brown (1996) suggest that interpersonal bonds are strong predictors of

loyalty in services. Customer perceptions of employee interpersonal behaviors, such as the display of respect and efforts to address customers' problems (e.g., Schoefer and Diamantopoulos, 2008), and employee customer orientation (i.e., being focused on understanding customer needs and keeping the customer satisfied) (Dean, 2007) help build customer loyalty. We also expect that EEC affects loyalty based on the norm of reciprocity (Gouldner, 1960), positing that human exchanges reflect the use of a subjective cost-benefit analysis and comparisons of alternatives. Robinson *et al.* (1994, p. 139) note that "one party's receipt of a benefit obligates another party to pay a cost," so that both parties can reach a balance between inducements offered and inducement received (Blau, 1964). In an interaction with an emotionally competent employee who understands customer needs (as conveyed by their emotions), a customer likely recognizes a benefit and thus feels indebted to the employee. To feel less indebted, the customer may adopt behaviors that restore the balance, such as exhibiting more loyalty to the service provider. Accordingly, we expect the following:

H2. Customer-perceived EEC affects customer loyalty directly and positively.

2.6. Mediating role of rapport

Human beings experience rapport when they "click" with each other or believe the good interaction is due to "chemistry" (Tickle-Degnen and Rosenthal, 1990). Rapport can be built during one or more interactions between employees and customers (Hennig-Thurau *et al.*, 2006) and is an indicator of relationship quality (Gremler and Gwinner, 2000). In the service literature, rapport reflects "a customer's perception of having an enjoyable interaction with a service provider employee, characterized by a personal connection between the two interactants" (Gremler and Gwinner, 2000, p. 92). Enjoyable interaction refers to "an affect-laden, cognitive evaluation of one's exchange with a contact employee" while personal connection refers to the "customer's perception of a bond between the two parties in the dyad" (Gremler and Gwinner, 2000, p. 92).

Various scholars have examined rapport because of its salience in services characterized by interpersonal interactions (e.g., Gremler and Gwinner, 2000, 2008; Hennig-Thurau *et al.*, 2006). Rapport captures the interpersonal aspect of service quality and is a key determinant of customer satisfaction and loyalty (Gremler and Gwinner, 2000). Customers' evaluations of an encounter mediate the relationship between their perceptions of employee behaviors and their own attitudes (e.g., satisfaction) and behaviors (e.g., loyalty) (Bitner, 1990; Bitner *et al.*, 1990; Hennig-Thurau *et al.*, 2006; Macintosh, 2009; Olsen, 2002). We posit that rapport mediates the relationship between EEC and customer attitudes and behaviors because employees with higher levels of EC perceive and understand customer emotions, helping them to customize the service offering to address customer needs and build rapport. Perceived rapport translates into higher levels of customer satisfaction and loyalty.

Affect-as-information theory provides a useful framework for understanding how emotionally competent employees establish rapport with customers. This theory holds that people often make judgments by asking themselves (implicitly), "How do I feel about it?" (Schwarz and Clore, 1983). People thus use their emotions as information that influences their judgments. Affect plays an especially important role in employee–customer interactions (Grandey *et al.*, 2005), such that when they interact with customers, employees investigate and draw on their own emotional state. When customers display emotions, employees who perceive and understand them take the necessary steps to create a positive climate and interact smoothly; in this sense, they use customer emotions as important and useful information to manage the interaction (Mattila and Enz, 2002). Thus, we expect that emotionally competent employees are better in establishing rapport with customers.

Recent studies accumulate evidence of the effect of rapport on customer satisfaction and loyalty (DeWitt and Brady, 2003; Gremler and Gwinner, 2000; Macintosh, 2009). In linking this evidence with our two first hypotheses, we predict a mediating role of rapport in the relationships EEC–satisfaction and EEC–loyalty:

H3. Rapport mediates the relationship between EEC and customer satisfaction.

H4. Rapport mediates the relationship between EEC and customer loyalty.

We provide a conceptual framework in Figure 1.

Take in Figure 1 about here

3. Methodology

3.1. Research setting and sampling

We chose hairstyling as the context for this study, being a high-contact, customized, and personalized service (Bowen, 1990), and part of a competitive and growing industry (Van der Rijken and Schmidt, 2008). Hairstyling also requires providers to be in close proximity to customers and is affectively charged (Bloemer *et al.*, 2003; Price *et al.*, 1995). This highly interactive service requires inputs from the hairstylist and the customer (Bloemer *et al.*, 2003), such that they collaborate to co-produce value (Lusch *et al.*, 2007; Vargo and Lusch, 2004). The conversation with a hairstylist may be as important as the haircut itself (Hightower *et al.*, 2002). The quality of the interaction may even outweigh the service. Because good hairstylist–customer interactions are key to successful relationships, we expect the hairstylist’s EEC to be influential in determining customer evaluations and behavior. This setting provides a fruitful environment for studying the influence of EEC on rapport, satisfaction, and loyalty, because hairstylists must learn from and collaborate with customers to identify solutions that meet their needs.

We used a student sample, since students’ perceptions, behaviors, and expectations regarding their hairstylists’ performance should not differ significantly from those of a random sample of customers. Although using student samples is sometimes considered a limitation in marketing research, several studies have used them successfully (e.g., Grandey *et al.*, 2010; Hennig-Thurau *et al.*, 2006). We collected 323 questionnaires from students

registered for a marketing course; we excluded 76 responses with missing values and from those who had not visited their hairstylist recently or only once in the past. Thus, the final data set includes 247 observations (61% male respondents). Of the respondents, 89% regularly visit the same hairstylist, and 47% use the service at least five times per year, suggesting that most respondents have sufficient knowledge of their hairstylist.

Three types of interactions can occur between customer and hairstylist: *service encounters* (when customers interact with an employee from a different hair salon each time), *pseudo relationships* (when customers interact with different employees each time, but within a single hair salon), and *service relationships* (when customers have repeated contact with the same employee within a single hair salon) (Guterk, 1995; Guterk *et al.*, 1999). Gremler and Gwinner (2000) anticipate rapport to be particularly influential in service relationships, and therefore, we contend that hairstylist customers involved in service relationships should be better able to evaluate EEC and the quality of rapport than customers involved in service encounters or pseudo relationships; as such, we investigate only situations in which service relationships are present. However, we use the common term “service encounter” when talking about specific interactions between customers and employees in these service relationships.

3.2. Research approach and questionnaire design

We distributed a questionnaire to the respondents to measure perceptions of and attitudes toward their hairstylists. All variables were measured on seven-point Likert scales (1 = “totally disagree”; 7 = “totally agree”). Respondents completed the survey in reference to their last encounter with their hairstylist.

Employee Emotional Competence. To measure EEC, we rely on a scale developed and validated by Wong and Law (2002), based on Mayer and Salovey’s (1997) definition, which consists of four dimensions with four items each. Self-emotion appraisal (SEA) reflects the employee’s ability to understand and express emotions (e.g., “This employee has a good sense

of why he has certain feelings”), while others’ emotion appraisal (OEA) reflects the employee’s ability to perceive and understand the emotions of others (e.g., “He always knows customers’ emotions from their behavior”). The third dimension, regulation of emotion (ROE), reflects the employee’s ability to regulate his or her own emotions (e.g., “He is able to control his temper and handles difficulties rationally”), and the use of emotion (UOE) reflects the employee’s ability to make use of his or her own emotions (e.g., “He would always encourage himself to try his best”).

Wong and Law’s (2002) EC measure contains self-reported items. Because self-reported EC is subject to social desirability, faking, and response distortion (Day and Carroll, 2008), reports by others are preferable (Law *et al.*, 2004; Wong and Law, 2002). Supervisor-reported measures are also subject to biases, such as leniency and strictness (Prendergast and Topel, 1993). Since we want to capture employees’ emotionally competent behaviors from a customer perspective, we measure customer perceived EEC by adapting an existing measure of EC. However, two of Wong and Law’s (2002) dimensions are of little relevance in a service encounter context. Specifically, “SEA” and “UOE” can be very difficult for customers to assess because the behaviors associated with those dimensions are not likely observable by customers unless they have extensive knowledge of psychological processes. Accordingly, we only use items from the “OEA” and “ROE” dimensions since they are associated with behaviors likely to be observable by customers. Since we are interested in the overall EEC construct (rather than in individual dimensions), using only those two dimensions to evaluate EEC should be sufficient for our purposes. In this study, Cronbach’s alphas for OEA (.81) and ROE (.74) are considered good (Nunnally, 1978). (See the Appendix for a complete list of measures.)

Confirmatory factor analyses in previous studies indicate reasonably good fit for a second-order model in which all the dimensions load on an underlying latent factor (Law *et al.*, 2004; Wong and Law, 2002). In line with Sy *et al.* (2006), we combine the “OEA” and

“ROE” dimensions into a single measure of EEC with reflective first-order constructs and a formative second-order construct (Diamantopoulos *et al.*, 2008). For complex constructs, researchers should use higher-order models, because such models treat each dimension as an important component of the construct (Podsakoff *et al.*, 2006).

Rapport. We use the scale developed by Gremler and Gwinner (2000). Because its two dimensions (personal connection and enjoyable interaction) tend to be highly correlated (between .81 and .83; Gremler and Gwinner, (2000)), we combined the scales into a higher second-order construct for parsimony reasons (see DeWitt and Brady, 2003).

Customer Satisfaction. We use a five-item scale developed by Gremler and Gwinner (2000) on the basis of Oliver’s (1980) work.

Customer Loyalty. We use five loyalty items from the scale developed by Zeithaml *et al.* (1996).

Previous research has examined the reliability and validity of each of these scales. We made minor modifications to ensure the scales were suitable for our setting (measures, sources, items, and descriptive statistics appear in the Appendix).

3.3. Assessment of common method variance

We used a single informant (i.e., the customer) to measure both the independent and the dependent variables. In customer surveys, data are susceptible to common method variance (CMV) (Malhotra *et al.*, 2006). However, we expect this not to be a major concern in the present study, because studies in marketing generally do not suffer badly from CMV (Malhotra *et al.*, 2006). Based on their empirical study, Cote and Buckley (1987) also contend that research in marketing is less subject to CMV than research in sociology and education.

Regardless, we tried to minimize the potential for CMV by using a range of procedures (Campbell and Fiske, 1959). First, we formulated the items as clearly, concisely, and specifically as possible and based them on previously validated scales. Second, we used computer-administered questionnaires, which should reduce social desirability biases

(Podsakoff *et al.*, 2003). In addition, the questionnaire introduction indicated that there were no right or wrong answers and that we were interested in perceptions of the service encounter experience. Third, the design of our web-based survey instrument made it impossible for respondents to retrieve their answers to earlier questions. Therefore, it was more difficult for them to maintain artificial consistency between answers or search for patterns in the questions, which helped control for both the consistency motif and social desirability biases (Podsakoff *et al.*, 2003). Fourth, we tested for CMV using Harman's one-factor test (Podsakoff and Organ, 1986). A principal component factor analysis of the dependent and independent variables yielded six factors with eigenvalues higher than 1.0, while the first factor explained less than 42% of the total variance. These statistics suggest the absence of one major factor (Podsakoff and Organ, 1986). Consequently, CMV does not seem to be present in our data.

4. Results

4.1. Measurement model evaluation

We use the SmartPLS (Ringle *et al.*, 2005) implementation of partial least squares (PLS) structural equation modeling to estimate our theoretical model. As a distribution-independent method, PLS has fewer constraints and statistical conditions than covariance-based techniques, such as LISREL (Hennig-Thurau *et al.*, 2006). The use of PLS path modeling is recommended in early stages of theoretical development to test and validate exploratory models (Henseler *et al.*, 2009).

In Table I, we report descriptive statistics and correlations between central constructs. The analysis reveals that all constructs exhibit satisfactory internal consistency. Cronbach's alphas range from .81 to .95 and composite reliability values range from .88 to .96, while square roots of average variance extracted (AVE) estimates range from .57 to .92. Additionally, we test for discriminant validity of the four latent variables in the PLS model

using Fornell and Larcker's (1981) criterion: a latent variable should share more variance with its assigned indicators than with any other latent variable (Henseler *et al.*, 2009). The square root of the AVE of each latent variable should be greater than the latent variable's highest correlation with any other latent variable—which is the case in this study. As Table I shows, we find acceptable reliability and discriminant validity for our measures. Having established the soundness of the measures, we subsequently use them to test the hypothesized relationships.

Take in Table I about here

4.2. Hypothesis testing: Direct effects

The explained variances (R^2 values) for rapport, satisfaction, and loyalty are 23.5, 43.9, and 52.0, respectively. We apply a bootstrapping procedure (200 subsamples; 247 cases) to assess the significance of the path coefficients (Henseler *et al.*, 2009). The measurement model for EEC (as a second-order construct) appears in Figure 2, and the path estimates and relative t -values of the structural model appear in Figure 3. We use the path coefficients to test our hypotheses. In support of Hypothesis 1, we find a significant, positive relationship between EEC and satisfaction (standardized path coefficient = .339; t -value = 6.188). We also find support for Hypothesis 2; there is a significant, positive relationship between EEC and loyalty (standardized path coefficient = .230; t -value = 4.270).

Take in Figure 2 and Figure 3 about here

4.3. Hypothesis testing: Mediation effects

As Baron and Kenny (1986) suggest, four conditions must be satisfied for a mediation effect: (1) the independent variable (IV) should relate to the dependent variable (DV) (relationship c in Table II); (2) the IV should relate to the mediator variable (MV) (relationship a in Table II); (3) the mediator should relate to the DV (relationship b in Table II); and (4) when the mediator is added, the original relationship between the IV and the DV should become non-significant for full mediation or significantly smaller for partial mediation (relationship c' in Table II). When mediation is detected, we can calculate its significance by bootstrapping the product of the $IV \rightarrow MV$ and $MV \rightarrow DV$ effects (Shrout and Bolger, 2002). If the direct effect between the IV and the DV becomes non-significant, there is full mediation. If all effects remain significant, there is partial mediation.

Take in Table II about here

We test the mediating role of rapport on the relationships between EEC and satisfaction, and between EEC and loyalty, by applying a non-parametric bootstrapping procedure (Preacher and Hayes, 2008; Shrout and Bolger, 2002). Table II shows that rapport partially mediates both relationships: the path coefficients decrease, but remain significant when we control for rapport. Hypotheses 3 and 4 are thus confirmed. Rapport explains, at least partially, how EEC translates into customer satisfaction and loyalty.

5. Conclusion

The purpose of this research is to assess the extent to which EEC influences customer satisfaction and loyalty, as well as the mediating role of rapport. By establishing the relationships among EEC, rapport, satisfaction, and loyalty, we contribute to a better understanding of the benefits that EEC and rapport may bring to service companies. In

particular, through EC, employees can better meet customers' individual and dynamic needs by learning from, collaborating with, and developing relationships with customers (Vargo and Lusch, 2004). We contend that EEC is a crucial competence facilitating employee perceptions and understanding of customer emotions and needs. Our results confirm that EEC affects customer satisfaction and loyalty and that rapport partially mediates these relationships. Thus, our findings provide scholars and practitioners with a better understanding of the role of EEC and rapport in service encounters, with implications for both theory and practice.

5.1. Theoretical implications

This study answers a call for further research on the role of EEC in service encounters (e.g., Verbeke *et al.*, 2008) by exploring (1) *customer perceptions* of EEC in service encounters and their impact on customer satisfaction and loyalty and (2) the mediating role of rapport in the relationships between EEC and satisfaction and between EEC and loyalty. Our results show that EEC has an impact on crucial service outcomes, such as customer satisfaction and loyalty (Bitner, 1990). By measuring customer perceptions of EEC, instead of employee or supervisor perceptions, we connect social and organizational psychology (where the concept of EC originated) with service literature. Because services managers want *customers to perceive* service employees as emotionally competent, measuring *customer-perceived* EEC advances our knowledge of this construct. By doing so, we also address the limitations of existing measures of EEC: employee self-reported measures of EEC and supervisor-reported measures of EEC are subject to drawbacks (i.e., faking, distortion, biases) and do not measure actual employee behaviors during service encounters.

Our study establishes the mediating role of rapport on the relationship between EEC and customer outcomes and may help explain why some studies have found weak or non-significant relationships between EEC and customer outcomes (Giardini and Frese, 2008; Weng, 2008). Neglecting the mediating role of rapport in previous studies may explain why these studies report weak or non-significant relationships between EEC and customer

outcomes like trust and satisfaction. Although rapport tends to be salient in services characterized by frequent interpersonal interactions, it has received no attention in EEC research. Our findings suggest that research ignoring rapport overlooks a key mechanism. That is, our results indicate that EEC not only has direct effects on satisfaction and loyalty but also has indirect effects on those variables mediated by rapport. Prior work has noted that EEC could affect various kinds of customer responses, including rapport (e.g., Kidwell *et al.*, 2011), but no study has explicitly examined this relationship. Overall, the links from EEC to rapport to customer satisfaction and loyalty suggest that building rapport creates a path through which EEC can exert its influence.

5.2. Managerial implications

Our finding that EEC increases rapport, which in turn leads to customer satisfaction and loyalty, may improve managers' understanding of why EEC matters. Specifically, this study has three main implications for service managers. First, previous studies that examine employee perceptions of EEC (e.g., Giardini and Frese, 2008) consider EEC a stable characteristic: employees behave in the same way across encounters with every customer. However, we posit that each encounter is a unique performance for employees and differs according to their motivation, mood, and emotional state; depending on the context, they may exhibit different emotionally competent behaviors in each encounter. Accordingly, a better approach is to examine customer-perceived EEC. In the context of service encounters, we contend that customer-reported EEC is more useful than employee-reported EEC. In addition, employee-reported EEC is subject to important biases (faking, distortion, social desirability) and is less reliable than a customer-reported measure of EEC. Customers and employees use different criteria to evaluate employee performance, and employee and customer perceptions might even be negatively correlated (Mattila and Enz, 2002). If managers want to know about the effects of EEC on customer outcomes, they should measure customer-perceived EEC.

Customers are in a good position to evaluate employee emotional competence during the encounter.

Second, EEC is known to affect general well-being (Kotsou *et al.*, 2011), job satisfaction (Sy *et al.*, 2006), job performance (Joseph and Newman, 2010), and sales (Kidwell *et al.*, 2011), and our results complement these findings. EEC also affects customer satisfaction and loyalty directly and through rapport. Therefore, by hiring emotionally competent employees and encouraging employees to develop emotionally competent behaviors, service managers can facilitate the development of rapport, satisfaction, and loyalty.

Third, service managers should strengthen EEC to build effective relationships with customers. Research in psychology demonstrates that EC can indeed be taught, learned, and improved with training (e.g., Kotsou *et al.*, 2011; Nelis *et al.*, 2009). Thus, service managers could turn to scientifically validated training programs of EC (e.g., Kotsou *et al.*, 2011) to improve employees' rapport with customers and thus increase customer satisfaction and loyalty.

5.3. Limitations

Although this study provides insight into the role of EEC in building customer satisfaction and loyalty and the mediating role of rapport, it has several limitations. First, common method variance (CMV) may have affected the results, though we took great care to minimize the effect by using a range of procedures (Campbell and Fiske, 1959; Podsakoff *et al.*, 2003). We find empirical support for a significant mediator (i.e., rapport), which argues against CMV. If the data were subject to CMV, we would have found little support for the existence of a mediator. Since the effect of EEC on customer satisfaction and loyalty decreased when we controlled for the mediator, the relationships found appear due to an effect other than CMV (Rupp and Spencer, 2006). Second, to test our conceptual model, we used cross-sectional data and a non-experimental design. Future studies could test this model, for

example, in an experimental design to make even stronger inferences about the causality of the relationships.

5.4. Suggestions for further research

We asked respondents to report on their hairstylists, focusing on only one type of service—group 1 of Bowen's (1990) taxonomy of services (i.e., customized, high-contact services). Our findings may be applicable to similar services where interaction and contact between the employee and the customer are salient (e.g., dietary treatment, beauty services, osteopathy). Future studies could investigate other service types (semi-standardized and standardized services; Bowen, 1990). In those services, EEC may not play an equally important role.

Of the three types of interactions between a customer and a provider—service encounters, pseudo relationships, and service relationships (Guttek, 1995; Guttek *et al.*, 1999)—we exclusively focused on service relationships, because Gremler and Gwinner (2000) argue that rapport is particularly influential in service relationships. However, in line with their recommendations to explore the relationship between rapport and the length of the encounter, further research could investigate and compare the mediating role of rapport in the relationship between EEC and customer satisfaction and loyalty across these three types of interactions.

Organizational psychologists have investigated employee perceived EC, whereas in the current study, customers report on their perceptions of EEC. Further research could bring employee and customer perspectives together to develop a dyadic perspective on EEC. To the best of our knowledge, the role of the EEC construct in service encounters has not been considered through a dyadic approach.

We found that rapport partially mediates the relationship between EEC and customer satisfaction and loyalty. Although we encourage researchers to investigate the mediating role of rapport in more detail, we also recognize that other mediators linking EEC to customer

satisfaction and loyalty may exist. For example, trust depends on employee interpersonal behaviors, such as self-disclosure (Macintosh, 2009) and benevolence (Sirdeshmukh *et al.*, 2002), and also affects key outcomes, such as customer satisfaction and loyalty (Crosby *et al.*, 1990; Sirdeshmukh *et al.*, 2002). Further research could examine whether EEC's influence on customer satisfaction and loyalty is mediated by customer trust or other variables, such as customer orientation (Dean, 2007) and relational benefits (Gwinner *et al.*, 1998).

Finally, we relied on an existing measure of EEC, developed in organizational psychology, and adapted it for use in a service context (Wong and Law, 2002). Although the original measure is short, shows good psychometric properties, and was developed to be either self-reported by the employee or used by peers and supervisors, it suffers from several limitations when applied to customers of service encounters. First, we have used two dimensions out of the original four. Second, the measure we have adapted was originally developed for use in a general context, not in a specific context such as a service encounter. To increase the validity of measurements of customer evaluations of EEC, a specific measure related to observable emotionally competent behaviors should be developed. Third, the EEC measure we use does not include some relevant dimensions of EEC, such as the competence to regulate others' emotions. Research has devoted much attention to measuring the ability to regulate one's own emotions, but we are aware of no scale which measures the ability of one person to regulate another's emotions. We believe that scholars and practitioners would benefit from a more specific customer-perceived EEC scale. We recommend researchers develop a concise, valid, reliable scale of EEC, capturing customer perceptions.

Table I. Descriptive statistics and correlations

	Number of items	M	SD	α	CR	1	2	3	4
1 Employee emotional competence	8	4.39	.54	.81	.88	.57			
2 Rapport	10	4.68	.93	.93	.94	.42	.78		
3 Customer satisfaction	5	5.72	.78	.95	.96	.46	.58	.92	
4 Loyalty	4	5.02	1.12	.90	.93	.50	.54	.65	.88

Note: All correlations are significant at $p < .001$. The square root of the average variance extracted is on the diagonal, as a test of discriminant validity. M = mean; SD = standard deviation; α = Cronbach's alpha; CR = composite reliability.

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Table II. Mediation tests

	Dependent variable (DV)	<i>a</i> (EEC → Rapport)	<i>b</i> (Rapport → DV)	<i>c</i> (EEC → DV)	<i>c'</i> (EEC → DV; mediator controlled)
Hypotheses					
H3	Satisfaction	.485***	.428***	.546***	.339***
H4	Loyalty	.485***	.184***	.272***	.230***

Note: All paths are beta coefficients.

*** $p < .001$.

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Appendix: Questionnaire items and their descriptive statistics

	Load ing	t-value	M	SD
Employee Emotional Competence (adapted from Wong and Law, 2002) ^a				
Others' emotion appraisal (OEA)				
The hairstylist always knows customers' emotions from their behaviors.	.691	11.696	4.283	.851
The hairstylist is a good observer of others' emotions.	.855	27.645	4.397	.804
The hairstylist is sensitive to the feelings and emotions of others.	.812	26.182	4.401	.810
The hairstylist has good understanding of the emotions of people around him.	.814	36.126	4.409	.754
Regulation of emotion (ROE)				
The hairstylist is able to control his temper and handle difficulties rationally.	.847	38.068	4.490	.887
The hairstylist is quite capable of controlling his own emotions.	.886	46.884	4.466	.854
The hairstylist can always calm down quickly when he is very angry.	.793	23.481	4.219	.837
The hairstylist has good control of his own emotions.	.883	51.739	4.417	.796
Rapport (adapted from Gremler and Gwinner, 2000)				
I enjoy interacting with this hairstylist.	.837	46.333	4.814	1.195
This hairstylist creates a feeling of "warmth" in our relationship.	.864	46.243	4.895	1.077
This hairstylist relates well to me.	.827	37.050	5.393	.904
I have a harmonious relationship with this hairstylist.	.836	36.894	5.045	1.064
This hairstylist has a good sense of humor.	.568	12.392	5.279	1.151
I am comfortable interacting with this hairstylist.	.790	29.943	5.368	1.070
I feel like there is a "bond" between this hairstylist and myself.*				
I look forward to seeing this hairstylist when I visit the hair salon.	.754	23.046	4.433	1.218
I strongly care about this hairstylist.	.806	28.864	3.733	1.371
This hairstylist has taken a personal interest in me.	.742	24.316	4.170	1.392
I have a close relationship with this hairstylist.	.754	23.046	3.713	1.507
Customer Satisfaction (adapted from Gremler and Gwinner, 2000)				
Based on all of my experience with my hairstylist, I am very satisfied with the services he provides.	.903	65.360	5.717	.817
My choice to use this hairstylist was a wise one.	.909	58.176	5.595	.896
Overall, I am satisfied with the decision to choose this hairstylist.	.942	112.874	5.798	.786
I think I did the right thing when I decided to choose this hairstylist.	.947	114.869	5.741	.877
My overall evaluation of the services provided by this hairstylist is very good.	.890	52.872	5.757	.878
Customer Loyalty (adapted from Zeithaml <i>et al.</i> , 1996)				
I say positive things about my hairstylist to other people.	.906	72.371	5.344	1.126
I recommend my hairstylist to someone who seeks my advice.	.905	41.822	5.142	1.278
I encourage friends and relatives to do business with my hairstylist.	.874	41.570	4.765	1.397
I consider my hairstylist your first choice to buy services.	.830	35.892	4.826	1.306
I wish to do more business with my hairstylist in the next few years.*				

Notes: M = mean; SD = standard deviation.

^aThe original Wong and Law (2002) scale has four dimensions, but only two are considered appropriate for usage in this study.

* Items deleted, according to confirmatory factor analyses.