

Impact of Empathy on Customer Loyalty through the Mediating Role of Relationship Quality in Retail Banks

T. Padmavathi^{#1}, Dr. J. Khaja Sheriff^{*2}

¹Assistant Professor, Department of Management studies, Anna University, Chennai, India
padmavathi.mudoms@gmail.com

²Associate Professor, Department of Management studies, University of Madras, Chennai, India
jmkhaja@yahoo.com

Abstract— This article is to observe the relationship of service providers' empathy on customer loyalty through the relationship quality dimensions namely satisfaction and commitment in retail banks. Data were gathered from the customers of retail banks in Chennai, India using a structured questionnaire. A total of 272 customers provided the data for this study. Multiple regression analysis was used to estimate the hypothesized relationships. The results of the study show that empathy explains 36 percent and 32 percent of variations in satisfaction and commitment. The results also reveal that satisfaction and commitment is significantly associated with customer loyalty. The results further reveals that satisfaction and commitment is partially mediates in the relationship between empathy and customer loyalty. This paper assesses the impact of empathy on relationship quality dimensions namely satisfaction and commitment among retail bank customers. Thus, this study helps organization in understanding the significance of empathy and relationship quality in building customer loyalty.

Keywords— Empathy; Retail Banking; Relationship Quality; Loyalty.

1. Introduction

In the technology driven market situation, retail banks are finding a huge challenge in attracting and retaining customers. Availability of various service alternatives and specialized services may drives customers in moving from one service provider to another. Growing importance of relationship marketing strategies, had raised the demand for the adoption of certain relationship marketing factors to use as a tool to enhance the relationship quality and their by customer loyalty. Relationship marketing has been defined as “the process of identifying, instituting, maintaining, enhancing, and necessary concluded relationships with customers” (Gronroos, 2000). Communication, trust, satisfaction, etc are studied in the past studies. Empathy, personalization, competence, etc are the relationship factors which are still need to study further.

In the domain of relationship marketing, empathy has not been researched widely, especially in Indian context. Most of the previous studies used empathy as a service quality dimension, but very few researchers (Oly Ndubisi, N.,

Khoo-Lattimore, C., Yang, L., & Capel, C. M., 2011) have used empathy as a factor of relationship marketing. With the effect of compassion and care, retail banks may better satisfy customers and build loyalty. Quality relationship with customers will further enhance customer loyalty. Does empathy have an impact on customer satisfaction and commitment in retail banks? And how empathy influence customer loyalty in retail banks? In order to answer these questions this research was carried out with an objective to first examine the effect of empathy on satisfaction and commitment in retail banks and further examines the role of satisfaction and commitment as a mediator between empathy and customer loyalty. Hence, this paper assesses the effect of empathy on customer loyalty through the mediating role of relationship quality.

2. Literature Review

Empathy is defined as “the ability to understand someone’s desires and goals” (Yau et al., 2000). In order to develop a unique relationship, empathy of the firm is essential. According to Ndubisi (2004), principles of empathy tend to treat others in the manner they would like to be treated. Empathy is the ability of a person to see situations from another one’s perspective, though not necessarily agreeing with such a perspective Oly Ndubisi, N., Khoo-Lattimore, C., Yang, L., & Capel, C. M., (2011). Empathy is defined as seeking to recognize the desires and aims of somebody else (Sin et al., 2005). Karatepe, O. M., (2011), defines empathy as individualized consideration given to clientele and readiness of the bank officials to help clients and resolve their difficulties in an appropriate manner. “Empathy may assist the interaction between the buyer and the vendor, consequently increasing customers’ understanding of how the industry operates”(Coulter and Coulter, 2003). Bloemer, J., De Ruyter, K., & Peeters, P. (1998), found empathy as a key dimension of service quality and positively influence customer satisfaction.

According to Newman, K. (2001), empathy is one among the three soft quality people dimensions and it is something people give to each other. Empathy factors are conducive to the formation of customer relationships in services and employees play a major role in shaping the service experience (Wong, A., & Sohal, A., 2003). Empathy is the element of a business relationship that

facilitates the two parties to see the situation from each other's perspective (Sin, L. Y., Alan, C. B., Yau, O. H., Chow, R. P., Lee, J. S., & Lau, L. B., 2005).

Relationship quality is associated with the subject of relationship marketing (Segarra-Moliner, J. R., Moliner-Tena, M. A., & Sánchez-García, J., 2013). Jarvelin and Lehtinen (1996) refer "the quality of the relationship as a customer's perception of how well the entire relationship abides by their expectations, forecasts, goals and desires". The core dimensions of the relationship quality are Trust, satisfaction and commitment. Trust had already been extensively researched by previous researchers. Hence, this research used satisfaction and commitment as the two-dimensional variable and assessed the relationship between empathy and customer loyalty. According to Vavra (2002), Customer satisfaction is the customer's emotional response to the discrepancy between individual opportunity and the experienced recital of provided product or service.

Commitment is defined as the uppermost level of the relational bond (Dwyer et al., 1987). Doney et al. (2007) refer commitment as the "sense of unity binds buyers and suppliers on the basis of the degree of obligation a buyer feels toward the supplier, who concerned with difficulties of emotional perspective and with the conservation and recognition of the traditional values of the current relationship". Hence, satisfaction and commitment are the essential factors that need to be analyzed to attain the quality relationship. The loyalty of the Customer is "a deeply detained commitment to re-buy or re-patronize a favored product or service in the prospect despite there are situational control and effort marketing having the possibility to cause switching behavior" (Oliver, 1999). In any service organization, achieving quality relationship and building customer loyalty would be the foremost aim. Hence, assessing the customer loyalty indicators in retail

bank is crucial. Based on the literature review, a conceptual framework has been established and given as follows.

3. Research Framework



Fig.1: Framework of the Research

4. Hypotheses

- H1. Empathy will have significant positive effect on satisfaction
- H2. Empathy will have significant positive effect on commitment
- H3. Satisfaction will have significant positive effect on customer Loyalty
- H4. Commitment will have significant positive effect on Customer Loyalty
- H5. Satisfaction will mediate in the relationship between Empathy and customer loyalty
- H6. Commitment will mediate in the relationship between Empathy and Customer loyalty.

5. Methodology

The population of this study is retail bank customers in the city of Chennai, India. Out of 400 survey form administered, 272 usable responses were received and the same has been taken for analysis. This indicates a response rate of 68%. The measurements scale has been adapted from various sources.

Table I: Factor Loading and Construct Reliability

Key Dimensions and items	Loadings	Communalities	Cronbach's alpha
F1- Empathy (Variance= 59.96)			0.96
Employees of the bank exercise goodwill when dealing with customers	.791	.898	
Employees of the bank try to put themselves in the customer's position	.761	.884	
Employees of the bank provide adequate care and attention to customers	.759	.900	
Employees of the bank show compassion to customers	.757	.897	
F2- Satisfaction (Variance=14.48)			0.99
Based on all of my experience with this bank, I am very satisfied with the banking services it provides	.769	.933	
My choice to use this bank was a wise one	.789	.954	
Overall, i am satisfied with the decision to use this bank	.785	.971	
I think, i did the right thing when i decided to use this bank for my banking needs	.790	.976	
My overall evaluation of the services provided by this bank is very good	.791	.976	

F3- Commitment (Variance=12.73)			0.993
The bank makes adjustment to suit my needs	.710	.987	
The bank tender personalised services to satisfy customer needs	.705	.983	
The bank is flexible when its services are changed	.702	.979	
The bank is flexible in serving my needs	.705	.969	
F4- Customer Loyalty (Variance=6.81)			0.984
I feel a commitment to continuing a relationship with this bank	.823	.944	
I would expand extra effort to continue using this bank service	.822	.955	
I feel loyal to this bank	.802	.905	
I intend to use this bank service again	.789	.852	
I would continue to do business with this bank even if their prices increase somewhat	.823	.944	
As long as the present service continues, i doubt that i would switch banks	.820	.953	

Note: Total Variance: 93.99; KMO= 0.744; Approx. Chi Square = 361.427; df = 6; Sig.=0.000

Table II: Respondents' Profile

Category		Frequency	Percent
Gender	Female	132	48.5
	Male	140	51.5
	Total	272	100
Age	Under 20 yrs	2	0.7
	20- 35 yrs	206	75.7
	36 - 45 yrs	43	15.8
	46- 59 yrs	20	7.4
	60 yrs and above	1	0.4
	Total	272	100
Marital status	Married	117	43
	Single	155	57
	Total	272	100
Educational Qualification	Schooling	8	2.9
	Graduate / Diploma	123	45.2
	Professional qualification	34	12.5
	PG and above	107	39.3
	Total	272	100
Occupation	Businessman	23	8.5
	Salaried	114	41.9
	Student	125	46
	Others	10	3.7
	Total	272	100
Annual Income	Below Rs.2,00,000	127	46.7
	Rs.2,00,001 - Rs.4,00,000	89	32.7
	Rs.4,00,001 - Rs.6,00,000	37	13.6
	Rs.6,00,001 - Rs.8,00,000	15	5.5
	Above Rs.8,00,000	4	1.5
	Total	272	100

Table III: Predictors of Relationship Quality

Variables	Satisfaction			Commitment		
	Beta coefficients	t-value	p-value	Beta coefficients	t-value	p-value
Empathy	0.601	12.348	.000	0.567	11.325	.000

Notes: $R^2 = .361$, $F = 152.483$, $Sig.F = .000$

Notes: $R^2 = .322$, $F = 128.252$, $Sig.F = .000$

The items for Empathy were adapted from Nelson Oly Ndubisi, (2004); satisfaction items from Gremler and

Gwinner, (2000); Commitment items from Nelson Oly Ndubisi, (2007) and customer loyalty items from Price &

Table IV: Predictors of Loyalty

Variables	Loyalty		
	Beta coefficients	t-value	p-value
Satisfaction	0.402	7.817	.000
Commitment	0.346	6.726	.000

Notes: $R^2 = .383$, $F = 83.493$, $Sig.F = .000$

Arnould, (1999) and Gremler & Gwinner, (2000). All these were measured on a five-point- Likert scale that ranges from 'strongly disagree' to 'strongly agree'.

Table I shows the key construct and its items; their factor loadings, communalities and reliability estimates based on Cronbach's alpha values. Factor analysis was carried out on the items to establish their appropriateness for the multivariate analysis indicates a valid construct measures. Total variance explained by the factors was 93.99 percent. All features loadings were statistically significant at $p = 0.05$ and convergent validity was established.

6. Results and Discussion

Table II outlines the demographic composition of the respondents. A total of 272 valid responses were taken for the analysis. Respondent sample comprised of female 48.5% and male 51.5% respectively. In terms of age group around 75% were between the age group of 20 to 35 years, 28.4% were between the age group of 36 to 45 years. In terms of occupation, 46% of the respondents are students and 41.9 % were salaried. As far as the educational level is concerned, 45.2 % graduates/diploma and (39.3%) had completed their post graduation degree. Out of the sample 43 % were married. About 82.7% of respondents are the customers of Public sector banks; about 16.2% were from private sector banks, 1.1% of respondents are the customers of foreign banks respectively. About 45.2% of respondent uses banking services monthly, 35% were using bank service weekly. About 37.9% of respondents are become the customers of their respective bank since more

than 4 years, 21.7% are since last 1-2 years, about 16.2% are since last 2-3 years, 14.3% are since last 3-4 years and only 9.9% are became the customers of their respective bank less than a year.

7. Testing for Association

The regression analysis results in Table III show that Empathy contribute significantly ($F = 152.48$; $p = 0.000$) and predict 36 percent of the variations in satisfaction; similarly, empathy contribute significantly ($F = 128.25$; $p = 0.000$) and predict 32 percent of the variations in commitment. The results in Table III also show that there is significant relationship among empathy, satisfaction and commitment at five percent significance level. This justifies the acceptance of hypotheses H1 and H2. Therefore, the customer will be satisfied and committed to retail banks if they show compassion and adequate care in dealing with customers. The estimates with positive sign shows that higher the level of empathy, the greater the level of customers' satisfaction and commitment in the retail banks.

The regression analysis results in Table IV show that Satisfaction and commitment contribute significantly ($F = 83.49$; $p = 0.000$) and predict 38 percent of the variations in Loyalty. The results further show that there is significant relationship among relationship quality dimensions satisfaction, commitment and customer loyalty at five percent significance levels. These results show that the higher the level of satisfaction and commitment, greater the level of customer loyalty. Thus, retails bank nurture

customer loyalty by meeting customer needs beneficially and achieve customer satisfaction and commitment. Hence it supports the hypothesis H3 and H4.

8. Mediation Effects

To test for the mediation effect of quality dimensions of relationship commitment and satisfaction in the association of the empathy with customer loyalty, Baron and Kenny (1986) criteria has been adopted. Note: * $p < .05$; ** $p < .01$; *** $p < .001$.

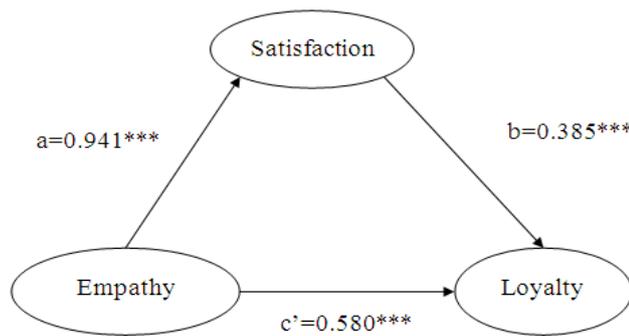


Fig.2: Mediation Effect of Satisfaction

The results of mediation analysis show that satisfaction mediates in the relationship of empathy and customer loyalty. It can be seen from figure.1, that empathy has a significant effect on the mediator satisfaction ($B=0.941$, $p < 0.01$) (a path) and satisfaction has a significant effect on customer loyalty ($B=0.385$, $p < 0.01$) while controlling X (b path). The effect of empathy becomes significantly smaller for loyalty ($B= 0.580$, $p < 0.01$) indicating partial mediation by satisfaction (c' path) supporting hypothesis H5. The indirect effect of empathy on loyalty is found to be ($B=0.328$, $p < 0.01$) significant which indicates that empathy would boost customer satisfaction, which in turn increases customer loyalty.

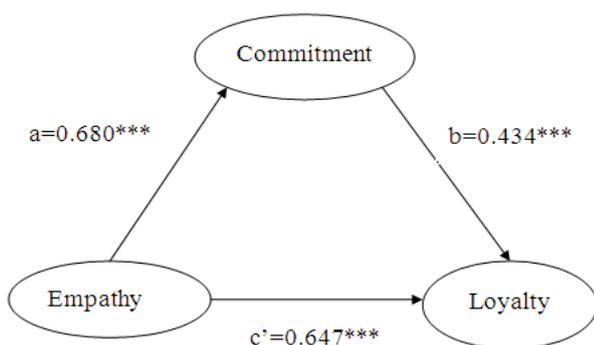


Fig.3: Mediation Effect of Commitment

Note: * $p < .05$; ** $p < .01$; *** $p < .001$.

The results of mediation analysis show that commitment mediates in the relationship of empathy and customer

loyalty. It can be seen from figure.2, that empathy has a significant effect on the mediator commitment ($B=0.680$, $p < 0.01$) (a path) and commitment has a significant effect on customer loyalty ($B=0.434$, $p < 0.01$) while controlling X (b path). The effect of empathy becomes significantly smaller for loyalty ($B= 0.647$, $p < 0.01$) indicating partial mediation by Commitment (c' path) supporting hypothesis H6. The indirect effect of empathy on loyalty is found to be ($B=0.295$, $p < 0.01$) significant which indicates that empathy would lead to commitment, which in turn increases customer loyalty.

9. Implications and Conclusion

The aim of this research was to analyze the effect of empathy on customer loyalty through relationship quality dimensions namely satisfaction and commitment. This study has a number of implications for retail banks. Firstly, service firms in general having an intention of attracting and building loyal customers, should strive to gain quality relationship by offering compassion and adequate care and attention (i.e. empathy). Without empathy to understand and acclimatize to buyer needs, reciprocal favours might not be chosen properly (Geddie et al., 2005). Retail banks must show a strong empathy in the bank-customer relationship by keeping fairness, generating win-win situations and offering mutual support (Oly Ndubisi, N., Khoo-Lattimore, C., Yang, L., & Capel, C. M., 2011). As said by Nguyen Hau, L., & Viet Ngo, L. (2012), firms that better understand what customers wish are better able to gratify customers and concluded that the higher the level of empathy between the firm and its customers, the greater the customer satisfaction. The results of this study suggest that the empathy is significantly influences customer satisfaction and customer commitment, which indicates that customers will be satisfied and committed to the bank service when employees of the bank exercise goodwill when dealing with customers; when the employees of the bank try to put themselves in the customer's position; provide adequate care and attention to customers and show compassion to customers. Ultimately, satisfied and committed customers will become loyal customers. This research has also revealed that satisfaction and commitment had partially mediated in the relationship of empathy and customer loyalty, this indicates that as a whole research model it explains only a marginal mediation influence than a full mediation.

10. Limitations and scope for future research

As like other studies, the present study is also having limitations. First, the study focuses only on one sector which is banking sector which may limit the generalization of the findings to the entire service industry. However, this limitation creates an opportunity for future research to do

research on other service industry like hospitality, health care, education, etc. Another scope for future research includes avenue for including other less common relationship marketing factor like, bonding, personalization, etc., Future studies may also investigate the possible moderation effects of demographic variables. By examining these effects, the future studies would add value to the present knowledge in the area of relationship marketing. The future research may include more no. of respondents and could see the applicability of the generalization.

References

- [1] Grönroos, C. Relationship marketing: the Nordic school perspective. *Handbook of relationship marketing*, vol-1, 2000, p.p 95-117.
- [2] Oly Ndubisi, N., Khoo-Lattimore, C., Yang, L., & Capel, C. M. The antecedents of relationship quality in Malaysia and New Zealand. *International Journal of Quality & Reliability Management*, vol-28(2), 2011, p.p.233-248.
- [3] Yau, O. H., McFetridge, P. R., Chow, R. P., Lee, J. S., Sin, L. Y., & Tse, A. C. Is relationship marketing for everyone?. *European Journal of Marketing*, vol-34(9/10), 2000, p.p.1111-1127.
- [4] Oly Ndubisi, N. Understanding the salience of cultural dimensions on relationship marketing, it's underpinnings and aftermaths. *Cross Cultural Management: An International Journal*, vol-11(3), 2004, pp. 70-89.
- [5] Karatepe, O. M. Service quality, customer satisfaction and loyalty: the moderating role of gender. *Journal of Business Economics and Management*, (2011). Vol-12(2), 2011, p.p.278-300.
- [6] Coulter, K. S., & Coulter, R. A. The effects of industry knowledge on the development of trust in service relationships. *International Journal of Research in Marketing*, vol- 20(1), 2003, p.p.31-43.
- [7] Bloemer, J., De Ruyter, K., & Peeters, P. Investigating drivers of bank loyalty: the complex relationship between image, service quality and satisfaction. *International Journal of bank marketing*, vol-16(7), 1998, p.p. 276-286.
- [8] Newman, K. Interrogating SERVQUAL: a critical assessment of service quality measurement in a high street retail bank. *International journal of bank marketing*, vol-19(3), 2001, p.p. 126-139.
- [9] Wong, A., & Sohal, A. Service quality and customer loyalty perspectives on two levels of retail relationships. *Journal of services marketing*, vol-17(5), 2003, p.p.495-513.
- [10] Sin, L. Y., Tse, A. C., Yau, O. H., Chow, R. P., & Lee, J. S. Market orientation, relationship marketing orientation, and business performance: The moderating effects of economic ideology and industry type. *Journal of International Marketing*, vol-13(1), 2005, p.p 36-57.
- [11] Segarra-Moliner, J. R., Moliner-Tena, M. A., & Sánchez-García, J. Relationship quality in business to business: a cross-cultural perspective from universities. *Marketing Intelligence & Planning*, 31(3), (2013). 196-215.
- [12] Jarvelin, A., & Lehtinen, U. Relationship quality in business-to-business service context. In *Quis*, Vol. 5, 1996, pp.243-254
- [13] Vavra, T. G. ISO 9001: 2000 and customer satisfaction. *Quality progress*, vol-35(5), 2002, p.p.69.
- [14] Dwyer, F. R., Schurr, P. H., & Oh, S. Developing buyer-seller relationships. *The Journal of marketing*, 1987, p.p.11-27.
- [15] Doney, P. M., Barry, J. M., & Abratt, R. Trust determinants and outcomes in global B2B services. *European journal of marketing*, vol-41(9/10), 2007, p.p.1096-1116.
- [16] Gremler, D. D., & Gwinner, K. P. (2000). Customer-employee rapport in service relationships. *Journal of Service Research*, vol-3(1), 2000, p.p. 82-104.
- [17] Oly Ndubisi, N. Relationship marketing and customer loyalty. *Marketing intelligence & planning*, vol-25(1), 2007, p.p. 98-106.
- [18] Price, L. L., & Arnould, E. J. Commercial friendships: service provider-client relationships in context. *The Journal of Marketing*, 1999, p.p.38-56.
- [19] Baron, R. M., & Kenny, D. A. The moderator-mediator variable distinction in social psychological research: Conceptual, strategic, and statistical considerations. *Journal of personality and social psychology*, vol-51(6), 1986, p.1173.
- [20] Geddie, M. W., DeFranco, A. L., & Geddie, M. F. (A comparison of relationship marketing and Guanxi: Its implications for the hospitality industry. *International Journal of Contemporary Hospitality Management*, vol-17(7), 2005, p.p.614-632.
- [21] Nguyen Hau, L., & Viet Ngo, L. Relationship marketing in Vietnam: An empirical study. *Asia Pacific Journal of Marketing and Logistics*, vol-24(2), 2012, p.p.222-235.

T. Padmavathi is an Assistant Professor in the Department of Management studies, at Anna University, College of Engineering Guindy, Chennai. She is having 3 years of teaching experience. She holds a Master Degree in Management sciences from the University of Madras. She is pursuing her Ph.D. from the Department of Management studies, University of Madras.

Dr. J. Khaja Sheriff, is an Associate Professor in the Department of Management studies, University of Madras, Chennai. He is having nearly 12 years of teaching experience and more than 10 years of research experience in the field of Electronic Marketing. He has published many articles in the National and International Journals of Management sciences and presented papers in many Conferences.