

A Study on Customer Orientation as Mediator between Emotional Intelligence and Service Performance in Banks

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ABSTRACT: *Emotional intelligence (interpreted as EI in the research study) has become a major area of research study for the academicians as well as a popular topic of corporate training for success. There is a plethora of research on EI in relation to the many domains of business management specially in the monitoring of employee behaviour as well as managing customers' behaviour. Customer service is the touchstone for success in the service industry and the quality of service delivered is dependent on the employee performance. This is a quantitative research paper which examines the mediating effect of the one most popular construct of relationship marketing namely; customer orientation (CO) on the relationship between EI and the service performance (SERVPERF) of the employee. The data has been analysed using SPSS version 16. The findings indicate that the employees' varying levels of EI predicts their SERVPERF and the paper concludes that even though CO acts as mediator only partial mediation occurs indicating that the employees' behaviour is solely responsible for high degrees of customer service.*

Keywords: *Emotional Intelligence, Service Performance, Relationship Marketing, Customer Orientation.*

I. INTRODUCTION

Banks are undergoing a sea change where efficiency and competitiveness holds the key to survival. In the service industry, the first step in delivering quality service to the customers is that the service providers need to be very adaptive to the customer needs. Banking industry with its typical banking attributes such as employee courteousness, employee behaviour in general, speed of service, convenience of location and so on are almost synonymous with the consequences of developing a long term relationship with the customer. The sequences of employee service behaviour on customer service quality satisfaction can be viewed as signals of retention or defection and are appropriate for monitoring. The interpersonal and the intrapersonal behaviour of the employees which play an integral role in their performance of service can thus be described in terms of their varying levels of EI. A quantitative research was used to study the mediating effect of customer orientation and adaptability between the employees' emotional intelligence and their service performance in the Indian banking sector. The study discovers that in a relationship analysis, the independent variable may not have a significant effect on the dependent variable but the effect may be found significant indirectly through the introduction of a third variable called the mediator. However, the results also state that even though customer orientation and adaptability acted as significant mediators but they mediated partially between emotional intelligence of the employees and their service performance.

II. CONCEPTUAL FRAMEWORK

Emotional Intelligence has its roots in social intelligence, the science defined by the ability to understand and manage individuals (Mayer & Salovey, 1990) and popularized by Goleman's 1998 best seller *Emotional Intelligence, 'Why it can matter more than IQ'*. EI impacts all thoughts and actions and therefore its application is an area of interest to many researchers and practitioners because EI has been found to have significant implications for business effectiveness (Goleman, 1998; Dulewicz & Higgs, 2000). The review of literature infers that the four dimensions of EI have a direct impact on the behaviour of any individual. The success of any bank indirectly depends on the customers' perception of the services offered to them and their experience at the banks. During this process the employees form a major interface with the customers and their behaviour forms a basis for customers' perception of service. This behaviour can be measured in terms of their performance on the job which can thus be evaluated in terms of EI. The perception and the expectation of the service from the customers' perspective can be measured by PZB's model of SERVQUAL. Also, previous research indicates that customer perceptions and preferences of service quality have a significant impact on a bank's success (Mouawad & Kleiner 1996). Since this study is about relationship analysis and in order to prove the significance of the independent variable EI on the dependent variable Service Performance (SERVPERF), the

variable Customer Orientation (CO) of the relationship selling concept has been introduced as mediator to further prove its efficiency because the degree of CO exhibited by the bank employee determines the customer loyalty and the level of customer retention in the banks. The investigation of CO is carried out on the basis of Kenny and Baron's mediation model (1996).

III. BRIEF REVIEW OF LITERATURE

The review of literature considers the research findings pertaining to; emotional intelligence and the service performance and the mediation ability of customer orientation in the relationship between EI and service performance of the bank employees. The literature shows that EI seems to be an emerging positive model for psychology that has recently emerged in both academic and popular literature as a concept with the potential to provide new insights in the field of human interaction. Past literature relating to EI shows that the theories proposed by Mayer and Salovey, Bar-on and Goleman conceptualise EI from one of the two perspectives: one as a form of pure intelligence consisting of cognitive ability only (Mayer & Salovey, 1990) or second as a mixed intelligence consisting of both cognitive ability and personality aspects, the differences in which are attributed to the different beliefs of what constitutes emotional intelligence (Bar-On, 1997). Daniel Goleman's model of emotional intelligence is based on social and emotional competencies which represents the degree to which an individual has mastered specific abilities that build on emotional intelligence and allow them greater effectiveness in the workplace. He defines emotional competence as "a learned capability based on emotional intelligence that results in outstanding performance at work". He identified four components of emotional intelligence competence: self-awareness, self-management, social awareness, and relationship management. Based on these competencies he developed a measure called **Emotional Competence Inventory (ECI)**.

This research study has adopted Goleman's model to analyse the service personnel's performance interpreted in terms of the bank employees' behaviour at the time of interaction between the customers and amongst themselves at the banks and the consequences leading to exceptional service delivery. However, the use of emotional intelligence measures in research and organizational settings has been varied and controversial because of the contextual reference and the measurement of the construct. A brief review of emotional intelligence measures in the relevant literature, from which the concept of EI used in the current study has been identified.

The importance of relationship marketing was expressed by Dwyer and his associates who found that both business marketing and consumer marketing benefit from attention to conditions that foster relational bonds leading to satisfaction and retention. Customer retention is the focal point of relationship marketing strategy. One of the critical skills needed for the relationship managers is interpersonal skills and communication. Empirical research evidences that EI has been shown to develop the communication and interpersonal skills needed to develop and improve relationships with key customers. The development and practice of Emotional intelligence leads to employee satisfaction, customer satisfaction and customer loyalty in the service sector, hence its presence is considered very important among the service providers.

The banking industry being a dominant service provider and the bank employees being the prominent service personnel are responsible for establishing and maintaining relationships with the customers where the relationship-oriented behaviours may impact their service performance. Furthermore, research indicates that an organisation's level of relationship marketing activities are positively correlated to their performance, staff satisfaction and new product success and hence according to the past research studies it can also be measured by its subset 'SERVPERF', which employs a performance only approach with five dimensions of customers' perceptions of the service provider's performance. This research study incorporates an important attribute of relationship marketing in the context of banking industry to predict the service performance of banking employees. This attribute is then analysed to see if it acts as mediating discipline between EI and Service performance of the bank employees.

According to Saxe & Weitz, 1982, "Customer-orientation" is a behaviour which focuses on the extent to which sales personnel practice the marketing concept by helping their customers make purchase decisions that will satisfy their needs. It is an approach that is indicative of interpersonal skills among the bank employees. The characteristic features of the bank employees' customer orientation is opinion acceptance from the customers, individual co-operation amongst themselves in order to keep the customers satisfied and thus retain them.

IV. RESEARCH METHODOLOGY

This is a descriptive research study focusing on the quantitative analysis. The questionnaires were used to collect data within the specified population. The sample frame refers to the employees of the banks in Bangalore's CBD. The sample size of the bank employees is 300. SPSS 16 has been used to analyse the data. Multiple regression analysis has been used to analyse the relationship between the EI and SERVPERF and the mediators. The purpose of the study is to determine the degree to which CO mediates between EI and SERVPERF and its implications on customer retention in the banks of CBD (Commercial Business District) of Bangalore.

V. RESEARCH OBJECTIVES

1. To analyse the role of bank employees' EI in determining their customer orientation characteristics.
2. To analyse whether the factors of customer orientation act as mediators between emotional intelligence (EI) and service performance and in turn impact customer retention.

HYPOTHESES

- H₀₁**: There is no significant relationship between EI and the customer orientation of the bank employee.
- H₀₂**: There is no significant relationship between service performance and the customer orientation of the bank employee.
- H₀₃**: There is no significant evidence that customer orientation mediate between EI and service performance of the bank employees.

In this study 'customer orientation' has been considered as the mediator variable (**Fig 1**) because it is all about listening to customers' opinions, negotiating and building a strong relationship between the organization and the customers in which the bank employees act as the link.

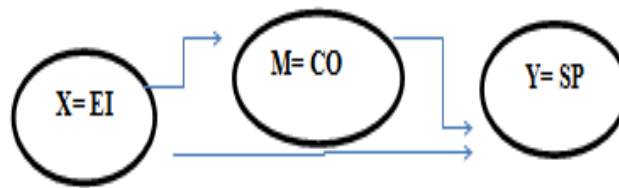


Fig 1 Mediating Model of Customer Orientation

Where **X** is the independent variable (EI: Emotional Intelligence), **M** is the mediator variable (CO: Customer Orientation), **Y** the dependent variable (SP: Service Performance) and **a**, **b** and **c** are the direct effects.

Given below are the criteria for testing the mediation ability of the variable 'customer orientation' along with the respective hypotheses which supports in determining how well this factor mediates between EI and service performance. This research study has interpreted service performance as the dependent variable while the independent variables are: the four components or dimensions of 'EI'; Self-Awareness, Self-Regulation, Social Awareness and Social Skills.

The first criterion which assesses that the independent variable 'EI' is correlated with the dependent variable 'Y' the Service performance. The relationship using service performance as the criterion variable and EI as the predictor variable is assessed by using regression analysis in hypothesis **H₀₁** which states that '**There is no significant relationship between the bank employees' EI and their service performance**'. The Fig2 depicts the total effect 'c' between the independent variable 'X' (EI) and the dependent variable 'Y' (Service Performance) indicating that EI predicts service performance. Path 'c' is the total effect implying that the variances in the independent variable EI significantly accounts for the variances in the dependent variable service performance. The regression analysis tests the significance of the relationship between the independent variable EI and the dependent variable service performance.



Fig 2. Total effect between EI and Service Performance

Table 1a. Regression Analysis of EI and Service Performance					
	Sum of Squares	Df	Mean Square	F	Sig.
Regression	91.783	4	22.946	107.082	.000
Residual	63.213	295	.214		
Total	154.997	299			

R = 0.770, R² = 0.592, Adj R² = 0.587, SEE = 0.463

R=0.770 is the correlation coefficient which indicates that there is correlation between service performance and the EI of the bank employees and the significance value of P is < 0.05 indicating that the null hypothesis has to be rejected.

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-.415	.264		-1.569	.118
Social Awareness	-.135	.062	-.106	-2.187	.030
Social Skills	-.084	.062	-.066	-1.345	.180
Self-Regulation	1.085	.079	.767	13.712	.000
Self-Awareness	.225	.058	.176	3.892	.000

Dependent Variable: Service Performance

From the Table 1b, we can conclude that the **Service Performance** is dependent on the following dimensions of EI; **Social Awareness**, **Self-Regulation** and **Self Awareness**. The regression coefficient B of **Social** is negative indicating that as social awareness increases the service performance declines.

The second criterion assesses the relationship between the independent variable 'EI' and the presumed mediator 'Customer Orientation' which is treated as the criterion variable. This condition is assessed in hypothesis **H₀₂** which states that '**There is no significant relationship between bank employees' EI and customer retention**'. This hypothesis is tested using regression analysis. The **figure 3** indicates path 'a' where the independent variable EI predicts the mediator variable 'customer orientation'. The path 'a' can be estimated by testing the significance by applying regression analysis on customer orientation and EI. This step essentially involves treating the mediator as if it were an outcome variable.



Fig 3. Relationship between EI and Mediator variable (CO)

	Sum of Squares	df	Mean Square	F	Sig.
Regression	103.235	4	25.809	156.170	.000
Residual	48.752	295	.165		
Total	151.987	299			

Dependent Variable: customer retention

$$R = 0.824, R^2 = 0.679, \text{Adj } R^2 = 0.675, \text{SEE} = 0.407$$

R = 0.824 is the correlation coefficient which indicates that there is correlation between EI and the customer retention and the significance value of P is < 0.05 indicating that the null hypothesis has to be rejected.

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.235	.232		1.011	.313
SOCIAL AWARENESS	1.139	.054	.903	21.008	.000
SOCIAL SKILLS	-.100	.055	-.079	-1.818	.070
SELF REGULATION	-.195	.069	-.139	-2.809	.005
SELF AWARENESS	.120	.051	.095	2.371	.018

Dependent Variable: Customer Retention

From the table 2b, we can conclude that **Customer Retention** is dependent on the following dimensions of EI; **Social Awareness**, **Self-Regulation** and **Self Awareness**. However, the regression coefficient B of **Self-Regulation** is negative indicating that as self-regulation increases the customer retention declines.

The third criterion assesses the relationship between the independent variable 'Customer Orientation' and the criterion variable 'Service Performance'. This condition is assessed from the hypothesis **H₀₃** which states that '**There is no significant relationship between service performance and the customer orientation of the**

bank employee'. A regression analysis has been performed with the dependent variable being **Service Performance** and the independent variable being **Customer Orientation**.

The Fig 4 indicates path 'b' which is applied by using 'Y' as the criterion variable in a regression equation and X and M as predictors. There exists a significant relationship between the dependent variable 'Y' (SP) and the mediator 'M' (CO). It is not sufficient just to correlate the mediator with the outcome; the mediator and the outcome may be correlated because they are both caused by the initial variable X. Thus, the initial variable must be controlled in establishing the effect of the mediator on the outcome and hence multiple regression analysis with X and M predicting Y.



Fig 4. Relationship between Mediator variables and service performance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	39.363	4	9.841	25.106	.000
Residual	115.633	295	.392		
Total	154.997	299			

$R = 0.504, R^2 = 0.254, \text{Adj } R^2 = 0.244, \text{SEE} = 0.626$

$R = 0.504$ is the correlation coefficient which indicates that there is correlation between Service Performance and Customer Orientation of the bank employee and the significance value of P which is < 0.05 ; indicates that the null hypothesis has to be rejected.

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.331	.304		4.384	.000
Initiative	.171	.057	.171	3.009	.003
Motivation	.174	.051	.185	3.420	.001
Opinion Acceptance	.167	.055	.168	3.023	.003
Emotion Management	.188	.050	.208	3.798	.000

Dependent Variable: Service Performance

From the table 3b, we can conclude that **Service Performance** is dependent on the following dimensions of **Customer Orientation**; **Initiative, Motivation, Opinion Acceptance and Emotion Management**.

The fourth criterion assesses if the effect of EI on service performance in the hypothesis H_{04} which states that 'There is no significant evidence that customer orientation mediates between EI and service performance of the bank employees' became zero or is reduced after controlling customer orientation. The relationship between the criterion variable service performance and the predictor variables- EI and customer orientation is tested for significance using regression analysis. To establish that 'M' (indicative of customer orientation) completely mediates the X-Y relationship, the effect of 'X' on 'Y' controlling for 'M' (indirect effect) should be zero. If any one of the first three criterion is not fulfilled, then there exists no mediator and the variable is therefore is not a mediator variable. If all four of these criteria are met, then the data are consistent with the hypothesis that variable M *completely* mediates the X-Y relationship. If the first three criteria are met but the criterion four is not, then *partial* mediation is indicated. Based on this premise, multiple regression analysis is applied and is empirically analysed as follows;

	Sum of Squares	df	Mean Square	F	Sig.
Regression	68.384	2	34.192	117.247	.000 ^a
Residual	86.612	297	.292		
Total	154.997	299			

Dependent Variable : Service Performance

R = 0.664, R² = 0.441, Adj R² = 0.437, SEE = 0.540

The fourth criterion is tested again by regression analysis and is found to be statistically significant with the results indicating that the R² value changed from 0.592 to 0.441, F value has changed from 107.082 to 117.247 with sig value P < 0.05.

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.297	.308		-.966	.335
Emotional Intelligence	1.405	.141	.858	9.981	.000
Customer Orientation	-.331	.120	-.237	-2.760	.006

Dependent Variable: Service Performance

From the table 4b, we can conclude that **Service Performance** is dependent on **Emotional Intelligence** and **Customer Orientation**. The independent variables emotional intelligence and customer orientation were shown to make statistically significant contributions to the service performance of the bank employees. However, the indirect effects did not become zero and the mediation analysis was inconsistent because the co-efficient of customer orientation is negative. Hence it can be concluded that customer orientation acted as a mediator variable between EI and service performance and mediation was partial.

VI. RESEARCH FINDINGS

This research study is guided by the analytical framework which investigates the relationship between emotional intelligence and service performance with customer orientation as the mediator. The statistical analysis supports the relevancy of the research problem and regression analysis was carried out to test the hypotheses in order to assess the relationship between service performance, emotional intelligence and customer orientation. The results of the analysis of the data pertaining to that of the bank employees' levels of EI indicated a better understanding of the attributes influencing their service performance and customer retention abilities. The significant influence of factors 'self-awareness', 'self-regulation' and 'social-awareness' confirmed that bank employees high in EI are generally more competent in performing their job and more open and expressive about their thoughts and feelings which have a major impact on establishing relationships because establishing a rapport with another person generally happens at the unconscious level. It also indicated that EI explains a significant portion of the variance among the service performance of the bank employees. The statistical significance observed in the relationships between the bank employees' EI levels and customer orientation (relationship marketing construct) and service performance indicate that the relationship marketing construct can be incorporated as a unique relationship approach in the banking industry. Finally the mediation ability as interpreted by the Kenny and Baron's model of mediation indicated that the relationship marketing construct did act as significant mediator but the mediation was partial between the bank employees' EI levels and their service performance. The results of the mediation analysis which involved 4 criteria is indicated below

The results of the first criterion being tested using regression analysis in hypothesis 1 indicated that there was 77% of correlation between 'EI' and 'Service Performance' and the whole model explained a variance of **59.2%** in service performance. Furthermore, the variables 'social awareness, self-regulation and self-awareness' were shown to make statistically significant contributions to the service performance of the bank employees.

The results of the second criterion being tested using regression analysis in hypothesis 2 indicated that there was 87.4% of correlation between 'EI' and 'Customer Orientation' and the whole model explained a

variance of **76.3%** in customer orientation. Furthermore, the variables 'self-awareness, social awareness and social skills' were shown to make statistically significant contributions to the customer orientation of the bank employees.

The results of the third criterion being tested using regression analysis in hypothesis 3 indicated that there was 50.4% of correlation between 'Service Performance' and 'Customer Orientation' and the whole model explained a variance of **25.4%** in service performance. Furthermore, the variables 'initiatives, motivation, opinion acceptance and emotion management' were shown to make statistically significant contributions to the service performance of the bank employees.

The results of the fourth criterion being tested using regression analysis in hypothesis 4 indicated that R^2 value changed from 0.592 to 0.441, F value has changed from 107.082 to 117.247 with sig value = .000 which is $p < 0.05$. Therefore, the null hypothesis is rejected. The variables emotional intelligence and customer orientation were shown to make statistically significant contributions to the service performance of the bank employees. The indirect effects did not become zero and the mediation analysis was inconsistent because the coefficient of customer orientation is negative. Hence it can be concluded that customer orientation acted as a mediator variable between EI and service performance and mediation was not full and consistent but partial.

VII. CONCLUSION

As service encounters are a major determinant of customer service quality perception, it can be concluded that EI is an important factor influencing service quality. Furthermore, the significant relationships identified between EI, relationship marketing and service performance supports the proposition of incorporating EI in to the bank employee-customer service encounter. By considering relationship marketing construct as the mediator between EI and service performance, the constructs no doubt acted as significant mediator but mediated the relationship between the bank employees' EI and their service performance partially. Finally it can be concluded that this research study provides strong evidence that emotional intelligence predicts service performance which is an antecedent of customer retention. It has also provided insights into and has recommended that emotional intelligence tests with focus on relationship building should be incorporated in the banks' existing employees as well at the time of recruitment and selection process. The implications of this study are that the results can have a specific significance to bank marketing and are applicable to all the employees of the bank who have a customer interface. The role of the mediating variables CO and ADAPT interpreted in terms of employees EI has an active role in the performance of service by the employees which in turn impacts the quality of service delivered thereby leading to customer loyalty and retention.

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