



Contents lists available at ScienceDirect

Journal of Business Research



Empathy can increase customer equity related to pro-social brands

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ARTICLE INFO

Article history:

Received 1 December 2014

Received in revised form 1 May 2015

Accepted 1 May 2015

Available online xxx

Keywords:

Empathy

Emotional mechanism

Willingness to pay

Customer equity

Neuromarketing

Anterior cingulate cortex (ACC)

EEG

Theta

ABSTRACT

Reducing the target customers' sensitivity to price is one way in which a firm can increase customer equity. To this end, actions related to corporate social responsibility (CSR) can invoke a sense of empathy among customers who respond to pro-social products with an increased willingness to pay (WTP). The purpose of this paper is therefore to determine the emotional mechanism of empathy and its neural correlates underlying consumers' positive reactions to pro-social marketing, which can increase WTP and customer equity. Study 1 is a behavioral study that intends to discover the underlying psychological mechanism of emotional empathy through which a message communicating CSR actions can increase customers' WTP for pro-social products. A neuromarketing study was conducted using electroencephalogram (EEG) to uncover the neural mechanism for customer empathy in response to CSR messages as enhanced theta-band activities of the anterior cingulate cortex (ACC), a frontal brain area that previous neuroscience research has linked to the affective empathic response.

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1. Introduction

Corporate social responsibility (CSR) activities continue to be part of a growing business trend through which the business community helps establish the morality of capitalism. CSR refers to a firm's efforts to use its own resources to redress the world's social problems while also satisfying its financial objectives (Jayachandran, Kalaiganam, & Eilert, 2013). Although CSR is an important trend, it remains unclear how a company's success in meeting its social responsibilities can positively affect its bottom line by, for example, increasing customer equity. The purpose of this paper is to illustrate the psychological and neural mechanisms for empathy through which a firm's pro-social marketing activities can increase customer equity as it relates to brands that invest resources in CSR.

The extant research has focused on discussing the effects that CSR activities, including green marketing (Ham & Choi, 2012; Kim & Ma, 2014; Lee & Park, 2013; Stall-Meadows & Davey, 2013) and cause-related and sustainable management (Johnson, Lee, Choi, Mun, & Yoo, 2013; Kim, 2014a; Sun, Kim, & Kim, 2014), have on the attitudes of various stake holders. Some studies found that CSR can affect customers' attitudes toward a product in a positive manner (Berens, van Riel, & van Bruggen, 2005) while other studies have found conflicting connections between CSR and firms' profitability by identifying indirect, complicated, or non-existent relationships (Choi, Kwak, & Choe, 2010; Luo & Bhattacharya, 2006; McWilliams & Siegel, 2000). The reason for failure

to reach a common ground is because prior studies does not investigate the underlying mechanisms for customers' altruistic choices related to CSR.

CSR is driven primarily by moral and emotional motives. CSR generally increase production costs, thereby increasing end-user prices (Henderson & Arora, 2010; Siegel & Vitaliano, 2007). Consumers who choose pro-social products, like fair-trade-certified coffee, must be willing to absorb these additional costs. Therefore, a firm's CSR-related actions can become profitable, only if the firm finds a sufficiently large base of customers willing to pay higher prices for a pro-social cause. Given that the price sensitivity of the target customer base has a direct and positive relationship with customers' equity (or lifetime value) as it relates to a product (Gupta et al., 2006), the financial success of CSR actions depends on the firm's ability to identify this pro-social customer target. Who are these customers, and why do they agree to pay sizeable price premiums for pro-social brands?

Empathy, the human ability to feel and experience others' emotions, has long been studied in various disciplines, and recently, neuroscience research has confirmed that the neural mechanism to engage in altruistic pro-social behavior involves empathy (Eslinger, 1998). A social cause embedded in an economic transaction can invoke a sense of empathy that activates an approach to valuation of pro-social products that differs from the manner in which conventional products are valued. Specifically, empathy can reduce price sensitivity to pro-social products, and hence, increase consumers' willingness to pay (WTP) for pro-social products. Since consumers' WTP for high prices is a prime factor of customer-based brand equity, if empathy increases customers' WTP, it will naturally increase customer equity of pro-social brands.

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<http://dx.doi.org/10.1016/j.jbusres.2015.05.018>

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Please cite this article as: Lee, E.-J., Empathy can increase customer equity related to pro-social brands, *Journal of Business Research* (2016), <http://dx.doi.org/10.1016/j.jbusres.2015.05.018>

The remainder of paper is organized as follows. First, I review the relevant literature related to empathy and customer equity and propose research hypotheses regarding the underlying psychological and neural mechanisms of emotional empathy in increasing customer equity related to pro-social brands. Fig. 1 presents the theoretical framework that describes the scope of this investigation. As shown in Fig. 1, a behavioral experiment (Study 1) is conducted to uncover the psychological underpinnings of empathy by examining the relationship between emotional empathy traits and customers' WTP for pro-social products. Then, a neuromarketing study (Study 2) is conducted to identify a potential neural basis for empathy in a brain region called the anterior cingulate cortex (ACC), which can be modulated as a result of consumers' empathetic emotions while responding to pro-social messages.

2. Literature review

2.1. Empathy

Human nature is complex, and the pathways of consumer decisions are divergent. It is important to recognize that human motives other than self-interest, such as moral and emotional drivers, can compel altruistic consumer choices. While Adam Smith is known for his advocacy for self-interested motives as foundation of modern economics, he also noted that moral sentiments, such as empathy and justice, can strengthen market mechanisms (Kim, 2014b). In *The Theory of Moral Sentiments* (Smith, 1759), he recognized empathy, a fundamental social nature of human species, as the following:

“How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortunes of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it. Of this kind is pity or compassion, the emotion we feel for the misery of others, when we either see it, or are made to conceive it in a very lively manner. That we often derive sorrow from the sorrows of others, is a matter of fact too obvious to require any instances to prove it; for this sentiment, like all the other original passions of human nature, is by no means confined to the virtuous or the humane, though they perhaps may feel it with the most exquisite sensibility. The greatest ruffian, the most hardened violator of the laws of society, is not altogether without it.”

Although empathy has been studied from the various disciplines, including ethics, philosophy, sociology, and politics, psychology has developed scales to measure empathy as a personality trait. The

interpersonal reactivity (IR) scale (Davis, 1983) is the most commonly used of these, and it includes four dimensions of empathy: perspective-taking (cognitive empathy), fantasy, empathic concern (emotional empathy), and personal distress (Smith, 2006). Recent studies have criticized the IR scale in that they assert fantasy and personal distress are closely related but not necessarily core empathy constructs (Baron-Cohen & Wheelwright, 2004; Lawrence, Shaw, Baker, Baron-Cohen, & David, 2004; Smith, 2006).

Empathy is commonly accepted to have both cognitive and emotional components. Cognitive empathy (CE) and emotional empathy (EE) are two distinct constructs (Davis, 1994). CE represents the ability to understand others' mental states, which facilitates social expertise in predicting others' next moves, and detects when others are lying (Smith, 2006). On the other hand, EE motivates individuals to behave altruistically toward others and provides the fundamental basis for social bonding (Smith, 2006). EE is a psychological and neural trait that can differ widely across individuals, ages, and personalities (Eisenberg & Morris, 2001). Furthermore, differences in EE may also be caused by sex-related differences in the human brain since EE is based on nature's evolutionary demand to equip caregivers with nurturing capabilities (Baron-Cohen, 2002; Christine & Baron-Cohen, 2006). Earlier studies have found that female subjects' brain activations in areas related to empathy were greater than those of male subjects (Fukushima & Hiraki, 2006), and females showed more activity than males did in brain areas containing mirror neurons when processing empathic tasks (Schulte-Rüther, Markowitsch, Shah, Fink, & Piefke, 2008).

2.2. Customer empathy and customer equity

Customer equity is defined as the projected financial return obtained from an individual customer's lifetime relationship with a brand, and it is one of the most important research topics in marketing (Rust, Lemon, & Zeithaml, 2004). A firm should understand the value of its customer base in order to determine the optimal investment for any specific customer segment (Schulte-Rüther et al., 2008). The varying levels of price sensitivity of different customer segments have direct effects on customer-based equity as it relates to a particular brand.

Customer equity is based on a customer's lifetime value (CLV) (Gupta et al., 2006) as “the present value of all the expected future profits obtained from an individual customer over his or her lifetime of a relationship with a firm” (p. 141). The notion of equity has been applied at the brand level in previous research (Kim & Park, 2013). An individual CLV results from the average purchase price, average quantity of purchase, frequency of category purchases, and brand-switching

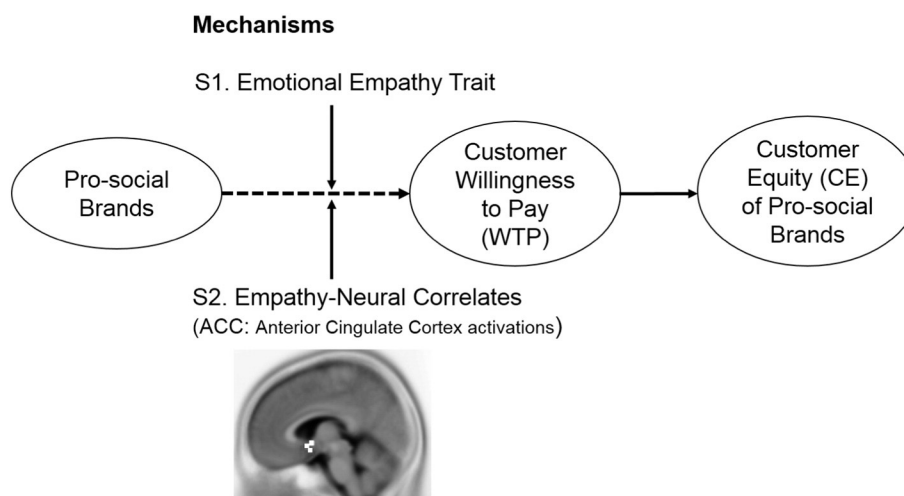


Fig. 1. Theoretical framework of the empathy mechanisms.

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