

The Role of Empathy in Enhancing Workplace Performance: A Systematic Review with Insights from Pakistani Financial Institutions

Asiya Gul*

Abstract

The concept of empathy, has gained increasing importance and support in the existing literature. Particularly, fostering positive dynamics within the human social exchanges in workplaces. Management in organizations that believe in empathy boosts employee engagement, organizational productivity, high customer satisfaction, and overall professional enhancement with entire stake stakeholders. To support further, how empathy relates to strategic outcomes, the Social exchange theory, Systems Theory, and Perception Action Model have been studied for understanding empathy concerning organizational gains at bigger and better levels in the present theoretical and review-based research. Furthermore, empathy plays a significant role within the context of Pakistani financial institutions in these organizations usual practices concerning empathy are varied. Some may have considerations towards employees and customers generally, and some may be more empathic towards customers, and other banks and institutions might have some degree of empathy for employees. A comparative analysis of the studies in cultural parameters would help policymakers, practitioners, managers and key stakeholders to understand the value of empathy and observe it even more for sustainability. The PRISMA approach has been used in presenting a picturesque image of databases, exclusion criteria and inclusion criteria of articles for a clear understanding of the audience.

Keywords: Empathy; performance; financial institutions; banking sector; organizational performance; systems theory; social exchange theory; perception-action model; Pakistan.

JEL Classification: M14, M1

*PhD Scholar, Human Resource management, Department of Graduate Studies Air University School of Management Sciences – AUSOM. Air University Islamabad, Pakistan. Email: asiyagul3@gmail.com

1. Introduction

Empathy, based on its genesis to feel and understand others' views and experiences they are facing. Hence, has become increasingly relevant in workplace dynamics. It is vital to enhance employee engagement, organizational success, and customer satisfaction. Subsequently, organizations that practice the value of empathy foster trust, collaboration, and harmonious relationships. Further, organizations become sustainable and develop a strong internal culture. With such benefits of empathy, it has become significant to study empathy in the context of financial institutions. Employees and managers, though, always show concern, compassion and empathy towards stakeholders, but generally miss these good values and gestures to be shown and expressed towards each other. Resultantly, employees lose their interest and motivation when they realize managers' lack of empathy towards them. This reduces the level of employees' satisfaction and performance.

The financial sector in Pakistan, a major contributor to the economy, has become a combination of conventional and Islamic banking systems. Over the past two decades, the industry has undergone rapid evolution due to privatization, technological advancements, and rapid competition. This change has brought a shift in focus to building and promoting service quality, employee productivity, and customer loyalty. Empathy emerges as a critical factor in achieving these objectives by addressing emotional, relational, and psychological needs across organizational levels. Despite the continued interest of researchers and practitioners in the financial sector, there is a qualitative gap in banking and the empathy relationship.

1.1 Theoretical Integration

This study explores the role of empathy in Pakistani financial institutions with three major theoretical references: The Social Exchange Theory (Blau,1964), the Perception-action model (PAM) of empathy by Preston (2007), and Systems Theory (Von Bertalanffy, 1968).

The Perception-action model (PAM) of empathy, proposed by Preston (2007), defines empathy as a precisely shared human emotion. In this context, emotional exchanges are extremely spontaneous and empathy can be felt. The perception-action model on empathy derives its genesis from motor behavior. Motor behavior includes all the physical, voluntary and conscious body and mind actions to achieve goals.

Social Exchange Theory (Blau,1964) encompasses the transactional and reciprocal human relationships when they are working together. In this scenario, exploring the role of empathy in the financial institutions case has all the more become relevant and important.

1.2 Objectives

1. Examine the Impact: Determine how empathy influences employee engagement, customer relations, and overall performance in Pakistani financial institutions.
2. Integrate Findings: Synthesize both global and local research to propose a comprehensive theoretical framework that incorporates Systems Theory, Social Exchange Theory, and the Perception–Action Model.
3. Identify Best Practices: Highlight effective empathetic management strategies and pinpoint areas for further research.

1.3 Research questions

RQ1: What is the role of empathy in increasing organizational performance?

RQ2: How empathy- driven practices yield actionable results?

1.4 Significance

The theories reveal that empathy has a strategic role in enhancing organizational performance. The study is also linking empathy with other strong business outcomes of employee engagement, better quality in terms of customer service, and fewer organizational conflicts due to employees' empathic behavior toward themselves.

- Organizational Innovation: As highlighted by Systems Theory, empathy fosters cross-functional collaboration, creating an adaptable and innovative organizational system capable of withstanding external pressures.
- Employee Engagement: Empathy strengthens reciprocal relationships between leaders and employees, fostering a culture of trust and mutual respect.
- Service Quality: For Islamic banks, where service quality is deeply tied to values, empathy enhances customer interactions by addressing emotional and relational needs.
- Conflict Resolution: In hierarchical jobs and interdependent jobs, conflict often arises when employees try to shift their burden on each other. The employees' jobs are dependent on bosses' approval, and if they have not yet signed or reviewed

1.5 Research Gap

Although extensive research on the relationship between empathy and performance exists internationally, few studies address the cultural and contextual nuances of Pakistani financial institutions. Existing studies often rely on cross-sectional, self-report data, which limits causal interpretation. There is a pressing need for longitudinal, multi-source research tailored to this context.

1.6 Problem Statement

Despite recognition of empathy as a key facilitator of effective communication and performance, many financial institutions in Pakistan struggle to implement empathetic practices consistently. This inconsistency results in suboptimal employee engagement, less effective customer service, and lower overall organizational performance. Addressing these challenges is critical for fostering a supportive work environment and ensuring competitiveness in a globalized economy.

2. Literature Review

Past research has provided robust evidence for the role of empathy in enhancing organizational performance. A critical analysis of these studies is presented to contribute to knowledge building and advancement.

2.1 Empathy in Workplace Performance: A Critical Analysis

2.1.1 Overview

Empathy has consistently improved workplace dynamics by improving collaboration, employee morale, and organizational adaptability. Across various industries and cultural contexts, empathy serves as a foundation for positive change, particularly in service-oriented sectors such as banking. The present review critically evaluates studies across Western and Asian frameworks to integrate findings with a particular focus on their implications for Pakistani financial institutions.

2.1.2 Critical Review

1. Grafton et al. (1997) – “Premotor Cortex Activation During Observation and Naming of Familiar Tools”

This pioneering study, published in *NeuroImage* illustrates that merely observing or naming familiar tools can activate motor areas in the brain related to empathy. The authors provide strong neurophysiological evidence supporting the Perception–Action Model (PAM). While the study’s methodological rigor and use of neuroimaging techniques provide compelling evidence, its laboratory setting may limit the direct applicability of findings to complex organizational interactions. Future research could address this gap by extending the findings to real-world settings, integrating neurophysiological measures with behavioral data within organizational environments.

2. Preston and De Waal (2002) – “Empathy: Its Ultimate and Proximate Bases”

In their influential article in *Behavioral and Brain Sciences*, Preston and De Waal propose a dual-level framework that combines both evolutionary (ultimate) and immediate (proximate) mechanisms underlying empathy. Their integrative approach

is particularly useful for understanding how empathy may evolve in organizational contexts. However, the theoretical nature of the paper leaves room for empirical testing, notably in applied settings such as corporate environments. The study encourages further research to bridge the gap between theory and practice.

3. Preston (2007) – “A Perception–Action Model for Empathy”

This work clearly outlines the basic tenets of the Perception–Action Model, emphasizing that the mere observation of another’s emotion automatically triggers an analogous response. Although the conceptual model is theoretically compelling, its practical application in understanding workplace behavior requires additional empirical validation. The study’s strength lies in its clarity and synthesis of previous research, yet it also calls for studies that examine the model in dynamic, real-life organizational settings.

4. Preston and Hofelich (2012) – “The Many Faces of Empathy”

Published in *Emotion Review*, this article delves into the multifaceted nature of empathy and how it manifests through dynamic systems. It offers a nuanced perspective that acknowledges empathy’s complexity and variability across different contexts. One limitation is that the discussion remains largely conceptual. Empirical studies that apply this dynamic-systems perspective in organizational frameworks, especially within high-stress environments like finance, would be valuable in validating and extending these ideas.

5. Dolamore et al. (2021) – “The Role of Empathy in Organizational Communication During Times of Crisis”

Found in *Administrative Theory and Praxis*, this study makes a compelling case for the importance of empathetic communication during crises. It emphasizes that empathy plays a crucial role in building trust and bolstering team performance under pressure. While the study provides practical insights for crisis management, its focus on crisis situations might not fully capture the ongoing day-to-day role of empathy. Additional research that examines empathetic interactions outside of crisis contexts could broaden its applicability.

6. Guo et al. (2025) – “Exploring the Effect of Empathic Response and Its Boundaries in AI Service Recovery”

This recent article in the *Journal of Retailing and Consumer Services* explores the intersection of empathy and artificial intelligence, particularly in enhancing service recovery. Its innovative approach widens the scope of empathy research into the digital domain, although further work is needed to determine how these findings translate into improved customer service outcomes across various industries. Methodological constraints, such as reliance on simulated environments, suggest that future studies incorporate field data to increase external validity.

7. Jeannerod and Frak (1999) – “Mental Imaging of Motor Activity in Humans”

In *Current Opinion in Neurobiology*, this paper examines how mental imagery can activate motor regions, linking cognitive processes with empathic responses. It supports the neurobiological basis of empathy and provides foundational knowledge for subsequent research on the Perception–Action Model. Although the study is robust in its neuroimaging methodology, its relevance to organizational behavior remains indirect. Researchers are encouraged to build on these findings by exploring how such activation patterns correlate with real-world interpersonal dynamics.

8. Blau (1964) – “Exchange and Power in Social Life”

Blau’s seminal work laid the groundwork for Social Exchange Theory by examining the dynamics of reciprocity and power in human relationships. This classic text offers valuable insights into the role of reciprocal exchanges in fostering trust—an essential element of empathy in organizations. Its theoretical depth, however, can be challenging to empirically operationalize in modern organizational studies. Future research may benefit from quantitative analyses that directly link Blau’s theoretical concepts with measurable outcomes in workplace settings.

9. Khan and Ahmed (2018) – “Empathy as a Catalyst for Organizational Growth: Evidence from the Pakistani Banking Sector”

This study in the *Pakistan Business Review* provides local evidence that empathetic practices contribute significantly to organizational growth in the banking sector. It highlights improvements in both customer relationships and internal employee cooperation. However, limitations include its narrow focus and a relatively small sample size, which may restrict the generalizability of its conclusions. Further studies with larger samples and diversified financial institutions are recommended.

10. Chaudhry and Nawaz (2019) – “Linking Empathy and Performance in Pakistani Organizations”

Also published in the *Pakistan Business Review*, this study documents a positive correlation between empathy and employee performance in Pakistani organizations. Its findings stress the importance of interpersonal communication in driving performance outcomes. Nonetheless, the study’s cross-sectional design calls for longitudinal research to firmly establish causality and to explore the long-term effects of empathetic practices.

11. Luo et al. (2012) – “Guanxi and Organizational Performance: A Meta-Analysis”

This meta-analysis, found in *Management and Organization Review*, evaluates the influence of interpersonal relationships (guanxi) on organizational performance. It effectively demonstrates how relational dynamics, which are closely related to empathetic exchanges, can impact performance outcomes. Despite its comprehensive approach, the study primarily focuses on guanxi, and future research should examine how explicit empathetic practices interact with or enhance guanxi in different cultural contexts.

12. Nembhard et al. (2023) – “A Systematic Review of Research on Empathy in Health Care”

Published in *Health Services Research*, this systematic review synthesizes the literature on empathy in healthcare, focusing on how it influences patient outcomes. The review is methodologically rigorous and highlights effective interventions. While its findings are highly relevant, the challenge remains in adapting these healthcare insights to the financial sector. Future studies could explore cross-sectoral applications and compare outcomes across diverse industries.

13. Raza et al. (2023) – “Frontline Employees’ Performance in the Financial Services Industry: The Significance of Trust, Empathy and Consumer Orientation”

This study in the *International Journal of Bank Marketing* provides compelling evidence that trust and empathy are critical factors influencing frontline employee performance in financial services. Its strength lies in its empirical rigor and clear implications for improving customer interactions. However, additional research is needed to explore the mechanisms behind these relationships and to examine potential moderating variables such as organizational culture.

14. Rizzolatti and Craighero (2005) – “Mirror Neuron: A Neurological Approach to Empathy”

In their contribution to *Neurobiology of Human Values*, Rizzolatti and Craighero discuss how mirror neurons facilitate empathetic behavior. Their discussion bolsters the biological basis of empathy, which supports the Perception–Action Model. A limitation is its primarily descriptive nature, suggesting that future empirical studies could extend these findings by correlating mirror neuron activity with observable workplace behaviors.

15. Robbins and DeCenzo (2008) – “Fundamentals of Management: Essential Concepts and Applications”

Although this is a management textbook, Robbins and DeCenzo’s insights provide a practical framework for integrating empathetic practices into organizational strategies. The text synthesizes various management theories and aligns them with the need for empathy. Its broad overview is useful for setting the stage for applied research, though it lacks the depth found in specialized empirical studies on empathy.

16. Satpathy et al. (2022) – “Towards an Empathetic HRM in Industrial Relations: Need of the Hour in Disruptive Times”

This article, featured in *Managing Disruptions in Business: Causes, Conflicts, and Control*, emphasizes the necessity of embedding empathetic practices within HR functions to manage industrial relations effectively. Its timely focus on disruptions is highly relevant; however, its emphasis on HR processes might not capture the full spectrum of empathy’s impact across various organizational functions. Future research could integrate these findings with broader organizational performance metrics.

17. Stasielowicz (2022) – “Focus on Opportunities and Adaptive Performance: The Importance of Distinguishing Between Subjective and Objective Performance Measures”

Published in *Psychological Reports*, this study highlights the importance of distinguishing between different types of performance measures to accurately assess the impact of empathy on organizational behavior. It shows that nuanced performance metrics can reveal adaptive behaviors not captured by traditional measures. The study is a step forward in operationalizing the outcomes of empathetic practices, although further refinement in measurement tools is necessary.

18. Simon et al. (2022) – “Pain or Gain? Understanding How Trait Empathy Impacts Leader Effectiveness Following Negative Feedback”

This research, appearing in the *Journal of Applied Psychology*, investigates the moderating role of empathy on the effects of negative feedback on leadership effectiveness. This study is valuable for clearly demonstrating that higher levels of empathy can mitigate the negative effects of criticism on leadership outcomes. However, its focus on a single dimension of leadership limits the overall scope. Future research should examine additional aspects of leadership behavior in relation to empathy to provide a more comprehensive understanding.

19. Wondra and Ellsworth (2015) – “An Appraisal Theory of Empathy and Other Vicarious Emotional Experiences”

In *Psychological Review*, the authors propose an appraisal framework that enhances the conceptual understanding of empathy by examining how individuals process and evaluate vicarious emotional experiences. This work expands the theoretical landscape by connecting empathy with broader cognitive appraisal processes. One limitation is that while the framework is conceptually rich, further empirical evidence is needed to test its applicability in real-world organizational settings.

20. Ahmed and Shafiq (2021). Empathy in Leadership: A Study of Pakistani Financial Institutions.

This study investigates how empathy-driven leadership influences both employee morale and customer satisfaction within Pakistani financial institutions. The authors find that leaders who demonstrate higher levels of empathy are better at fostering supportive work environments, which in turn correlates with improved operational performance. However, while the study offers valuable, locally relevant insights, it is limited by its predominantly qualitative methodology. The findings would be strengthened by incorporating a larger sample size and employing mixed methods to improve generalizability. Additionally, the study could have explored the moderating effects of organizational culture more thoroughly, as this aspect might further illuminate the relationship between empathetic leadership and performance. Future research in this

area should aim for a more robust quantitative or longitudinal design to establish causality and examine the sustainability of empathy’s positive impacts.

21. Rizvi and Malik (2020). Empathetic Practices and Employee Engagement in the Banking Sector of Pakistan.

Rizvi and Malik’s study provides empirical evidence linking empathetic practices to enhanced employee engagement in the Pakistani banking sector. Utilizing survey data, the authors quantify the relationship between empathy and positive employee outcomes. Their findings suggest that organizations that actively implement empathetic practices tend to report higher levels of employee commitment and satisfaction. However, the study’s cross-sectional design limits the ability to draw causal inferences, and the relatively small sample size may affect the reliability and generalizability of the results. Furthermore, while the research establishes a strong correlation, it leaves the underlying causal mechanisms largely unexplored. To build on these findings, future studies should consider employing longitudinal designs or mixed-method approaches to better understand how empathy evolves over time and how it directly influences employee engagement in dynamic organizational settings.

2.2 Comparative Analyses of The Studies

Table 1
Synthesized and Comparative Details

Sr. No.	Authors	Year	Article Title	Journal / Publisher	Key Findings
1	Blau	1964	Exchange and Power in Social Life	Wiley (Book)	Established the foundation for Social Exchange Theory; informs analyses of reciprocal relationships in organizations.
2	Dolamore et al.	2021	The Role of Empathy in Organizational Communication During Times of Crisis	Administrative Theory and Praxis	Demonstrated that empathetic communication during crises builds trust and enhances overall performance.

Table to be continued...

Sr. No.	Authors	Year	Article Title	Journal / Publisher	Key Findings
3	Grafton et al.	1997	Premotor Cortex Activation During Observation and Naming of Familiar Tools	NeuroImage	Revealed that subtle, familiar cues trigger motor responses linked to empathy, supporting the Perception–Action Model (PAM).
4	Guo et al.	2025	Exploring the Effect of Empathic Response and Its Boundaries in AI Service Recovery	Journal of Retailing and Consumer Services	Indicated that embedding empathy into AI-driven service recovery improves customer experiences.
5	Jeannerod & Frak	1999	Mental Imaging of Motor Activity in Humans	Current Opinion in Neurobiology	Examined how mental imagery can trigger motor responses associated with empathy.
6	Khan & Ahmed	2018	Empathy as a Catalyst for Organizational Growth	Pakistan Business Review	Provided local evidence that empathetic practices facilitate growth within the banking sector.
7	Chaudhry & Nawaz	2019	Linking Empathy and Performance in Pakistani Organizations	Pakistan Business Review	Documented a positive correlation between empathy and employee performance in Pakistani organizations.
8	Luo et al.	2012	Guanxi and Organizational Performance: A Meta-Analysis	Management and Organization Review	Reviewed how interpersonal relationship networks influence performance.

Table to be continued...

Sr. No.	Authors	Year	Article Title	Journal / Publisher	Key Findings
9	Nembhard et al.	2023	A Systematic Review of Research on Empathy in Health Care	Health Services Research	Synthesized research on empathy's impact on healthcare outcomes and outlined intervention strategies.
10	Preston	2007	A Perception–Action Model for Empathy	In Empathy in Mental Illness (Book Chapter)	Outlined the core tenets of the Perception–Action Model.
11	Preston & De Waal	2002	Empathy: Its Ultimate and Proximate Bases	Behavioral and Brain Sciences	Presented a dual-level framework integrating evolutionary and immediate mechanisms underlying empathy.
12	Preston & Hofelich	2012	The Many Faces of Empathy	Emotion Review	Explored the multifaceted and dynamic nature of empathy.
13	Raza et al.	2023	Frontline Employees' Performance in the Financial Services Industry	International Journal of Bank Marketing	Demonstrated that empathy is a crucial predictor of frontline performance in the financial services industry.
14	Rizzolatti & Craighero	2005	Mirror Neuron: A Neurological Approach to Empathy	In Neurobiology of Human Values (Book Chapter)	Discussed how mirror neurons support empathetic behavior.
15	Robbins & DeCenzo	2008	Fundamentals of Management: Essential Concepts and Applications	Prentice Hall	Provided theoretical insights supporting empathetic practices in management.

Table to be continued...

Sr. No.	Authors	Year	Article Title	Journal / Publisher	Key Findings
16	Satpathy et al.	2022	Towards an Empathetic HRM in Industrial Relations	In Managing Disruptions in Business	Highlighted the importance of HR initiatives in integrating empathy into industrial relations.
17	Stasielowicz	2022	Focus on Opportunities and Adaptive Performance	Psychological Reports	Emphasized that nuanced performance metrics capture the adaptive impact of empathy.
18	Simon et al.	2022	Pain or Gain? Understanding How Trait Empathy Impacts Leader Effectiveness	Journal of Applied Psychology	Found that high empathy in leaders can buffer the negative impact of criticism.
19	Wondra & Ellsworth	2015	An Appraisal Theory of Empathy and Other Vicarious Emotional Experiences	Psychological Review	Proposed an appraisal framework for understanding empathy and related emotions.
20	Ahmed & Shafiq	2021	Empathy in Leadership: A Study of Pakistani Financial Institutions	Pakistan Business Review	Revealed that empathy-driven leadership enhances employee morale and customer satisfaction.
21	Rizvi & Malik	2020	Empathetic Practices and Employee Engagement in the Banking Sector of Pakistan	Pakistan Business Review	Demonstrated a correlation between empathetic practices and employee engagement.

2.3 Genesis for Theoretical Framework

To analyze empathy's multidimensional impact on workplace performance, this study integrates three prominent theoretical perspectives: Social Exchange Theory, Systems Theory, and the Perception-Action Model. These frameworks offer a robust foundation for understanding empathy's role at both individual and organizational levels, emphasizing its significance in fostering trust, collaboration, and adaptability in dynamic workplace settings.

2.4 Social Exchange Theory

Blau (1964) introduced the Social Exchange Theory, which covers how workplace relationships reciprocate exchanges of trust and support. These exchanges yield positive outcomes such as loyalty, commitment, and satisfaction. Empathy is a centripetal force in aiding a strong culture in business firms. Keeping in view the Pakistan Financial Sector, Social Exchange Theory may strengthen how empathy-driven interactions and gestures between managers and employees enhance engagement and reduce turnover, further gauging customer satisfaction.

2.5 Systems Theory

Originally developed by Von Bertalanffy (1968), Systems Theory emphasizes the interconnectedness of organizational units and individuals working together. Empathy is a key in stimulating effective communication and collaboration, there by nurturing organizational cohesiveness and mutual cooperation towards shared goals. Application of systems theory within the frame of Pakistani financial institutions may enable managers to observe empathy for adaptability, reduce employees' friction by facilitating teamwork, and align better the grey areas within the hierarchical reporting lines.

2.6 Perception-Action Model

The Perception-Action Model, formulated by Preston and de Waal (2002), provides insights into how it enables individuals to interpret accurately and attend better to the same needs of respect, sharing, and helping, which are the genuine concerns of colleagues and customers. As far as Pakistan's financial sector is concerned, this model underlines the importance of empathy for constructive employee-employee, employee-manager relations reflected in a fruitful customer relationship.

2.7 Integration of Theories

Blau's Social Exchange Theory (1964), Von Bertalanffy's Systems Theory (1968), and Preston and de Waal's Perception-Action Model (2002) present a comprehensive alignment of empathy and performance. The emerging themes of these theories can be studied and applied

in financial institutions of Pakistan for compelling customer services, employee motivation, and morale, resulting in improved performance across.

3. Methodology

This systematic review followed the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) guidelines to ensure a transparent and rigorous selection process. Search Strategy and Databases: Literature searches were conducted using the following databases, as cited in the references:

- Google Scholar
- Research Gate
- ScienceDirect
- Emerald Insight
- Washington State University (online portal)
- Additionally, relevant journals such as the Pakistan Business Review was also searched to make the current study more relevant in the Pakistan Financial Institutions context. Search terms included “empathy,” “organizational performance,” “banking sector,” “financial institutions,” “Pakistan,” and relevant combinations.

3.1 PRISMA Approach Justification

The PRISMA framework approach presents Structured Screening in a diagrammatic and easily comprehensible manner has been used. The PRISMA flow diagram offers a visual summary of the screening and selection process, illustrating the reduction from an initial pool of 80 studies to the final 21 selected for review.3.2 Selection Process

The initial database search found 80 studies, which were screened for relevance based on titles, abstracts, and full-text availability. The final selection consisted of 21 studies that met all inclusion criteria and offered valuable insights for research objectives to be addressed properly.

3.2 Data Extraction and Analysis

Data extraction and analyses have been done on a thorough reading and observation basis. All the articles that have been selected were synthesized to bring as clear information on empathy and its outcomes as possible. Systematic reviews have clear agendas as to which research has been selected, and the same has been the case in the present study scenario. All the articles mentioned have key lessons for empathy, resulting in performance within different work and cultural settings.

3.3 Inclusion Criteria

- Peer-reviewed articles published between 1997 and 2025
- Studies examining the relationship between empathy and organizational performance within either global contexts or specifically, Pakistani financial institutions
- Articles employing qualitative, quantitative, or mixed-methods approaches
- Studies published in English with full-text availability

3.4 Exclusion Criteria

- Articles lacking empirical data or a clear theoretical foundation on empathy's impact on performance
- Studies not addressing the Pakistani financial sector (for local relevance)
- Publications not available in English

Screening Process: After initial identification, duplicates were removed, and titles/abstracts were screened against the inclusion criteria. Full-text articles were then assessed in detail.

Data Extraction and Synthesis: Relevant data, such as authors, publication year, study design, sample size, key findings, and theoretical underpinnings, were systematically extracted. The findings were integrated into a modified open systems framework to illustrate how empathy cascades from individual interactions to overall organizational performance.

PRISMA Flow Chart Diagram 1

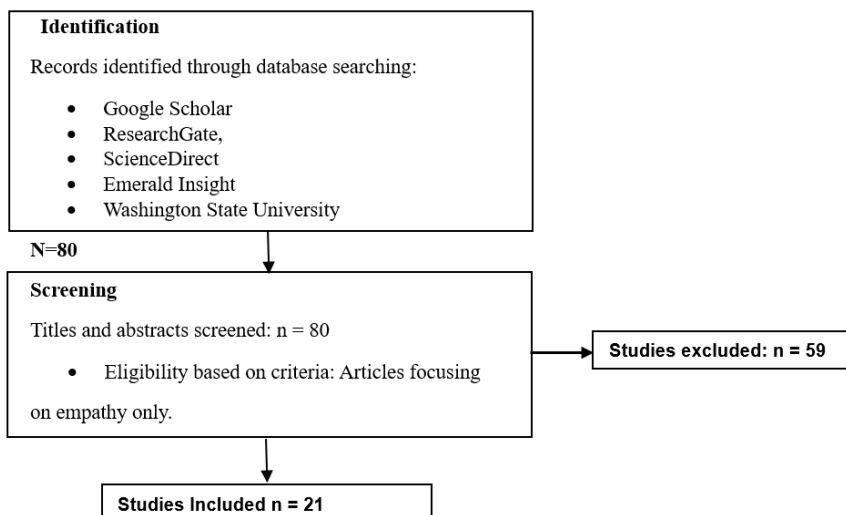


Figure 1: PRISMA Flow Chart

4. Results based on Objectives

1. **Impact of Empathy on Organizational Performance:** The synthesis of studies indicates that empathy enhances interpersonal communication, builds trust, and boosts employee engagement and customer satisfaction. Empirical evidence from studies (e.g., Preston, 2007; Grafton et al., 1997; Raza et al., 2023) has demonstrated that both neurobiological mechanisms and social-exchange processes contribute to these outcomes.
2. **Multi-Theoretical Framework Application:** Integrating Systems Theory, Social Exchange Theory, and the Perception–Action Model provides a comprehensive understanding of how empathy functions at multiple levels within organizations. This framework explains not only the automatic, neurobiological aspects of empathy but also its role in fostering reciprocal, value-driven relationships in the workplace.
3. **Highlighting empathy for reinforcement of positive work culture** offers a greater and deeper strategic value for organizations worldwide and particularly Pakistani Banks.

5. Discussion

Empathy, leading to productivity and development, can help managers sustain the competition regarding service-oriented sectors. However, the existing body of research primarily focuses on Western contexts, with limited light being shed on empathy's role in financial institutions of developing economies such as Pakistan. This study addresses this gap by critically evaluating empathy's impact on workplace performance, featuring its theoretical significance and practical applications in the distinctive culture of Pakistani financial institutions.

The financial sector in Pakistan plays a crucial role in the nation's economic development, serving as a backbone for growth and innovation. Rapid privatization, technological advancement, and intense competition have transformed the industry, requiring a focus on service quality and employee well-being. Empathy as an integral driver of strong organizational culture promotes employee relations and blossoms the talent into full application as the core of this study.

Moreover, the integration of theoretical frameworks such as Social Exchange Theory, Systems Theory, and the Perception–Action Model stresses the multidimensional impact of empathy on workplace behavioral patterns essential for improving performance. The current study applies these frameworks to examine the relationship between empathy and the performance of Pakistani financial institutions.

5.1 Empathy in Pakistani Financial Institutions

The findings from Pakistan-specific studies highlight significant disparities in empathy levels between management practices and stakeholder expectations. For example, Islamic banks

in Pakistan emphasize empathy as a component of their service, but traditional banking systems remain customer-centered. Thus, disregarding the element of empathy in maximizing employees' performance remains a grey area to be addressed.

5.2 Global Scenario and Comparative Insights

Globally, empathy has been recognized as a foundation for effective leadership and organizational culture. Studies from Western contexts reveal that it plays a major role in facilitating innovation, collaboration, and employee satisfaction. For instance, transformational leaders who prioritize empathy relish organizational growth and sustainability.

Comparative analysis reveals that while empathy's fundamental principles are universal, its application varies significantly across cultural and organizational contexts. In Pakistan, the collectivist culture and hierarchical organizational structures present unique opportunities and challenges for empathy-driven practices. This study contributes to the global discourse by offering localized insights and highlighting the need for cross-cultural research to understand empathy's nuanced effects.

5.3 Practical Implications

The findings of this study have practical implications for policymakers, managers, and organizational leaders in Pakistan and abroad. The current review shows that the empathy-based training programs result in better employee relations, encourage their creativity all perquisites of business success.

6. Limitations

1. **Restricted Geographical Context:** The focus on Pakistani financial institutions limits the generalizability of the findings to other industries or regions. The unique socio-cultural background of the Pakistani offices in testing the relationship between empathy and performance may not be a good parallel to other diverse societies.
2. **Sector-Specific Focus:** By concentrating on financial institutions, the study does not explore how empathy impacts other high-pressure industries such as telecommunications, healthcare, or technology within Pakistan.
3. **Limited Empirical Validation:** The study has limited evidence from empirical research on the empathy and performance relationship.
4. **Lack of Longitudinal Analysis:** The study does not examine how the role of empathy evolves in response to organizational changes or external factors like economic fluctuations or technological advancements.

6.1 Future Directions

Building on the study's findings, future research can address the identified limitations and expand the scope of inquiry into empathy's role in workplace performance:

1. Cross-Cultural Studies: Comprehensive researches are required to examine empathy and its relation with organizational performance in varied cultures.
2. Sectoral Expansion: Future studies should explore the role of empathy in other fast-growing sectors, such as telecommunications, healthcare, and education, to stretch the canvas of empathy, resulting in high performance.
3. Empirical research: observational evidence, surveys, interviews, or experimental designs can justify the theoretical and qualitative findings presented in this study. This validates the evidence-based empathy management practices and could provide actionable insights.
4. Longitudinal Research: Investigating how empathy-driven practices evolve within organizations over time could reveal their long-term impact on employee engagement, customer satisfaction, and organizational resilience.
5. Focus on Technology-Driven Workplaces: Exploring the role of empathy in tech-driven environments, where virtual interactions are predominant, could highlight its relevance in managing remote teams and enhancing digital customer experiences.
6. Policy and Training Development: Research on designing and implementing empathy-focused organizational policies, leadership training programs, and employee engagement initiatives would provide actionable strategies for fostering a culture of empathy.

References

- Ahmed, M., & Shafiq, R. (2021). Empathy in Leadership: A Study of Pakistani Financial Institutions. *Pakistan Business Review*, 25(2), 85–104. Sector: Pakistani Banking
- Blau, P. M. (1964). Exchange and power in social life. New York, NY: Wiley. Sector: Social Exchange Theory
- Chaudhry, F., & Nawaz, S. (2019). Linking empathy and performance in Pakistani organizations. *Pakistan Business Review*, 24(3), 45–63. Sector: Pakistani Organizations.
- Dolamore, S., Lovell, D., Collins, H., & Kline, A. (2021). The role of empathy in organizational communication during times of crisis. *Administrative Theory and Praxis*, 43(3), 366–375. Sector: Crisis Communication/General Organizations; DOI: <https://doi.org/10.1080/00000000>
- Grafton, S. T., Fadiga, L., Arbib, M. A., & Rizzolatti, G. (1997). Premotor cortex activation during observation and naming of familiar tools. *NeuroImage*, 6(4), 231–236. Sector: Neuroscience; DOI: <https://doi.org/10.1006/nimg.1997.0285>

- Guo, Y., Xu, L., & Wang, C. (2025). Exploring the effect of empathic response and its boundaries in artificial intelligence service recovery. *Journal of Retailing and Consumer Services*, 82, 104065. Sector: Retail/ArtificialIntelligence; DOI: <https://doi.org/10.1016/j.jretconser.2025.104065>
- Jeannerod, M., & Frak, V. (1999). Mental imaging of motor activity in humans. *Current Opinion in Neurobiology*, 9(6), 735–739. Sector: Neuroscience; DOI: [https://doi.org/10.1016/S0959-4388\(99\)00046-1](https://doi.org/10.1016/S0959-4388(99)00046-1)
- Khan, A., & Ahmed, S. (2018). Empathy as a catalyst for organizational growth: Evidence from the Pakistani banking sector. *Pakistan Business Review*, 20(1), 75–94. Banking; retrieved from <https://pbr.iobm.edu.pk/>
- Luo, Y., Huang, Y., & Wang, S. L. (2012). Guanxi and organizational performance: A meta-analysis. *Management and Organization Review*, 8(1), 139–172 Sector: Business/Relationship Management; DOI: <https://doi.org/10.1111/j.1740-8784.2011.00202.x>
- Nembhard, I. M., David, G., Ezzeddine, I., Betts, D., & Radin, J. (2023). A systematic review of research on empathy in health care. *Health Services Research*, 58(2), 250–263. Sector: Healthcare; DOI: <https://doi.org/10.1111/1475-6773.14123>
- Preston, S. D. (2007). A perception–action model for empathy. In *Empathy in Mental Illness* (pp. 428–447). Sector: Psychology/Neuroscience.
- Preston, S. D., & De Waal, F. B. M. (2002). Empathy: Its ultimate and proximate bases. *Behavioral and Brain Sciences*, 25(1), 1–20. Sector: Psychology/Neuroscience; DOI: <https://doi.org/10.1017/S0140525X02000018>
- Preston, S. D., & Hofelich, A. J. (2012). The many faces of empathy: Parsing empathic phenomena through a proximate, dynamic-systems view of representing the other in the self. *Emotion Review*, 4(1), 24–33. Sector: Psychology; DOI: <https://doi.org/10.1177/1754073911429947>
- Raza, B., St-Onge, S., & Ali, M. (2023). Frontline employees’ performance in the financial services industry: The significance of trust, empathy and consumer orientation. *International Journal of Bank Marketing*, 41(3), 527–549. Sector: Financial Services; DOI: <https://doi.org/10.1108/IJBM-03-2023-0123>
- Rizzolatti, G., & Craighero, L. (2005). Mirror neuron: A neurological approach to empathy. In *Neurobiology of Human Values* (pp. 107–123). Sector: Neuroscience; DOI: https://doi.org/10.1007/978-3-540-26572-4_9

- Rizvi, S., & Malik, F. (2020). Empathetic practices and employee engagement in the banking sector of Pakistan. *Pakistan Business Review*, 24(4), 150–169.
- Robbins, S. P., & DeCenzo, D. A. (2008). *Fundamentals of management: Essential concepts and applications* (8th ed.). Prentice Hall. Sector: Management.
- Satpathy, A., Jena, L. K., & Sahoo, K. (2022). Towards an empathetic HRM in industrial relations: Need of the hour in disruptive times. In *Managing Disruptions in Business: Causes, Conflicts, and Control* (pp. 351–363). Sector: Industrial Relations/HRM; DOI: <https://doi.org/10.4324/9780203841234-21>
- Stasielowicz, L. (2022). Focus on opportunities and adaptive performance: The importance of distinguishing between subjective and objective performance measures. *Psychological Reports*, Advance online publication. Sector: Organizational Psychology/Performance; DOI: <https://doi.org/10.1177/00332941241308517>
- Simon, L. S., Rosen, C. C., Gajendran, R. S., Ozgen, S., & Corwin, E. S. (2022). Pain or gain? Understanding how trait empathy impacts leader effectiveness following negative feedback. *Journal of Applied Psychology*, 107(2), 279–297. Sector Leadership; DOI: <https://doi.org/10.1037/apl0000882>
- Wondra and Ellsworth (2015). An appraisal theory of empathy and other vicarious emotional experiences. *Psychological Review*, 122(3), 411–431. Sector: Psychology; DOI: <https://doi.org/10.1037/a0038954>
- Von Bertalanffy, L. (1968). *General System Theory: Foundations, Development, Applications*. New York, NY: George.



This work is licensed under a Creative Commons Attribution 4.0 International License