

*Full Length Research Paper*

## The impact of service quality on customer satisfaction and the moderating role of word-of-mouth

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This is a cross sectional field study in which we examined the relationship between perceived service quality and customer satisfaction with the moderating role of word-of-mouth. The sample size of the data is 350 that are collected from the fast food restaurants located in the one of the largest city of Pakistan, Lahore. After implementing some statistical tools we conclude that the service quality and customer satisfaction have a positive direct relation with each other and the word-of-mouth does not play any moderating role between service quality and customer satisfaction.

**Key words:** Word of mouth, purchase, brand image.

### INTRODUCTION

Competition is the reality and none can deny it and competing in today's fierce environment is simply too hard. Only those companies that can do fairly well in such intense competing atmosphere can survive. To remain competitive in such furious environment offering quality goods and services and making your customer satisfied with your offerings are the key ingredients to remain in competition

Academics and practitioners believe that customer satisfaction is the highest priority of a company (Peterson and Wilson, 1992) and every organization strives that its customer remains satisfied with its products and services. Customer satisfaction is surely a very critical element towards retaining profitable business relations with the customers. It is well established that customer satisfaction leads to increased loyalty and profitability (Matzler et al., 2003). There are various studies that conclude that there is a positive relationship between customer satisfaction and profitability of the firms (Iltner and Larcker, 1998). Customer satisfaction and perceived service quality are very interlinked constructs (Eisingerich and Bell, 2008). The service quality concept plays a central role in understanding customer satisfaction and retention (Parasuraman et al., 1985). Perceived service quality is

said to be a comparison in the expected service and actual service performance. Researchers had emphasized on the importance of service quality as a mean to explore ways which firms can get differential advantage and make good relationships with customers (Gronroos, 1983). Several researchers have conducted various researches exploring the relationship between perceived quality and customer satisfaction but amazingly majority has been developed by stable economies (Yavas et al., 2004). Literature suggest that when the customers would remain loyal and would generate positive word of mouth (Matzler et al., 2003) and would have positive approach towards the firm and its products/services benefiting it in the long term. Word-of-mouth (WOM) presents a description about a particular service experience and considered to be a risk minimizing tool (Wilkie, 1990). Word-of-mouth (WOM) is one of the most important informal communication mean used between customers (Filser, 1996). WOM is usually considered to be more credible than other sources of information that are controlled by companies like advertisement. But ironically word-of-mouth (WOM) activity has been studied as an outcome variable of other constructs such as satisfaction (Richins, 1984) and no one study has been conducted

whether it can impact the customer satisfaction.

After finding this important loophole and realization of its importance we conducted this study. We explored the impact of perceived service quality on customer satisfaction and the role WOM can play as a moderating variable. The paper would reviews the previous studies that are made on the constructs then would present the hypothesis for the research. Then the methodology and scales we are going to adopt would be illustrated followed by data collection. The findings and results are subsequently depicted with thorough discussion and implications.

### Research objective

The objective of this study is to determine whether service quality had an impact on satisfaction level of the customers and if word-of-mouth influences the relationship between perceived service quality and customer satisfaction.

### LITERATURE REVIEW

Initially researchers lack agreeable definitions and methodology (Peterson and Wilson, 1992) regarding customer satisfaction. This inconsistency results from the vital debate regarding whether satisfaction is outcome or process (Yi, 1990) and later on Oliver (1997) admits this disputable fact and stated "everyone knows what satisfaction is until asked to give a definition then it seems nobody knows". Customer satisfaction literature does not show any coherence toward explaining the concept as some researchers shows it an emotional response (Cadotte et al., 1987) or a pure cognitive response (Bolton and Drew, 1991). Similarly some people argued that it can be composed of both cognitive and affective dimensions (Westbrook, 1980). In few instances operationalized definitions may also include a cognitive dimensions like repurchase intentions (Westbrook and Oliver, 1991) and some people did not mention it either way and just argued that it is an evaluation response or a summary of total psychological state (Oliver, 1981) or simply an overall purchase evaluation (Fornell, 1992) or a fulfillment response. Despite all the models proposed, customer satisfaction (CS) is a popular model in CS research whose results are similar to those of Oliver (1980, 1981, 1991). A recent research on this issue describes CS as a summary of affective response that varies in intensity and focuses on product choice, purchase and consumption, though its time of determination varies and is limited (Giese and Cote, 2000). But as our research is based on the perceived service quality's impact on customer satisfaction so we take the definition as a cumulative that is, it is the overall evaluation of any good or service based on the

total purchase and consumption experience over time (Fornell and Lehmann, 1994). Researchers believe that customer satisfaction affects the purchase decision, sales and organization's profitability. As the customer satisfaction increases it shows organization is going to get monetary benefit in future. It is taken to be the parameter on which service performance can be judged.

Actually, quality of services offered determines the customer satisfaction (Ravichandran et al., 2010). Various researches suggest that customer satisfaction is affected by perceived service quality. Satisfaction increases the perceived service quality and increasing CS by service quality is an "ultimate weapon" and now it is an established fact that service quality have a positive effect on customer evaluations of an organization service quality introduced the concept of service quality but it were Parasuramann et al. (1985) that made more in depth analysis of the concept. Perceived service quality is said to be the gap between perceived and expected service quality (Parasuramann et al., 1985). Different researcher take the concept differently as some present it can be of two types that is, technical quality and functional quality and later Rust and Oliver (1994) make the addition of another dimension namely environment, while few stated its three that is, physical, corporate and interactive quality still claim its service outcome, consumer employee interaction and service environment. On the other hand, Parasuramann et al. (1988) comes up with ten dimensions and later refined it many times as depicted by Zeithaml et al., 1993. And squeezed it to five that is, reliability, responsiveness, assurance, tangibility and empathy and theses dimension are widely accepted. For measurement they devised which provides a tool for measuring service quality (Buttle, 1997). Although, critics claim that outcome quality is lacking from Parasuraman et al. (1998) formulation of SQ. Despite its criticism for its generalization with various service contexts (Cronin and Taylor, 1992) and measuring expectations (Teas, 1993) and more concerned about service delivery process (Ravichandran et al., 2010) for dimensionality and reliability (Cronin and Taylor, 1992) still it is the most widely used model to measure the service quality. This clears the ground for our first hypothesis.

Hartline and Jones (1996) argue perception of quality encourages the customers to give WOM and conducting research in service context on WOM is unique and worthy. Actually WOM provides remedy to the problem of intangibility of services. Customers that are attracted by means of WOM spread twice WOM than newly gained customers. Many researchers believe that WOM is very effective in getting new customers. Notwithstanding all little attention is paid to address antecedents of WOM. WOM is the most valuable and important and informal mean of communication between customers (Filser, 1996). Various researchers while defining the WOM concept endorsed the definition that was produced by Arndt (1967) which stresses on the informal aspect of

WOM communication that is, the communicator is wholly independence from a commercial source. Similarly, WOM is regarded as any informal communication regarding evaluation of goods and services. Furthermore, many researchers while conceptualization of the concept associated it with personal recommendations (Arndt, 1967), interpersonal communication (Godes and Mayzlin, 2004) interpersonal relationships (Arndt, 1967), personal and interpersonal influence, and with informal advertising (Arndt, 1967). It is the informal communication with others about the characteristics of particular goods and services and/or their sellers.

Harrison-Walker (2001) proposed two dimensions of WOM that is, WOM activity and WOM valence. WOM activity deals with how often the WOM communication occurs, the number of people participated, and the quantity of information provided, on the same pattern WOM valence suggest either its positive, negative or neutral showing divergence to previous researchers work but most recently proposed five dimensions of WOM that is, WOM intensity, positive valence WOM, negative valence WOM and WOM content. Drastically little attention is paid to find out WOM role not as an outcome but as an influencing factor. Keeping into mind the entire scenario we are going to test the hypothesis whether WOM plays any role in perceived service quality and customer satisfaction.

### Theoretical framework

H<sub>1</sub>: Perceived service quality is positively related to customer satisfaction.

H<sub>2</sub>: Word of mouth moderates the relationship between perceived service quality and customer satisfaction.

However, Figure 1 shows the theoretical framework of our hypotheses.

## METHODS

### Sample and procedure

This study is quantitative one as close ended questionnaires were distributed to our respondents. 370 self administrated questionnaires were distributed following convenience sampling. 355 questionnaires were received with a response rate of 95.95%. After carefully examine the received questionnaires 5 were discarded because unrealistic information was provided and a couple of them were unfilled so finally we got 350 questionnaires to work with.

### Measures

This research is a quantitative research as all the responses are recorded through close-ended questionnaire from a reasonable sample and results are drawn. The perceived service quality is measured by using SERVQUAL model devised by Parasuraman et al. (1985) underlying its five dimensions. Although, SERVQUAL

model is criticized for its dimensionality and reliability (Cronin and Taylor, 1992). Parasuraman et al. (1989) redefined SERVQUAL and still this model is widely accepted management tool and is mostly used. We used 22 items that are mentioned in SERVQUAL model (Parasuraman et al., 1991). However, minor modifications were made according to our research field that is, fast food industry and five point Likert scale is used as 1 is equal to strongly disagree and leads to 5 that is strongly agree. A sample item is "they inform when service would be provided".

Skimming the previous work we came to know that there is very small work discussing WOM measurement. Mostly researchers uses one-dimensional scale and few used seven point Likert scale. We are going to measure the word of mouth (seeking) by using the measures that were used. We are measuring it by using the five point Likert scale with 1 is equal to strongly disagree and leads to 5 that is strongly agree and a sample item is "I often consult other people to help choose the best fast food restaurant".

Finally comes our last variable- customer satisfaction. Different researchers used various scales for their measurement using different items and varying parameters. All present scales may be adequate but different scales are appropriate when we use them in different service context (Oliver, 1989). To make our research more descriptive and generalize able we will use 17 item scale that is used by Gilbert et al. (2006) because they had conducted their study on fast food industry like us. Furthermore, argued that while measuring customer satisfaction/ dissatisfaction Likert scale show more reliability than other scales. So to maintain reliability and validity in our study we are using five point Likert 1 is equal to strongly disagree and leads to 5 that is strongly agree and an item example is "The restaurant employees pay attention to your query?"

## RESULTS

In our research sample there were 62% males and 38% females and 65% of the respondents lie between the age group 20 to 25 years. The reliability of variables service quality, word of mouth and customer satisfaction is 0.870, 0.703 and 0.861 respectively (Table 1).

### Mean standard, deviation, correlation and reliabilities

We used descriptive statistics frequency test used to evaluate our data and Pearson's correlation coefficient was used to see the association between word of mouth, service quality and customer satisfaction. For assessment the overall association between these variables, two-tailed non-parametric statistic, and Pearson's correlation coefficient of association was used out to analyze association between our dependent and independent variables.

The variables would be correlated if they move in the same directions. We found that there is strong correlation between service quality and customer satisfaction ( $r=0.72$ ,  $p. 0.000$ ). The first step explains the relationship between service quality and customer satisfaction. Hypothesis 1 which claims that service quality is positively related to customer satisfaction.

To test this predictions we regressed service quality with customer satisfaction ( $\beta=0.71$ ,  $p. 0.000$  and  $R$  square change 0.50). These results shows that service quality was a significant predictor of customer satisfaction

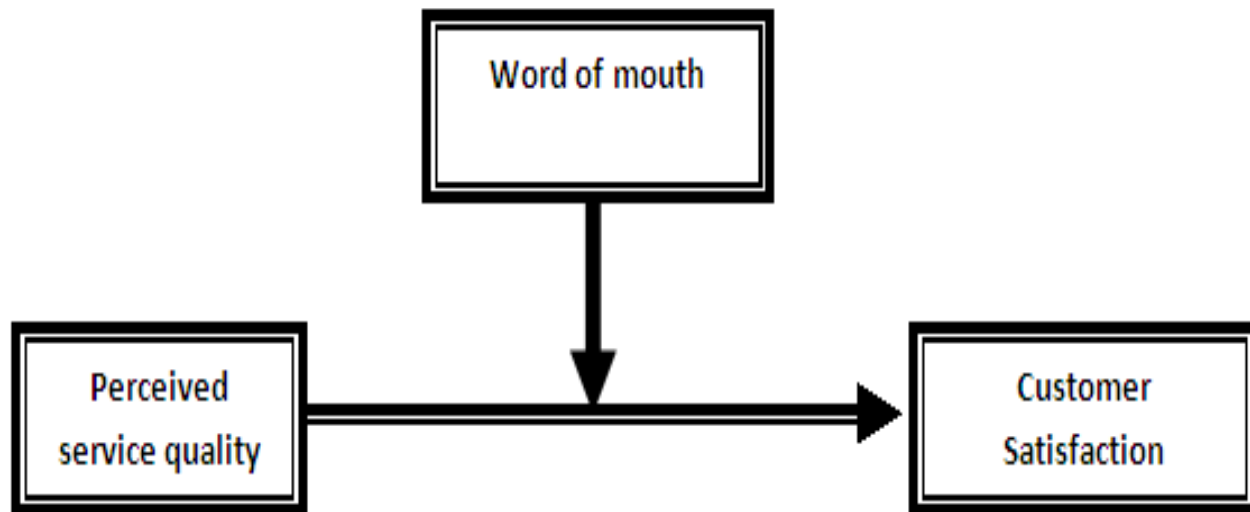


Figure 1. Theoretical frame work.

Table 1. Coefficient and Reliability.

Variable	Mean	Standard deviation	Gender	Age	W.O.M	SQ	CS
Gender	1.38	0.48					
Age	22.87	4.97	-0.100*				
W.O.M	3.70	0.86	0.008	0.058	(0.703)		
S.Q	3.81	0.46	0.113*	0.077	0.357***	(0.870)	
CS	3.77	0.50	0.056	0.158**	0.447***	0.722***	(0.861)

N= 350\*\*\*p< 0.001, \*\*p< 0.001, \*p< 0.05.

Table 2. Regression analysis.

Predictors	Customer satisfaction		
	$\beta$	R <sup>2</sup>	$\Delta R^2$
Model 1:			
Step 1			
Control variables		0.030**	
Step 2			
SQ	0.71***	0.53***	0.50***
W.O.M	0.43***	0.22***	0.19***

N= 350 \*\*\*p< 0.001, \*\*p< 0.001, \*p< 0.05.

and impact on it 50.1% (R square change), supporting hypothesis 1. Hence hypothesis 1 was accepted with the test (Table 2).

Hypothesis 2 which forecast that word of mouth moderate the relationship of the service quality and customer satisfaction, to test this hypothesis we regressed service quality and moderator word of mouth with customer satisfaction ( $\beta = -0.059$ , Sig. 0.78 and R square change

0.00) shows that word of mouth did not moderate the relationship of service quality and customer satisfaction which do not support hypothesis 2. Hence we can conclude that word of mouth had no impact on the relationship of service quality and customer satisfaction. So, hypothesis 2 is rejected (Table 3).

### DISCUSSION

In today's world keeping and retaining your customers is most demanding than ever and it is the only way to survive and compete in dynamic world. As retaining a customer is much easier than attracting a newer one so patronizing the purchase intent of the consumers is of great benefit and big concern for every organization. Similarly, recommendation sources either they have weak tie or strong tie are of immense importance as it can have impact on customer perception and customer satisfaction. Our study shows that there is very strong relationship between service quality and customer satisfaction. It shows as the customers got high quality or expected quality they show higher satisfaction and would ultimately become more loyal.

**Table 3.** Results of moderation analysis.

Predictors	Customer satisfaction		
	B	R <sup>2</sup>	ΔR <sup>2</sup>
Model 1:			
Step 1			
Control variables		0.029	
Step 2			
SQ	0.63***		
W.O.M	0.21***	0.57***	0.54
Step 3			
SQx W.O.M	-0.05	0.57	0.00

N= 350 \*\*\*p< 0.001, \*\*p< 0.001, \*p< 0.05.

Those resources which are distributed to enhance the service quality should be considered as a perfect investment rather than an expense (Anderson et al., 1994). The reason is that as you would improve your service quality your customer would become more satisfied and loyal and ultimately they would become a permanent revenue generating source of the company. Our study also inferences that when the company achieves the high customer satisfaction they would surely enjoy the promising return (Anderson et al., 1994). Our second hypothesis also concludes that word of mouth do not have any impact on the service quality and customer satisfaction relationship. Therefore we can claim that whether consumer got any positive or negative word of mouth customer would only be satisfied when he will get superior service and word of mouth would not impact in anyway.

**MANAGERIAL IMPLICATIONS, LIMITATIONS AND FUTURE DIRECTIONS**

This study provides some serious implications that would be helpful for the managers. Like study shows that providing better quality of service is the need of the hour and your customer would be satisfied. This research shows that your customers would be highly satisfied when they get superior quality and ultimately your profits would increase. Secondly word of mouth would not have any impact on the satisfaction level when your customer would get better quality. Hence, providing good quality is the source of keeping your customers satisfied and ultimate success factor.

Our research has few limitations that would lead to some future research directions. As most of our respondents were between the age of 20 to 25 and most of respondents cannot evaluate the service quality or how much they are satisfied. So this age factor might hinder the relationship when more diverse sample would be

used. Similarly; the qualification and occupation factor may also have some influence on the results when some divergent sample would be used. Moreover we find out that the word of mouth does not moderate the relationship so it would be interesting to find out what are other variables that can impact this relationship like advertisement, corporate social responsibility (CSR), brand image etc. And to make the concept more valuable one may find out how brand endorsement impacts the relationships between them as endorsement concept is flying high now days.

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