Perceived Service Quality and Purchase Intention: Mediation of Word of Mouth

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Abstract

A cross-sectional field survey was conducted to explore the mediation of word-of-mouth between service quality and purchase intention, using a sample of 350 consumers availing services from private and public service organizations in Pakistan. The results revealed a positive influence that service quality and word-of-mouth have on purchase intention. Word-of-mouth mediated between service quality and purchase intention relationship. This study has several research and managerial implications that add important insight to the power that service quality and word-of-mouth have on purchase intention.

Key Words: Service Quality, Word-Of-Mouth, Purchase Intention, Marketing, Consumers, Pakistan.
Introduction

When we differentiate between product and service, the latter is a series of behaviors, processes, and performances (Zeithaml and Bitner, 1996). According to Berry, Parasuraman and Zeithaml (1994), “excellent service is a profit strategy because the results include new customers, increased business with existing customers, fewer lost customers, more cushioning from price competition and fewer mistakes requiring the services to be repeated” (p. 32).

The quality of service is one of the main constructs in marketing literature. According to Parasuraman, Zeithaml and Berry (1985), service quality was the customers’ perception of good or bad service; that is, comparing the gap between their expectation of service and their perception of the service rendered. Service quality was the service level presented through the interactions between service providers and customers. The importance of delivery of quality service has been the major concern of business to gain competitive advantage in this competitive marketing era. According to Berry (2002), in order to provide the best services to the customers; you need to listen to them. This leads to a direct impact on the quality of services as well. Elite service quality brings positive buying attitude that helps in increasing retention, which results in higher profits, high expenditures and expansion in customers.

On the other hand, service quality is one of the antecedents of word-of-mouth that is considered the best predictor of customers purchase intentions. Word-of-mouth, either good or bad, influences purchase intentions. The study suggested that the best tool to effect and make the impact on purchase intention is word-of-mouth (Hays and Hills, 1999). The number of customers rejecting the services based on word-of-mouth is approximately or around 80% as they are negatively influenced by it (Hung, Choo and Lan, 2007). Similarly, service quality is also a major tactic to retain the customer. The service quality has the strong impact on building purchase intention (Laroche, Teng, Michon and Chebat, 2005). Consumers deal with many companies in the market offering various services and prefer a company based on its quality of service (Liu, Kil and Spears, 2005).

According to Zeithaml (2000), “the direct relationship between service quality and profits is shown to be both positive and negative due to additional variables still yet to be determined. Already, positive connections between service quality and market share, premium pricing, customer retention and purchase intentions provide a wealth of evidence for companies to continue assessing and improving the quality of their services” (p. 73). This study is contributing to literature by exploring one of the additional variables suggested by Zeithaml (2000). The idea being proposed in this study is that effectiveness of service quality in prediction of purchase intention is not only due to service quality, but it is the result of mediation of word-of-mouth between service quality and purchase intention. This study examines the direct and joint effects of quality of service and word-of-mouth on purchase intention of customers of various services (e.g. telecommunication, banking and transportation industries, etc.) in Pakistan.
Service Quality and Purchase Intention

Service quality and purchase intention is widely investigated the relationship in marketing literature since last two decades. Kijewski, Yoon and Young (1993), conducted a study on the impact of service quality and reputation on purchase intention. The study indicated that service quality had significant positive relationship with purchase intention. Omar, Khalidah, Amat, Aziz, and Nazri (2010) investigated the same relationship by using data of 201 respondents and showed that service quality affects indirectly to purchase intention when mediated by satisfaction. Laroche et al. (2005) studied the impact of service quality on consumers purchase intention or decision, using the sample of 266 customers in a shopping mall. They revealed that service quality in the shopping mall mediated between purchase risk, and customer purchase intention.

Lee (2010) conducted an empirical research on factors influencing customer’s loyalty and purchase intention. Using the sample of 384 mobile phone users, it was found that service quality positively influenced the purchase intention. Another research by Ruyter and Wetzel’s (1999) investigated the same relationship with a diverse sample of 708 respondents from different industries, and a positive relationship was found between perceived service quality and purchase intention. Liu et al. (2005) investigated the antecedents of customer purchase intention in hospitality service, using a sample of 209 hotel guests in Hawaii. It was explored that service quality was positively related to purchase intentions. Tsiotsou (2005) used a sample of 204 Greek university students to study the relationship between service quality, satisfaction and purchase intention. All three variables were found significantly related to each other. Yang (2007), assessed the impact of e-quality and e-satisfaction on website loyalty. Using the sample of 668 online respondents, it was found that e-satisfaction mediated between service quality, information quality and e-loyalty. Based on above arguments/literature review the following hypothesis is proposed.

H1: There is a positive relationship between service quality and purchase intention.

Word-of-Mouth and Purchase Intention

Cheung and Thadani, (2010) conducted a research on the effectiveness of word-of-mouth communication. It was found that the E-word-of-mouth was the fastest and effective communication, and its impact was very significant. The results of their research showed that positive word-of-mouth was significantly and directly related with purchase intention. While negative word-of-mouth communication affected 100% more than the positive word-of-mouth. Alexandru (2010) conducted a study to see the impact of word-of-mouth on purchase intention. The results of research showed that positive word-of-mouth increased the purchase intention of customers and acted as publicity for the companies.
Park and Kim (2008) also conducted a research on the relationship between word-of-mouth and purchase intention. The study investigated electronic word-of-mouth by reviewing the customer’s views on online shopping and buying. They found that word-of-mouth had the strong effect on purchase intention. Troy and Elias’s (2009) study examined key factors that may play a critical role in determining consumer attitudes based on online consumer feedback. The study indicated that “positive online consumer feedback led to significantly more desirable consumer attitude than web sites with no consumer feedback or web sites which overlay negative consumer word-of-mouth” (p. ii). The study revealed more effects of negative word of mouth than positive word of mouth.

Charlett, Garland and Marr (1995) investigated whether the word-of-mouth had significant effects on attitude. The hypotheses were tested to ascertain effects of both positive and negative word-of-mouth. They found that both the positive and negative word-of-mouth have significant effects on purchase attitude/behavior. However, negative word-of-mouth showed more sensitivity than positive word-of-mouth towards purchase intention. Kwek, Lau and Tan (2010) conducted a quantitative research by using the sample of 242 respondents. Outcomes showed that WOM had more positive effects on purchase intention than advertisement or other medium.

In any Business-to-Customer (B2C) type of environment, satisfying a customer is the ultimate goal and objective (Munusamy, Chelliah and Wai, 2010). The study emphasized the relationship between word-of-mouth and purchase intention in banking business. The results of the study showed that word-of-mouth was positively related with purchase intention. Hays and Hills (1999) conducted a research to examine the impact of word-of-mouth on purchase intention. The study found that positive word-of-mouth was generated by the better service quality. Naik, Goud, Rout and Dalai (2010) conducted a survey to determine the impact of service quality on the word of mouth in an Indian retail market. The findings of the study indicated that service quality was significantly and positively linked to word-of-mouth.

Shabbir, Kaufmann and Shehzad (2010) conducted a research to examine the bond between quality of service, word-of-mouth and trust. The study was done on patients in hospitals of Islamabad. The results of study showed that good service quality tended towards the positive word-of-mouth. According to Park, Luhr, Fejer, and Min (2010) in a competitive market, consumers are not well informed about the true service level offered by firms. Instead, consumers choose between firms based on their past experiences and word-of-mouth from their acquaintances. Thus, firms’ market share should depend on their product and word-of-mouth. The paper showed that better service quality led to positive word-of-mouth and positive word-of-mouth increased market share. Based on the above research arguments and findings, the following hypothesis is proposed.

H2: There is a positive relationship between word-of-mouth and purchase intention.
Service Quality and Word-of-Mouth

Word-of-mouth is the verbal, noncommercial statement between a present customer and other people about a product, a brand or a service offered for sale (Arndt, 1967). According to Dabholkar, Thorpe and Rentz (1995) word-of-mouth is the client’s willingness to suggest the product or service to others. Murray and Schlacter (1990) stated that services are generally more difficult to evaluate than goods. Therefore, services result in a high risk with their inseparability, intangibility and heterogeneity (Mitchell and Greatorex, 1993). According to Murray (1991), in order to decrease the risk, customers expand their information further on activities, such as friends or family before they guesstimate a service provider or decide to pay for service.

Tat, Jantan and Nasser (2008) carried out a research to find impact of service quality on satisfaction. The research was conducted among university students, and data was collected from 167 respondents. The results revealed “It is generally accepted that a graduate who is satisfied with the quality of his or her educational experience is likely to reciprocate by exhibiting certain behaviors that benefits the alma mater” (p. 1). Further, the results showed that there is a direct relationship between service quality and word of mouth.

Lewis and Booms (1983) stated that service quality is a degree to which a service provider can match the customers’ expectation. Li (2011) stated the impact of service quality on brand image, word-of-mouth and repurchase intention, using the sample of 400 patients in Min-Sheng General Hospital. The results revealed that there is a positive relationship between service quality and word-of-mouth. Based on above literature review and findings, following hypothesis is proposed.

H3: There is a positive relationship between service quality and word-of-mouth.

Word-of-Mouth as a Mediator

Huang, Leonard and Andow, (2007) approved the effects of word-of-mouth on purchase intention. The study found that word-of-mouth had a powerful impact on the service industry. Lower service quality leads to negative word-of-mouth which in turn results in higher boycott behavior among consumers. E-word-of-mouth is the fastest medium for communication, and the pessimistic word-of-mouth has 80 times more impact on consumers. Nam, Choi, Lee, Choe, Jeong, Kim and Kim, (2009) studied the effects of quality of signal, regular and continuous word-of-mouth on customers' demands. The research studied the quality of service and word-of-mouth on the geographical basis. The results indicated that where there were no signal complaints, and that the word-of-mouth was positive and affected about 8% of subscribers, but the negative word-of-mouth acted incurably, it affected two times as much as positive word-of-mouth.

The link between service quality and word-of-mouth is very well established in the literature (Lewis and Booms, 1983; Li, 2011). The link between word-of-mouth and purchase intention is also established in the literature (Cheung and Thadani, 2010; Naik
et al., 2010). So the proposed idea of this study is that the main effect of service quality and purchase intention is linked through the word-of-mouth. In other words, it is the quality of the service that enhances the chances of word-of-mouth generation, which in turn increases the purchase intentions of the customers for specific service or vice versa. Based on above literature and argument, following hypothesis is proposed.

**H4:** Word-of-Mouth mediates the relationship between service quality and Purchase intention.

**Theoretical frame work**

The theoretical model of the study is as follows:

Service Quality → Word-of-Mouth → Purchase Intention

**Research Methodology**

**Sample and Data Collection**

The population of this study included students, bank employees, teachers and others who were availing services from public or private service sector organizations of Pakistan. Service sectors include banking, transportation, restaurants and telecommunication. The data was collected through questionnaires, and it was self administered by the authors. Since English is taught at all levels in Pakistan and qualification of the respondents ranged from higher secondary level to master’s level, no problem was faced in the collection of data.

A cover letter was also attached with the questionnaire which explained the purpose of research and scope of the study along with the assurance of confidentiality. 500 questionnaires were distributed and administrated in banks, schools, universities, bus stations, restaurants and some national companies. 400 questionnaires were returned showing a response rate of 80%. Out of these, 50 incomplete questionnaires were discarded and remaining 350 questionnaires were used with for analysis 70% effective response rate.

**Measures**

**Service Quality:** 22-items service quality measure by Keller (1993) was used, which was reduced to 9 items for this study. Reliability of the measure was (α = 0.89). Sample questions were, “The physical facilities at the excellent service are visually appealing” and “Materials associated with the excellent service are visually appealing”
**Word-of-Mouth:** 4-items word-of-mouth measure by Walker (2001) was used with reliability of ($\alpha = 0.81$). Sample questions were, “I often consult other people to help choose the service” and “To make sure I buy from a trusted service provider, I often observe which service others are using.”

**Purchase Intention:** 4-items measure by Hays and Hills (1999) was used for purchase intention with reliability of ($\alpha = 0.70$). Sample questions were, “The next time I desire a service, I intend to use this service” and “The next time you are in the market for service, how likely are you to purchase this service from the service provider.”

7-point scale was used for all variables (service quality, word-of-mouth, and purchase intention). Where $1 = \text{Strongly Disagree}$, $2 = \text{Disagree}$, $3 = \text{Somewhat Disagree}$, $4 = \text{Natural}$, $5 = \text{Somewhat Agree}$, $6 = \text{Agree}$ and $7 = \text{Strongly Agree}$.

**Control Variables**

One-Way ANNOVA was run to identify control variables. The results revealed that age, gender, income, and qualification had mean difference. Therefore, age, gender, income, service and qualification were controlled during analysis. The remaining demographic factors did not explain significant differences for purchase intention and word-of-mouth.

**Results**

**Descriptive Statistics**

Table-1 presents the descriptive statistics of the variables used in this research. The results indicated that the respondents had an average qualification up to “graduation” and the average income level of the respondents was in the range of Rupees 20,000 to 40,000. The mean age of respondents was 26 years with (S.D = 5.66) and mean income was (M = 1.89) with (S.D = 1.21). The mean of service quality was (M = 2.60) with (S.D = 1.24), mean of word-of-mouth was (M = 5.17) with (S.D = 1.19) and (M = 4.18) with (S.D = 1.23) was the mean of purchase intention.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>1</td>
<td>2</td>
<td>1.27</td>
<td>0.44</td>
</tr>
<tr>
<td>Age</td>
<td>18</td>
<td>52</td>
<td>25.85</td>
<td>5.66</td>
</tr>
<tr>
<td>Qualification</td>
<td>2</td>
<td>4</td>
<td>3.24</td>
<td>0.60</td>
</tr>
<tr>
<td>Income</td>
<td>1</td>
<td>5</td>
<td>1.89</td>
<td>1.21</td>
</tr>
<tr>
<td>Service</td>
<td>1</td>
<td>5</td>
<td>2.60</td>
<td>1.24</td>
</tr>
<tr>
<td>SQ</td>
<td>1.89</td>
<td>7</td>
<td>5.31</td>
<td>1.06</td>
</tr>
<tr>
<td>WOM</td>
<td>1</td>
<td>7</td>
<td>5.17</td>
<td>1.19</td>
</tr>
<tr>
<td>PI</td>
<td>1</td>
<td>6.50</td>
<td>4.18</td>
<td>1.23</td>
</tr>
</tbody>
</table>
Correlation Analysis

Table-2 provides the results of correlation analysis. The results showed that service quality was positively correlated with purchase intention ($r = 0.170$, $p < 0.01$). Results revealed that service quality was also positively correlated with word-of-mouth ($r = 0.408$, $p < 0.01$). Word-of-mouth was positively correlated with purchase intention ($r = 0.227$, $p < 0.01$).

<table>
<thead>
<tr>
<th>S. #</th>
<th>Variables</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
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<td>Gender</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>2</td>
<td>Age</td>
<td>.123**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Qualification</td>
<td>.152**</td>
<td>.379**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Income</td>
<td>.122**</td>
<td>.604**</td>
<td>.307**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Service</td>
<td>.139**</td>
<td>.078</td>
<td>.001</td>
<td>.124**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>SQ</td>
<td>-.272**</td>
<td>-.254**</td>
<td>-.058</td>
<td>-.124**</td>
<td>-.266**</td>
<td>(.89)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>WOM</td>
<td>-.120**</td>
<td>-.195**</td>
<td>-.160**</td>
<td>-.216**</td>
<td>-.250**</td>
<td>.408**</td>
<td>.81)</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>PI</td>
<td>-.065</td>
<td>-.089</td>
<td>.049</td>
<td>-.149**</td>
<td>-.006</td>
<td>.170**</td>
<td>.227**</td>
<td>(.70)</td>
</tr>
</tbody>
</table>

N = 350. Reliabilities are given in parenthesis. * = $p < .05$, ** = $p < .01$ and *** = $p < .001$

Regression Analysis

Table-3 presents the results of regression analysis. The results revealed that service quality had a positive and significant relationship with purchase intention ($\beta = 0.169$, $p < 0.01$). It explained 2.3% unique variance ($\Delta R^2 = 0.023$, $p < 0.001$) in purchase intention, consistent with the finding of Liu et al. (2005). Thus, the results clearly supported the first hypothesis of this study.

Word-of-mouth was positively related with purchase intention ($\beta = 0.230$, $p < 0.001$). It explained 4.7% unique variance ($\Delta R^2 = 0.047$, $p < 0.001$) in purchase intention, consistent with the finding of Cheung and Thadani (2010). Thus, the second hypothesis of the study was also supported.

The third hypothesis also predicted a significant and positive relationship between service quality and word-of-mouth ($\beta = 0.362$, $p < 0.001$). It explained 10.8% unique variance ($\Delta R^2 = 0.108$, $p < 0.001$) in word-of-mouth. So, the third hypothesis was also supported by findings of this study.
### Table 3. Regression Analysis

<table>
<thead>
<tr>
<th>Predictors</th>
<th>Purchase Intention</th>
<th>Word-of-Mouth</th>
</tr>
</thead>
<tbody>
<tr>
<td>β</td>
<td>R²</td>
<td>ΔR²</td>
</tr>
<tr>
<td>Control Variables</td>
<td>0.037</td>
<td>0.060</td>
</tr>
<tr>
<td>Step 2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SQ</td>
<td>0.169**</td>
<td>0.060</td>
</tr>
<tr>
<td>WOM</td>
<td>0.230***</td>
<td>0.084</td>
</tr>
</tbody>
</table>

SQ = Service Quality, WOM = Word-of-mouth. * = p < .05, ** = p < .01 and *** = p < .001

### Mediator Analysis

The mediation analysis is presented in Table-4. To test the mediation hypothesis, the moderation technique recommended by Baron and Kenny (1986) was used. In the first step, the control variable gender, age, qualification, income and service were entered. In the second step, the mediator word-of-mouth was entered and in the third step, service quality was entered in the equation, to test the mediation of word-of-mouth between service quality and purchase intention. The results revealed that the main effect size reduced from (β = 0.169, p < 0.01, to β = 0.097, ns) and the explained unique variance varied from (ΔR² = 0.023, p < 0.01, to ΔR² = 0.007, ns) showing 2% change due to impact of word-of-mouth. This result fulfills the mediation condition prescribed by Baron and Kenny (1986). As per recommendations (Baron and Kenny, 1986), the result supported hypothesis four in which it was stated that word-of-mouth mediated the relationship between service quality and purchase intention.

### Table 4. Mediation Analysis

<table>
<thead>
<tr>
<th>Predictors</th>
<th>Purchase Intention</th>
</tr>
</thead>
<tbody>
<tr>
<td>β</td>
<td>R²</td>
</tr>
<tr>
<td>Main effect of Service Quality</td>
<td></td>
</tr>
<tr>
<td>Step 1</td>
<td>Control Variables</td>
</tr>
<tr>
<td>Step 2</td>
<td>SQ</td>
</tr>
<tr>
<td>Mediation of Word-of-Mouth</td>
<td></td>
</tr>
<tr>
<td>Step 1</td>
<td>Control Variable</td>
</tr>
<tr>
<td>Step 2</td>
<td>WOM</td>
</tr>
<tr>
<td>Step 3</td>
<td>SQ</td>
</tr>
</tbody>
</table>

SQ = Service Quality, WOM = Word-of-mouth. * = p < .05, ** = p < .01 and *** = p < .001
Discussion and Implications

The results of this research are consistent with previous findings for direct relationships. The findings add value in marketing literature by providing evidence of service consumers in Pakistani context. Previous literature suggested that negative word-of-mouth acts as a double edge sword, negative word-of-mouth effects 80 times more than positive word-of-mouth (Huang et al., 2007). It therefore, becomes significant for marketer’s and marketing scholars to study the intermediary link of word-of-mouth between service quality and purchase intention. If this double edge sword is mishandled, it may create problem for companies in this competitive era. This study provided a link between service quality and word-of-mouth, which leads to higher levels of purchase intention. In view of these findings, improvement in the quality of service should be the major focus of marketing managers, which in turn will positively ease the word-of-mouth and will enhance the purchase intention of consumers. This process may be reversed if the word-of-mouth is negative. Companies should manage positive word-of-mouth generating campaigns specially by using the social media network (Facebook, twitter, etc.) to influence the purchase intention of their exiting and potential customers. Finally, this study contributed in marketing literature by establishing the mediating mechanism of word-of-mouth between service quality and purchase intention. This study has insight for marketing managers to realize the importance of word-of-mouth in determination of purchase intention.

Limitations and Future Research implications

This study did not include some crucial aspects in related research like: purchase loyalty, brand loyalty, brand awareness, purchase behavior, word-of-mouth generation and purchase experience. These factors may play a vital role to influence the purchase intention of the customer. Future research may cover these factors. Further this study only covers the service sector in Pakistan. The future research may include the manufacturing companies offering various types of services. The future research may also explore the other mediations between service quality and purchase intention.

References


