AN ANALYSIS ON STIMULUS OF WORD-OF-MOUTH COMMUNICATION: AN EMPIRICAL EVIDENCE FROM A SERVICE MARKETPLACE IN SRI LANKA

BY

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I certify that the above statement made by K.M. Mubarak, the candidate is true and that this thesis is suitable for submission to the University of Sri Jayewardenepura for the purpose of evaluation.

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LIST OF ABBREVIATIONS

CER -   Customer-Employee Relationship

LGPWOM -   Likelihood of Generating Positive Word of Mouth

LGPWOMC –   Likelihood of Generating Positive Word of Mouth

                         Communication

NWOMC -   Negotive Word of Mouth Communication

MPE -   Marketing Promotional Effort

PWOM -   Positive Word of Mouth

PWOMC -   Positive Word of Mouth Communication

SD -   Service Delivery

SQ -   Service Quality

WOM -   Word of Mouth

WOMC -   Word of Mouth Communication

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ABSTRACT

Word-of-mouth communication (WOMC) is a dominant force. However, the available body of research provides little insight in to the nature of it. Although the positive WOMC is extremely important and highly effective, however, the organizational ability to identify the effective motivators and encourage or influence WOMC decides its powerfulness. Researchers have investigated few motivators, but, the collection of it and its significance has been largely overlooked. Indeed, there is a need to investigate the WOM stimulus and assess its effectiveness in influencing positive WOM in services industry.

Hence, the purpose of this research is to identify the factors that motivate consumers' likelihood of generating positive WOM in the service marketplace in Sri Lanka. The constructs and dimensions of this model were developed from the literature review, and pre developed and tested scale was used to measure the dimensions. This model is an attempt to investigate and assess four different constructs which suppose to influence PWOMC. Four hypotheses were developed and tested based on the data collected using structured questionnaire from 338 randomly selected end user customers of commercial

banks who work in Colombo Metropolitan. The data were subject to statistical analysis with SPSS 13.0 version, and regression and correlation analysis were done. The results revealed that customer-employee relationship was the most influencing factor to the likelihood of generating PWOMC among other factors such as service quality, service delivery and marketing promotional efforts. However service quality and marketing promotional effort too substantially contributed towards PWOMC. The research model was significant (0.806). Eventually one hypothesis (service delivery) was rejected among four.

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

The concept of the word-of-mouth communication (WOMC) dates back to the beginnings of human communications, WOMC has become a significant part of many major marketing communication campaigns over the past years, due in part to the power inherent in such a social phenomenon. Hence, the WOMC is an important marketplace phenomenon too, by which consumers receive information relating to organizations and their offerings (Laczniak, DeCarlo, and Ramaswami, 2001:57).

Although there are plentiful marketing literatures available regarding WOMC, which has a solid influence as purchase decision of consumer, to date, little research has been conducted to determine the effects of WOMC on the purchase behaviour of those who receive them.

In 1955, Katz and Lazarsfeld found WOMC more effective than the other modes of communications (Harrison-Walker 2001:60; Ennew, Banerjee and Li, 2000:76), and one of the first empirical studies of WOMC influence in marketing was conducted by Arndt (1967) (as in Charlett, Garland and Marr, 1995:42), later integrated into the diffusion literature by Rogers (1976) and Mahajan and Muller (1979) (as in Swanson and Kelley, 2001:194), and others, relies on the social system through which WOMC flows. According to this view WOMC is a dynamic social process with four key characteristics that distinguish it from other forms of marketing communication: non-marketing source, face to face exchange, free exchange of information and two-way flow.

Indeed, early studies of word-of-mouth (WOM) centred on communications about new, tangible goods (Arndt 1967; Sheth 1971 as in Harrison-Walker, 2001:62). More recent studies found WOMC to be influential in consumer decision making for a variety of services (Crane 1989; File, Judd, and Prince 1992; Frieden and Goldsmith 1988; Murray 1991 as in Harrison-Walker, 2001:62).

Arndt (1967) was able to monitor the adoption of a new food product in test market conditions and assess the impact of WOMC on short-term purchase behaviour. He found that exposure to favourable WOMC increased actual buying levels while exposure to un-favourable comments decreased these levels (Ennew, Banerjee and Li, 2000:77). In particular, satisfied consumers would generate positive WOM (Bitner, 1990:70), while dissatisfied consumers would generate negative WOM (Richins, 1983:69).

The role WOMC plays in a business depends on four factors: the nature of the product, the people a business trying to reach, customer connectivity and the strategies used in the industry (Rosen, 2000:25-8). Since WOMC doesn't affect all business in the same way and these factors can change over time, and the importance of WOMC to business and industry can fluctuate. Meanwhile, some researchers regard WOMC as a driving force behind actions while others consider it to be an outcome of past experiences (Godes and Mayzlin, 2004:52). However, WOMC has been found to play a pivotal role in shaping attitudes and behaviors, especially with regard to the diffusion of innovations (Brown and Reingen, 1987; Childers, 1986; Herr, Kardes, and Kim, 1991, as in Sun *et al.*, 2006:1107).

Further, Silverman (2001:22-3) said WOMC is the most powerful force in the market place and it's thousands of times as powerful as conventional marketing but it's also the most neglected, while Murray (1991:12) said WOMC has been found to be especially effective in decision making regarding services and there are many businesses that have used WOMC as their primary, sometimes only, way to grow their business.

WOMC is generally seen as more important for services than goods. Brown and Reingen (1987:351) believed that most of the service providers, obtain their clients through WOM referrals. Each of these services is highly customized, and in each case, the service provider exercises a high degree of judgment in meeting individual customer needs.

Services are natural candidates for WOMC among consumers because they are generally difficult to evaluate prior to purchase and therefore are perceived as high-risk (Murray 1991:16). Rogers (1983) argued that the consumers often engage in WOMC for high-risk products in general (Harrison-Walker, 2001:62), and for services in particular to gain information that will reduce their risk, help them make comparisons between or among service alternatives, or help them understand the service prior to delivery and consumption (Bristor 1990:546). 'Reingen and Kernan (1986) noted that many marketers of services rely on these informal information channels' (Harrison-Walker, 2001:62). Thus, WOM is particularly valuable for services, which are high in experience and credence qualities (Anderson 1998:7).

This research aims to study the Positive WOMC (PWOMC) compare to Negative WOMC (NWOMC), and the stimulus that influence consumers' likelihood of