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How service quality and outcome confidence drive pre-outcome word-of-mouth

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How Service Quality and Outcome Confidence Drive Pre-Outcome Word-of-Mouth

Abstract

Existing research on word-of-mouth (WOM) referrals has rarely considered what drives consumers to engage in pre-outcome WOM (i.e., referrals before they have experienced the final service outcome). This study argues that WOM behavior that predates the service outcome is driven by the interplay between present experience (perceived quality of the service process) and anticipations of the future outcome (outcome confidence). Drawing upon perceived risk theory, the study explores how outcome confidence and service process quality independently predict WOM behavior and how outcome confidence moderates the impact of process quality on WOM behavior. We investigate these issues with customers of a driving school and use a multilevel modelling approach to test the hypotheses.

The results show that consumers with higher levels of outcome confidence are more willing than low-confidence consumers to transmit pre-outcome WOM. However, the study also finds that outcome confidence compensates for process quality such that the effect of process quality diminishes when outcome confidence is high. The key managerial implication of the study's finding is that managers can tactically use outcome confidence to compensate for low levels of process or employee service quality.

Keywords

Word-of-mouth, outcome confidence, service quality, recommendations, service outcome

INTRODUCTION

Previous studies have indicated that one of the most important sources of new customers for small firms is recommendations from existing customers (Moriarty, *et al.*, 2008). Many small businesses do not have formalized promotional campaigns and rely instead and to a greater extent than larger organizations on word-of-mouth communications (WOM) to develop their customer bases (Lee *et al.*, 2015; Simpson *et al.*, 2006). For such businesses, relying on WOM referrals is reasonable as it is more matched to their resources. Referrals rarely incur additional direct costs and lead to a slower build-up of business which most small businesses prefer since large increases in demand may be difficult to manage (Carson *et al.*, 1995). Marketers and businesses also realize the importance of WOM, with regard to its implications for trust and associated outcomes (e.g. Marchand, Hennig-Thurau, and Wiertz, 2017; Sweeney *et al.*, 2014; East, *et al.*, 2008). Consequently, researchers continue to investigate the factors that motivate WOM because of its known credibility.

The drivers of WOM have been examined from a variety of perspectives (Baker, Donthu and Kumar 2016; Wien and Olsen 2014; Sweeney *et al.*, 2008). Antecedents of WOM activity identified in previous studies include organizational characteristics, product characteristics, customer service provider attributes, customer attitudes towards the provider or product, characteristics of the customer and customer to customer interactions (e.g., Markovic *et al.*, 2018; Singh, Nishant, and Kitchen, 2016; Berger, 2014; Berger and Schwartz 2011; Anderson 1998; De Matos and Rossi 2008; Wangenheim and Bayón 2007; Paridon *et al.*, 2006; Brown *et al.* 2005; De Bruyn and Lilien 2008; Libai *et al.*, 2010). With specific reference to recommendations and referral behavior, in addition to antecedents such as rewards and incentives (Soderlund and Mattson, 2015; Jin and Huang, 2014; Schmitt *et al.*, 2011;), trust and perceived value (Stein and Ramaseshan, 2015), one of the key drivers of service referrals often discussed in the literature is service quality (Stein and Ramseshan, 2015; Bolton and Drew 1991; Gounaris *et al.*, 2007; Wang 2009; Harrison-Walker, 2001; Zeithaml *et al.*, 1996).

Service quality is often conceptualized as having process and outcome dimensions (Gronroos, 1985), which are judged independently by customers. Whereas process quality is related to the “how” part of the service delivery, outcome quality relates to evaluations of the result of a service transaction or relationship. Although customers do judge process and outcome dimensions independently, for many services, as far as WOM is concerned, the expectation is that customers generally recommend or refer others when a final outcome for a service interaction has been obtained. For everyday services such as hair stylists, restaurants, dry-cleaning etc., this is likely to be the case. However, in some service categories, for instance, building services, estate agency services, legal services, design services etc., the service interaction lasts for a long period before a final outcome materializes. If conventional wisdom is applied, firms selling such products may wait for months for a new customer to make referrals or recommendations. However, there is evidence, (e.g. from review sites), that some customers do make referrals and recommendations even when they are yet to use a product sufficiently or complete a service interaction (we refer to these type of referrals as pre-outcome WOM). This leads to an important question: “what factors might account for differences among customers in their engagement in pre-outcome WOM?”

Customers’ engagement in pre-outcome WOM has some potential implications for firms. One advantage is that such recommendations can speed up the adoption process for a new firm, product or service. Secondly, customers’ engagement levels may be high during the service interaction and fall off after the service outcome has been achieved. Extant research suggests that customers may forget or lose interest once they cease to be customers (Berger and Schwartz 2011), especially if they are unlikely to buy or use the service again. Indeed, many of such long-term services often tend to be services that are rarely purchased e.g., legal services, estate agent services etc. Consequently, because customer recommendations and referrals are essential for successful customer acquisition strategies for many businesses (de Vries, Gensler and Leeflang, 2017; Van den Bulte et al., 2018; Schmitt *et al.*, 2011; Wirtz et al. 2013), firms who sell long-term and/or once-in-a-

lifetime services may be particularly interested in understanding how to leverage customers for pre-outcome WOM referral behavior.

The aim of this study, therefore, is to investigate drivers of customers' engagement in pre-outcome WOM referrals. This is a largely neglected area as the majority of research on customer WOM focuses on customers who have already experienced the outcome of the service they are recommending. This study draws upon perceived risk theory to suggest that, customers rely, in addition to their current perceptions of service quality, on their confidence that the service outcome will be favorable, i.e., outcome confidence. While the effect of achieved outcomes on WOM has been researched severally, the role of outcome expectations has not received as much attention. The expectation is that outcome confidence will directly and positively influence customer WOM referral behavior. Furthermore, the extent to which customers' service quality perceptions translate into pre-outcome WOM referrals may vary systematically with their levels of outcome confidence. Consequently, this study empirically assesses how outcome confidence interacts with employee service quality to drive WOM referrals. This study proposes a compensatory effect (Semrau, and Hopp, 2014), such that as outcome confidence increases, the effect of perceived service quality on WOM behavior diminishes.

The context for this study is motoring schools in Greece. Customers in these schools generally register with a driving school and are assigned a designated instructor who are employees of the school. Customers of motoring schools often only buy the service once in their lifetime. This means that variables related to previous experiences or interactions with the service (commitment, loyalty, etc.) do not come into play. Furthermore, the final outcome of the service (i.e., passing the test) has not been realized for current customers. Thus, it is an appropriate setting to assess outcome confidence. Finally, the service outcome is binary (i.e., pass or fail) which enables us to focus on outcome confidence without taking into account the potential variability of service outcomes.

At the conceptual level, the study adds value to the existing literature in two ways: first, the study explicates the role that confidence in goal achievement plays in stimulating

WOM behavior and second, by showing how the interplay between present experience (employee service quality) and anticipations of the future (outcome confidence) contribute to in-service or pre-outcome WOM. From a practice perspective, if outcome confidence plays a role in WOM referral behavior, then service providers could implement strategies to increase the outcome confidence of their current customers.

The rest of the paper is structured as follows. In the next section, the literature review on the constructs of interest in this study is provided. After this, the research hypotheses are presented. This is followed by a discussion of the research methodology. Following this, the study's findings are presented and a discussion of the theoretical and managerial implications is provided. Finally, the limitations of the study and directions for further research are offered.

THEORETICAL BACKGROUND AND HYPOTHESES DEVELOPMENT

In this section, a brief discussion on perceived social risk, which is the theoretical foundation for the study's hypotheses, is provided. Following this, the three hypotheses are presented.

Perceived Social Risk

Bauer (1960) was one of the earliest to focus attention on the perceived risk construct. In a seminal paper, he claimed that consumer behavior involves risk because the consequences of product usage cannot be anticipated with certainty, and that some consequences of product usage are likely to be unpleasant. Perceived risk reflects the notions of uncertainty and consequences, where increasing levels of uncertainty and/or an increasing possibility of greater associated negative consequences results in higher perceived risk (Oglethorpe and Monroe 1987). Several types of risk are identified in the marketing literature, including performance, convenience, financial, physical, social, and psychological (Murray 1991).

Perceived risk has been used widely in the study of many forms of consumer behavior such as adoption of innovation, internet usage and product purchases. Recently, studies have related the tendency to transmit WOM communication with perceived social risk (e.g., Balaji et al., 2016; Eisingerich et al, 2015; Wien and Olsen 2014). WOM referral behavior is often a public consumer activity and is expected to be associated with a certain degree of social risk. The transmission of WOM involves a risk because the recipient of a referral or recommendation might hold the WOM transmitter accountable if wrong advice is provided (Gatignon and Robertson 1986). This notion is confirmed by Mazzarol *et al* (2007) who find that consumers may be reluctant to offer WOM in risky situations, such as for expensive products, in case the receiver finds the advice to be poor and by Eisingerich et al (2015) who suggest that differences observed in consumers' referral behaviour on social media versus face-to-face relate to perceptions of social risk. One other factor that might increase this risk is the lack of complete information about the service or the service provider. This paper explores WOM transmission under one such risky situation: WOM referral before the service outcome has been obtained.

HYPOTHESES DEVELOPMENT

In the sections that follow, the three hypotheses are provided. These hypothesized relationships are presented in Figure 1.

Insert Figure 1 here

In presenting the three hypotheses, it is important to briefly highlight some of the key general findings emanating from studies that address the contribution of process and outcome dimensions of service to customer evaluations and behavioral outcomes. First, customers judge process and outcome aspects of service independently (Patterson, 2016;

Gronroos, 1985; Dabholkar and Overby, 2005; Yang et al, 2012;). Second, both process and outcome contribute to overall service quality perceptions and other customer evaluations and actions such as trust, satisfaction, WOM etc. (Dabholkar and Overby, 2005; Yang et al, 2012). Third, the differential contribution of each aspect to different outcomes may be context and customer-dependent (De Keyser and Lariviere, 2014). However, the interactive effect of process and outcome quality on variables such as WOM referrals has received less attention. Accordingly, there is very little information regarding whether process and outcome elements of service interact in a complementary or compensatory manner to drive WOM referrals. This issue is discussed in more detail when presenting the third hypothesis.

Frontline Employee (Process) Service Quality and Pre-Outcome WOM referrals

Customers perceive the process aspect of service quality in many service industries in two important ways: firm service quality provided by a company's physical manifestation (e.g., access in the form of convenient operating hours; modern equipment) and perceived employee service quality provided by employees e.g., promptness and courtesy (Chiou *et al.*, 2002). The focus of this hypothesis is on how employee service quality drives pre-outcome WOM referrals.

The effect of both process and outcome dimensions as well as overall service quality perceptions on customer referrals, recommendations and positive word-of-mouth has been well documented in the literature (e.g., Balaji, Roy and Lassar, 2017; Stein and Ramseshan, 2015; Chen and Kao, 2010; Bolton and Drew 1991; Gounaris et al., 2007; Wang, 2009; Harrison-Walker, 2001). In these studies, the focus is often on WOM behavior after the service outcome has been obtained.

Overall, the expectation is that pre-outcome referrals will be less likely than post-outcome referrals because of the risk involved in providing pre-outcome WOM. However,

even with incomplete information, process quality should still have an independent effect on WOM referral behavior. Accordingly, the following hypothesis is advanced

H₇: Customers' perception of frontline employee service quality will have a positive impact on pre-outcome WOM referral behavior.

Outcome Confidence and WOM Referrals

Outcome confidence is related to expectations and anticipations of possible or likely results. Expectations are defined as beliefs that a particular outcome will occur. Each expectation is accompanied by a degree of *confidence* in the expectation. The broad definition of outcome confidence is "confidence in goal achievement" (Maddux, 1995). More specifically, outcome confidence is conceptualized in terms of "situation expectancy" rather than "action-outcome expectancy".

The importance of outcomes in driving consumer behavior is well acknowledged in the services and marketing literature. Research has long established that outcomes or the gratifications of end goals, by providing closure and meaning to service interactions can lead to positive behaviors (Yang *et al.*, 2012).

In similar vein, previous research highlights the role of anticipated outcomes on consumer behavior (Bandura, 1986; Hill and Johnston, 2004; Tang *et al.*, 2016) and especially on WOM actions. For example, empirical research has shown that customers who perceive that their likelihood of getting redress when they complain is low are more likely to engage in negative WOM before complaining to the firm (Blodgett *et al.*, 1995). On the other hand, when they are more confident of getting redress, they are less inclined to engage in negative WOM before complaining to the firm.

Drawing on perceived risk theory and insights from previous studies, this paper argues that the more confidence a customer has in obtaining their end goal, the less risky he or she would perceive the provision of pre-outcome referrals to others. Consequently,

greater levels of outcome confidence should lead to higher levels of WOM referral behavior.

More formally:

H₂: Outcome confidence will have a positive effect on pre-outcome WOM referral behavior.

The Moderating Effect of Outcome Confidence

Although both outcome confidence and employee service quality are posited to have a positive direct effect on WOM referral behavior, the prediction with regard to the interaction between the two constructs is that they will compensate each other.

Although extant research shows that customers judge the service outcome and the service process independently (De Keyser and Lariviere, 2014; Yang *et al.*, 2012; Chen and Kao, 2010), there is very little research which highlights whether, in determining consumer actions, the interaction between service process and service outcome is complementary or compensatory. However, the idea that the service outcome can compensate for process aspects of service has some backing in the extant literature. Dabholkar and Overby (2005: 23), for instance suggest that, "if the outcome is extremely good, the service provided is somewhat irrelevant" (Dabholkar and Overby, 2005, p, 23). Similarly, in the management literature, this interplay between process and outcome has been widely studied. For instance, previous research has investigated the interactive effects of process fairness and outcomes on employees work attitudes, suggesting that the interaction is often compensatory (De Cremer *et al.*, 2010).

While this study focuses on expected outcomes, in contrast to actual outcomes, the expectation is that there will be a similar compensatory or trade-off effect. The key argument is that outcomes (including expected ones) are more instrumental and related to the self, compared to perceptions of employee service quality (Dabholkar and Overby, 2005). As such, the expectation is that, when customers are more confident about the potential

outcome, the effect of service quality perceptions on WOM referrals, while still important and positive is likely to be tempered. In essence, the argument put forward is that WOM referral behavior will depend less (more) on frontline employee service quality for customers who have higher (lower) levels of outcome confidence. More formally,

H₃: The positive effect of frontline employee service quality on WOM referral behavior becomes weaker as outcome confidence increases.

METHOD

This section discusses the methodology employed for the study and the analytical approach used to test the three hypotheses presented above.

Data Collection and Participants

As detailed earlier, the context for this study is motoring/driving schools in Greece.

A random two-stage sampling design was used in which a random sample of primary entities (i.e., schools) was taken in the first stage and then the secondary units (i.e., instructors and students) were sampled at random from the selected schools in the second stage (Snijders and Bosker 2004).

In the first stage, a nationwide sample of 170 motoring schools was randomly drawn from the National Directory of Motoring Schools in Greece and contacted initially by a letter addressed to school owners, followed by a telephone call. Of those, 142 schools agreed to participate; a particularly high response rate of 83.5 percent possibly attributed to the fact that one of the authors, acting as field researcher, has been well known in the motoring schools circle.

In the second stage, and following the agreement of each school, a personal visit to each of the participating schools was made by one of the researchers. During the visit, a list

of students and instructors was obtained and a random sample of two instructors and five students was generated. This list containing the names of the selected instructors and students was left with the school owner/manager with the request to distribute the questionnaires to named individuals and keep in the school for later collection by the researcher. The questionnaires were placed in envelopes along with an information sheet. The information provided pertained to a) how to complete the questionnaire, b) return the questionnaire to the school in a sealed envelope (provided) and c) assurance that their responses would remain anonymous and would not be seen by the school owners or anyone else, in an effort to minimize possible social desirability bias.

Before collating all the responses, all students who had previously attempted the driving test were removed from the sample. In total, 135 schools provided usable questionnaires and the final sample comprised 285 instructors and 676 students with each school providing responses from five students and at least two instructors. The number of instructors and students respectively in the sampled schools ranged from two to six (with an average of four) and seven to 24 (with an average of 14) respectively. Of the instructors, 86% were males and 14% were females with an average age of 36 years (male instructors mean age = 37; female instructor mean age = 31). Of the students, 37% were males and 63% were females with an average age of 25 years. The age difference between males and females is not statistically different. The average tenure of instructors with the motoring school was 4.4 years and ranged between 1 to 25 years.

Measures

The variables used in the analysis are shown in Table 1. The measures of each variable are presented in Appendix 1. The questionnaire was subjected to back translation. After a rigorous pre-test, changes were made in the wording of several items to fit the purpose of this study. For all scales, Likert-type response categories (1 strongly agree – 7 strongly disagree; 1 very often- 7 not at all) were used. All scales showed acceptable reliability and convergence validity and the results, as summarized by construct reliability (CR) and

average variance extracted (AVE) are presented in Table 2. The scores of all covariates were summated and mean-centered. Means standard deviations and correlations among the variables are also presented in Table 2.

Insert Table 1 here

The key constructs of interest in this study are frontline employee service quality, outcome confidence and WOM referrals. Students were asked to provide information on the service quality of their own driving instructor (employee service quality), outcome confidence and their WOM referral behavior.

Respondents were also asked to report on a number of control variables. Driving school students were asked to provide information on other aspects of the motoring schools service quality (firm service quality) and also on the average quality of the instructors in their school. The mean scores for average quality were calculated for each school to arrive at an aggregate of instructor quality at the school level. Finally, driving instructors were requested to provide information on their commitment to their organization. These scores were averaged to arrive at a measure of average instructor commitment at the school level.

The inclusion of firm service quality as a control variable acknowledges that customers may interact with other aspects of the organizational environment (e.g., other staff, infrastructure etc.). These interactions could also drive customer actions such as WOM referrals (Gronroos and Ojasalo 2004).

Average quality of employees was also included in the model as a moderator of the employee service quality-WOM referral link. It is likely that while student's personal experiences with their own instructor should play the key role in driving their referral behavior, they are likely to also consider the average quality of frontline employees in the school. This is likely because referrals relate to the school and not the specific instructor

since allocation to instructors is done by the school. When average quality is high (i.e., indicating less variability in instructor quality in a school), there is very little risk in recommending the school. When average quality is lower, a current customer is likely to perceive a greater risk occasioned by the possibility that someone they have referred may be allocated to an instructor with poorer quality and thus have a sub-optimal experience. In such cases, the student may be less willing to provide a referral or recommendation.

Commitment of frontline employees to their organizations should impact on customer WOM referral behavior because employees who are more committed to their organizations are more likely to engage in positive employee WOM; that is, saying positive things about the organization to their customers (Paulin *et al.*, 2006). This WOM is likely to be picked on by customers and influence the customer's own WOM. Stronger commitment may also influence referral behavior because it signals to customers the employees' desire to remain in the relationship with the firm. This reduces the risk (Gatignon and Robertson, 1986) that a referred customer will receive a poorer service due to changes in employees.

Insert Table 2 here

ANALYSIS AND RESULTS

Multi-level modelling was employed to test the study's hypotheses. By using multi-level modelling we are able to account for the hierarchical structure of the two-level data (respondents nested in schools) and so can differentiate between the contextual and compositional effects in our results. Various software packages exist for performing multilevel modelling such as SAS, SPSS, HLM, MLWin, and LISREL. While some of the more sophisticated packages can handle mediating variables, the more basic ones are unable to do this. However, since our analysis involved a single dependent variable and no mediating variables, we used the multi-level modelling tool in SPSS to test our hypotheses.

Previous research has shown that while there are slight differences in how the various software work, most multilevel modelling software (SAS, SPSS, HLM, MLWin, etc.) provide similar coefficients (Allbright and Marinova, 2010; McCoach et al, 2018).

Using a step-up multilevel modelling approach, an unconditional model was fitted first (Model 1). Next the level-1 covariates were entered into the equation (Model 2), followed by the inclusion of the level-2 covariates and the cross-level interaction effect (model 3). All equations for the three models are included as appendix 2

The unconditional model was used to test for mean differences between motoring schools on the dependent variable (i.e., WOM referrals). The distribution of the residuals associated with the student-level observations is $e_{ij} \sim N(0, s^2)$, where s^2 represents the residual variance. The distribution of the variance associated with school intercepts is $u_{0j} \sim N(0, s^2_c)$. These residuals and intercepts are all taken to be independent of each other. The results indicated that there is significant variability in WOM referral behavior of students both within schools (Wald $Z=16.446$, $p<.001$) and between schools (Wald $Z=5.434$, $p<.001$). The value of intra-class correlation was $\rho_i = .291$, suggesting that 29.1% of the variance in WOM occurs between schools. This means there is significant variability between schools in the average WOM behavior of students, and the use of multilevel analysis is an appropriate analytical tool.

In the next model (Model 2) the three level-1 covariates are included. Namely: employee service quality (ESQ), firm service quality (FSQ) and outcome confidence (OC). Comparing the deviance of the null model (Model 1) and the deviance of Model 2 (1749.861-1411.183) there is a reduction of 338.7. This difference is assessed using the chi-square distribution with 3 degrees of freedom. The results $\chi^2(3) = 338.678$ ($p<.001$), suggests that Model 2 fits the data better than the null model (Model 1). The results in Table 3 indicate that the coefficients for the three level-1 covariates are all positive and statistically significant.

The next model (Model 3) includes the main effect of employee commitment (EC), a level-2 covariate, on WOM as well as the following two interaction effects: a) the cross-level

interaction between the average quality of employees (AQ) and employee service quality and b) the effect of students' outcome confidence on the employee service quality– WOM referral behavior link.

Insert Table 3 here

Comparing the deviance of Model 2 and the deviance of Model 3 (1411.183-1373.176), there is a reduction of 38.01. This difference is assessed using the chi-square distribution with 4 degrees of freedom. The result $\chi^2(4) = 38.007$ ($p < .01$), indicates that Model 3 fits the data better than Model 2. Model 3 is the final model and the results will be discussed with reference to this model. The assumption of residual normality underlying Model 3 was checked using a histogram and normal Q-Q plots. These show no significant deviation from normality. Checks between the conditional predicted values and the actual observed scores of WOM referral behavior also show a good agreement.

The results from the final model (Model 3) indicate that all coefficients of the level-1 covariates are positive and statistically significant; i.e., employee service quality [(ESQ): $\hat{\gamma}_{10} = .354$], firm service quality [(FSQ): $\hat{\gamma}_{20} = .201$] and outcome confidence [(OC): $\hat{\gamma}_{30} = .279$]. Specifically, employee service quality has the greatest impact on students' engagement in WOM referral behavior, followed by outcome confidence and firm service quality. These findings provide support for hypotheses H_1 and H_2 . The findings also indicate that the moderating effect of outcome confidence on the relationship between employee service quality and WOM referrals is significant [(OC)*(ESQ): $\hat{\gamma}_{21} = -.138$] and in the direction it has been hypothesized. This means that H_3 is supported.

In terms of the control variables, the main effect of employee commitment (level-2 covariate) on WOM referral activity [$\hat{\gamma}_{01} = .129$] is positive and significant ($p < .01$). However, the moderating effect of the average employee quality on the employee service quality - WOM referrals relationship [(AQ)*(ESQ): $\hat{\gamma}_{11} = .206$] is non-significant.

DISCUSSION

Theoretical issues

The point of departure for this study was the need to investigate antecedents of WOM referral behavior by customers who are still engaged in a service and who have not experienced the service outcome. While there has been a significant focus on the role of relational constructs in stimulating positive WOM communication, there has been less attention given to factors that motivate current customers in long-term service interactions. Second, while customer expectations have been explored as drivers of constructs such as customer satisfaction, the direct effect of outcome confidence on outcomes such as WOM referral has not received much attention in the literature. Furthermore, the interaction between outcome and process elements of service quality in driving WOM behavior has largely been ignored.

At the theoretical level, this study contributes to the literature by outlining how outcome confidence directly predicts pre-outcome WOM referral behavior. The findings of the study provide support for the assertion that outcome confidence contributes to customers' engagement in positive WOM behavior. Secondly, the study contributes to the literature by modeling pre-outcome WOM referral behavior as an interplay between present experience (employee service quality) and anticipations of the future (outcome confidence). To the authors' knowledge, this is one of the first studies to do so.

The findings in regard to this interaction effect are particularly interesting. Prior research has shown that, in different contexts, process and outcome aspects of service quality can have differential impacts on customer evaluations and responses (e.g., Yang et al, 2012; De Keyser and Lariviere, 2014). However, the prevailing wisdom seems to be that their interaction is complementary for many outcomes. The results of this study reveal a compensatory effect suggesting that as outcome confidence increases, the role of present

experience (employee service quality) diminishes. This moderating effect contributes to our knowledge of the important role that customers' anticipation and expectations play in explaining consumer behavior in general and pre-outcome WOM activity in particular. In the next section, the practical implications of this finding for firms and their customers are highlighted.

Managerial Implications

This research has significant, practical implications because its findings can potentially offer insights for managers on how to optimally allocate resources to areas that maximally enhance pre-outcome WOM referral behavior

First, given the link between employee service quality and pre-outcome WOM, it is imperative that customer contact employees be given the necessary resources and training to enable them deliver good service. Furthermore, because quality delivered by customer-contact employees is a strong driver of pre-outcome WOM, such employees should be rewarded when success in WOM referral occurs. Organizations should improve database capabilities that track new customers back to customer referral sources. Consequently, employees who have trained these customers and who have thus played a part in stimulating the customer's WOM behavior can be identified and rewarded. Such a strategy can motivate employees to improve the quality of their service.

The findings also highlight the role that outcome confidence plays in stimulating pre-outcome WOM. From the results, the more confident students are about a positive outcome occurring, the more likely they are to engage in pre-outcome WOM behavior. Outcome confidence is an individual characteristic which is state like (rather than trait-like) and thus open to improvement. The malleable nature of outcome confidence suggests that not only can it be identified, but it can also be influenced and encouraged. Thus, firms need to focus on ways to increase outcome confidence if they are to stimulate higher levels of pre-outcome WOM. One potential way to improve outcome confidence is through informational support.

Firms can provide statistics and information of past successes with previous customers on a regular basis to current customers. This should help them feel more confident about their expected outcome

The fact that outcome confidence acts as a buffer to employee service quality is also an important reason for seeking to improve outcome confidence. The results suggest that as outcome confidence increases, the impact of employee service quality become less crucial for determining WOM behavior. Thus, in making resource allocation decisions this interaction effect should be taken into account. For example, in situations where existing customers may need reassigning to a new employee, knowledge of their level of outcome confidence can help in matching the customer to a frontline employee. Based on the findings of this study, the WOM referral behavior of customers who are highly confident (compared to those with lower levels) of a positive outcome may be less hampered if employee service quality reduces as a result of the reallocation.

These results should, however, not be taken to mean that firms do not need to focus on process quality. Process or interaction quality is important and plays an important part. The strong direct effect of employee service quality on WOM referral observed in this study confirms this importance. As such, our findings suggest that managers should invest in both elements. However, it seems likely that improving outcome confidence may be less resource-intensive than improving employee service quality; consequently, managers seem to have the opportunity to tactically use outcome confidence to compensate low levels of process or employee service quality.

Limitations and Future Research

In interpreting the results of this study, one must consider some limitations. These limitations, together with the specific findings of the present study, provide some avenues for future research. The most significant limitation of this study is that this study is conducted

within a specific context and as such the results are not intended to be generalized uncritically to other contexts. However, this study has addressed a few relationships which the authors believe should hold in many contexts which are similar to this study's, i.e.; current first-time customers of long-term services. Future research can test the relationships examined in this study to see if they hold in other types of services. For instance, in the context of this study, the outcome is to some extent dependent on the behavior or performance of the customer. It may be worthwhile to test the model in a situation where the outcome is less dependent on the customer and perhaps to some extent wholly dependent on the provider (e.g., legal services, hospital services etc.). Comparing results in these different contexts might shed more light on the role of outcome confidence for WOM referral behavior.

The construct of outcome confidence has rarely featured in WOM research. Nonetheless, the findings here indicate that it is a significant predictor of pre-outcome WOM referral activity. Its moderating effect on the relationship between customer service quality and WOM makes further research into the role, nature and importance of outcome confidence for WOM activity necessary. For example how can outcome confidence be increased? What other factors may further moderate the influence of outcome confidence on pre-outcome WOM referral activity? Furthermore, are there individual difference variables (e.g.; own money versus others money used for payment; attributions, individualism, etc.), that alter the interaction between process quality and outcome confidence. Answering these questions might shed more light on how confidence perceptions interact with other antecedent variables to predict pre-outcome WOM behavior.

It might also be interesting to compare the interaction between process and outcome for customers still engaged in the service and customers who have finished receiving the service. In order to investigate this, researchers might track both pre-outcome and post-outcome WOM for the same group of customers. This research revealed that, as far as motivating pre-outcome WOM is concerned, employee service quality could be

compensated for by outcome confidence. However, does the same interaction effect hold after the customer has received the service outcome?

Another issue that warrants further investigation is whether perceptions of outcome and process affect each other. For example, consumers may perceive process quality to be higher when their outcome confidence is higher and vice-versa. Future studies can address this issue.

In conclusion, the authors believe that this study has highlighted a crucial aspect of WOM behavior and investigated a key determinant of pre-outcome WOM behavior. It is their hope that the contribution of the study will provide impetus for further research in this area.

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Appendix 1 – Measurement scales

Word-of-Mouth referrals

Over the last month how often have you:

- a) said positive things about this driving school to others
- b) recommended the school to others
- c) referred your friends who want to get a driving license to this school

Employee Service Quality

- a) My instructor is friendly
- b) My instructor treats me with respect
- c) My instructor is never too busy to respond to my requests
- d) My instructor understands my specific needs

Average Employee Quality

How would you rate the average quality of instructors in this school?

Firm Service Quality

- a) The facilities in the school are well designed and attractive
- b) The school has convenient operating hours and flexible schedules for classes and driving sessions
- c) The people who work in the school are courteous
- d) It is always easy to get help when I need it

Outcome Confidence

- a) My chances of passing the driving test are very high
- b) I am confident about passing my driving test

Employee Commitment

- a) I am happy about my relationship with this school
- b) I find that my values and the School's values are similar
- c) I am proud to tell others that I am part of this school
- d) I am glad that I chose to work in this school

Source: Mowday, R.T., R.M. Steers, and L.M. Porter (1979). "The Measurement of Organizational Commitment," *Journal of Vocational Behavior*, 14 (2), 224-47.
(Relevant items were adapted to fit the context of this study).

Appendix 2

The specification of the unconditional model (i.e., Model 1 or the random intercept only model) is as follows:

$$\begin{aligned} (WOM)_{ij} &= \beta_{0j} + \varepsilon_{ij} && \text{(Level-1)} \\ \beta_{0j} &= \gamma_{00} + u_{0j} && \text{(Level-2)} \\ (WOM)_{ij} &= \gamma_{00} + u_{0j} + \varepsilon_{ij} && \text{(Model 1)} \end{aligned}$$

Model 2, including the following level-1 covariates: employee service quality (ESQ), firm service quality (FSQ) and outcome confidence (OC), is specified as follows:

$$\begin{aligned} (WOM)_{ij} &= \beta_{0j} + \beta_{1j}(ESQ)_{ij} + \beta_{2j}(FSQ)_{ij} + \beta_{3j}(OC)_{ij} + \varepsilon_{ij} && \text{(Level-1)} \\ \beta_{0j} &= \gamma_{00} + u_{0j}; \beta_{1j} = \gamma_{10}; \beta_{2j} = \gamma_{20}; \beta_{3j} = \gamma_{30} && \text{(Level-2)} \\ (WOM)_{ij} &= \gamma_{00} + \gamma_{10}(ESQ)_{ij} + \gamma_{20}(FSQ)_{ij} + \gamma_{30}(OC)_{ij} + u_{0j} + \varepsilon_{ij} && \text{(Model 2)} \end{aligned}$$

Model 3 which includes the main effect of the control variable, employee commitment (level-2 covariate) on WOM referrals as well as the following two interaction effects: a) the cross-level interaction between the average employee quality and employee service quality and b) the interaction effect of outcome confidence and employee service quality on WOM referral behavior is specified as follows:

$$\begin{aligned} (WOM)_{ij} &= \beta_{0j} + \beta_{1j}(ESQ)_{ij} + \beta_{2j}(FSQ)_{ij} + \beta_{3j}(OC)_{ij} + \beta_{4j}(EC)_j + \beta_{5j}(AQ)_j * (ESQ)_{ij} + \\ &\beta_{6j}(OC)_{ij} * (ESQ)_{ij} + \varepsilon_{ij} && \text{(Level-1)} \\ \beta_{0j} &= \gamma_{00} + u_{0j}; \beta_{1j} = \gamma_{10} + u_{1j}; \beta_{2j} = \gamma_{20}; \beta_{3j} = \gamma_{30}; \beta_{4j} = \gamma_{01}; \beta_{5j} = \gamma_{11}; \beta_{6j} = \gamma_{21} && \text{(Level-2)} \\ (WOM)_{ij} &= \gamma_{00} + \gamma_{10}(ESQ)_{ij} + \gamma_{20}(FSQ)_{ij} + \gamma_{30}(OC)_{ij} + \gamma_{01}(EC)_j + \gamma_{11}(AQ)_j * (ESQ)_{ij} + \\ &\gamma_{21}(OC)_{ij} * (ESQ)_{ij} + u_{0j} + u_{1j}(FSQ)_{ij} + \varepsilon_{ij} && \text{(Model 3)} \end{aligned}$$