Analysis of Service Environment: A Case of Sri Lankan Banking Sector

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Abstract:-

With the rapidly changing and complex business environment that intensifies the competition, business firms are continuously focusing on bringing novelty to the businesses. The purpose behind this is to deliver a greater value and experience to the customers. As far as service firms are concerned, the physical service environment plays a salient role in shaping the service experience and delivering customer value/ satisfaction. Although the effect of service environment on merchandise value has been investigated in literature, there is a lack of research based answers on how physical environment can deliver hedonic value to the customers in commercial banks. Therefore, the research attempts to bridge this gap by investigating the factors that influence the high quality service environment of the private sector commercial banks in Sri Lanka. Subsequently, the research makes suggestions and recommendations to improve the service environment with the aim of attracting and retaining customers. The research proposed comprehensive service environmental models including various factors categorized under three types of environment cues: Design Cues, Ambient Cues, and Social Cues. The data was collected through a structured questionnaire administrated to randomly selected 120 respondents in 10 bank branches which includes branches with improved physical environment and unimproved physical appearance. Analysis proves that design cues have higher influence compared to other two cues. Social cues have the least influence while ambient cues have moderate influence towards high quality service environment. The study provides suggestions for further research opportunities.

Key words:- Service environment, Design cues, Ambient cues, Social cues, Commercial banks

1. Introduction

With the rapidly changing and complex business environment that intensifies the competition, business firms are continuously focusing on bringing novelty to the businesses. The purpose behind this is to deliver a greater value and experience to the customers. Business firms invest heavily on numerous strategies such as innovation, technology,

training etc. aiming at development of products and services. At the same time, investment goes on strategies aiming at improvement of environment of delivering products and services. Together with the greater product and service, the way the product and services are delivered makes a significant influence on customer experience and value. The greater customer value can be achieved with the strategies which cater and exceed the desires of the customers, which will also make the investment of resource in implementing such strategies a successful.

As far as service firms are concerned, the physical service environment plays a salient role in shaping the service experience and delivering customer value/ satisfaction. High quality service environment influences critical customer relationship from the initial attraction of the customer to retention and even enhancement of the relationship. The importance of service environment on consumer behavior is not a new idea in the marketing literature. Kotler (1973) first introduced the concept of store atmospherics, and defined it as "the effort to design buying environments to produce specific emotional effects in the buyer that enhances his or her purchase probability". In 1974, two environmental psychologists, Mehrabian and Russell, introduced the Stimulus-Organism-Response (S-O-R) framework which asserts that the physical environment influences individuals' internal states, and in turn these states determine approach and avoidance behavior. The S-O-R framework initiated a number of marketing studies that have generally supported relationships between service environment and customer perception, affect and organization patronage intentions (Donovan and Rossiter, 1994; Baker *et al.*, 1992; Baker *et al.,* 2002).

Further, services are often intangible and thus, customers face difficulty in assessing the value. Therefore, customers frequently use service environments as an important quality proxy, and firms take great effort to convey the message of quality through the environment and to portray the desired image. As an example, the reception area of successful professional firms, such as commercial banks or management consulting firms, décor and furnishing tend to be elegant and designed to impress. As a result of this, most of the organizations in Sri Lanka as well as all over the world provide a high quality service environment to their customers as a strategy in conveying the value. It is considered as an investment to enhance their profit, reputation, clientele, and customer base. The better environment enhances overall performance of an organization.

Despite a plethora of evidence in support of the link between atmosphere and customer behavioral outcomes from the past studies, several areas in services environment research warrant further examination. For an example, researches have not adequately addressed the importance of environmental cues for varying customer types. Although conventional wisdom and actions of retailers imply that customers differ in their goals and motivations to engage in particular activities, empirical verifications are needed to explain how these motivations influence the customers' experience and value.

Further, the extant literature lacks empirical evidence on the effect of the service environment on customer's perceived value in varying customers. Although the effect of service environment on merchandise value has been investigated in literature (Berry, 1988; Baker *et al.,* 2002), there is a lack of research based answers on how physical environment can deliver hedonic value to the customers. However, this is critical in service organizations. Therefore, this research attempts to bridge the knowledge gap by investigating the factors that influence the High Quality Service Environment with special reference to the banking sector.

2. Objectives of the Study

The study attempts to find the major factors that determine the High Quality Service Environment with special reference to the banking sector in Sri Lanka, and subsequently to propose suggestions and recommendations

to improve the service environment with the aim of attracting and retaining customers.
Therefore the study attempts to:

- identify the factors influencing High Quality Service Environment,
- analyze the impact of those factors on service environment of the banking sector in Sri Lanka,
- provide recommendations to improve the Service Environment.

3. Literature Review

High Quality Service Environment (HQSE) plays a salient role in influencing critical customer relationship from the initial attraction of the customer through to retention and even enhances the relationships. The physical or built-in environment is important for getting and satisfying customers since services are intangible products. Customer contact is high in services-delivery, therefore design of the service environment is a source of pleasure and value to the customers (Baker *et al.*, 1994; Baker *et al.*, 1992). Due to intense competition, building and maintaining the quality service environment has already become important to any organization.

Scholars have discussed extensively the quality working environment, and have presented models to explain it (i.e. Mehrabian-Russell Stimulus - Response Model, Russel Model of Affect, Servicescape Model, S-O-R framework etc.). The theoretical underpinning for understanding the effect of HQSE on customers and employees is described as environmental psychology.

3.1 Environmental Components of Service Organization

On the basis of S-O-R framework, environmental stimulus cues are the circumstances of customer evaluations towards a service organization. Schellinck (1982) defined a cue as "a characteristic, event, quality, or object, external to a person that can be encoded and used to categorize a stimulus object." A service environment contains numerous non-product cues that aim to create a customer satisfaction and attraction. These cues are termed as service environmental cues. Service marketing researchers indicate that the ability of the physical environment to influence behaviors and to create an image is particularly apparent in service businesses such as banks (Bitner 1986). Scholars researching service environment have made an attempt to categorize the elements in a physical environment (e.g.: Baker, 1987; Bitner, 1992). Bitner (1992) proposed three dimensions of service organization environment features that constitute the services cape (1) ambient conditions, (2) spatial layout and functionality, and (3) signs, symbols and artifacts. Further, Baker (1987) classifies environmental components into ambient, design and social factors. Ambient factors refer to the non-visual elements of a space that tend to influence the consumer's subconscious (e.g. temperature, music, and lighting). Design factors are the stimuli that represent the visual elements of a space that tend to exist more at the forefront of a consumers' awareness (e.g. color, layout, and architectural elements). Social factors involve the presence of employees and customers in the environment.

A comparison of these two classification schemes was undertaken by Brady and Cronin (2001), who found Baker's typology to be more comprehensive and parsimonious in uncovering the underlying dimensions of service environments. Since retailing involves a large service component, this study will use Baker's typology of environmental cues.

3.2 Environmental Cues in Service Organization and Customers' Value Perceptions

Past research on the effects of organization environmental cues on customers' value perceptions is limited. The few studies that have investigated this relationship suggest that environmental cues affect a customer's value perceptions; however the relationship is mediated by perceived service quality and perceived services (Baker et al. 2002, Sirohi et al. 1998). Further, higher quality perceptions will positively affect service value perceptions

whereas higher price perceptions will hold a negative relationship with perceived service value. This view of atmospherics-value relationship explains the process by which customers make value judgments about the product on the basis of external cues exist in the environment, and how these value judgments affect the consumer responses in a retail outcome. Emphasizing the utilitarian approach towards value, empirical studies have shown that by manipulating the environmental variables of a retail store, a retailer can influence the value perceptions of customers by changing the perceived price and quality on one hand, and psychic costs (such as perceived waiting time) on the other .

3.3 Conceptual Model

The service environment plays an important role in shaping the service experience and delivering customer satisfaction. This study proposes a comprehensive service environmental model which includes three types of environment cues. They are:

- Design Cues
- Ambient Cues
- Social Cues.

3.3.1 Design Cues

The design of an organization represents the physical appearance of the organization. Design can be broken down into two main components: spatial layout and functionality (Bitner, 1992). Spatial layout refers to the amount and the size of merchandise, fixtures and furnishings, the way they are arranged and the spatial relationship among them (Berman and Evans, 1992,). Service organization functionality is the ability of these items to facilitate performance of the organization and accomplishment of goals. In the absence of prior knowledge about the service organization, customers' expectations of a service offering are influenced by the environmental cues (Grewal and Baker, 1994). Although studies related to the effect of design cues on perceived interpersonal service quality are sparse in the retailing literature, Greenland and McGoldrick (1994) found that customers perceived that employees in modern style bank branch are more approachable and knowledgeable when perceptions of design cues become more favorable.

Organizations try to develop their own atmosphere through designing the building to emphasize products and help the product to stand out. The design of the layout patterns vary by the retail format. Typically, the type of layout used by the merchandise-oriented stores is different from service- oriented retailers (for example, commercial banks). Retailers try to accomplish many goals while designing a store environment, such as providing customers an adequate space to navigate and shop easily (Levy and Weitz, 2001), controlling and directing traffic flow on the selling floor (Hasty and Reardon, 1996), and creating a unique organizational image. Further, the design style refers to the organization image which is created by numerous design elements. For example, the use of marble, carpeted floors and rich décor in the organization are instrumental in creating a rich and plush environment. On the other hand, cement floor, timber glass partition creates a low organization image (Gardner and Siomkos, 1985).

3.3.2 Social Cues

Employees and co-customers are recognized as 'social factors' in retail service organization setting. Prior research suggests that relation between customers and employees affects customers' satisfaction in services by influencing the moods of the customers (Grewal and Sharma, 1991). When the customers recognize that service employees are particularly helpful and friendly, and provide faster service, it induces greater levels of stimulation and pleasure resulting in positive effect towards the organization (Wakefield and Blodgett, 1999). In addition to the interaction between employees and a customer, the service encounter is often characterized by the condition of multiple customers whose presence may influence each other. Therefore, a customer's service experience may be affected positively or

negatively by one's fellow customers (Grove and Fisk, 1997).

3.3.4 Ambient Cues

Ambient conditions are those characteristics of the environment pertaining to man's five senses. Even when not consciously noted, they may still affect people's emotional well-being, perceptions and even attitudes and behaviors. The ambient environment, or atmosphere, is a Gestalt concept, composed of literally hundreds of design elements and details that have to work together to create the desired service environment. The resulting atmosphere creates a mood that is perceived and interpreted by the customer. Ambient conditions are perceived both separately and holistically and include lighting and color schemes, size and shape perceptions, sounds, temperature and scents. Clever design of these conditions can elicit desired behavioral responses among customers.

4 Hypotheses

Based on the literature review and research objectives, following hypotheses have been formulated.

H_1: Design Cues positively influence a High Quality Service Environment

H_2: Ambient Cues positively influence a High Quality Service Environment

H_3: Social cues positively influence a High Quality Service Environment

5 Methodology

The research applied explanatory research design and deductive approach. The study attempts to explore, describe and find factors influencing the HQSE focusing on banking sector in Sri Lanka. Further the study attempts to find out the causal relationships of variables and thereby contributing to the knowledge to predict the factors influencing the HQSE through empirical data. Since the causal relationships are investigated to acquire the information needed to structure the problem, the type of investigation is causal. The study uses cross-sectional data. Unit of analysis was individual and it was appropriate since individual experience is analyzed in the study. The study chooses a surveyor method, since the intention of the study was to find in depth, information regarding the service environment. The study focused on the banking sector by concerning one of the leading commercial banks in Sri Lanka, which has a branch-network spread throughout the country. The main goal of this study was to empirically test whether atmospheric factors of a bank affect customers experience and value. Therefore it was vital that the study be conducted in a natural setting and the sample be representative of the customers' interest. No-manipulation is done on research variables. Therefore the study setting is non-contrive. Since sample surveys offer maximum ability and realism, it was chosen as the appropriate method for the purpose of this study.

Data Collection Method: Primary data was collected through a structured questionnaire. The first part of the questionnaire provided a brief explanation of the research with the aim of giving a brief idea about the research and its purpose and the next part was allocated to gather general details of the respondents. The final part of the questionnaire was allocated to gather perception of respondents in factors determining HQSE. This part was developed by adopting five point Likert scale format where 1 represented "strongly disagree" and 5 represented "strongly agree".

Sampling Procedure: Prior to conducting the main study, an exploratory study of 15 respondents was conducted as a pilot study with the aim of finalizing the hypotheses, refining the questionnaire, and confirming that the proposed theoretical model conforms to the actual experience and value in HQSE. A convenience sampling method was undertaken in the pilot study. Completed questionnaires were collected directly by the researcher and responses were inspected and analyzed for missing data and response error. Data gathered from the survey were analyzed for scale reliabilities and model fit. The results obtained from the pilot study helped revise the questionnaire.

For the data collection, 10 branches out of 167 branches were selected at random in two clusters: Physical environment improved and non-improved. Each cluster includes 05 branches. The target sample size was 120 in the study. Each branch was given 15 questionnaires with the aim of collecting responses from 150 respondents. In order to avoid influences from bank employees, branch managers were asked to administer the survey to the customers only. While applying a random survey, customers' willingness to be respondents was considered in distributing the questionnaire. Each customer was briefed about the purpose of the study.

Measure of Reliability: The study assessed the reliability of the questionnaire using Cronbach's Alpha Index. When Cronbach's Alpha Index exceeds 0.6, it is assumed that the questionnaire is reliable.

Measure of Validity: Convergent and discriminate validity is checked by correlation analysis.

Statistical techniques: The mean, standard deviation, and Cronbach's Alpha Index were applied in the study.

6. Data Analysis

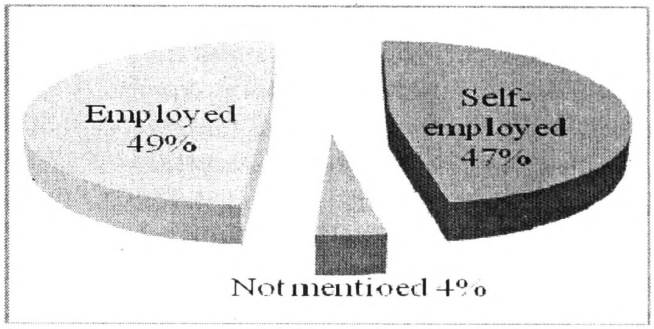
6.1 Analysis of Respondents:

Number of Respondents: Questionnaires were distributed among 150 customers and received only 115 of them. Out of the 115 questionnaires, 15 were rejected due to incomplete information, and only 100 questionnaires were selected for analysis.

Respondents' Occupation: Out of 100 respondents 49% were employed in private and public sector organizations and 47% were self employed 4% of the respondents have not mentioned their employment (See Figure 6.1). The sample therefore represents both employed and self-employed respondents. Thus the sample would not be a bias sample and a better representation of the population.

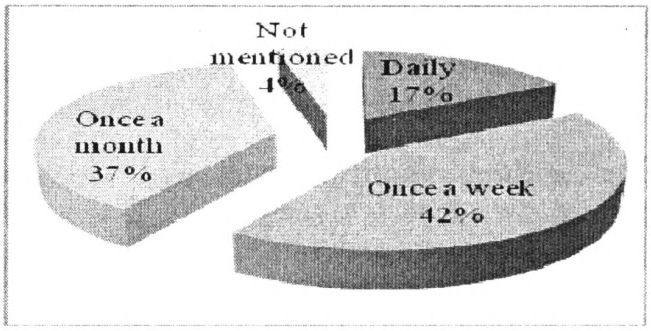
Reliability: The reliability of the questionnaire was tested by Cronbach's Alpha Index. The results show that the Cronbach's Alpha Index for overall questionnaire is 0.94. This reveals that the overall reliability of the questionnaire is acceptable. Further it is found that Cronbach's Alpha Index of the questionnaire in branches with improved physical environment is 0.945, and it is 0.836 in branches with unimproved physical appearance. Thus, both can be deemed reliable.

Figure 6.1: Respondents' occupations



Frequency of Visits to Bank: 17% customers visit the bank daily and 42% and 37% customers respectively visit the bank once a week and once a month. The majority of the sample is regular customers (Daily 37% + Once a week 17% = 53%). Thus the sample is a better representation of the population.

Figure 6.2: Frequency of Respondents' Visits to Bank



6.2 Testing Reliability and Validity

Convergent Validity: Among the independent variables of interest in the study, the sub-variables on building exterior and interior ($r=0.764$, $p<.01$), employee perception and customer perception ($r=0.721$, $p<.01$) are having strong correlation and significantly

related to each other. The higher correlation between sub-variables indicates that convergent validity is at an acceptable level.

Discriminate validity: The correlation between the different sub-variables have strong relationship and are significantly related to each other ($r=0.680$, $p<.01$). This indicates that discriminate validity is at an acceptable level.

6.3 Testing Hypothesis

H_1: Design Cues positively influence a High Quality Service Environment

The hypothesis was related to the physical appearance of forming a customer perception of a service environment. Building exterior, parking, interior layout, signage and furnishing are the components of design cues. The hypothesis presented in this section considered the combined effect of individual cues. The analysis of mean and standard deviation is depicted in the Table 6.1. It clearly shows that the mean is significantly different from branches with improved physical environment (3.75) to branches with unimproved physical environment (2.91). This reveals that the H_1 is accepted. Thus, design cues of the bank influence the High Quality Service Environment and there by positively relates to the customer experience and value.

Table: 6.1: Analysis of Mean and SD: Design cues

Branches with improved physical appearance		Branches with unimproved physical appearance	
Mean	SD	Mean	SD
3.75	0.49	2.91	0.39

H_2: Ambient cues positively influence a High Quality Service Environment

Ambient cues are the sensory cues in a branch. Light, air conditioners, sounds and music including the color schemes are the four components of ambient cues considered in the study. The hypothesis presented in this section considered the combined effect of individual cues. The analysis of mean and standard deviation is in the Table 6.2. It clearly shows that the mean is different from branches with improved physical environment (3.72) to branches with unimproved physical environment (3.26). This reveals that the H_2 is accepted. Thus, ambient cues of the bank influence High Quality Service Environment and there by positively relates to the customer experience and value.

Table 6.2: Analysis of Mean and SD: Ambient Cues

Branches with improved physical appearance		Branches with unimproved physical appearance	
Mean	SD	Mean	SD
3.72	0.52	3.26	0.50

H_3: Social cues positively influence a High Quality Service Environment

Social cues are the sensory cues. Employee perception, customer perception, service and employee uniforms are the four components of social cues considered in this study. The hypothesis presented in this section considered the combined effect of individual cues. The analysis of mean and standard deviation is given in the Table 6.3. It clearly shows that mean is slightly different from branches with improved physical environment (3.54) to branches with unimproved physical environment (3.23). Since the components of social cues are also considerably improved even in branches with unimproved physical appearance, the mean different is minimal. However, this slightly different in mean reveals that the H_3 is accepted. Thus, social cues of the bank influence High Quality Service Environment and there by positively relates to the customer experience and value.

Table 6.3: Analysis of Mean and SD: Social Cues

Branches with improved physical appearance	Branches with unimproved physical appearance

Mean	SD	Mean	SD
3.54	0.56	3.23	0.38

6.4 Analysis of Sub Variables

Sub-variables of design, ambient, and social cues are analyzed in this section.

Design Cues

The analysis of mean and standard deviation of sub variables of design cues is given in the Table 6.4. Analysis shows that there is a notable difference in response between branches with improved physical environment and unimproved physical appearance. It was found that customers are more concerned about building exterior, signage, furnishing and interior layout. Interestingly customers have not shown much concern on parking.

Table 6.4: Mean & SD of sub variables: Design Cues

Sub Variables	Branches with improved physical appearance		Branches with unimproved physical appearance	
	Mean	SD	Mean	SD
Exterior	3.68	0.89	2.28	0.93
Parking	4.30	0.56	4.15	0.63
Interior layout	3.37	0.42	2.86	0.23
Signage	3.65	0.72	2.83	0.62
Furnishing	3.76	0.58	2.43	0.58

Ambient Cues

The analysis of mean and standard deviation of sub variables of ambient cues is in the Table 6.5. Analysis shows that there is a difference in response between branches with improved physical environment and unimproved physical appearance. It is clear that customers are more concern on color scheme, light, and sound and music. Interestingly customers have not shown much concern on Air condition. This may be due to availability of air condition in both branches with improved physical environment and unimproved physical environment.

Table 6.5: Mean & SD of sub variables: Ambient Cues

Sub Variables	Branches with improved physical appearance		Branches with unimproved physical appearance	
	Mean	SD	Mean	SD
Air Conditio-ner	3.84	0.68	3.72	0.51
Light	3.86	0.55	3.15	0.58
Sound/ Music	3.59	0.67	3.09	0.81
Color Scheme	3.84	0.59	2.57	0.73

Social Cues

The analysis of mean and standard deviation of sub variables of social cues is given in the Table 6.6. Analysis shows that there is a slight difference in response between branches with improved physical environment and unimproved physical appearance. It is evident from the analysis that all other sub variables in physical environment improved branches have higher mean value compared to physical environment not improved branches. Analysis shows that customers are more concerned on customer perception. Interestingly customers have not paid much concern on other sub variables such as employee perception, service, and employee uniform.

Analysis of Variables among Employed and Self Employed Customers

The analysis of mean and standard deviation of responses of employed and self employed customers is given in the Table 6.7. It shows that concern of both employed and self employed customers on design, ambient and

social cues are almost the same. However, self employed customers have a slightly higher concern on all cues.

Table 6.6: Mean & SD of sub variables: Social Cues

Sub Variables	Branches with improved physical appearance		Branches with unimproved physical appearance	
	Mean	SD	Mean	SD
Employee perception	3.71	0.59	3.44	0.58
Customer perception	3.42	0.65	2.82	0.37
Service	3.47	0.45	3.23	0.36
Employee uniform	3.57	0.88	3.43	0.66

Table 6.7: Mean & SD - Employed and Self Employed Customers

Cues	Employed		Self Employed	
	Mean	SD	Mean	SD
Design	3.28	0.56	3.42	0.65
Ambient	3.42	0.54	3.56	0.59
Social	3.34	0.45	3.44	0.45

7 Discussion

The analysis methods applied in this research were mean and standard deviation. Analysis proved that design, ambient and social cues have an influence on HQSE. The design cues have higher influence on the HQSE thereby higher customer experience and value. This is due to the highest mean difference between branches with improved physical environment and unimproved physical environment (Mean difference = 0.84). Ambient cues have become the second important cues having difference in mean of 0.46 while social cues get the third importance (Mean difference = 0.38). Therefore, all three hypotheses are accepted, and it can be concluded that design, ambient and social cues influence to HQSE.

Among the sub factors, building exterior, furnishing and color scheme have mean differences of 1.40, 1.32 and 1.26 respectively between branches with improved physical environment and unimproved physical appearance. These three factors highly influence the HQSE. Signage, light, customer perception, interior layout, and sound and music have a moderate influence on the HQSE (mean differences are respectively 0.83, 0.71, 0.60, 0.51, and 0.50). Sub variables such as employee perception, service, parking, employee uniform, and air conditioner have the least influence on the HQSE (mean differences are respectively 0.27, 0.24, 0.15, 0.14, and 0.12).

Table 6.8: Mean & SD - Frequency of Visit

Cues	Daily Customers		Once a week customers		Other customers	
	Mean	SD	Mean	SD	Mean	SD
Design	3.77	0.63	3.23	0.48	3.31	0.66
Ambient	3.80	0.53	3.47	0.52	3.40	0.58
Social	3.63	0.66	3.29	0.49	3.44	0.38

Further the analysis reveals that employed and unemployed customers are having the same perception on design, ambient and social cues (mean differences are 0.14, 0.15, and 0.10 respectively). However the analysis based on frequency of visits shows that frequent customers are more satisfied with the present level of design, ambient and social cues than the less frequent customers.

8 Conclusion

During the study, the relationship between the work environment and customer experience and value is established with the help of the previous studies. The HQSE constituents

several factors and they have been analyzed in different ways. In the research, three factors influencing HQSE were identified: design cues, ambient cues, and social cues. Several sub variables that determine the strength of each set of cues are identified. Building exterior, parking, interior layout, signage and furnishing are the components of design cues. Ambient cues are the sensory cues including light, air conditioners, sounds and music, and color schemes. Social cues are the sensory cues which include employee perception, customer perception, service, and employee uniforms.

The analysis proves that design cues have a higher influence compared to other two cues. Social cues have the least influence while ambient cues have a moderate influence on HQSE.

The analysis of sub variables uncovers an interesting insight into the research. Three sub factors namely, building exterior, furnishing and color scheme respectively, have the highest influence on HQSE. Therefore, banking sector companies which concern on HQSE should pay a higher level of attention on these three variables. Further the analysis uncovers that sub variables such as employee perception, service, parking, employee uniform, and air conditioner have the least influence on HQSE. Therefore companies in the banking sector may pay less attention on those factors. Other sub variables considered in the research such as signage, light, customer perception, interior layout, and sound and music have a moderate influence on HQSE. Thus companies in banking sector will have to concentrate on those factors as well in building the service environment.

The decisions about improving the service environment should not depend on whether customers are employed or self-employed. However the frequency of visits of customers to a particular branch should be taken into consideration in making decisions about improving the service environment.

Naturally this research leads to uncover further research opportunities. The focus of the present research was only one private commercial bank. Therefore there is an opportunity to carry out similar research focusing both government and private banks. Further this research did not make any attempt to measure the impact of the variables on the HQSE and it opens an opportunity to further search.

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[i] The countries included in this study are Singapore, Taiwan, Thailand, Korea, Malaysia, Hong Kong, Indonesia, and Japan.

[ii] Stock returns are not adjusted for stock splits because there were only six stock splits over the sample period.

[iii] Momentum strategy assumes that losers sell in short and that money is invested in winners so that the net investment on the momentum portfolio is also zero.

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