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IMPACT OF PHYSICAL ENVIRONMENT IN CUSTOMER RETENTION AND RELATIONSHIP BUILDING: A CASE STUDY OF HOTEL INDUSTRY

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ABSTRACT

Individual in a modern society are without a doubt an experienced service consumer. On daily basis, a number of services may be used, ranging from getting a haircut, to using a credit card or talking on the phone. Many services are produced and consumed simultaneously at the service's providers' facility. Therefore, the physical environment becomes an important tool for communicating the quality of the service, setting customers expectations, influencing customer and employee productivity; and creating the service experience. The purpose of this study is to provide a better understanding of the importance of managing the physical environment called as servicescapes and its role in services settings in order to create a relationship between customers and employees, increasing customer loyalty and retention and reducing customer defection rate. The study focuses mainly on the servicescape as perceived from a management perspective. A literature review was conducted which resulted in a conceptual framework that supported the data collection. A qualitative, single case study of Hotel Asia of Jammu was carried out in obtaining primary data. The results of the study indicated that a carefully managed physical environment can attract potential, and maintain previous customers. Furthermore, the commitment and motivation of the employees can also be achieved and maintained. In order to create a correlation between customers and employees, both parties' needs and requirements have to be met with and addressed as in form of Servicescapes.

KEYWORDS

Loyalty, Retention, Servicescapes, Customers, Relationship, and Employees

INTRODUCTION

As an individual in a modern society are without any doubt experienced service consumers. The services industry has shown a tremendous expenditure growth during the past decades resulting in increased importance to many of the world economies (Zeithaml and Bitner, 1996, pp. 7-8). This trend can be caused by a number of reasons, for instance advances in technology leading to more maintenance, production and design services. Moreover, manufacturer uses outsourcing in larger extend to buy services outside their core competence.

Another factor is an increasing spending on luxuries which are services intensive e.g. restaurant meals, and vacations abroad (Jobber, 2004, p. 792). Majority of service providers engaged in distributing information, sharing knowledge, use of creativity and technology that consumers sought. The intense growth of the services industry has resulted in drawing attention to issues and problems associated with this Industry (Zeithaml and Bitner, 1996, p. 10).

According to Jobber (2004, p. 792) the nature of services separates it in several aspects from physical goods. Services should be considered as a special product, which may need special understanding and marketing efforts. Quester and McOmish (2005) explain that the services offering often are difficult to evaluate prior purchase, after purchase and use. The difference between services offering and goods are more a matter of degree than in absolute terms. A product can be considered as pure goods e.g. clothing which does not involve any specific service, other products requires services as a complement to the product like installation of fully automatic generator or software, and finally the offering can be regarded as a pure service such as psychotherapy. In general, services are recognized by its dominance in intangible attributes, making the services an action or performance oriented, and hard to evaluate. Moreover, services characterizes by variability meaning that standardization is difficult to achieve and the employees plays a great importance in the service delivery process. Inseparability, simultaneous production and consumption, is another issue to be considered together with perishability, the fact consumption cannot be stored and problems in matching supply and demand (Jobber, 2004, pp. 792-893). These characteristics of services results in unique management challenges for all services providers (Zeithaml and Bitner, 1996, p. 18).

On a daily basis a number of services may be used like trains, mobile, Internet and many more but most of them are used without any specific thought. There are some services that demand more involvement and interaction from a consumer side. Getting a haircut, purchasing a tour pack, receiving financial advice or spending a night in a hotel is all examples of such services which involves high-contact between individuals. The consumer in these circumstances has to interact with the services provider in order to obtain the service (Lovelock and Wirtz, 2007, p. 4) and to create a perception about service provider. Bitner (1992) discusses that since services in general are produced and consumed at the same time, resulting in customer to experience the service within the service providers' physical environment.

Lovelock and Wirtz (2007, pp. 288-289) claims that the physical environment communicate and decide the positioning of the service provider, it also influences the employee's and consumers' productivity, and act as an aid customers through the effective delivery system, and can function as a tool to develop competitive edge over competitors. Moreover, the physical service environment including the atmosphere plays a key role in building customers' perception based on service encounters they receive from service providers. Bitner (1992) further states that environment influences the behaviour of not only the customers but also of employees.

Service providers can influence the perception and behaviour of the customers' through surroundings in many ways. For instance, the nature and quality of the services can be distinguished by symbols; and the environment can be differentiated from competition by using attributes such as colours, sounds, scents and textures e.g. Archie's Gallery. In other words, the services environment can be used as a proxy for image building and quality indicator. A bank through its physical environment can send out a message to customers and employees about their positioning as an exclusive firm by using. For example, lavish décor and furnishing designed to make an impression (Lovelock and Wirtz, 2007, pp. 289-290).

Clarke and Smidt (1995) define servicescape as a place where interaction between customers and employees take place. The servicescape includes all tangible elements that assist the process of delivering the services. Reimer and Kuehn (2005) clarify the servicescape includes both the interior and exterior environment within a service setting. The authors further contrast the servicescape with the packaging of a product.

Today, all of the service organizations, especially high-contact services, such as restaurants, hotels, and hospitals have realized the importance of the service environment, and as a result the services environment has become a central part in their value proposition and marketing mix (Lovelock and Wirtz, 2007, p. 288). Previous studies concerning the servicescape have primarily focused on customer behaviour and perception as a result of the surroundings (Countryman and Jang, 2006; Reimer and Kuehn, 2005). Limited research has been conducted to understand the importance of the physical environment. Though, management can use the services environment to affect both customers and employees, in order to establish relationship. Jobber (2004, p. 117) defines relationship as a process of creating, maintaining and enhancing strong relations with customers and stakeholders.

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PROBLEM DISCUSSION

According to Bitner (1992) the servicescape plays an important role in affecting both customers and employees. However, the importance of recognizing the effects of the servicescape on employees and customers have previously been viewed tangential compared to other organizational variables used to attain and motivate customers as well as employees. Motivational factors such as salary, promotions and other benefits have been given attention in retaining and creating relationships with employees. Price levels, promotion and special features have similarly been focused regarding the customers. The accomplishment of organizational goals can be benefited or hindered by the physical environment. Even if the nature of services offerings varies, then also servicescape influences services provider and customers as both of them are present within the firm's surroundings during a service encounter.

Many evidences in form of research are present that proves that potential customers before purchasing anything search for apparent cues to determine the ability and quality of the service provider in satisfying his / here requirements. Customers' perception about the final outcome of the service is solely depended on the servicescape. Moreover, the employees in the firm perceive the service environment divergently compared to the customers. Organizational behavioural studies have proved that employee satisfaction, productivity, and motivation can be derived by the physical environment. As a result of services being purchased and produced simultaneously the firm should fulfil the requirements of both customers and employees (Bitner 1992). Gremler and Gwinner (2000) states, service evaluation is influenced by the employee-customer relationship and mainly in situations where interaction between employee-customer happens most of the time like banks, restaurants, hotels, mobile service, education and many more. This increases the importance of firm's physical environment in achieving organizational goals and in maintaining healthy employee-customer relationship (Bitner, 1992).

Gremler and Gwinner (2000) state that healthy relationships between service providers and customers is the only factor that will keep service providers in business, and without these solid connections, the company would have difficulties in surviving in the long-run. From marketing aspects, it is necessary for services providers to pay close attention in establishing relationship with customers. Jobber (2004, p. 797) claims that in recent years focus lay on retaining customers than solely attracting new ones. The length of any relationship and its development can be derived by the perceived quality of the offering. Maintaining a healthy relationship between service organization and its customer and employees is necessary for service providers to generate true loyalty of customers towards them in long run (Kasper, Van Helsdingen and De Vries, 1999, p. 139).

Furthermore, a strong relationship requires commitment, trust, satisfaction of interaction and different kinds of bonds. Strong relationship between the customers and the service providers depends on level of customer expectations fulfilment, and on quality of services delivered, which can further change purchase, re-purchase pattern of customers and exploits word-of-mouth network (Kasper et al, 1999, p. 228). Employees in a service organization play an important role when providing services for customers and fulfilling their expectations (Zeithaml and Bitner, 2000, p. 37). Employees interacting directly with customers have deeper knowledge about customer's requirements and expectations. A customer oriented firm must customize service delivery as per customer's requirements and expectations. The customers can acquire satisfaction when their expectations about services are met. Since the position of the employees is significant, the firms need to maintain long-term relationship with the right employees (Kasper et al, 1999, p. 450).

The impact of physical environment on peoples' behaviour and image building is apparent within the hospitality industry. In such type of interpersonal environments, the servicescapes affects level of interaction between and among customers and employees (Bitner, 1992). In the service setting of a hotel, the customers' perceptions are not only driven by the service of the front desk, but also from other physical environment settings such as furniture, music, lighting, interiors, facilities, and colours (Lin, 2004).

Countryman and Jang (2006) explain that within any hotel there exist various physical environmental settings. Furthermore, the servicescape in a hotel has great impact on the customers as it gives the first impression to the visitors of the hotel. The authors also mention that it is possible to meet the expectations and satisfaction of the customers by evoking a positive impression to the customers.

According to Bitner (2000, p. 138) the focus in services marketing now-a-days is to opt for a shift from transaction oriented services to relationship oriented services due to consideration of the cost to attract potential customers compared to retain the current ones. Any organization needs to focus on acquire potential customers to exploit and expand their business, but also to keep and improve the relationship between the current customers.

PURPOSE OF STUDY

Based on the problem discussion, the purpose of this research paper is to gain better understanding of physical environment and its importance in services settings to create and maintain relationship with customers and employees.

Research Question 1:
How does the servicescape affect the relationship between customers and the service organization?

Research Question 2:
How does the servicescape affect the relationship between employees and the services organization?

Research Question 3:
How does the services organization construct the servicescape in order to optimize the interaction between customers and employees?

LITERATURE REVIEW

The term servicescape is defined as *"the environment in which the service is delivered and in which the firm and the customer interact, and any tangible commodities that facilitate performance or communication of the service"* (Zeithaml, Bitner and Gremler, 2006, p. 317).

According to Zeithaml *et al* (2006, p. 317) as services are intangible, the physical evidence is used to evaluate the service prior to purchase, and evaluate the outcome of the service during and after consumption. General elements of the physical evidence involve all aspects of the organizations like physical facility and other tangible communication as shown in Table-1. More specific, servicescapes involves both the services providers' exterior and interior attributes, as well as other tangibles to be found within the physical facility.

Table-1: Elements of Physical Evidence	
Servicescape	**Other Tangibles**
Facility exterior	
Exterior design	Business cards
Signage	Stationery
Parking	Billing statements
Landscape	Reports
Surrounding environment	Employee dress
Facility interior	Uniform
Interior design	Brochures
Equipment	Web pages
Signage	Virtual servicescape
Layout	
Air quality/ temperature	

Source: Zeithaml, Bitner and Gremler, 2006, p.317

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Zeithaml *et al* (2006, p. 321) claims, depending on the type of organization, the servicescape differ in terms of who actually will be affected. To be more specific, which group of individuals will get influenced because of physical environment? i.e. customers, employees, or both.

Bitner (1992) categorize services into three different types: a) self-service, b) interpersonal services and c) remote services (Table-2). **"Self-service"** environments are to be considered as one extreme, in which the customers carry out most of the activities on its own and involves no, or few, employees. In addition, the self-services organization can plan their physical environment to focus on achieving marketing goals such as making the environment easy to use and pleasant, reaching the targeted market segment, and creating the desired services experience.

At the other extreme of services organizations is the "**Remote Service**", which has no or little customer involvement with the physical environment. These services can be provided without the customer even attending the services facility (Bitner, 1992). According to Zeithaml *et al* (2006, p. 322), the design of the physical facility can be used to keep the personnel motivated and productive, enable teamwork, and operational efficiency. As the customers will never see the physical environment, only consideration to the personnel and their requirements will be needed.

Between the two extremes are the "**Interpersonal services",** including both customers and employees, in which the both groups are present and active in the servicescape. In these situations the servicescape should simultaneously attract, satisfy, and facilitate the activities of both customers and personnel.

According to Zeithaml *et al* (2006, p. 322) the physical complexity of the servicescape will affect the management of the physical environment. Services that are recognized as very simple, with few elements, and few pieces of equipment are termed **"Lean."** The servicescapes of lean services are relatively straightforward, in particular in self-service or remote service situations in which there are no interaction between customers and personnel. The opposite to lean services are termed **"Elaborate"** and are to be considered as complicated with a number of elements or forms. In an elaborate environment marketing and organizational objectives can be reached through careful management of the servicescape.

TABLE-2: TYPOLOGY OF SERVICE ORGANIZATIONS BASED ON VARIATIONS IN FORM AND USE OF THE SERVICESCAPE

Servicescape Usage	Complexity of the Servicescape	
	Elaborate	Lean
Self-service (customer only)	Golf course, eBay	ATM, Car wash, Simple Internet Services, Express mail drop-off
Interpersonal service (both customer and employee)	Hotel, Restaurant, Hospital, Health clinic, Bank, Airline, School	Dry cleaner, Retail cart, Hair salon
Remote service (employee only)	Telephone, Insurance, Transport, Many professional services	Telephone mail-order desk, Automated voice, Messaging services

Source: From M.J. Bitner, "Servicescapes: The Impact of Physical Surroundings on Customers and Employees", *Journal of Marketing* 56 (April 1992), pp. 57-71 as adapted by Zeithaml, Bitner and Gremler, 2006, p.321.

FRAMEWORK FOR UNDERSTANDING SERVICESCAPE EFFECT ON BEHAVIOR

Bitner's framework for understanding environment-user relationships in service organizations (Figure-1) addresses the effect of the atmospherics, the design and decor elements on employees and consumers within the servicescape. Framework explains the role of the physical environment in services firms, more specific what behavior can be influenced, the cause and how to use knowledge to plan and design an environment to reach the firm's objectives. Moreover, the model explains a number of environmental factors that both consumers and employees may respond to the servicescape cognitively, emotionally, physiologically. As a result, the behavior of both consumers and employees and their interaction between and among the groups are affected by the servicescape.

FIGURE-1: FRAMEWORK FOR UNDERSTANDING ENVIRONMENT-USER RELATIONSHIPS IN SERVICE ORGANIZATIONS
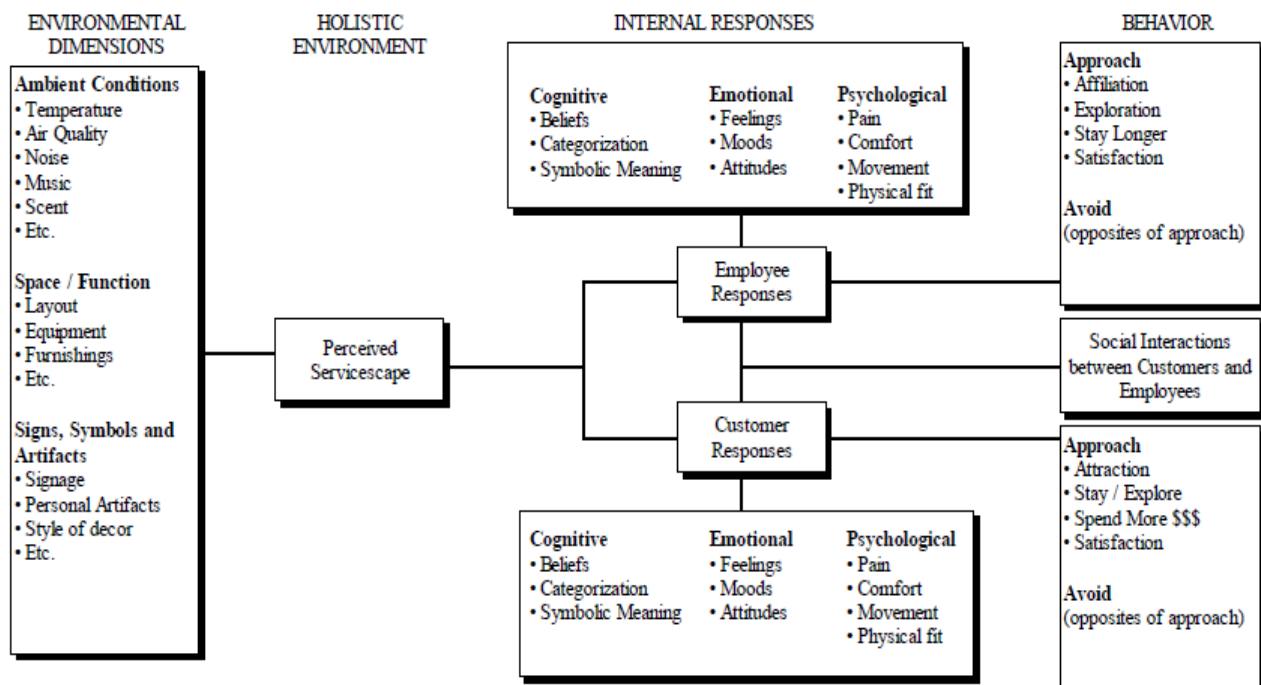
Source: Adapted from M.J. Bitner, "Servicescapes: The Impact of Physical Surroundings on Customers and Employees", *Journal of Marketing* 56 (April 1992), pp.57-71.

BEHAVIOUR AND SOCIAL INTERACTION IN THE SERVICESCAPE

Bitner's servicescape framework (1992) assumes that elements of the firm's servicescape influence consumer and employee behavior. Individuals respond to the physical environment with either approach or avoidance behavior. Approach behaviors involve all positive responses; whereas, opposite responses are referred to avoidance behavior. Many services organizations use environmental cues, such as music to change the behavior of the consumers. In addition to attract customers, the physical environment can influence the degree of success consumers experience in carrying out their intentions in the store. Customers visit a service organization with the purpose or goal that may be aided or hindered by the servicescape. For instance, a traveler at the airport may be hindered by

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different type of servicescapes like: entering the airport, finding the way to the gate. Factors such as lack of signage, crowds or high temperature can cause the traveler to become emotionally distressed. In this situation the traveler is hindered by the servicescape and constrains the fulfillment of the customer's goal.

Employees within service organizations may in the same way be constrained doing his or hers work as result of the physical environment. Services firm strives to discourage avoidance behavior, and at the same time encourage approach behavior to make both customers and employees to carry out their plans. The positive or negative responses from the employees or customers are determined by individual internal responses (cognitive, emotional, and physiological). The assumption is that positive responses lead to approach behavior, and in the same way, negative lead to avoidance behaviors (Bitner, 1992).

Bitner (1992) further states the nature and quality of customer and employee interaction are affected by the servicescape, particular in interpersonal services. It is stated that the so-called physical container influence all social interactions in terms of the progression of events and duration of interaction. For instance, environmental variables such as seating arrangement may intervene and limit social episodes, between and among customers and employees. The servicescape and recurring social patterns are two variables closely connected, when people encounter typical settings, their behavior can predicted.

THE SERVICESCAPE AND INTERNAL RESPONSES

The physical environment does not directly cause individuals to behave in a certain ways. The perceptions of the physical environment lead to specific emotions, beliefs, and physiological responses which in turn affect behaviors. In other words, behaviors are a result of an individual's internal reposes to the place. The internal responses may be divided into: 1) Cognitive 2) Emotional and 3) Physiological responses. As seen in Figure-1, the perceived servicescape may cause "Cognitive Responses" that influence people's beliefs about a place, and also the products and people found in that place. The servicescape can be seen as a form of nonverbal communication. It may send out messages to customers about, for instance, the positioning of the firm, price and quality.

Environmental cues can also influence employees' belief for example, the office size and appearance. The employee can create beliefs about the importance of his / her function with the organization in comparison to other employees. Other cognitive responses are categorization and symbolic meaning. Categorization is the process in which people assign a label to an object. Therefore, the overall perception of the services environment allows customers and employees to categorize the organization mentally. For instance, "fast-food" restaurant or "up-scale sit-down" restaurant. As most services are intangible in nature, people tend to evaluate services through extrinsic cues, such as the servicescape, as a quality indicator (Bitner, 1992).

According to Bitner (1992) internal responses may in addition elicit **"Emotional Responses"** which influence individuals' behavior. Customers and employees emotional responses to the physical environment can be explained by two dimensions - pleasure and arousal. Positive behaviors, approach behavior, are created through pleasure and arousal. Further, both of these factors increases approach behavior. Pleasure can be achieved through perceptions of greater personal control (e.g. clear signage, good ventilation and adequate space). Emotional arousal on the other hand can be created through complexity, such as visual richness and ornamentation, in the servicescape. Compatibility which is the presence of natural elements and the lack of environmental **"Nuisances"** (e.g. in an urban setting such objects as poles, wires and vehicles) in the servicescape may further enhance pleasure. The overall perceptions of the physical environment and associated responses, negative or positive, will be used to evaluate the organization, its people and products. The third factor included in internal responses is **"Physiological Responses"**. People may react purely physiological to the servicescape. Air quality, loud noise and temperature may cause discomfort if these factors are not adjusted to the individuals. The physical responses can affect how long people stay in and enjoy a particular service setting. The environmental design can further affect the employees and their ability to perform his / her job (Bitner, 1992).

DIMENSIONS OF THE SERVICESCAPE

The environmental dimensions of Bitner's servicescape framework (1992) are ambient conditions, space / functions, and signs, symbols and artifacts. Lovelock and Wirtz (2007, p. 295) explain ambient conditions refer to those characteristics of the environment that affects the five senses. All design elements and details must be compatible in order to create the desired service environment. Ambient conditions include everything from lighting, color, sounds, temperature, and fragrance. All above factors can be perceived both separately and holistically. Well thought out design of these conditions can create desired behavioral responses among customers and employees. Bitner (1992) pointed put that the effects of ambient conditions are noticeable when they are extreme, for e.g. loud music, and high temperature. The extreme conditions may elicit negative responses when the customer or the employee spends a considerable time in the service setting, and when they conflict with expectations.

Spatial layout and functionality of the physical environment are especially important as services environments in order to fulfill purposes and needs of customers. Machinery, equipment, and arrangement, size and shape of furnishings, and the way they are arranged is referred to spatial layout. Functionality refers to the ability of using those items to facilitate achievement of customer and employee goals (Zeithaml *et al*, 2006, p. 336). The visual and functional environment for delivery and consumptions are enabled trough the spatial layout and functionality. These factors determine efficiency of the services operation, user-friendliness and shape the customer experience (Lovelock and Wirtz, 2007, pp. 300-301).

Signs, symbols, and artifacts sends out explicit and implicit signals to communicate the organization's image, simplify customers to find their way, and to follow the service script. Signs are one example of explicit signal and can be used by the firm as a label (name of department etc), giving directions, communicate the service script (e.g. queuing systems), and behavioral rules (e.g. non-smoking area). Signs are frequently used as a tool to teach and reinforce behavior in a services setting (Lovelock and Wirtz, 2007, p. 301). Symbols and artifacts give more implicit signals about the meaning of the place, norms and behavioral expectations in the environment. A symbolic meaning and aesthetic impression can be communicated, for e.g. artwork, certificates, floor coverings, and personal items. Symbols and artifacts are usually culturally embedded in its meanings. Moreover, these environmental dimensions are truly important in making a first impression and for sending out service concepts (Zeithaml *et al,* 2006, p. 336).

CONCEPTUAL FRAMEWORK

Miles and Huberman (1994, p.18) describes a conceptual framework as either graphically or in narrative form, the most important factors to be investigated. Moreover, the authors suggest that it is easier to generate a conceptual framework if the research questions have been presented, as is the case in this research. With the purpose of answering the three stated research questions, the literature found most appropriate to support our data collection will be clarified.

CONCEPTUALIZATION OF RESEARCH QUESTION NUMBER: 1

The purpose of the first research question is to gain a better understanding of how the servicescape affect the relationship between customers and the service organization. According to Bitner, customers respond to the environment cognitively, emotionally, and physiologically.

CONCEPTUALIZATION OF RESEARCH QUESTION NUMBER: 2

The purpose of the second research question is to provide a better understanding of how the servicescape affects the relationship between employees and the service organization. Theories suggest physical environment also impacts employees' behavior, their reaction and response pattern towards customers as well as towards organization.

CONCEPTUALIZATION OF RESEARCH QUESTION NUMBER: 3

The purpose of the final research question is to gain better understanding how the service organization constructs the servicescape in order to optimize the interaction between customers and employees. The research question is supported by the behavior dimension in Bitner framework for understanding environment - user relationships in service organization. The theory connects customers and employees responses, leading to social interaction between and among the both parties.

METHODOLOGY USED

TYPE OF RESEARCH

a)   Exploratory Research, as paper aimed to define and formulate problems related to servicescape and its affects.

b)   Descriptive Research, as researcher tries to portray how previous mentioned variables affect a services organization. Descriptive study of how a services organization manages and experiences servicescapes' issues was conducted.

RESEARCH APPROACH

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Approach used in this paper is qualitative in nature in order to gain a deeper and reflective understanding concerning the purpose of study. Moreover, this approach allows categorization of data acquired in real-life setting. As the topic of the study concerns the servicescape and how it influences employees and customers as perceived from a management perspective, a qualitative data approach was most appropriate one.

RESEARCH STRATEGY: CASE STUDY

Hair *et al* (2007, p. 203) state that a case study can be defined as a study which focuses on gathering necessary information considering particular events or activities. Furthermore, a case study can be utilized in order to obtain a complete view of the entire circumstance. As this study aimed to seek how the servicescape may affect relationships with both customers and employees within a service organization as seen from management perspective, a case study was the most appropriate strategy. By using a case study, it was possible to investigate whether the theoretical framework can be implemented in a real - life situation or within organization or not.

DATA COLLECTION METHOD: PERSONAL INTERVIEW

Considering the objectives of this study, semi structured personal interview was conducted with a representative from an organization offering services as their core product. This form of interview provides flexibility concerning the order of putting questions. Another advantage is that the interviewee is given the opportunity to express his ideas and speak more freely. The interview lasted for one hour.

Secondary data was also used in order to carry out the study. Articles and books discussing theories related to our subject were utilized.

QUESTIONNAIRE DESIGN

The structured format of questionnaire was constructed keeping the research purpose and research questions in mind.

SAMPLE SELECTION: THE HOTEL INDUSTRY

When choosing the most suited sample selection for this study, a number of aspects were taken into consideration. Firstly, the chosen services provider need to involve both customers and employees in the service environment. Secondly, to select a service organization were the servicescape plays a large impact of the services perception from both customers and employees. Thirdly, the services organization must be situated in our immediate surroundings to make it possible to carry out a face-to-face interview. Emphasis to understand how physical environment affects customers and employees is highest within hospitality industry, being the industry as highly service-oriented.

In order to select the relevant sample for study, several factors were taken into consideration such as history, size of the organization, organizational goal, location, and adaptation to modern technology, as these factors will help in extracting valuable information for analysis.

More significant was that the selected hotel must be willing to participate in our study and cooperate in an interview. With all these aspects in consideration, we chose to conduct a case study of **Asia Hotel of Jammu**. Prior to personal interview, a copy of questionnaire was sent to hotel manager in advance for his review and query (if any).

DATA ANALYSIS

Miles and Huberman (1994, pp. 1011) illustrate that the procedure of the data analysis can be divided into three periods; data reduction, data display, and data drawing/verifying conclusions.

• **Date reduction:** involving selecting, simplifying and transforming the data to make them more manageable and understandable for each research object.

• **Data display:** goes beyond data reduction by organizing the information in a way that facilitates drawing conclusion.

• **Data drawing and verifying conclusions:** the explanation of the suitable responses, which includes noting regularities, patterns, explanations, possible configurations, casual flows and propositions.

When performing the data analysis of the obtained data, above mentioned procedure were taken into consideration. The information derived from the interview was written down to make them more manageable and organized, which enable the researcher in drawing conclusions from findings. Used documentation, such as theories and frameworks, helped in comparing findings with previous research and even in verifying conclusions.

CASE STUDY: HOTEL ASIA OF JAMMU

The primary data, consisting of an interview with the Hotel manager, is presented along with a brief background of Hotel Asia, followed by a description of the hotel's physical environment. The continuing paragraphs will concern each of the research questions one by one.

BACKGROUND

The Hotel Asia was founded almost 25 years ago under the banner of Trans Asia Group of J&K, and today it has 5 hotels in all over J&K State. 2 of them are four star, 3 of them are five stars. The focus is to offer a *"complete experience in an environment where tradition, quality and flair are guiding principles".* The business idea of the group is to provide a modern and effective services-organization, in either a classical style or more modern type of hotel, located towards the centre of the city. The group strives to give the customer a complete and memorable experience, including beautiful surroundings, excellent dining, and first class services. Main target clients for Hotel Asia are business travelers and tourists.

Hotel Asia is located within the city of Jammu, where modern utilities and century-old craftsmanship have been combined with the customers' demands for comfort and service. The old tradition architecture of J&K is amongst what gives Hotel Asia its uniqueness and competitive advantage over other hotels. The hotel offers 165 rooms, 2 restaurants, Bar, Gift shops, Swimming Pool, Gymnasium, Games room for Billiards and Squash, Massage Centre. The hotel has currently 55 full-time employees. The goal of Hotel Asia is to provide a personal atmosphere, together with service and comfort; to make the customers stay a memorable experience.

THE SERVICESCAPE IN HOTEL ASIA

Hotel Manager describes the physical environment of Hotel Asia in positive terminology. He says that it is an amazing building and it is almost like the walls talks by themselves. The owner of Hotel Asia is Kashmiri, and strives to maintain the classical style of the hotel with a modern touch. For example all of the hotel rooms are equipped with the latest broadband technology, also accessible from other parts of the hotel such as the restaurants, pool side and the lobby. Manager insists that it is of importance to preserve the classical style in order to maintain regular customers, and to attract potential customers. In general, customers appreciate the classical style however they require modern convenience such as the ability to work from their own laptops. According to Manger, all kinds of modern convenience should be offered in accordance as a four-star hotel.

Further, he explains that each of the hotels under the banner of Trans Asia Group has its own touch when regarding its appearance, even though some of the hotels have similar interior design. One of the uniqueness with Hotel Asia is the interiors of the hotel rooms. Every room has its unique interiors.

Concerning changes in the hotel's physical environment, Hotel Manager responded that in the past five years a number of modifications and investments have been carried out. For instance the elevator has been replaced with a modern, larger and faster version. Other improvements that have been made include renovation of the hotel rooms and the restaurants, together with upgrades of the mechanical equipment such as the ventilation systems. All these changes are necessary and make the hotel more comfortable.

According to Manager, it is possible to use the physical environment, through its style, to position the hotel against competitors. Hotel Asia is recognized as a classical style of hotels with a modern feeling. This concept is therefore unique, not many can imitate its style. Moreover, all guests, both business and leisure, should acquire a feeling of quality and hospitality. The hotel strives to maintain the physical hotel environment fresh and up-to-date. Considering other factors, the physical environment is significant to their brand and image. The image of a four-star hotel can be perceived by its exterior design.

THE SERVICESCAPE AND INFLUENCE ON CUSTOMERS

According to Manager, the servicescape can affect whether or not the customers return to the hotel. He believes that in Jammu, people are highly influenced by interior decorating and design. Even some of the regular customers follow changes made in the hotel and come with suggestions on improvements. He added that it is important to listen to the customers and to make improvements after their suggestions when possible. Sometimes it is difficult, from a service provider

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perspective, in meeting customer demands. Details may easily be overlooked from personnel. Interior decoration and design are therefore important in his opinion, as it retains customers.

Manager believes that the physical hotel environment affects the customers' satisfaction. Previously the hotel received complaints in respect to basic facilities like bathrooms and the lack of light. Women in particular thought the bathrooms were too dark when putting on make-up. As a result of the complaints, all of the bathrooms have been renovated. Today they are much lighter and more lavish with marble details.

Furthermore, the overall impression of the physical hotel environment impacts on how the customers perceive the overall quality of the services rendered by the hotel. Mr. Manager says that first impressions are important, such as the appearance of the lobby and the reception. A nice, tidy/clean surrounding gives inspiration to both the personnel and customers. The services provided will be perceived better if the hotel environment and atmosphere is nice, welcoming, and bright. Manager further claims that you then become more positive towards the service in general. Moreover, Hotel Asia works constantly to make improvements with the customers in mind. Mr. Manager states that they have to keep up with local competitors. The owner of Trans Asia group has a deep concerned with the servicescape and appearance of the hotels.

According to Mr. Manager, the servicescape is not adapted according to certain groups of customers in mind. All customers should feel comfortable, for instance the lobby has been furnished for the customers comfort. The reason why no customer group is considered as more worthy than others is because all guests are paying customers. However, the environment in the hotel is somewhat adjusted for the business clients as they are the largest customer group. It should be possible to work in comfortable surroundings.

THE SERVICESCAPE AND INFLUENCE ON EMPLOYEES

To some extent it is likely that the servicescape influences the loyalty of the personnel towards their employer says the Manager. The respondent further states that you say the employee / staff is proud of selling a hotel room at Hotel Asia. The personnel can offer the customers more options, for instance rooms toward the park, pool etc. This can be seen as a motivation tool for the personnel. There is no doubt that the servicescape matters, because it is more pleasant to work in a neat surrounding. An advantage with satisfied personnel is that they are more likely to be retained for longer, as it is costly to hire and train new employees. The company works constantly to improve the physical hotel environment from the personnel's point of view, by receiving suggestions from the employees and the safety representative. Manager believes the personnel are satisfied with the working environment; however improvements can always be made. For example one improvement is that now-a-days smoking is not allowed inside the hotel.

THE SERVICESCAPE AND INTERACTION BETWEEN CUSTOMERS AND EMPLOYEES

The physical environment is constructed so as to make it easy for customers and personnel to interact, for example to check in-and-out or at storing the guests' luggage. However all hotels have to be cautious regarding security issues. Safety matters can cause a dilemma in making the surroundings easy for both employees and customers, but at the same time there is a need to create a secure and safe environment. Over the past years a number of improvements have been made to make the hotel more secure. For instance the hotel has a key card system for using the elevators, which prevents intruders. Mr. Manager claim that conflicts may rise when uniting customers and employees requests, however in Hotel Asia this situation rarely occurs. Many of the improvements make it better for both personnel and customers at the same time, for instance new ventilation systems. The hotel does not only focus on customers, but the personnel must also be taken into account. It is not a larger conflict making both groups satisfied with the servicescape. As seen from a management perspective, investments beneficial to both groups have to be done correspondingly to one another by carefully planning the company's activities regarding the servicescape. He explains, for instance, if changes have been made in the hotel rooms, the next improvements may concern the working environment for the personnel. However, both personnel and customers have to be aware of financial restrictions. Mr. Manger enhances the importance of living up to expectations promised via the homepage, agents or brochure. The service provided should be delivered without any mistakes involved.

He further believes the hotel industry tends to be highly influenced by recent trends in the shape of the physical hotel environment. One present trend is the so-called unique eco-hotels, concept hotels, or design hotels, which are becoming increasingly more popular. These kinds of hotels did not exist 5-10 years ago. It is rather revaluating says the manager. The respondent further acknowledges that this trend may influence Hotel Asia in the future, but that the hotel's classical appearance should be kept. The most crucial part for any hotel is that the interior must be clean and inviting; however, above all, the personnel must treat the guests in a friendly and welcoming manner.

DATA ANALYSIS

The primary data collected through a case study will be compared with the theoretical framework presented earlier. The data will be analyzed based on the order of the research questions.

The framework for understanding the servicescape by Bitner (1992) addresses the connection between customers and employees responses with the physical environment. The servicescape consists of environmental dimensions, which creates the holistic environment as perceived by the customers and the employees. Individuals within the servicescape react with internal and behavioral responses.

THE SERVICESCAPE AND CUSTOMERS

The servicescape model by Bitner (1992) explains that the customers respond to the environment cognitively, emotionally, and physiologically. In addition, the servicescape responds either with proactive behavior (attraction, stay / explore, spend money, and carry out plan) or with the opposite, avoidant behavior.

The primary data indicated that the physical hotel environment has a significant impact on the customers of the hotel in several different ways. The servicescape may affect customers overall perception of the hotel, and whether or not the customer whishes to return to the establishment. The Indian tourists or business travelers are in generally interested in interior design, which the Hotel Manager believed affects the customer behavior. The physical environment should live up to customer expectations and management needs to be coherent to customer suggestions. The primary data revealed that the management needs to recognize that customer demands may be difficult to achieve. Hotel Asia has made a number of improvements for the customer's comfort, safety and accessibility to modern technology. The hotel has, for instance, recently renovated hotel rooms and bathrooms, made improvements on hotel security, as well as establishing wireless internet access throughout the hotel.

Competitive advantage over local competition is achieved partly through the servicescape in the investigated service firm. Customers may apprehend the experienced services quality through the appearance of the physical hotel environment. The first impression of the servicescape affects the customers overall perception of the services encountered. A nice and welcoming environment gives stimulation to customers and completes their experience. The respondent further claimed that the customers are therefore more positive towards the service in general. All guests of Hotel Asia, both business and leisure guests, should experience quality and hospitality through the services environment. The respondent believed the servicescape influences customers' repurchasing behavior. As a result of customers' repurchasing behavior, a long-term relationship with the hotel may emerge. However, the respondent enhanced the importance of fulfilling expectations promised by the internet webpage, agents or brochure. The service provided should be delivered without any mistakes involved.

A trend in the hotel industry affecting the demand and buying behavior of potential customers is so-called the eco-hotels, concept hotels and design hotels. These kinds of hotels have a business concept built on offering a unique surrounding to the guests. According to the respondent it is possible that this trend may affect Hotel Asia in the future. Respondent has already initiated towards this new concept of Eco-friendly hotels. They stopped using poly bags, planted trees in and around hotel area, and water treatment plant is already been installed. Being aware of current trends and other demands from the customer is of importance in order to keep up with competitors.

THE SERVICESCAPE AND EMPLOYEES

One important contribution of Bitner's servicescape model (1992) is inclusion of employees' responses to the service environment. Employees react with internal responses and proactive/avoidant behavior. Employee proactive behavior includes affiliation, exploration, employment longevity, commitment and carry-out plan. Opposite responses occur with avoidant behavior.

According to the respondent the employees are definitely influenced by the physical hotel environment. For example, proud employees are able to offer guests a variety of options concerning the hotel rooms. In addition, this can be seen as a motivational tool for the employees. Moreover, the loyalty of the personnel

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can to some extent affected by the servicescape. If the employees work in neat and comfortable surroundings, they will be more positively disposed towards the job in general. An advantage with satisfied personnel is that they are more likely to be retained for longer, as it is costly to hire and train new employees.

The employer has responsibilities toward the personnel regarding the design of the servicescape according to the respondent. For an employer, it is important to consider the physical working environment, to make the servicescape ergonomically correct and not only regard esthetical aspects. Hotel Asia improves the working environment on a regular basis in order to fulfill requirements and concerns on the behalf of the personnel. The hotel has engaged a safety representative, to see over the employees work situation. The personnel's are satisfied with the working environment. However improvements can always be made to make enhancements, and adapt to needs and requests.

THE SERVICESCAPE AND INTERACTION BETWEEN CUSTOMERS AND EMPLOYEES

The social interaction between and among customers and employees is another dimension in Bitner's framework for understanding environment - user relationships in service organizations. Services organizations, particular interpersonal services firms, and the nature and quality of the customer and employee interaction are influenced by the servicescape. The physical container affects all social interactions in terms of the progressions of events and duration of interaction.

Hotel Asia has constructed the servicescape in order to enable customer and employee interaction. In a hotel it is important to make the customer's experience as smooth and uncomplicated as possible. Check-in and out procedures, or storage of luggage are examples of customer and employee interaction that should not be hindered by physical environmental restraints. Safety matters are one factor that can cause a dilemma in making the surroundings easily accessible for both employees and customers, but at the same time there is a need to create a secure and safe environment. Hotel Asia over the past few years made a number of improvements to increase the security and prevent intruders entering the facility.

Many services organizations may be affected by conflicts when uniting customers and employees requests. However, according to the respondent, in Hotel Asia these situations rarely occur. From management perspective investments beneficial to both groups have to be done in parallel. If changes are made to enhance the customers experience regarding the surroundings, the next step may concern the working environment for the personnel. However, both customers and employees must be aware of financial restrictions. Making both parties satisfied with the environment is not necessarily difficult to achieve. A number of improvements concern the mutual environment for all individuals in the hotel, not just too solely benefit one party. The focus point should not only lay on the customer's needs, the employees are just as equally valued and important.

FINDINGS AND CONCLUSIONS

The purpose of this study has been to provide a better understanding of the importance of managing the servicescape to create relationship between customers and employees. The research questions as stated in purpose will be answered and conclusions from the analysis will be drawn. Implications of our study for practitioners and future research will be presented in the end.

RESEARCH QUESTION 1: HOW DOES THE SERVICESCAPE AFFECT THE RELATIONSHIP BETWEEN CUSTOMERS AND THE SERVICE ORGANIZATION?

The aspects of the physical environment affecting the perceptions of the customers' services experience has been verified as an important factor. It was found that the servicescape has an impact on the customers, in an interpersonal service setting, in a number of ways. The overall impression of the services provider proved to be a result of the perceived surroundings. The customer's choice of whether returning to the establishment or not can be derived from his or her perception of the physical environment. Findings also revealed that the physical environment affects the customer's choice to stay and explore, spend money, and in general the overall attraction to the services provider.

In order to create a positive customer experience, their requirements and needs on the physical environment have to be fulfilled. Therefore, it was discovered that it is of importance that the management especially in interpersonal services sector, must be in coherent to customers' opinions regarding the matter. In addition, the hotel facilities should enable a comfortable and clean environment, which at the same time should be up to standard regarding safety issues. Access to modern technology as a part of the servicescape is another matter to be included.

Investigation discovered that the servicescape can be used as a means of achieving competitive advantage, and thus attracting new prospective clients. Moreover, it was found that the perceived service quality can be enhanced through a positive response of the servicescape. Approach behavior may make the customer more willing towards the services provider in general. Therefore, the servicescape can influence the customer's overly satisfaction with the services.

Hence, the research indicated the customers' repurchase behavior as another outcome of the physical environment. Creating a positive experience affecting the customers' repurchase behavior can ultimately lead to a long-term relationship between the customer and the service provider.

BASED ON THE FINDINGS ABOVE, FOLLOWING CONCLUSIONS ARE DRAWN REGARDING THE FIRST RESEARCH QUESTION

- A carefully managed servicescape will attract potential customers as well as maintaining old ones.
- The services provider needs to be aware of what the target customers seek for regarding the environment to create relationships.
- The servicescape can be seen as the package of the product, and expectations promised via the web or other promotional media should be fulfilled.
- The first impression of the services provider is formed perceptions of the physical environment and therefore requires careful management.

RESEARCH QUESTION 2: HOW DOES THE SERVICESCAPE AFFECT THE RELATIONSHIP BETWEEN EMPLOYEES AND THE SERVICES ORGANIZATION?

Study reveals that the customers will not solely be affected by the design of the servicescape. Furthermore, the employees are also in numerous ways affected by the environment. Hence, the individual's reaction may not differ between customers and employees. However, the cause and need among the parties is not necessary identical.

The loyalty of the personnel is one factor that can indeed be influenced by the servicescape. The employees' attitude towards their employer can be based on their perception of the working environment. A neat and comfortable surrounding may affect the personnel becoming more positively engaged towards the employer. Therefore, the servicescape can to some extent be used as a motivation tool for the personnel.

The investigated service firm enhanced the importance of providing the employees with an ergonomically designed working space. Enabling the employees with an adjusted environment simplifies their job performance as well as handling safety issues. Further, the study indicated by satisfying the personnel, they are more likely to be retained for a longer period of time. Training and hiring personnel is an arduous process.

We found that behavioral and other internal responses do influence the employees, according to the theoretical framework data. The servicescape is to be considered as an influential factor of employee behavior. The primary data indicated that the management of the investigated services firm was aware of the importance of managing the physical environment.

BASED ON THE FINDINGS ABOVE, FOLLOWING CONCLUSIONS ARE DRAWN REGARDING THE SECOND RESEARCH QUESTION:

- The physical working environment does influence the employees' attitudes toward the employer.
- The servicescape is a factor to be considered in the retaining employees, and thus creating a relationship with the service provider.
- Overlooking employees' needs will lead to less motivated personnel.

RESEARCH QUESTION 3: HOW DOES THE SERVICE ORGANIZATION CONSTRUCT THE SERVICESCAPE IN ORDER TO OPTIMIZE INTERACTION BETWEEN CUSTOMERS AND EMPLOYEES?

Findings discovered that the servicescape affects the nature of social interactions between and among the customers and employees. Moreover, optimal design for encouraging employee approach behavior may not be compatible to the customers' desires and needs. Therefore, achieving positive employee - customer interaction may fail.

Designing the servicescape to enable customer - employee interaction has also proven to be an important aspect in the studied services firm. However, it was discovered that focus lies on making the customer's experience of the delivered service as smooth and uncomplicated as possible. One dilemma that may hinder social interaction in the hotel business is matters regarding security. The physical hotel environment should provide safety to both customers and personnel without inflicting the interaction between and among the parties.

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BASED ON THE FINDINGS ABOVE, FOLLOWING CONCLUSIONS ARE DRAWN REGARDING THE THIRD RESEARCH QUESTION:
- Planning is the key-issue to fulfill both customer and employee needs.
- The environment should be adapted to enable smooth service transaction.
- The needs of customers and employees may not necessary be conflicting if well managed.

IMPLICATIONS

Implications to *practitioners* are regarded as proposals and suggestions to managers supported by our data and findings. All managers must realize the importance of managing the servicescape to communicate the desired image of the organization. All individuals are affected by the physical evidence as it creates cognitive, emotional, and physiological responses. This study does not solely concern hotel managers, but also all managers in interpersonal services organizations as all services are intangible in nature. By a careful management of the servicescape the service organization can create and maintain relationship between both customers and employees.

The *implications of theory* concern towards contribution of the topic's viewpoint. The intention of this research was to reveal management perspective regarding the servicescape issues. Hence, previous studies have focused mainly on customer perceptions and importance of the environmental dimensions. The findings of the study did not indicate any conflict with the servicescape framework used.

Implications to research are regarded as suggestions to be studied in the future. This study does not give a comparison between different services providers within the same industry. Results of a cross study would be relevant in order to reveal whether the servicescape is viewed as an important factor to create relationships with customers and employees.

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