



Physical Environment as a Key Success Factor for Building Strong Brand Equity: A Study on Restaurant Industry

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Abstract

Physical environment is one of the important factors that could influence customers' choice towards selecting a particular restaurant over another. This paper was designed to examine the effect of physical environment on brand equity in international fast food restaurant industry in Malaysian market. The data were gathered from 293 customers of international fast food restaurant brands in East Coast Malaysia. The collected data were coded into SPSS and analysed using structural equation modelling approach (SEM) on AMOS. The findings indicated that the physical environment of a restaurant has significant positive effect on its brand equity. Moreover, this paper found that physical environment has significant positive effect on the dimensions of brand equity, namely: brand image, brand loyalty, brand preference, and brand leadership. The findings build upon the literature with regard to the role of physical environment in building strong brands. This study suggests that in order to succeed in a competitive market environment, it is vital to please or satisfy customers through providing products or services with added values. Such offerings will ultimately lead to favourable brand image and stronger brand equity as customers tend to select or buy from brands that provide them with greater benefits.

Keywords: Brand Equity; Physical Environment; Restaurant Industry.

1. Introduction

The increasing competition in the marketplace has provided consumers with several options that could make their decision-making process in selecting a particular product or service more complex. An important factor that could help consumers to make better decisions is a brand name. The advantages of branding appear in helping consumers to identify the manufacturer of products or services which signal certain attributes and benefits for them (Aaker 1991; Kotler & Keller 2009). Therefore, brand names influence the way in which consumers perceive a particular product or service, and may lead them to create certain impressions or images about the manufacturing brand (Keller, 1993). Based on the review of past literature, it is widely accepted that establishing a powerful brand has recently become a key strategic priority for several organizations; because a strong brand can be the main competitive advantage for them. This competitive advantage can be reflected through various benefits such as product ideal price, positive word-of-mouth, higher profit margin, increasing demand, higher degree of customer satisfaction, easier brand expansion, possible brand licensing opportunities, minimized entry-barriers, customer loyalty, and better response to advertising and marketing promotions (Keller, 1998).

Previous literature established that brand equity can be built and sustained through several factors. Matthews, Son, and Watchravesringkan (2014) reported that it is important to understand the specific factors which consumers assess when developing an impression of a brand, because a positive impression towards these factors may lead to better loyalty. For example, in the context of restaurant industry, physical environment has been considered to be important in consumers' overall evaluations of perceived brand value. Certain scholars found that physical environment had significant impact on customers' perceived value and purchase intentions (Chen & Hu, 2010; Lai, Griffin, & Babin, 2009; Ryu, Lee, & Kim, 2012). Moreover, Matthews et al. (2014) illustrated that physical environment plays a critical role in shaping brand image. However, despite the importance of physical environment

in service branding, there are limited studies that examined its effect on brand equity in international fast food restaurant industry in Malaysia market. Therefore, this study is designed to provide a significant contribution with regard to the linkages between both variables.

While several models of brand equity exist in the literature (Aaker, 1991; Aaker, 1996; Keller 1993; Shocker & Weitz, 1988; Yoo, Donthu, & Lee 2000), empirical investigation and development of such models besides examining other alternative models has been very limited (Broyles, Schumann, & Leingpibul, 2009). Specifically, to enhance the general understanding about brand equity concept, there remains a call for further empirical research on brand equity with regard to developing more models that give greater explicatory details (Keller, 2013). In response to that, this study aims to contribute to brand equity theory by integrating brand image, brand loyalty, brand preference and brand leadership as the key components of brand equity. The main contribution in this study is represented in the inclusion brand preference and brand leadership as core elements of brand equity. By looking at previous literature, it is rare to find a study that used these dimensions in measuring brand equity. The next section presents the literature review on the aforementioned factors and highlights the causal link between physical environment and brand equity.

2. Literature Review

2.1 Brand Equity

The topic of brand equity continues to dominate the marketing literature since the past decades. Previous literature reported various views towards the conceptualization of brand equity. According to Aaker (1991, p.15), brand equity refers to “a set of brand assets and liabilities linked to a brand, its name and symbol that add to or subtract from the value provided by a product or service to a firm and/or to that firms’ customers”. Brand equity was also defined by Keller (1993) as “the differential effect that brand knowledge has on consumer response to the marketing of that brand”. This concept was also defined from the financial perspective as the value of a brand to a company as expressed in monetary terms (Simon & Sullivan, 1993). Similarly, Park and Srinivasan (1994) described brand equity as the “added value endowed by the brand to the product” (p. 271). Further contribution to the conceptualization of brand equity was provided by Keegan, Moriarty and Duncan (1995) who defined it as the values attached to a particular brand due to the strong relationships which were established with its customers and various stakeholders over a long period of time. Based on these definitions, it can be said that brand equity includes the added value endowed by company’s products or services to the brand.

Past literature viewed brand equity as a concept that can be measured using a set of dimensions. The most commonly used elements to measure brand equity were proposed by Aaker (1991) who is known as a prominent scholar in the field of brand equity, and this includes brand awareness, brand association, brand loyalty, and perceived quality. Similarly, Keller (1993) introduced brand awareness and brand image to measure brand equity. Agarwal and Rao (1996) included quality and choice intention as the key elements of brand equity. In the same period, Aaker (1996) introduced brand leadership as an important indicator of brand equity, but to date, only few studies contributed to this dimension as a key asset of brand equity. However, this study intends to provide a significant contribution to brand equity theory by integrating four unique dimensions to measure brand equity. The dimensions include brand image, brand loyalty, brand preference, and brand leadership. All of these dimensions contribute to overall brand equity.

Oliver (1997) defined brand loyalty as “a deeply held commitment to re-buy or re-patronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behavior” (p. 434). Brand image on the other hand was described by Hanaysha and Hilman (2015) as the overall evaluations and impressions of customers toward a brand. The definition is similar to that of Low and Lamb (2000, p. 352) who defined brand image as “the reasoned or emotional perceptions consumers associate to specific brands”. Additionally, brand preference refers to the willingness of customers to choose the products or services of a certain brand despite existing other alternatives. Finally, brand leadership was defined in the literature as the competitive advantages and distinctive capabilities that a brand has over its competitors (Zarantonello & Pauwels-Delassus, 2015). Particularly, leading brands are characterized by their capabilities to enter global markets and influence consumers’ purchase decisions through providing attractive and unique products or services with added values.

3.2 Physical Environment

The Physical environment is considered as an important factor for the success of any restaurant, and it was defined in the literature as an environment which includes overall layout, ambience, design, lighting, decoration, and aesthetics (Lee & Jeong, 2012). Past literature revealed that it is necessary for restaurant managers to differentiate their businesses through designing an attractive restaurant's physical environment to establish remarkable experiences for customers. The advantages of favourable physical environment are represented in maintaining existing customers as well as attracting new ones, because in this type of industry some customers prefer restaurants

that have pleasant and attractive environment in addition to the provided food or service (Canny, 2014). For example, improving the interior decoration, cleanness, proper lighting and colours may provide customers with pleasant dining experiences and increase their satisfaction levels which can lead to favourable post-purchase behaviour. According to Azim, Shah, Mehmood, Mehmood, and Bagram (2014), to develop the physical environment of a restaurant, it is necessary to invest in spending on the interior design of decorations; cartons, floor and accessories. Ultimately, the amount invested will enhance the assets and attract larger number of customers to the restaurant.

The significance of constructing an attractive physical environment in hospitality industry has received high attention among a number of scholars and managers because it is one of the important factors for attracting and satisfying consumers (Han & Ryu, 2009). In this context, physical environment plays a critical role in differentiating a service firm from its competitors and building its brand image (Chen & Hu, 2010; Ryu et al., 2012). Past studies reported that the physical environment of a restaurant plays an important role in creating strong brand equity (Ali, Omar, & Amin, 2013; Moghaddam, Asadollah, Garache, & Charmahali, 2014; Mukherjee & Shivani, 2013). According to Bitner (1992), a restaurant's physical environment can establish a virtual metaphor for that restaurant. By creating an attractive physical environment, restaurants will be able to distinguish themselves from their rivals and build strong brand associations in consumers' minds. Many restaurant managers pay significant attention to the layout of design and ambience as part of their branding strategies to create a distinct image in consumers' minds (Joseph & Flynn, 2015).

Furthermore, Choi, Heo, and Kim (2012) found that the elements of physical environment such as surroundings, convenience, functionality, and aesthetics had significant positive effects on brand loyalty. Greater support was reported by Ryu et al. (2012) who confirmed that the quality of a restaurant's physical environment was a significant factor in predicting perceived value and brand image. Koshki, Esmaeilpour, and Ardestani (2014) also found that the physical environment is an important factor for establishing a distinct mental picture of a restaurant. Similarly, Wakefield and Blodgett (1996) reported that physical environment plays an important role in affecting brand loyalty and consumer' post purchase behaviour. Therefore, the attitude of consumers toward a certain restaurant can be largely influenced by its physical environment. Based on the above discussion, the following hypotheses are postulated:

H1: Physical environment has positive effect on brand loyalty.

H2: Physical environment has positive effect on brand image.

H3: Physical environment has positive effect on brand preference.

H4: Physical environment has positive effect on brand leadership.

H5: Physical environment has positive effect on overall brand equity.

3. Methodology

The main purpose of this paper was to examine the effect of physical environment on brand equity in restaurant industry. To accomplish this objective, quantitative research approach is considered as the most appropriate strategy for examining the causal links between the stated variables. The data was collected through cross sectional survey which was personally administered to customers of international fast food restaurant brands in East Coast Malaysia (Pahang, Terengganu, and Kelantan). The population of respondents in this part of Malaysia exceeds one million; therefore, based on the suggestions of Krejcie and Morgan (1970), a sample size of 384 was employed. To ensure that the desired sample size can be obtained, convenience sampling technique was used. The respondents were shortly briefed about the purpose of this study before requesting them to participate in answering the survey. Moreover, the questionnaires were distributed during different times of the day at different spots in the region.

In designing the questionnaire, several scales were developed with reference to related previous studies. Particularly, physical environment was measured in terms of five items being taken from Ryu and Han (2011). Similarly, brand equity was measured using four dimensions (brand loyalty, brand image, brand preference, and brand leadership) which were described in the earlier sections. As for brand loyalty, this study used four items which were developed by Gilet al. (2007); Hameed (2013). To measure, brand image, five items were adapted from Park (2009) and Jin et al. (2012). Additionally, brand preference was measured according to five items being adopted and adapted from Sirgy et al. (1997). Finally, brand leadership was measured using four items being taken from Hanaysha and Hilman (2015). All of the scales were selected because they had acceptable values of Cronbach's alpha of more than 0.7. The items were measured on a five-point Likert scale ranging from 1 = "strongly disagree" to 5 = "strongly agree".

4. Analysis of Results

As stated earlier, 384 questionnaires were personally administered to customers of international fast food restaurants in East Coast Malaysia. However, only 293 were received back representing 76.3% of response rate. The analysis of respondents' profile indicated that 33.1% of the participants are male, whereas 66.9% of the responses came from female. Additionally, 19.4% of the respondents were in the age group that ranges between 16 and 25 years, 53.2% represented the age group of 26 to 35 years, 20.5% represented the age category of 36 to 45, and 6.9% were aged 46 years old or above. The analysis also showed that 79 (26.9%) of the participants had high school certificate, 69 (23.6%) had diploma certificate, 111 (37.9%) acquire undergraduate qualification, whereas 34 (11.6%) had postgraduate degree. On income profile, the results showed that 16.3% of the respondents get a monthly income of below RM500, 6.8% received RM500 to RM1000 in every month, 21.2% get a monthly income of RM1000 to RM3000, and finally, 55.7% had an average income of RM3000 or above.

The reliability of constructs was calculated using Cronbach's alpha and it was found that all values exceeded 0.7 as per the recommendations of Pallant (2007); physical environment (0.735), brand loyalty (0.852), brand image (0.826), brand preference (0.891), and brand leadership (0.780). Additionally, factor analysis was conducted to establish the validity assumptions. To do so, the measurement model using AMOS software was drawn. The results of Confirmatory Factor Analysis (CFA) as illustrated in Appendix A showed that the residing items in the measurement model attained reasonable values of factor loadings above 0.50. Consequently, convergent validity is confirmed among all constructs. The analysis also demonstrated that the data is free from the issues of Multicollinearity after conducting data screening as the values of correlation between any two constructs did not exceed 0.90 according to the suggestions of Tabachnick and Fidell (2007).

After achieving a reasonable fit for the factor loadings and other indices on the measurement model, the structural model was then drawn. According to Hair, Black, Babin, and Anderson (2010), structural model requires that a set of fit indices should achieve the recommended values. Based on the findings, the current structural model reported a good fit to the data since the value of Chi-square (χ^2) is equal to 384.465 (p-value = 0.000). Other indices also achieved acceptable values, Goodness of Fit index (GFI) = 0.875; Average Goodness of Fit index (AGFI) = 0.821; Comparative Fit Index (CFI) = 0.968, and Root Mean Square Error of Approximation (RMSEA) = 0.076. Overall, the results suggest that the structural model achieved a reasonable fit for the data (Hair et al., 2010).

To arrive at hypotheses testing, the structural model was used. After achieving a good fit for the data as presented above, the regression table was taken from the output of structural model. As shown in Table 1, the findings indicate that physical environment has significant positive effect on brand loyalty ($\beta = 0.371$, t-value = 5.183, $p < 0.05$), thus, H1 is supported. The findings also revealed that physical environment has significant positive effect on brand image ($\beta = 0.248$, t-value = 5.786, $p < 0.05$), and this means that H2 is accepted. Similarly, the effect of physical environment on brand preference is positive and statistically significant ($\beta = 0.559$, t-value = 5.697, $p < 0.05$), consequently, H3 is confirmed. H4 which stated that physical environment has positive effect on brand leadership is also supported ($\beta = 0.042$, t-value = 5.194, $p < 0.05$). Finally, the results indicated that physical environment has significant positive effect on overall brand equity ($\beta = 0.638$, t-value = 4.847, $p < 0.05$), thus, H5 is supported. Overall, physical environment explains 41% of total variance in brand equity.

| | Hypothesized Effect | Std. Beta | S.E. | C.R. | P | Support |
|-----|---|-----------|-------|-------|-------|---------|
| H1: | Physical environment has positive effect on brand loyalty. | 0.371 | 0.264 | 5.183 | 0.001 | Yes |
| H2: | Physical environment has positive effect on brand image. | 0.248 | 0.216 | 5.786 | 0.005 | Yes |
| H3: | Physical environment has positive effect on brand preference. | 0.559 | 0.274 | 5.697 | 0.005 | Yes |
| H4: | Physical environment has positive effect on brand leadership. | 0.042 | 0.201 | 5.194 | *** | Yes |
| H5: | Physical environment has positive effect on overall brand equity. | 0.638 | 0.134 | 4.847 | *** | Yes |

5. Discussion and Conclusion

The main purpose of this study was to examine the causal effect of physical environment on brand equity and its components in fast food restaurant industry. The findings supported that physical environment has significant positive effect on brand loyalty, and this is in line with previous researches (Choi et al., 2012; Seo, Kim, & Choi, 2012). The practical implications from this result indicate that the managers in restaurant industry should put high attention to the importance of physical environment of dining area in creating favourable brand associations in consumers' minds. Consequently, restaurant managers are advised to systematically plan, establish, develop, and monitor the physical environments of their restaurants in order to maintain their customers and keep their values on the long term. For instance, the decoration of a restaurant can be used in different styles to connect with customers. Moreover, an appropriate lighting, table setting, and ambient environment with attached music could play important roles in strengthening customer loyalty.

The findings also confirmed that physical environment has significant positive effect on brand image. Greater support was reported by certain previous studies which reported that physical environment plays an important role in enhancing restaurants' brand image (Gorsi & Mahmood, 2015; Koshki et al., 2014; Ryu & Han, 2010; Ryu et al., 2012). This means that a clean and well-designed physical environment in a restaurant can help customers to develop favourable images in their minds toward the service provider. The main implications from this result reveal that superior physical environments is a very important factor for developing restaurants' brand image which will affect customers' perceived value. In this perspective, maintaining clean and attractive physical restaurant's environment should be considered as a key aspect of customer service. Therefore, physical environment represents a critical factor that customers tend to evaluate in determining the perceived value of restaurants' services. The management in restaurant industry are thus advised to look into these aspects to develop favourable brand images and sustain their business performance on the long-term.

Moreover, this study found that physical environment has significant positive impact on brand preference and brand leadership. The finding was supported by Azim (2015) who reported that physical environment plays a significant role in consumers' selection of a certain restaurant over another. It is true that cleanness and physical appearance of a restaurant are some of the important factors that consumers tend to consider before forming purchase decisions. As evident, large chain food restaurants such as KFC and McDonalds have managed to become among the global leaders in fast food restaurant industry, because of their strong emphasis on designing appealing physical environments that are clean, well-maintained, and attractive to consumers. Therefore, the marketers in restaurant industry should manage customers' perceptions of physical environments properly. Each element of the physical environment at every dining area has to be appropriately managed, and employees should fulfil the promises of customers to create positive experiences for them.

Finally, the outcomes of this paper revealed that physical environment has significant positive effect on overall brand equity and it was supported by several previous studies (Moghaddam et al., 2014; Mukherjee & Shivani, 2013). This means that the physical environment of a restaurant is one of the key determinants of its brand equity. The attributes of restaurant environment such as ambience and interior decoration are likely to create a distinct image in consumers' mind toward the quality and distinctiveness of the service brand. Based on these results, it is suggested that restaurants' managers should make substantial efforts to develop positive intentions among their customers by safeguarding them of the useful value they receive through a clean, well-designed, and well maintained physical environment. The management in restaurant industry should pay significant attention to physical environment as an important marketing strategy in order to attract customers from different backgrounds.

As with every research, there are some limitations that should be addressed in future studies. First, convenience sampling technique was employed during data collection which may limit the generalizability of the results to other contexts. Future researches in this regard can employ different sampling methodologies to enhance the possibilities for generalizability of the results. Second, given the high diversity of hospitality industries, further research is recommended to examine if similar findings can be obtained from different samples across different hospitality industries. Third, this paper focused only on one antecedent of brand equity that is physical environment. Therefore, future research is suggested to incorporate other factors such as marketing communication and social responsibility activities. Finally, the direct effect of physical and environment on brand equity was examined in this study without including mediating or moderating variables. Thus, future studies may examine the role of moderating factors such as gender and age since the reactions of customers to physical environments may differ according to their demographic characteristics.

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| Appendix A: Measurement Scales of Constructs | | |
|--|--|------------------------|
| Code | Construct/ Items | Factor loadings |
| Physical Environment (Cronbach's Alpha = 0.735) | | |
| PHE1 | The interior design and decorations of the restaurant are visually appealing. | 0.665 |
| PHE2 | The furniture of the restaurant (e.g., dining table, chair) is clean. | 0.575 |
| PHE3 | The temperature in this restaurant is comfortable. | 0.691 |
| PHE4 | The seating arrangements in the restaurant are comfortable and give me enough space. | 0.793 |
| PHE5 | The restaurant's lighting and colours create a sense of ambience. | 0.534 |
| Brand Equity Dimensions: | | |
| a. Brand Image (Cronbach's Alpha = 0.826) | | |
| BI1 | The brand of this restaurant has a fashionable and trendy image. | 0.649 |
| BI2 | The brand of this restaurant has a reputation for quality. | 0.781 |
| BI3 | The brand of this restaurant has unique features. | 0.632 |
| BI4 | The brand of this restaurant provided me a better lifestyle. | 0.701 |
| BI5 | The brand of this restaurant provides good value to its customers. | 0.737 |
| b. Brand Loyalty (Cronbach's Alpha = 0.852) | | |
| BL1 | I consider myself to be loyal to the brand of this restaurant. | 0.687 |
| BL2 | I would continue to visit this restaurant even if its prices increase somewhat. | 0.762 |
| BL3 | I say positive things about this restaurant to other people. | 0.840 |
| BL4 | I recommended this restaurant to others. | 0.801 |
| c. Brand Preference (Cronbach's Alpha = 0.891) | | |
| BP1 | I like to go to this restaurant more than others. | 0.901 |
| BP2 | I would buy from this restaurant frequently. | 0.726 |
| BP3 | This restaurant is my preferred choice over others. | 0.878 |
| BP4 | I would be inclined to buy from this restaurant brand over other brands. | 0.804 |
| d. Brand Leadership (Cronbach's Alpha = 0.780) | | |
| BLe1 | This restaurant brand is one of the leading brands in its category. | 0.778 |
| BLe2 | This restaurant brand is growing in popularity. | 0.855 |
| BLe3 | This restaurant brand provides good care to its customers | 0.539 |
| BLe4 | This restaurant brand is one of the most widespread brands and can be found in different places. | 0.638 |
| BLe5 | The brand of this restaurant has many visitors every day. | 0.522 |