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## Improving Service Quality at Vietnam Retail Banks

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### Abstract:

*The results of this study have identified and analyzed the factors that affect customer satisfaction on the quality of service at retail banks in Vietnam. The author conducted this study by qualitative and quantitative research, conducted a survey of 329 customers in Ho Chi Minh City. The research model consists of 5 scales, with 20 observation variables. The results of this study have identified the factors that affect customer satisfaction with the quality of service at retail banks: reliability, convenience, empathy, security, and tangibles. The result of this research is an important basis for Vietnamese retail banks to propose solutions to improve service quality for customers in the coming time.*

**Key words:** Satisfaction, service quality, customers satisfaction, customer services, competitiveness.

### INTRODUCTION

It can be said that for banks to survive and develop, persuading clients and building loyal customers is a prerequisite for every business organization (Adam Khoo, 2012). Maintaining and constantly improving service quality is the key to the success of most banks. The trend of international integration forces Vietnamese retail banks to compete aggressively on their home turf. Banks in Vietnam are currently competing for service quality, scale of development, capital potential, breadth of

distribution networks, and technological depth. Which bank is more aware of the direction of service quality to perfection, the bank is more successful and vice versa. However, in fact, many Vietnamese banks do not really have the strategy of investing in order to satisfy the demand of customers while big banks from overseas are constantly growing in Vietnam market. Therefore, it is time for Vietnamese banks to change positively if they want to survive and develop sustainably.

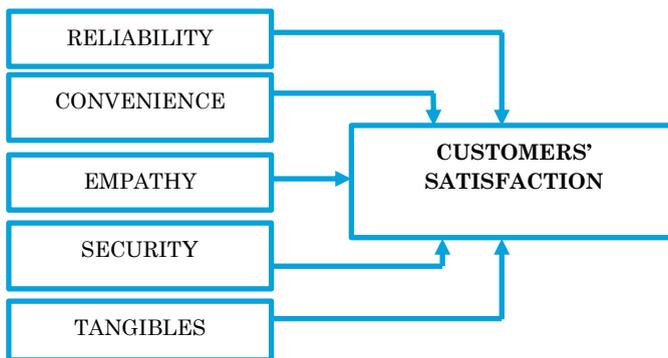
## **LITERATURE REVIEW**

There are many studies on customers' choice of banking services. Lymperopoulos et al., (2006) argues that banking service quality is the most important factor that customers consider to choose their supplier and establish a long term relationship with them. Moreover, Ladhari et al., (2011) claim that the quality of banking services in Canada and Tunisia also reflects this issue. The authors compares the perceptions of Tunisian and Canadian customers on the quality of banking services, establishing service quality scales for customer satisfaction and loyalty. The study concluded that service quality was measured by the Servperl scale of five factors, such as Reliability, Tangibles, Convenience, Security, and Empathy. The results show that Canadians perceive service quality higher than that of Tunisians. In Canada, empathy and reliability are the most important factors of satisfaction and loyalty, while in Tunisia, reliability and responsiveness are the most important factors of satisfaction and loyalty.

In the study of Herington et al. (2007), it is also concluded online service quality impact on the level of customers' interest and the development of customers' relationships. The "effectiveness" of online service quality relate to reliability and also indirectly affect customers' relationships through trust. "Personal needs" and "service quality of an online site" are related to loyalty, in which "personal needs" have the greatest impact. In most studies of service quality, the

Servqual model (Parashuraman et al., 1985) and the Servperl model (Cronin and Taylor, 1995) are used to evaluate service quality. The Servqual model has 10 scales, but there are many overlapping ones; therefore, Servperl model is applied in many studies. Moreover, Servqual model is inherited in this study which has been reduced to a five-scale model. Yet it ensures its scientific merits; consequently, many researchers use it more and more often.

Based on theories, research results and group discussions with experts in the field of banking and finance, a research model to improve service quality at Vietnam retail banks (variable Y) is proposed including the following factors: reliability, convenience, empathy, security, and tangibles. The research model includes 05 independent variables and 01 dependent variables.



**Figure 1.1 – Model study of factors affecting customer satisfaction on the quality of service at retail banks in Vietnam**

**Hypothesis H1:** There is relationship between “Reliability” and customers satisfaction

**Hypothesis H2:** There is relationship between “Convenience” and customers satisfaction.

**Hypothesis H3:** There is relationship between “Empathy” and customers satisfaction

**Hypothesis H4:** There is relationship between “Security” and customers satisfaction

**Hypothesis H5:** There is relationship between “Tangibles” and customers satisfaction

## **METHODS OF RESEARCH**

Qualitative and quantitative methods are employed in this study. Firstly, group discussion method and expert consultation are used to improve the scale of the research model. Secondly, Cronbach's Alpha and EFA are performed to test their reliability. All data collected from the questionnaire are coded, processed by using SPSS and AMOS. Observed variables with a total variance which are greater than 0.3 and a Cronbach's Alpha coefficient which is greater than 0.6 would ensure reliability of the scales. This method is based on the Eigenvalue, the appropriate factorial analysis and the observed variables in the whole are correlated when the total cumulative error is  $> 50\%$ , the KMO coefficient is within About 0.5 to 1, Sig coefficient.  $\leq 5\%$ , the loading factors of all observed variables are  $> 0.5$ ; The weight difference  $\lambda_i A - \lambda_i B$  is  $> 0.3$ . Thirdly, CFA as factor analysis and test modeling by SEM linear modeling are used. The purpose of CFA assertive factor analysis helps to clarify: (1) Unidirectionality, (2) Reliability of scale, (3) Convergence value, and (4) Distinctiveness. According to Steenkamp and Van Trijp (1991) and Hair et al. (1998), a research model is considered relevant to market data if Chi-square testing is  $P\text{-value} > 5\%$ ;  $CMIN / df \leq 2$ , some cases  $CMIN / df$  may be  $\leq 3$  (Carmines and McIver, 1981);  $GFI, TLI, CFI \geq 0.9$ . However, according to the recent views, GFI is still acceptable when it is greater than 0.8;  $RMSEA \leq 0.08$ . Apart from the above criteria, the test results must also ensure the synthetic reliability of  $> 0.6$ ; Variance deviation must be greater than 0.5 (Hair et al., 1998).

## RESEARCH RESULTS & DISCUSSIONS

**Table 1. Cronbach's Alpha**

MODEL	CODE	FACTORS	CRONBACH'S ALPHA
IDV	REL	Reliability	0,869
	RES	Convenience	0,840
	EMP	Empathy	0,859
	SEC	Security	0,787
	TAN	Tangibles	0,890
DV	CSA	Customers satisfaction	0,849

(Source: The researcher's collecting data and SPSS)

Testing the results of reliability scales shows that the scale has good accuracy with Cronbach's alpha coefficient  $> 0.6$  and the correlation coefficients of the total variables of measurement variables meet the allowed standard ( $> 0.3$ ), the scale will be accepted. The observed variables are used for factor analysis to discover in the next step.

**Table 2. Exploratory Factor Analysis (EFA) for the independent variable**

KMO	0.733
Sig of Barlett Test	0.000
Eigenvalues	1.292
Average Variance Extracted	69.002%

(Source: The researcher's collecting data and SPSS)

$KMO = 0.733 > 0.5$ . Sig value =  $0.000 < 0.05$  so the factor analysis is reasonable and the analysis coefficient is satisfactory. Variables are correlated in the overall. Eigenvalues =  $1.292 > 1$  represents the variance explained by each of the factors and factors extracted that summarize the best information. Total variance deviation =  $69,002\% > 50\%$ . This proves that  $69,002\%$  variance of the data is explained by 5 factors in the study model.

**Table 3. Rotated Component Matrix<sup>a</sup>**

OBSERVED VARIABLES	COMPONENT					MEAN
	1	2	3	4	5	
Banks always carry out what they have committed	.801					3.43
Personal information is always confidential	.742					3.21
Staff always performs service correctly	.688					3.51
Online banking payment system is secure	.777					3.03
Payment means is flexible and diversified		.693				3.37
Payment forms is flexible		.791				3.51
Transaction process is quickly		.680				3.24
Service time is convenient for customers		.627				3.39
Online banking is widespread		.700				3.01
Online user interface is easy		.647				3.12
Banks have many incentives for customers		.661				3.23
Brochures on banking are good			.691			3.22
Interior space in the transaction place is beautiful			.762			3.34
Customer service facilities are good			.755			3.09
Bank facilities are modern			.636			3.32
The waiting room is nice, polite and friendly			.788			3.41
Banks understand their customers' needs				.795		3.27
Connection between banks and customers is good				.782		3.22
Bank always listen to customers				.683		3.14
Bank staff are always kind to customers				.680		3.25

(Source: The researcher's collecting data and SPSS)

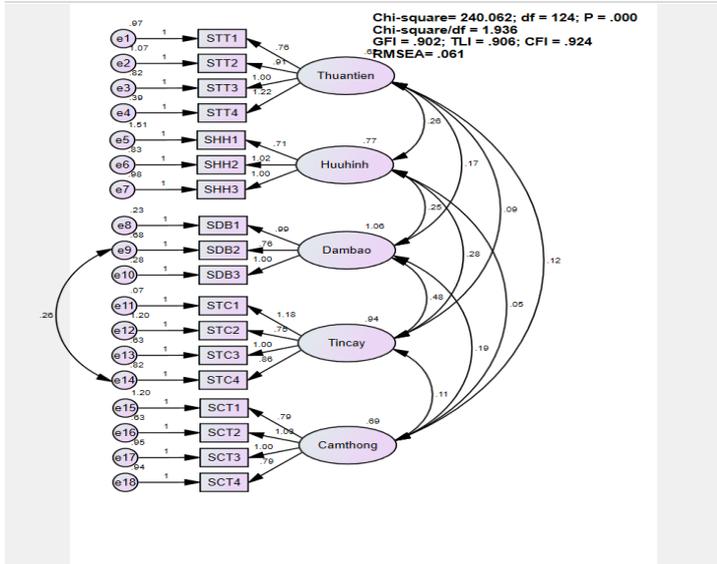
The results from the matrix show that the 20 observed variables are grouped into 5 factorial groups, all variables with a Factor Loading factor  $\geq 0.5$  satisfying conditions and statistical significance. Descriptive statistics show that customers' satisfaction for service quality at banks is moderate. In which, the "convenience" scale has the lowest satisfaction index (Mean: 3.01-3.39). The above results also reflect the fact that the service quality at retail banks in Vietnam has been limited.

**Table 4. Phân tích nhân tố khẳng định CFA**

		N= 329		TINV(0.05,248)		1.762	
<i>Correlations: (Group number 1 - Default model)</i>							
Scales	t	Scales	r	$SE = \sqrt{[(1-r^2)/(n-2)]}$		(1-r)/SE	P-value
		Estimate					
Reliability	<-->	Tangibles	0.381	0.059		10.54	0.000
Reliability	<-->	Security	0.214	0.062		12.67	0.000
Reliability	<-->	Reliability	0.118	0.063		13.99	0.000
Reliability	<-->	Empathy	0.177	0.062		13.17	0.000
Tangibles	<-->	Security	0.282	0.061		11.79	0.000
Tangibles	<-->	Reliability	0.333	0.060		11.14	0.000
Tangibles	<-->	Empathy	0.065	0.063		14.76	0.000

Security	<-->	Reliability	0.485	0.056	9.27	0.000
Security	<-->	Empathy	0.217	0.062	12.63	0.000
Reliability	<-->	Empathy	0.132	0.063	13.79	0.000
E8	<-->	e13	0.348	0.060	10.95	0.000

(Source: The researcher's collecting data and SPSS)



(Source: The researcher's collecting data and SPSS)

The CFA results show that the study model is consistent with the data, Chi squared = 240,062, freedom level = 329, P value = 0,000; CMIN / df = 1,821. Other metrics were also satisfactory (GFI = 902, TLI = 906, CFI = 924, RMSEA = 0.061 <0.8). All normalized regression weights in the model are meaningful and significant, ranging from 0.059 to 0.076, all are greater than 0.5. The results show that the components in the model are unilateral and convergent. To the results of the differences among the variables in the model, all estimated correlation coefficients associated with the standard error (SE) for the p value are less than 0.05, so the correlation coefficient of each pair of different concepts is from 1 at 95% reliability. Consequently, the concepts in the model achieve distinct values.

The Bootstrap analysis with absolute CR value show that bias is small but it can be concluded that the deviation is very small. Thus, it can be concluded that the estimation in the research model can be reliable.

The results of the study and bootstrap model estimation in the linear structural model analysis (SEM) show that the relationship hypothesized in the formal research model are statistically significant because the p values are smaller than 0,05; reaching the necessary level. In other words, the hypotheses in the formal research model are accepted.

**Table 7. Regression coefficients of the formal research model table**

RELATIONSHIPS			B	BETA	S.E.	C.R.	P	CONCLUDE
Satisfaction	<--	convenience	,212	,579	,064	3,623	--	Accepted H <sub>2</sub>
Satisfaction	<--	Security	,293	,311	,061	6,039	--	Accepted H <sub>4</sub>
Satisfaction	<--	Empathy	,284	,542	,070	5,615	--	Accepted H <sub>3</sub>
Satisfaction	<--	Reliability	,105	,244	,063	5,607	--	Accepted H <sub>1</sub>
Satisfaction	<--	Tangibles	,192	,132	,057	4,011	--	Accepted H <sub>5</sub>

(Source: The researcher’s collecting data and SPSS)

The results confirmed is to measure the relevance of concepts in the research model with the above data is appropriate. It helps identify discriminant values, synthetic reliability, Average Variance Extracted, and unilateral of scales. The GFI, CFI, TLI, RMSEA, Chi-Square degrees are consistent, showing that all scales are suitable, ensuring convergence values and ensuring reliability and different value. The research model is consistent with market survey data.

The results of the study showed that five factors affecting customers’ satisfaction to the service quality at banks in Vietnam. The importance of each different factors is as follows: convenience (Beta: 0.579), empathy (Beta: 0.542), security (Beta: 0.311), reliability (Beta: 0.244), Tangibles (Beta: 0.132). The results of this study are the basis for retail banks to propose solutions to improve service quality for customers in the future.

## CONCLUSIONS & RECOMMENDATION

The results of the study show that the standardized Beta coefficients are  $> 0$ , so the independent variables are positive for customers' satisfaction to the service quality at retail banks in Vietnam. The results of the study show that if the banks invest in these factors in a corresponding proportion, the results also increase in a matching proportion as illustrated in the regression equation. Based on research findings, the recommendations are proposed.

Firstly, banks need to be more drastic in improving the quality of services, especially services for individual customers in the future. Through these activities, banks also build up a customers database to satisfy their needs and enhance the bank's reputation. In the process of competition, banks which have a good interaction system with their customers will attract a lot of good customers.

Secondly, banks need to train communication skills, the art of winning customers for all employees who directly contact with customers so that they have adequate skills to convince the customers. Strong competition requires banks to have strategies for taking care of each customer.

Thirdly, the security system of Vietnamese banks is one of their major constraints. As a result, it is necessary to invest more in security systems to ensure the security of customer information, ensuring that investments and transactions are made correctly and securely. In fact, banks which pay attention in investment in technology and good security won their customers' trust.

Fourthly, facilities, machinery and equipment banks need improving to better serve customers toward modernism, civilization and politeness. This investment must be associated with the development of digital and social networking because it is true that customers now prefer banks interacting well with smartphones, laptop and Ipad./.

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