

Factors Contributing to the Development of the Retail Banking Services in Hanoi, Vietnam

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Received: March 19, 2015 Accepted: April 14, 2015 Online Published: June 5, 2015

doi:10.5539/ass.v11n18p364

URL: <http://dx.doi.org/10.5539/ass.v11n18p364>

Abstract

This study focuses on factors contributing to the development of the retail banking services (RBS) in Hanoi, Vietnam. A four factor model is established, corresponding to four hypotheses in this paper. Based on a sample size of 615 customers and through a multiple regression analysis, results show that IT infrastructure - service channels and tangibles are factors contributing to the development of the RBS in Hanoi, Vietnam. This result suggests that customers care about the convenience, speed and quality of serving of banking staff. Therefore, banks should always focus on upgrading IT infrastructure and online trading system; in addition, they often have to improve facilities in workplace, professional services and marketing, etc. The paper provides several implications to practitioners and suggestions for further studies.

Keywords: retail banking services, Vietnam, effects, IT infrastructure, Tangibles

1. Introduction

Development of retail banking operations is the tendency of the commercial banks in the world. In order to survive and develop in a sustainable way, the banks are aimed at strengthening and developing the individual customer groups, households and small and medium enterprises. This activity is sure to bring revenue, restrictions and risk diversification.

Vietnam is considered as a potential market in the development of retail banking services because retail services of commercial banks is still very weak, the competitiveness of products and services is not high and limited, especially for the Commercial banking Joint Stock.

The commercial banks Vietnam has been developed retail banking service (RBS) as an inevitable trend, consistent with the general trend of banks in the region and the world. This is a banking services for individual clients and small businesses to ensure for effective risk management. Although the financial resources of local banks has increased but It has remained at a low level and RBS hasn't met the demands of the economy, the majority have been traditional services as capital raising services, credit, payment. The structure developed between the services is irrational, modern distribution channels haven't been developed yet.

Researching to develop a system of solid arguments and evaluate the impact of these factors on the development of RBS is really necessary. The objective of this paper is to study the factors affecting the development of retail banking services of the commercial bank joint-stock in Vietnam.

2. Literature Review

All over the world, since 1980s, Parasuraman et al. (1985) identified five factors that generally affect the service quality are the reliability, responsiveness, assurance, understanding the customer and tangibles. Besides, Elliot et al. (1996) and Reeves and Bednar (1996) noted the impact of price on the use of banking services. Gerard and Cunningham (2001) conducted their study to find out factors influencing the bank selection such as ATM, speed of service. Holstius and Kaynak (1995) conducted his study to determine the most important factors influences

the customers for choosing a bank and found that reception at the bank, fast and efficient services, lower service charges, friendliness of personnel are most important criteria for selecting banks. Riggall (1980) showed in his study that convenience of location is the most influential factor for bank selection by new comers. Laroche et al. (1986) reveals that the most important factors in choice of bank were location, convenience, and spread of service, competence and personnel behavior. In Vietnam, the studies of Le Kieu Anh (2012), Huynh Thi Tram Anh (2011) and Nguyen Huynh Bao Chan (2010) shows factors affecting RBS include scale, the state of macroeconomics, competition, information technology, legal environment, financial capacity, customers' demand, distribution channels, and so on.

3. Research Methodology

Inheriting from the existing research, the authors have constructed four-factor model based on four hypotheses (H1 => H4), modelling in Figure 1.

Hypothesis 1. Business scale of the commercial banks is positively and significantly related to development of RBS.

Hypothesis 2. Product and service price of the commercial banks is positively and significantly related to development of RBS.

Hypothesis 3. Tangible resource of the commercial banks is positively and significantly related to development of RBS.

Hypothesis 4. IT infrastructure of the commercial banks is positively and significantly related to development of RBS

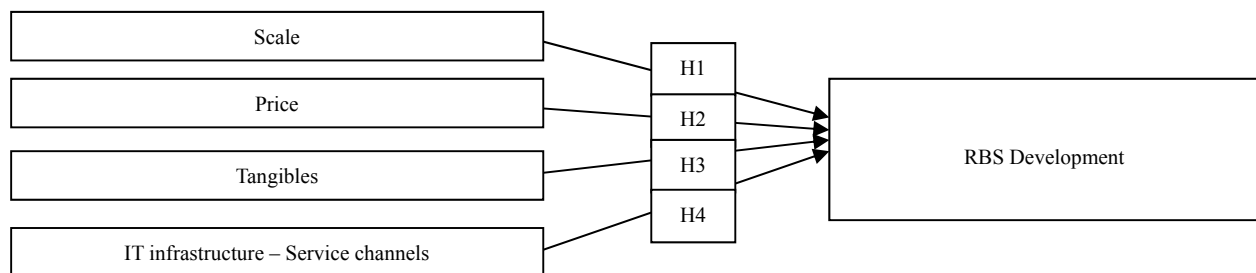


Figure 1. Factors affecting the development of Retail Banking Services

In the four factors, each factor is involved in the different observed variables containing feedback from customer about RBS, corresponding to each question in the delivered questionnaire (Table 1). The observed variables are measured in Likert-type scales from 1 (strongly disagree) to 7 (strongly agree).

The authors delivered a questionnaire to 1.100 customers who have used the RBS in Hanoi at random, 615 of which with valid answers were used for analyzing.

Table 1. Measurement of factors

Factors	Notations	Contents
Scale	Scale 1	Banks provide diversity of service package involved in life aspects such as entertainment, business and learning.
	Scale 2	Banks provide diversity of service package for many types users.
	Scale 3	Banks constantly search and increase new services.
	Scale 4	Banks apply well IT for specialized activities.
Price	Price 1	Banks provide the cheapest services.
	Price 2	Banks change the price under the certain circumstances.
	Price 3	Banks levy on the basis of the times of use.
	Price 4	Banks periodically levy.
Tangibles	Tangible 1	Banks are equipped modernly.
	Tangible 2	Banks' facilities are well.
	Tangible 3	Banks' staff wear neaty and courtesy.
	Tangible 4	Brochures and documents about banks and their products are impressive.
	Tangible 5	Guidelines, forms and procedures of banks are always full listed.
	Tangible 6	Transaction locations are clean and comfortable.
	Tangible 7	Seats in waiting rooms of banks make customers satisfied.
RBS Development	RBS Development 1	Banks take responsibility for what they introduce and commit.
	RBS Development 2	Banks efficiently perform their services.
	RBS Development 3	Banks care about their customers.
IT infrastructure	IT Infra 1	Banks boost to apply the digital technology (Internet and Mobile) in transactions.
	IT Infra 2	Banks provide many Automated Transaction Machines (ATM).
	IT Infra 3	Customers prefer transacting at banking counters and branches.
	IT Infra 4	Customers prefer transacting at ATM.
	IT Infra 5	Customers prefer transacting on the Internet and Mobile.

4. Data Analysis and Results

4.1 Exploratory Factor Analysis (EFA)

KMO and Bartlett's test is used to assess the appropriateness of exploratory factor analysis. Results show KMO index (0.942) is high and has statistical significance at one percent (sig. 0.000). Therefore, the application of exploratory factor analysis is consistent with the research data.

Eigenvalue representing the amount of variation of the determinants is used to extract the number of factors. Factors with eigenvalues greater than one are retained in the model, so there are four factors for analysis. The 64.3% of total extracted variance shows 64.3% variation of variables.

EFA states Cronbach's Alpha tests of four factors in the researching model that are greater than 0.6, the observed variables are greater than 0.5 and correlation of variables and sums are greater than 0.3 (Table 2). Cronbach's alpha coefficient of the dependent variable – RBS development is 0.81; the load factors of the component variables are greater than 0.5 and the variable-sum correlation coefficient is greater than 0.6. Therefore, the scales of factors in the model is suitable to perform further analysis.

Table 2. Cronbach's alpha test

Factors	Cronbach's Alpha	Observed variables	Variable-sum correlation coefficient	Load factor coefficient
Scale	0.903	Scale 1	0.815	0.812
		Scale 2	0.792	0.838
		Scale 3	0.827	0.823
		Scale 4	0.710	0.664
Price	0.852	Price 1	0.576	0.816
		Price 2	0.730	0.758
		Price 3	0.725	0.728
		Price 4	0.750	0.725
Tangible	0.897	Tangible 1	0.630	0.694
		Tangible 2	0.659	0.711
		Tangible 3	0.706	0.703
		Tangible 4	0.671	0.652
		Tangible 5	0.757	0.666
		Tangible 6	0.794	0.714
		Tangible 7	0.708	0.608
IT Infrastructure	0.805	IT Infra 1	0.616	0.743
		IT Infra 2	0.508	0.796
		IT Infra 3	0.560	0.552
		IT Infra 4	0.618	0.557
		IT Infra 5	0.652	0.593

4.2 Confirmatory Factor Analysis (CFA)

CFA result presented the scale for factors in the researching model is consistent with the collected data. The values of tests are Chi-square / df = 4.443; GFI = 0.895; TLI = 0.911 (> 0.9); CFI = 0.925 (> 0.9); RMSEA = 0.075 (<0.08). Therefore, the analysis result is reliable.

The standardized coefficients of the measurement are greater than 0.5 and the p-value of each concept pair is 0.05. On the other hand, the correlation coefficient together with standard deviation are not one and have statistical significance. Therefore, the research model is adjusted to achieve convergence value and divergence value. It does not happen the correlation between the error of approximation of the measurement in factors to achieve unitary in the model.

After correction, pair of error of approximation e6 and e7 with MI estimated as 130.081 (highest value in all pairs of error of approximation), so if the pair of error of approximation e6 and e7 are correlated, the covariance between them will be 0.481 and Chi-square/df of the original model. Meanwhile, GFI and Chi-square/df will also be improved and the research model will be more consistent with market data. Therefore, in case of e6 and e7 connection and re-estimating the model, the result is mapped out as shown in Figure 2.

The estimation of the theoretical model was adjusted with 159 ranks which are freedom with Chi-squared 567 428 (p = 0.000). Other criteria are all reached as Chi-square/df = 3.569; GFI = 0.912; TLI = 0.934; CFI = 0.945,

which are greater than the standard index 0.9 and RMSEA = 0.073 is less than the standard index 0.08. This proves that the adjusted model is more consistent with research data than previous model.

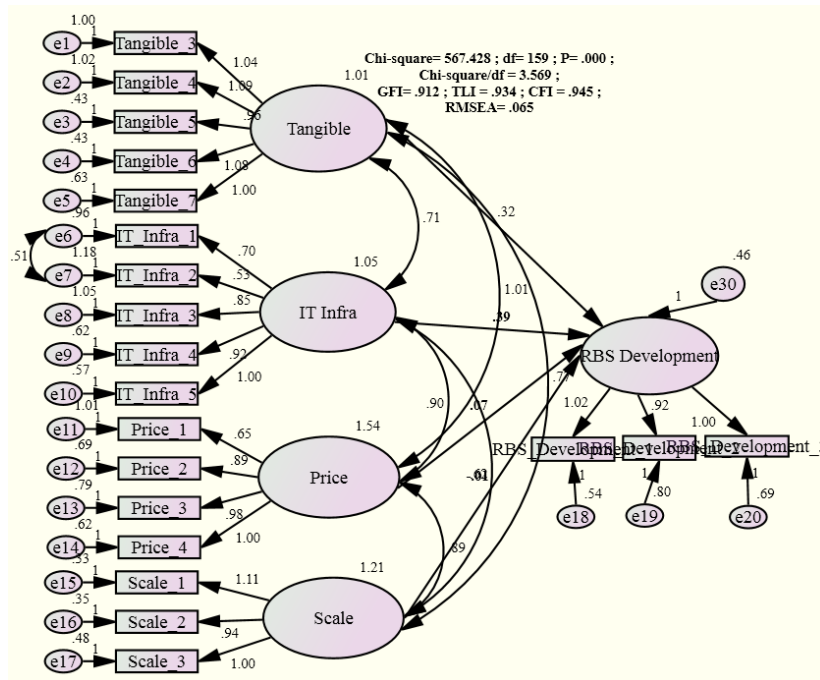


Figure 2. Estimation of research model

Tests by using the Structural Equation Model (SEM) shows (Table 3) that two factors, including (i) IT infrastructure - service channels and (ii) tangibles, have a strong influence on the RBS development; in which IT infrastructure are more powerful than tangibles through the greater estimation coefficient 0.395 and 0.316 respectively. Meanwhile, there is no evidence on the effects of the two other factors (price and scale).

Table 3. Results of SEM test

Relation	Estimate	S.E	C. R	P
IT Infra => RBS	0.395	0.066	6.029	***
Price => RBS	0.069	0.067	1.029	0.304
Scale => RBS	-0.012	0.051	-0.239	0.811
Tangibles => RBS	0.316	0.084	3.752	***

5. Conclusions

Through the research model and analysis of real data collected from the customers' use of the retail banking services of commercial banks in Hanoi and Ho Chi Minh City, the authors point out the factors affecting the RBS development. They are IT infrastructure - service channels and tangibles.

This result suggests that customers care about the convenience, speed and quality of serving of banking staff. Therefore, since further RBS development, banks should always focus on upgrading IT infrastructure and online trading system; in addition, they often have to improve facilities in workplace, professional services and marketing, etc.

However, the findings also describe that the scale and price of services seem not to impact the RBS growth. This mean that the diversification of service types or price levels is very important, it is the supplement to above implies that customers are willing to use high-price services or many different services under the conditions of satisfying the expectations and corresponding to the amount they paid.

As a new research field, it is difficult to avoid certain restrictions. Firstly, extensive research object are most of the banking services. Furthermore, although Hanoi is a national financial main banking center, the scope of the study is still localized. In addition, the observations have not been split on the basis of the characteristics of the

customers who answered questionnaire. Therefore, the authors recommend further studies can exploit this new field in the more specific aspects, in order to accurately assess the factors affecting the RBS development.

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