Internet Banking Service Quality, Customer Satisfaction and Customer Loyalty: 
The Case of Vietnam

Pham Long, School of Banking and Finance, National Economics University, Ha Noi, Vietnam
Phan Dien Vy, Human Resources Department, Banking University of Ho Chi Minh City, Ho Chi Minh City, Vietnam

ABSTRACT

Service quality is one of the key factors in determining the success or failure of e-banking. To gain and sustain competitive advantages in the rival-driven e-banking market, it is thus crucial for e-banks to understand in-depth what customers perceive to be the key dimensions of service quality and what impacts the identified dimensions have on the customers’ perceived overall service quality, satisfaction, and loyalty. This paper attempts, based on an extensive review of relevant literature, to provide a model integrating internet banking service quality dimensions, overall internet banking service quality, customer satisfaction and customer loyalty in the context of Vietnam - emerging as a new potential market. The findings of this study indicate that three dimensions of internet banking service quality namely online customer service quality, online information system quality and banking service product quality are found to be statistically significant in determining overall internet banking service quality. In addition, overall internet banking service quality has significant impact on customer satisfaction and in turn customer satisfaction has significant impact on customer loyalty. Implications and recommendations are discussed with the aim of improving internet banking services, customer satisfaction and customer loyalty.

KEYWORDS
Customer Loyalty, Customer Satisfaction, Internet Banking Service Quality, Vietnam

INTRODUCTION

It has been observed that the incredible growth of Internet use by individuals as well as business organizations has altered the competitive arena, which is quite unique and considerably different from that of the traditional, physical marketplace. Accordingly, the distinctive character of a virtual market has prompted companies to alter their strategies of conducting business with consumers. The banking
industry is no exception. Numerous banks have already been employing the Internet as an alternative service delivery channel (Such banks are referred to as e-banks hereinafter.) to traditional ones, such as face-to-face and telephone banking, in providing their customers with a variety of financial services. It has been pointed out that the introduction of internet banking services could offer both bankers and customers diverse benefits (Broderick and Vachirapornpuk, 2002). For instance, the direct interaction between the customer, and the e-bank’s Web site or employees over the Internet enables the e-bank to lower its operating and fixed costs by reducing the number of employees, branch offices, and other physical facilities while maintaining a high quality level of customer service. These cost benefits could make favorable conditions for the e-bank to provide customer services with lower fees and higher interest rates on interest bearing accounts than traditional brick-and-mortar banks (e.g., Gerlach, 2000; Jun and Cai, 2001).

Thus, in order to take advantage of this new information technology, most of the traditional banks have already invested a huge amount of money in the e-banking infrastructure and served their customers through multiple service delivery channels. This financial market change creates even more stiff competition than ever before among e-banks. Moreover, e-banks have been facing increased challenges from nontraditional institutions, such as money management companies, securities companies, and insurance companies, erosion of product and geographic boundaries, and changes in consumers’ financial awareness. This unprecedented competitive market situation presents e-bankers with severe marketing and operations challenges.

Unfortunately, although many e-banks have long centered their attention on improving their internet banking service quality, they still appear to be lagging behind their customers’ ever increasing demands and expectations, and struggling with retaining and expanding their loyal customer base. Obviously, to compete successfully in such a highly competitive e-banking industry, the banks should provide customers with high quality service (Mefford, 1993). In doing so, e-banks should thoroughly understand what dimensions are utilized by customers in evaluating internet banking service quality. Then, the banks can effectively take appropriate steps to enhance their internet banking service quality, and customer satisfaction and loyalty.

Up to now, a great deal of literature has identified key dimensions of customer service quality, customer satisfaction, and customer loyalty in the setting of traditional banking, where human interactions between customers and bank employees are dominant (e.g., Baumann et al., 2005; Beerli et al., 2004; Calik and Balta, 2006; Ehigie, 2006; Veloutsou et al., 2004). However, very little research has addressed those issues in the banking environment, where non-human interaction is a primary service delivery and communication channel (e.g., Flavian et al., 2004; Jabnoun and Al-Tamimi, 2003; Jun and Cai, 2001; Maenpaa, 2006; Siu and Mou, 2005).

Moreover, these studies have been primarily taken in the context of North America and Europe (Daniel, 1999; Mols, 2000; Pikkarainen et al., 2004) and to a lesser extent in other regions including a mix of developed and developing countries, such as Singapore (Tan and Teo, 2000), Taiwan (Shih and Fang, 2004), Malaysia (Suganthi and Suganthi, 2001), and Thailand (Jaruwachirathanakul and Fink, 2005).

Little research on internet banking service quality has been implemented in countries that are emerging as new potential markets with very high economic growth rates. Among these countries is Vietnam where its economic growth rate is approximately over 6% per year and population of about 90 million. Together with Vietnam’s entry into the World Trade Organization dated on 7 January 2007, its banking sector is increasingly being deregulated in accordance with the requirements set up by the World Trade Organization. These moves would strengthen competition among local and foreign banks in Vietnam, bringing about myriad of opportunities for banks that provide superior service quality, especially internet banking service quality, for their customers.

Therefore, the objective of this research is, based on relevant literature reviews, to provide a model that integrates internet banking service quality, customer satisfaction, and customer loyalty in the context of Vietnam. More specifically, the present study attempts to (1) identify the salient
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