

## **Service Encounter Satisfaction in the Retail Banking Service Sector: A Case Study of Vietnam Market**

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**【Abstract】** In this paper, we examine the antecedents and the consequences of service encounter satisfaction in the retail banking service sector. The results of the survey in Vietnam market indicate that employee, benefit, technology, and servicescape are the indicators of perceived service encounter, which has the strong positive effect on service encounter satisfaction. In addition, service encounter satisfaction will result in the repeat using services and referral to other customers. This study can help retail banks evaluate and improve service encounter satisfaction.

**【Keywords】** Servicescape, Service encounter, customer satisfaction, Vietnamese market

### **1. Introduction**

From joining as the 150th member of the World Trade Organization (WTO) in 2007, it has opened many opportunities and challenges for the development of Vietnam economy in general and service industry including banking services in particular. Vietnam's retail banking market is in its infancy (Alejandro et al., 2012) with only 30 % population using retail banking services. However, nowadays, (1) The country economy and household income have the significant increasing, (2) the consumer payment habits are changing towards non-cash payments, (3) the younger generation seeks for the convenient, modern and high technology products and services are the major reason to push the demands of using retail banking services. Vietnam is expected to become one of the highest growth markets in Asia (Dinh and Pickler, 2012).

Banking service is considered as the pure service sector because no tangible objective is exchanged and it is difficult to measure service quality (Solomon et al., 1985). In the pure service context, customer satisfaction and repeat patronage are determined solely by the quality of the personal encounters, constitutes service encounter (Solomon et al., 1985). In other words, in the retail banking service, customer satisfaction is built based on the basis of the person-to-person interaction in the service encounter. The success of service encounter is a key indicator of loyalty behaviors such as repurchases services, positive word of mouth, and referral to other customers (Singh, 2013). It becomes necessary to know deeply about the factors affecting service encounter satisfaction in the retail banking and to examine the effects of service encounter satisfaction on the customer behaviors such as loyalty behaviors.

### **2. Literature review and research questions**

Service encounter is the first and foremost social encounters. Service encounter concept highlights the dyadic interaction between service users and service providers. For instance, Shostack et al. (1985, p243) defined service encounter as “a period of time during which a customer directly interacts with a service”; Carlzon (1987) examined service encounter as “moments of truth” for exchanging service by the means of interactions between the means of interactions between the service provider and user; Solomon et al. (1987, p.87) considered “service encounter as a dyadic interaction between a customer and a service provider”. Fulfilling customer demands in the service encounter to obtain the service encounter satisfaction will have significant effects on the success of service business.

Customer satisfactions with a service encounter “depends on initial expectation for the encounter compared to actual perceptions of the encounter” (Rust and Huang, 2013, p.223). If the actual perceptions meet or exceed the expectations, the customer will be satisfied and versus. Moreover, Massad (2003) view service encounter satisfaction is also known as transaction satisfaction. Since service encounter is consisted of a service outcome (what the customers receive during and after service encounter) and the process of service delivery (how the providers delivery service outcome to the customers in the service encounter process, service encounter

satisfaction is the combination of the satisfaction with both service outcome and service delivery process (Massad, 2003)

Currently, most of research focuses on the overall satisfaction; little research focuses on the particular service encounter satisfaction. Researching on the India retail banking market of Singh and Kaur (2011) defined customer satisfaction is influenced by seven factors employee responsiveness, appearance of tangibles, social responsibility, services innovation, positive word-of-mouth, competence, and reliability factors. In there, social responsibility, positive word-of-mouth, and reliability have the strongest effects. Zhou (2004) already defined the factors influencing on customer satisfaction in the Chinese retail banking sector by applying the existing model of SERVPERF. The factors that were found are: empathy or responsiveness of the employees, reliability or assurance from the bank, and tangibility of services.

Moreover, the satisfaction factor models have to propose based on a specific geographical location. This is because customer satisfaction in retail banking is a dynamic issue and the customer's requirements in retail banking may have differences based on the other demographic variables like age, income, style of living etc. (Pratab, 2015). Because of the reasons, the research will contribute in the lacking research area of factors influencing on service encounter satisfaction. The research will take a case study of Vietnam retail banking sector to deeply understand.

Very little research has been examined in the retail banking service sector in Vietnam to measure service encounter satisfaction. The research aims to build a model including antecedents and consequences of service encounter satisfaction. The research will examine two research questions of which factors will affect service encounter satisfaction in the retail banking service sector? and how does service encounter satisfaction affect the customer loyalty in the retail banking service sector?

### 3. Model

Customer satisfactions with a service encounter "depends on initial expectation for the encounter compared to actual perceptions of the encounter" (Rust and Huang, 2013, p.223). Therefore, the perception of customers about elements of service encounter will affect service encounter satisfaction. The research examines 4 factors as employee, benefit, technology, and servicescape as the indicators to measure perceived service encounter.

- Employee factor:
  - Kania (2013) stated that: Frontline employees play a crucial role at service encounter since customers will evaluate service encounter based on their ability to deliver the service right the first time, their attitudes and actions and how well they deal with special request, and to recover in cases of service failure. Employees represent the image of banks in the eye of customers and determine a customer's impression of the banks. Different attitudes and behaviors of employees in the service encounter cause the different perceptions and decisions of customers. Therefore, the employee is considered as the key factor of customer satisfaction. To satisfy customers at service encounter, employees must have the abilities, skills, tools and motivation to deliver the service (Kania, 2013).
- Benefit factor:
  - Anderson (1994) showed that economic benefits improve customer satisfaction. The price is one of the factors which will affect the customer decision making (Ayuba, 2014). Moreover, in the banking services, the aspects of benefit are always at the top concern of both customers and banks.
- Technology factor:
  - Traditionally, service encounter has been characterized as "high-touch, low-tech", however, the integration of technology is the new development of service encounter. Changes in the business and technological environment have created a new dimension in the service encounter, with relationships between a machine and a human being (Bitner, Brown and Meuter, 2000). Customer behaviors and the evaluation of service are affected by the penetration of technology (Bitner, Brown and Meuter 2000). Shoemaker (2001) also confirmed that integrating technology in the service encounter fortifies the sales and maintain customer relationships (Shoemaker, 2001).
- Servicescape factor:
  - The research considered servicescape as "the environment in which the service is assembled and in which the seller and customer interact, combined with tangible commodities that facilitate performance or communication of the service". Servicescape is proven that it affects the internal responses and external behaviors of both customers and employees (Britner, 1992); the customer expectation about service quality as well as customer evaluation of factors determining perceived service quality (Anja Reimer and Richard Kuehn, 2005); the nature and quality of customer and employee interactions

(Bennett and Bennett, 1970). Servicescape facilitates the provision of service offerings to spectators (Bitner, 1992) and facilitates performance or communication of the service offering (Kotler and Armstrong, 2010).

- Especially, banking service sector is judged that it is affected much by servicescape than less service oriented businesses (Bitner 1986; Booms and Bitner 1982; Kotler 1973). Therefore, banks can control servicescape to encourage positive employees and customer responses as well as to increase ability of the servicescape to compete with servicescape of competitors.

We proposed the model of service encounter satisfaction as the figure 1 with three hypotheses.

- H1: There is a significant positive relationship between the sub-dimensions of “Perceived Service Encounter” (Employee, Benefit, Technology, and Servicescape) and the “Perceived Service Encounter”.
- H2: There is a significant positive relationship between “Perceived Service Encounter” and “Service Encounter Satisfaction”.
- H3: There is a significant positive relationship between “Service Encounter Satisfaction” and “Customer Loyalty”.

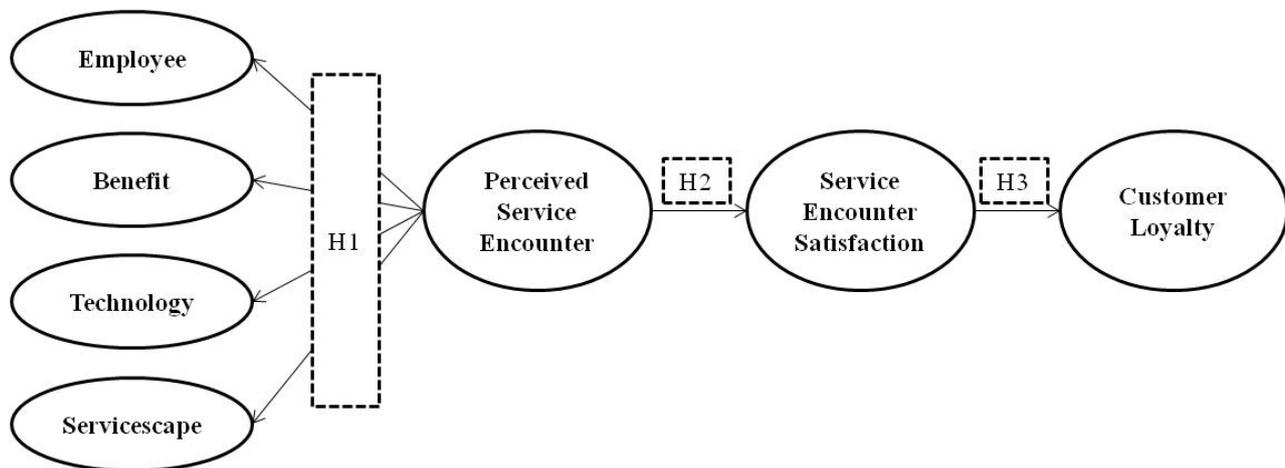


Fig 1: Model of service encounter satisfaction in the retail banking

## 4. Methodology

### 4.1 Sample and data collection procedure

The questionnaires were sent to customers in the banking sectors in Vietnam via email and messenger on Facebook and 161 responses were collected. Several statistical methodologies will be used to analyze data such as descriptive statistics; test Cronbach’s alpha reliability and exploratory factor analysis in SPSS. Moreover, the research uses Amos software to build a structural equation modeling of the relationship between the factors influencing on service encounter satisfaction and service encounter satisfaction on customer loyalty.

### 4.2 Measurements

The questionnaire survey was designed based on the factors employee, benefit, technology, servicescape, service encounter satisfaction, and customer loyalty. They are designed as the multiple indicator variables. The questions use 5-point interval Likert scale to examine how strong respondents agree (5) (Very Satisfied) or disagree (1) (Very dissatisfied).

**Table 1: Factors and items**

Factor	Items
	Instruction: Based on your experiences when using Term Deposit service at the bank, please evaluate the implement of the below items from 1 to 5. (1: Completely poor, 2. Poor, 3. Neither poor nor good, 4. Good, 5. Completely good)
Employee	1 The employee has warm welcome and good send-off. 2 The employee has enthusiastic working attitude during service encounter. 3 The employee has professional counseling skills. 4 The employee has deeply knowledge about finance market. 5 The employee has good advice to maximum the benefit from your money. 6 The employee has an attractive appearance.
Benefit	1 The bank offers you the high interest rate. 2 Beside interest rate, the bank has promotion campaigns for you. 3 There are many options about Term deposit service for your selection. For instances: Flexible principal and interest withdrawal, 3-month period, 6-month period... 4 Service process is quickly.
Technology	1 The cash transactions are exactly, safety and quickly. 2 The customer information management is secure. 3 You can check information about your saving account, principal and interest online.
Servicescape	1 The bank’s material facilities (e.g.: tables, chairs, counter) ensure the formality. 2 Signs, logo, posters are attractive. 3 The interaction place ensures the privacy during the discussion. 4 The transactions of other customers take place smoothly. 5 The customer density is moderate. 6 The waiting space makes you feel comfortable even in case crowded bank.
Service Encounter Satisfaction	1 You satisfied with service encounter process in the bank. 2 You were interested in discussing with the employees. 3 You had a good impression with the bank images.
Loyalty	1 You will continue using services of the bank. 2 You will refer the bank to other customers.

### 4.3 Analysis

The research uses Structural Equation Modeling (SEM) as the major data analysis method. SEM is a comprehensive statistic methodology. It is applied widely in the behavioral sciences to examine the relationship between observable variables and latent variables. SEM provides a convenient framework for statistical analysis which integrates several traditional multivariate procedures such as factor analysis, correlation analysis, and regression analysis (Hox, 1988). The research aims to test the hypothesis of the relationships of 4 independent variables (Employee, Benefit, Technology and Servicescape) on the “Perceived service encounter” variable, and then continue to examine the relation between service encounter satisfaction and customer loyalty. Therefore, applying SEM is suitable for the research.

### 5. Results

The figure 2 is SEM model from collected data. In this model, the latent variables are illustrated by ellipses. The observed variables are illustrated by rectangles. The causal relations are illustrated by single head arrows. The Standardized regression weights are put in the arrows. “Employee”, “Benefit”, “Technology”, and “Servicescape” are the first-order factors. They are the indicators of the second-order factor “Perceived Service Encounter”.

The results in the model SEM show that the goodness-of-fit. In other words, in this case, SEM model has a good model fit to the sample data. The RMSEA= 0.07 (below 0.08) and GFI=0.829 (bigger than 0.80) show the good fit of the model. The other indexes such as P =0.000; TLI =0.924; AGFI=0.787; PGFI=0.665 are the suitable indexes as the suggested by previous research (Hooper et al., 2006). The overall coefficients provided evidence for a good model fit.

Hypothesis 1: The result found that the regression coefficients between perceived service encounter and 4 factors servicescape, employee, technology, and benefit are respectively 0.96, 0.82, 0.70, and 0.62, a positive relationships and statistically significance. It states that 4 factors are the suitable indicators of service encounter satisfaction.

Hypothesis 2: The regression coefficient 0.98 and P value 0.000 indicate that perceived service encounter and

customer satisfaction at service encounter has a positive relationship with statistically significance.

Hypothesis 3: The regression coefficient 0.75 and P value 0.000 indicate that service encounter and customer loyalty has a positive relationship with statistically significance.

Accordingly, the proposed model is verified.

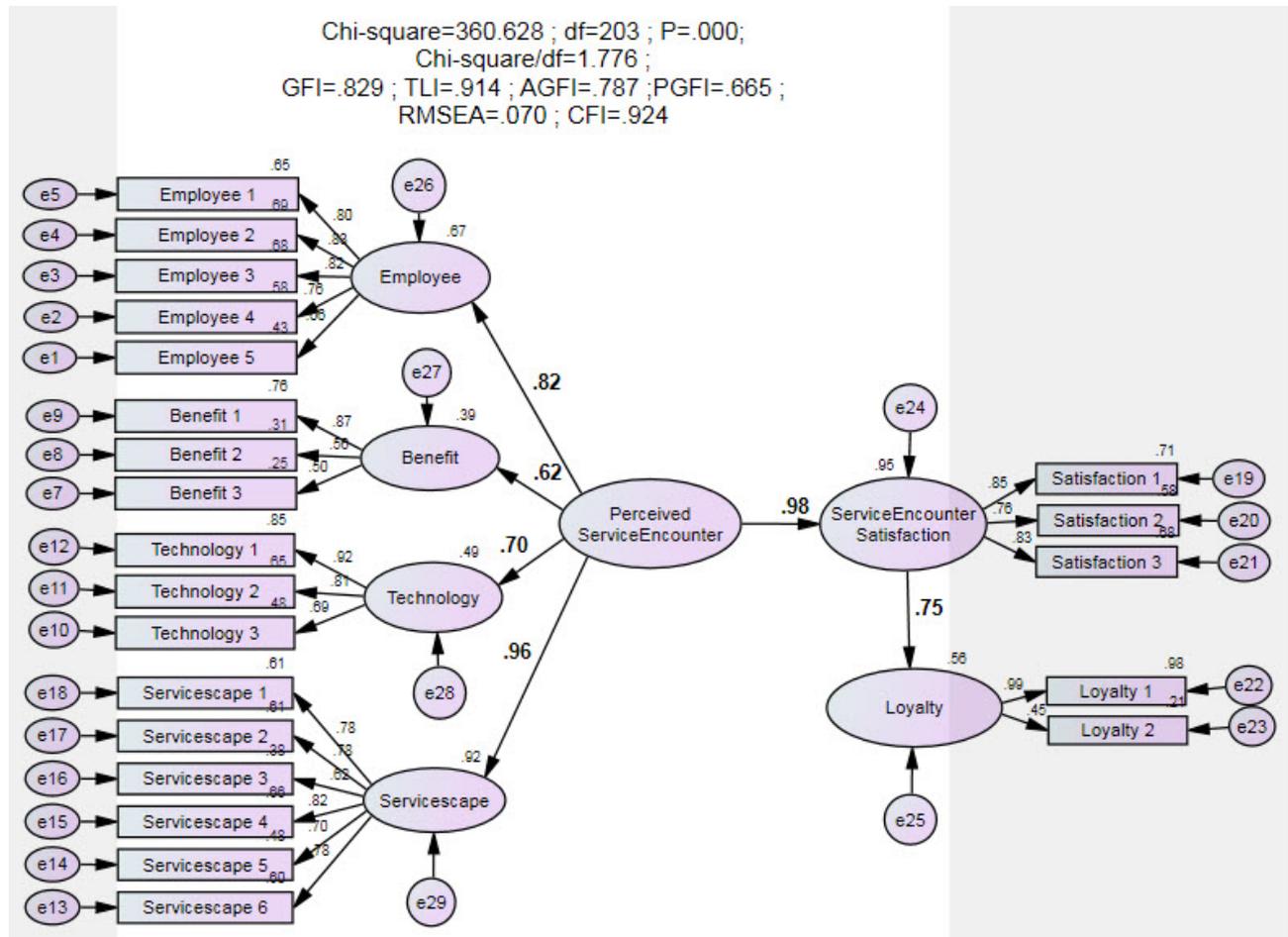


Fig 2: Result of Structural Equation Modeling Analysis

## 6. Discussion and Conclusion

The research shows that the perceived service encounter is the major factor influencing on service encounter satisfaction. Perceived service encounter is measured by four factors: employee, benefit, servicescape and technology. The descending important order of four indicators is: Servicescape, employee, technology, and benefit. Servicescape factor is proved that it is the strongest indicator of perceived service encounter.

Therefore, the retail banks should give the priority on the improvement of servicescape. The research suggests some aspects of servicescape that banks can focus to create a good servicescape such as material facilities; sign, poster, logo system; waiting space; transaction space; customer density; and the smoothness of other customers' transactions. In four factors, the benefit factor has the weakest effect.

The finding of in retail banking service sector in Vietnam, servicescape has stronger effect on the perception of customer at service encounter than benefit factor seems to be different from retail banking services in other countries. It states that for Vietnamese customers, in the service encounter, they concern experience of service more than the economic benefit which they will receive. In terms of knowledge management, in a service encounter, knowledge management has a significant impact on customer satisfaction and customer loyalty (Guchait et al., 2011). The study provides for bank managers knowledge about customer's preferences in perceiving service encounter. Based on the finding of customer's preferences in perceived service encounter, knowledge management strategies need to aim to improve the customer experiences in service encounter rather than trying to focus on maximize economic benefits. Moreover, the usage of tacit knowledge by front-line banking employees ensure the customers that service providers possess knowledge about customer-specific

preferences developed through prior transactions and assist customers in building their desired service encounter (Guchait et al., 2011).

The research contributes a model of factors influencing on the service encounter satisfactions as well as the effect of service encounter satisfaction on customer loyalty through SEM model into research area of retail banking service. The findings also provide more evidences to support the results in the previous literature regarding the role of service encounter and its effects. In the practical aspect, the study desires to become a guideline for bank leaders to improve their service encounter satisfaction.

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