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Factors Influencing Family Business Decision for Borrowing Credit from Commercial Banks: Evidence in Tra Vinh Province, Viet Nam*

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Abstract

The study aims to investigate factors influencing business households' decision for borrowing credit: the case of commercial banks in Tra Vinh Province, Viet Nam. The study was conducted by collecting data from 300 business households traded at four commercial banks in Tra Vinh province (Viet Nam bank for agriculture and rural development, Tra Vinh Branch; Viet Nam jointstock commercial bank industry and trade, Tra Vinh Branch; Asia jointstock commercial bank, Tra Vinh Branch; Viet Nam jointstock commercial bank for foreign trade, Tra Vinh Branch). By the use of the Binary Logistic regression method, the research found out that the factors influencing to borrow credit of household business's decision including: banks brand names, loan interest rates, service attitude, and loan procedures. Of those, the banks brand names and lending interest rates have the strongest impacts on borrow credit decision of business households at commercial banks in Tra Vinh province. Since then, the study has proposed solutions to improve access to credit of business households in commercial banks in Tra Vinh province in the coming time, such as: developing a bank brand; the development of flexible lending interest rate policies; improve service style of bank staff; at the same time, simplifying lending procedures.

Keywords: Commercial Banks, Borrowing Credit, Family Business, Vietnam.

JEL Classification Code: F65, G31, H81.

1. Introduction

Retail banking is a trend of commercial banks in the world and in Vietnam. Retail banking plays an increasingly

important role in the banks' business (Statistics from the State Banks of Tra Vinh province, 2017). In 2017, the proportion of individual customers' credit accounted for over 50% of the total outstanding loans of the banks (state banks of Tra Vinh province, 2017). However, the status of providing loans to this group is still weak, due to limited qualifications, secured assets, conditions for banks loans, and so forth.

Making a loan decision is a very necessary issue for business customers having a need for a loan, especially difficult and careful clients who often make detailed requirements and evaluations prior to establishing credit relations. While commercial banks in the area compete fiercely to win customers, especially customers with good credit history. On the other hand, a large number of individual customers strived to delay loan repayment, partly due to inappropriate and inefficient use of capital (Nguyen, 2018). Therefore, in order to promote credit growth and improve lending performance as well, commercial banks strive to accomplish all aspects of its credit activities to better serve its clients, contributing to credit growth in both quantity and quality.

* To complete the study factors influencing business households' decision for borrowing credit: the case of Commercial bank in Tra Vinh Province and Viet Nam. During the implementation of this research, the author would like to thank State bank of Viet Nam, Tra Vinh Branch; Vietnam bank for agriculture and rural development, Vietnam jointstock commercial bank industry and trade, Asia commercial bank, Viet Nam jointstock commercial bank for foreign trade, Tra Vinh branch; the survey team of the Department of Finance and Banking, Tra Vinh University have enthusiastically supported the author to complete this research.

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2. Literature Review

Research results from a survey of 260 individual in Ho Chi Minh City showed that there are four factors affecting individual customers' decisions in making banks loans, including product characteristics, convenience, loan conditions, and customers' responsibilities affecting the decision to make loans at Vietnam Joint Stock Commercial Bank for Industry and Trade in Ho Chi Minh City (Tran, 2015).

Ho (2015) conducted a study on *Analyzing Factors Affecting Personal Loan Decision at EXIMBANKS, Can Tho branch*. A survey of 190 individual clients was conducted in Can Tho city. With the use of binary logistic regression analysis, the research results show that there are seven factors affecting individual customers' decision in making loans, including loan procedures, interest rates, tangible media, service staff, banking service styles, banks brands, and convenience which all have an impact on individual loan decisions at Eximbank, Can Tho branch.

Nguyen (2016) conducted a survey of 305 individual clients and business households making loans from Agribank in Vi Thanh City, Hau Giang Province. The research results show that there are six factors influencing the decision of individual clients and business households in making bank loans, including forms of loans, procedures, time of dossier processing, the geographical area of operation, the relationship between bank and customers, interest rates, the size of the bank, and staff which all make an impact on business households in making loans from Vi Thanh city Agribank, Hau Giang province.

Le (2015) conducted a survey of 280 samples, selected the sample by convenient method, and directly sent questionnaires to individuals in the area. Research findings suggest that the factors that influence the decision to choose a bank for personal loans include convenience, banks credit policies, impacts of relationships, service qualities offered by the banks, and the image and reputation, the marketing policy, and service price of the banks.

Ansa (2014) conducted a study on *Banking Decision Makers in Ghana: An Analysis of Secondary School Teachers in Kumasi City*. Data were collected from direct interviews with 250 High School Teachers in Kumasi, Ghana. Research findings showed that the determinants of bank selection include interest rate, bank' prestige and safety, years of establishment of bank, low service charges, and easy loan-making.

Frangos (2012) collected 277 samples from Greek citizens by a questionnaire with self-determined scales was created after ensuring the instrument's validity through confirmatory factor analysis. Research results show that personal marital status, customer service, shop design and

interest rates are the most significant predictors of taking loans. Several managerial implications suggest bank managers should focus on giving loans to single individuals as well as change their interest rates policies by decreasing rates for all kinds of loans, especially housing loans.

Rehman and Ahmad (2008) carried out direct interviews with 358 individual clients from bank in Lahore, Pakistan. The research tools used in the study were multivariate regression analysis, and exploratory factor analysis. Research findings show that the factors influencing the choice of Banks of individual customers in Lahore, Pakistan include Customer Service, Convenience, Banks facilities and general Environment of the banks.

3. Research Methodology

On the basis of the research cited, the author suggests a binary logistic regression analysis model as follows:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6$$

Y: Dependent variable;

X1, X2, X3, X4, X5, X6: Independent variable

β_i : estimated coefficient

Table 1: A summary of Variable Models

No.	Variable Codes	Names of variables	Basics of Variable selection	Expections of variables
1	Y	Decisions for borrowing credit	(1) Decisions for borrowing credit (0) Decisions for no borrowing credit	Survey's experts
2	X1	Banks brand names	Ho (2015), Nguyen (2016), Le (2015), Ansa (2014)	+
3	X2	Tangible means	Rehman and Ahmed (2008), Ho (2015)	+
4	X3	Convenience	Tran (2015), Ho (2015), Nguyen (2016), Le (2015), Rehman and Ahmed (2008)	+
5	X4	Loan procedures	Tran (2015), Ho (2015), Nguyen (2016), Ansa (2014)	+
6	X5	Interest rates	Ho (2015), Nguyen (2016), Le (2015), Ansa (2014)	+
7	X6	Service attitudes	Ho (2015), Nguyen (2016), Le (2015)	+

4. Research Results

Hoang and Chu (2008) conducted a study by directly interviewing 300 business households who have or have not yet made loans from Commercial banks, Tra Vinh. The scale will be verified from the data collected through the Cronbach's alpha coefficient. The data will be analyzed and processed by SPSS through data analysis methods such as Cronbach Alpha Reliability Testing, EFA Discovery Factor Analysis and Binary Logistic Regression Analysis.

Table 2: Results of binary logistic regression

		B coefficient	S.E. coefficient	Wald coefficient	Level of significance	Exp (B)
Step1 ^a	Banks brand names	1.724	0.423	16.643	0.000***	5.608
	Loan procedures	1.172	0.428	7.498	0.006***	3.228
	Loan interest rates	1.539	0.298	26.699	0.000***	4.661
	Service attitudes	1.237	0.456	7.365	0.007***	3.446
	Constant	-17.896	3.082	33.716	0.000***	0.000

Variable(s) entered on step 1: Banks brand names, Loan procedures, Loan Interest rates, Service attitudes.

(Level of significance: *** indicating the significance level of 99%)

From the above result, the Binary logistic regression equation is formulated as follows:

$$\text{Log}_e \left[\frac{P(Y=1)}{P(Y=0)} \right] = -17.896 + 1.724 \text{ banks brand names} \\ + 1.172 \text{ loan procedures} \\ + 1.539 \text{ loan interest rates} \\ + 1.237 \text{ service attitudes}$$

This means when other factors remain unchanged, to decide to borrow credit of business households in commercial banks in Tra Vinh province, the brand will increase by 1.724 times with a significance level of 99% (Luong, 2018). At the same time, when other factors remain unchanged, to increase one more decision borrowing credit, loan procedures increase 1.172 times, and interest rates by 1.539 times and service attitude by 1,237 with 99% significance, respectively. As a result, banks brand and banks interest rates have the strongest impact on borrowing decisions of household businesses in banks. Tangible means and Convenience are not statistically significant.

5. Recommendations

5.1. Developing Banks Brand Names

The brand of banks is very important to attract business households to borrow, so apart from the history of the formation and development of the banks, the banks reputation is equally important. In order for the banks' brand to grow and become more well-known, the banks' directors often have policies to develop their own brand names, in order to strengthen their trust and prestige for business transactions. First of all, the banks management board should continue to build and maintain a good brand image of Commercial banks in the heart of customers. It is also necessary to make uniformity of images to easily recognize the Commercial banks brand from employee uniforms, interior decoration of transaction places, forms, guide sheets, leaflets, and styles of offices, transaction offices, and ATM services. The banks's focus should be on staffs with professional qualifications, experience and good counseling skills when communicating with customers, and at the same time, it is also important for banks' director boards to attach attention to the attitude of employees when dealing with customers (Nguyen, 2018).

In addition, the Banks managing board should bring the image of the banks brand popular to customers through advertising programs, sponsorship or social security programs, which also bring positive effects in promoting the banks brand. Banks managing boards should position the image of their banks in the minds of their customers through specific actions and ensure consistency in service performance and respect their commitments and commitments to customers.

5.2. Build up Flexible Policies for Loan Interest Rates

Interest rates increase competitive advantage in the market in retaining existing customers and attracting new customers. Based on the banks's mobilizing interest rate and operating expenses, a more appropriate loan interest rate schedule is set out. The banks also needs to collect information about the lending rates of its competitor banks, in order to provide appropriate interest rates and lending fees and compete in the market. At the same time, it is necessary to closely monitor the interest rate fluctuation in the market so that it can quickly and promptly react to the lending interest rates in order to retain existing customers as well as attract new customers. However, in the current market situation, the issue of customer interest is not only the interest rate, the general fee is the financial benefits that

banks bring to customers; it is not just interest rates. Also, competitive pricing, value added banking services to customers such as business advisory, risk prevention, and so forth are concerns among customers.

5.3. Improve the Style and Service Attitude of Banks Staff

The attitude and style of service of banks staff is very important to retain customers as well as decide on loans of business households. Any banks with skilled staff, qualifications, expertise, and enthusiasm will be a great motivator in attracting and retaining customer transactions even though those banks may not have. Advantages of interest rates and policies are also important to enhance the efficiency of staff services for business households to borrow capital in Commercial banks in Tra Vinh province. It is therefore necessary to carry out continuous and regular training in order to foster knowledge, skills, and staff skills, especially communication skills for employees, in order to better serve clients. It is necessary to enhance the dissemination and training of professional processes in order to improve management knowledge, professional qualifications, computer skills, sales consultancy skills as well as good communication skills for all branches and employees, especially those who directly deal with customers.

5.4. Formulate Simple Loan Procedures

The simpler the loan procedure is, the easier it is for the borrower to access the loan. As a result, business households have encountered many difficulties related to lack of collateral, poor financial information, lack of business plan or unclear business plan. In order to stabilize and attract more individual customers, the banks need to improve its lending procedures in a simple and compact way, providing sufficient information on loan products, necessary conditions for borrowing and compliance. With the level of individual customer loans, it is important for banks staff to avoid the situation that individual customers have to travel many times and wait too long. In addition, it is necessary to increase the size of medium- and long-term loans for the facilities of individual clients.

In addition, banks staff should provide detailed guidance explaining clearly and in detail the loan procedures that household customers need to have when borrowing, as well as explaining to customers the regulations or terms in the loan agreement or mortgage agreement to avoid misunderstandings or miscommunications resulting in customer complaints or dissatisfaction with the service staff.

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