Factors Affecting FDI Company Satisfaction of Tax Advisory Service

A CASE STUDY IN ĐỒNG NAI

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In recent years, the Vietnamese government has made a lot of effort and succeeded in attracting foreign direct investment. To gain better achievements, better competitive advantages for foreign investors are much needed. One of important policies to achieve this aim is to improve the business climate and quality of public services, especially tax advisory service for FDI companies. To improve the service, it is necessary to study their satisfaction of services supplied. This research project surveyed 222 FDI companies. Employing EFA and multiple regression models, authors identified a scale used for assessing satisfaction of tax advisory service that comprises five factors: confidence of companies in tax agency, responsiveness towards demands by companies, assurance or ability to serve of tax agency, empathy for companies, and tangibles of tax agency. The satisfaction depends on the four following factors in order of importance: empathy, tangibles, assurance and confidence.

Keywords: satisfaction, service quality, influential factor, exploratory factor

Foreign direct investment (FDI) has been an important part of the gross investment and a decisive factor of Vietnamese growth rate in recent years. To attract a bigger flow of this source, the Vietnamese government has carried out institutional reforms with a view to providing investors with more competitive advantages, and confidence in and satisfaction of their investments in Vietnam. One of recent reforms tried to improve the business climate in which stress was put on supply of public service, especially the tax advisory service. Thus, this service of high quality is an urgent matter that helps deal with objective requirements and becomes a great challenge to tax authorities and leaders. To improve the service quality, it is necessary to learn about satisfaction of the tax advisory service by FDI companies. Tax authorities must pay attention to factors that determine customer satisfaction and ways of quantifying these factors. The paper, therefore, discusses three issues: theoretical framework of a quantitative model, results of the case study conducted in Đồng Nai Tax Agency, and suggestion of solutions to expansion of application for the tax system in Vietnam.

1. Theoretical framework of the quantitative model

a. Theoretical framework:

According to Kotler [4] (after Lin, 2003), satisfaction is "a person's feelings of pleasure or disappointment resulting from comparing a product's perceived performance (or outcome) in relation to his or her expectations."

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According to Heskett et al. (1994) [5], service quality affects customer satisfaction and creates their loyalty. This results in higher sales and profit for the supplier which, in their turn, helps the supplier improve the service quality.

According to Parasuraman, Zeithaml, Berry (1985) [6], the satisfaction can be measured by five to seven key dimensions. The Linkert scale is used for rating the dimensions.

According to Parasuraman, Zeithaml, Berry (1991) [7], there are five factors that affect the customer satisfaction:

(1) Tangible: Appearance of physical facilities, equipment, and communication materials

(2) Reliability: Ability to perform the promised service dependably and accurately.

(3) Responsiveness: Willingness to help customers and provide prompt service.

(4) Assurance: Knowledge and courtesy of employees and their ability to convey trust and confidence.

(5) Empathy: The firm provides care and individualized attention to its customers

To identify a model appropriate to conditions in Vietnam, authors have discussed and carried out a pilot survey of a group of experts comprising high-ranking officials of Đồng Nai and HCMC tax agencies, tax assessors and inspectors, IT technicians, tax advisors and some FDI companies in Đồng Nai. The model used for the tax advisory service supplied to FDI companies is as follows:

(1) Reliability: Taxpayers believe that tax advisory service is appropriate and correct.

(2) Responsiveness: Tax officials are ready and willing to help and provide timely services for taxpayers.

(3) Assurance: Tax officials show good expertise and courteous attitude towards taxpayers.

(4) Empathy: Tax officials show great care and understanding towards each taxpayer when required.

(5) Tangibles: Clothes of tax officials, working atmosphere and facilities for tax advisory service are proper.

The model comprises five factors and 41 observed variables (each factor comprises many variables).

b. Quantitative methodology:

Satisfaction (SAT) = f (TAN, RES, ASS, EMP, REL)

SAT: dependent variable; TAN, RES, ASS, EMP, REL: independent variables

Two steps should be taken to quantify factors affecting the taxpayer, or customer, satisfaction.

- Explanatory factor analysis is used for testing the factors affecting the customer satisfaction and identifying components considered as appropriate by customers.

- Multiple regression analysis is used for identifying factors affecting the satisfaction with certain statistical significance.

Both steps are carried out with help from the SPSS-16.0

2. Results

To apply the model to realities, authors conducted a survey of 222 FDI companies in 20 industrial parks in Đồng Nai, 194 of which are foreign-owned companies representing 87.4% and the rest are joint ventures between local and foreign partners. The best part of them is from East and Southeast Asia, such as Taiwan (29.7%); South Korea (22.5%); and Japan (14.9%), followed by Singapore and Malaysia (4.5% each). The surveyed was conducted in March 2010 [1]. Samples are conveniently selected and interviewed according to a questionnaire that was based on five factors affecting their satisfaction and a 5-point scale. Only samples meeting standards were used for the research.

a. Factor analysis:

- Identifying the factors: The questionnaire comprises 41 observed variables with five factors assumed according to the theoretical framework (Figure 1).

The software SPSS – Factor analysis produced the results with assured tests.

(1) Cronbach's alpha of the five factors varies from 0.8 to 0.88. This means that the scale has a high degree of reliability.

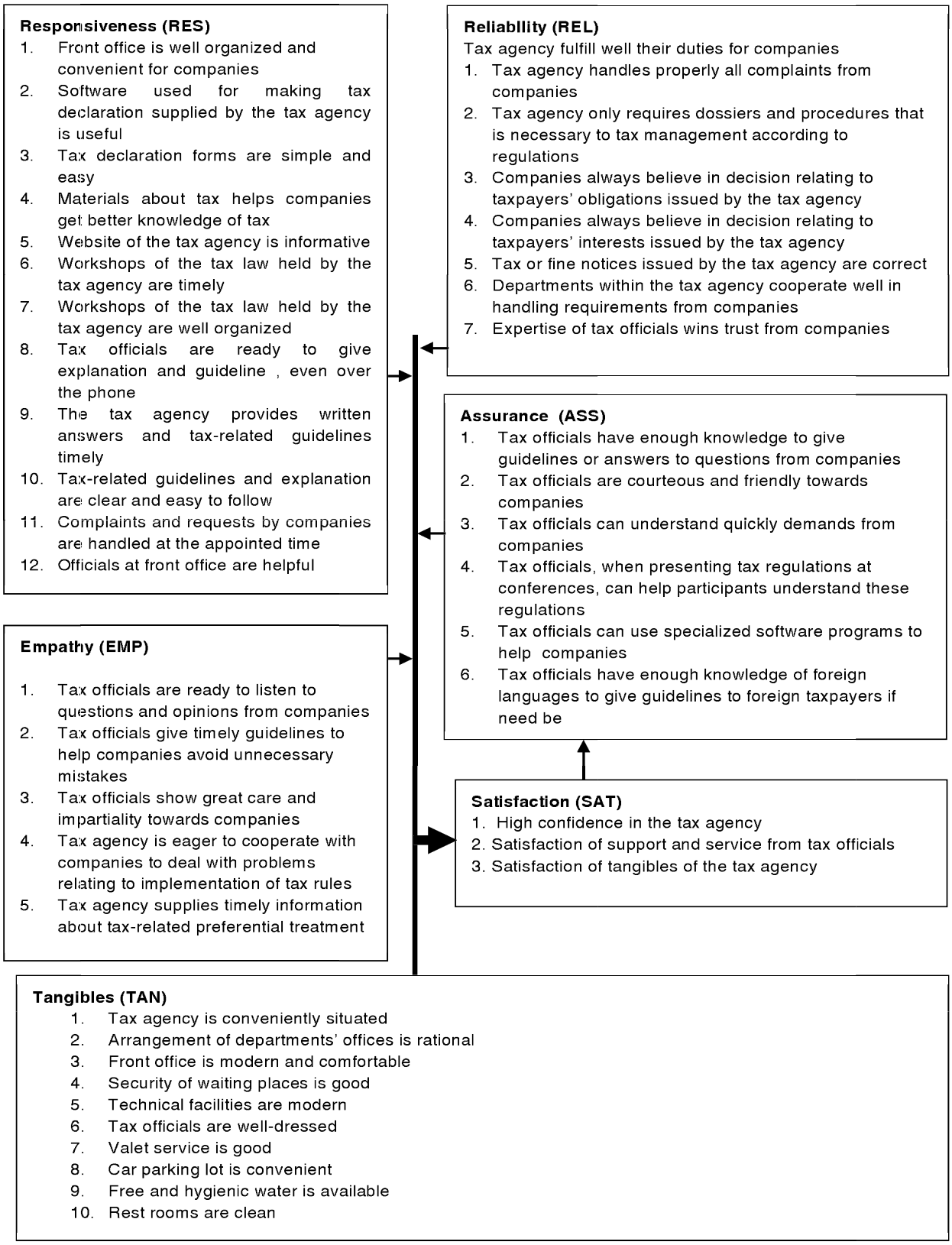

Figure 1: Factors affecting the satisfaction

(2) Factor loading varies between 0.52 and 0.80

(3) Model adequacy test (0.5 < KMO = 0.94 < 1)

(4) Bartlett test of relations of observed variables (Sig. =0.000 < 0.05)

(5) Cumulative variance test (cumulative variance = 61.6% > 50%)

Table 1: Rotated components matrix

	Rotated components matrix					
	F1	F2	F3	F4	F5	F6
	Component					
EMP4	0,7279					
EMP5	0,7177					
RES11	0,7123					
EMP2	0,7116					
RES8	0,6076					
REL5	0,5634					
RES5	0,5478					
ASS3		0,6799				
ASS2		0,6509				
EMP1		0,6411				
REL2		0,6003				
REL1		0,5708				
RES9		0,5585				
EMP3		0,5214				
TAN1			0,8063			
TAN2			0,7798			
TAN3			0,6310			
TAN5			0,5254			
REL3				0,6514		
RES2				0,5843		
REL4				0,5264		
TAN6					0,7473	
TAN7					0,7314	
TAN4					0,5510	
REL7						0,7062
REL8						0,6504

Note: Numbers in the table are factor loading coefficients

After conducting satisfactorily the EFA with five mentioned standards, the Table 1 shows that 15 variables were rejected and the remaining 26 observed variables were accepted and turned into six new factors:

- The first factor (F1) comprises seven observed variables: three belonging to Empathy, three to Responsiveness and one to Reliability. This shows that in fact, companies considered these observed variables as parts of the same factor. This new factor was named Responsiveness to corporate demands (RES).

- The second factor (F2) comprises seven observed variables: two belonging to Assurance; two to Empathy, two to Reliability, and one to Responsiveness. Two variables of them have the highest factor loading coefficients: ASS3 (Tax officials can understand quickly demands from companies), and ASS2 (Tax officials are courteous and friendly towards companies). This is an interesting discovery that shows that foreign taxpayers assessed the tax advisory service through not only expertise of tax officials but also their attitude towards taxpayers. It is courteous attitude and willingness to listen of tax officials that makes taxpayers realize that these officials are providing services not with a mechanical responsibility but some empathy, understanding and enthusiasm. This new factor is named Empathy for companies (EMP).

- The third factor (F3) comprises four variables belonging to Tangibles. It is named Tangibles (TAN).

- The fourth factor (F4) consists of two variables belonging to Reliability and one to Responsiveness. All these variables reflect consideration given to taxpayers through simplified and rationalized procedures and other supports. This factor is called Consideration for companies (CON).

- The fifth factor (F5) consists of the three remaining components of the Tangibles. This is also a discovery in this analysis. Variable TAN6 stands for neat clothes of tax officials and TAN7 for good valet service. Some components of Tangibles are picked out to form a new group that expresses a safe atmosphere in which taxpayers feel sure about services supplied by the tax agency. As felt by taxpayers, this factor is named Assurance from tax agency (ASS).

- The sixth factor (F6) is formed by two components of Reliability before EFA and named Reliability of tax agency (REL).

The adjusted model after EFA is as follows:

SAT = f (RES, EMP, TAN, CON, ASS, REL)

b. Multiple regression analysis

The following multiple linear regression equation is used for determining which one of the said six factors affect directly the customer satisfaction:

$SAT = \beta_0 + \beta_1 RES + \beta_2 EMP + \beta_3 TAN + \beta_4 CON + \beta_5 ASS + \beta_6 REL + e_i$

where β_k is regression coefficient and e_i is residual.

Factorial score of variables included in the regression analysis is formed by calculating the mean of observed variables belonging to that factor. Variables of the multiple linear regression model are explained in Table 2.

all customer satisfaction is as follows:

SAT = 0.281 + 0.489EMP + 0.237TAN + 0.097ASS + 0.089 REL

c. Meaning of regression coefficients:

+ When estimation by taxpayers of EMP increases 1 point, their satisfaction rises 0.489 point (because its unstandardized correlation coefficient is 0.489).

+ When estimation by taxpayers of TAN increases 1 point, their satisfaction rises 0.237 point (because its unstandardized correlation coefficient is 0.237).

+ When estimation by taxpayer of ASS increases 1 point, their satisfaction rises 0.097 point (because its unstandardized correlation coefficient is 0.097).

+ When estimation by taxpayer of REL increases 1 point, their satisfaction rises 0.089 point (because its unstandardized correlation coefficient is 0.089).

Table 2: Regression results

	Unstandardized Coefficients		Standardized Coefficients	t	(Sig.	Collinearity Statistics	
	β	Std. error	Beta			Tolerance	VIF
(Constant)	0,281	0,172		1,631	0,104		
EMP	0,489	0,053	0,499	9,216	0,000	0,532	1,879
TAN	0,237	0,047	0,270	5,007	0,000	0,536	1,864
ASS	0,097	0,045	0,111	2,176	0,031	0,604	1,655
REL	0,089	0,040	0,111	2,254	0,025	0,648	1,544

Table 2 shows that four variables have a statistical significance of 95% (Significance < 0.05).

Table 3: Model summary

R	R^2	Adjusted R^2	Std. error	Sig.
0,815	0,664	0,656	0,380	0,000

The adjusted R^2 of the model is 0.656. This means that 65.6% of the satisfaction is explained by variables of the regression model. Tests for the fit of the model, multicollinearity and variance stability of error show no violation. The regression equation anticipating effects of factors on the over-

Standardized regression coefficients reflect importance of independent variables in the model. The regression coefficient of 0.499 of the factor EMP means that it accounts for 49.9% of components affecting the satisfaction. Thus, this factor is most important to the customer satisfaction, followed by TAN, ASS and REL.

Conclusion: Tests conducted within the regression model show that the customer satisfaction is

affected by EMP, TAN, ASS and REL.

3. Policy implications

The research allows us to present the following policy implications that may help enhance the customer satisfaction of tax advisory service.

a. Competence and serving attitude of tax officials:

Empathy for companies has the strongest effect on satisfaction of tax advisory service. The empathy reflects in (1) tax officials' understanding of worries presented by companies; (2) tax officials' courteous and friendly attitude towards companies; (3) willingness to listen to questions and worries about tax obligations; (4) eagerness to deal with complaints about responsibility of tax agency; (5) willingness of tax agency to fulfill its duties to companies in any case; (6) timely answers or guidelines to all questions raised by companies; and (7) tax officials' great care and impartiality towards companies.

Thus, the best solution is to enhance competence and serving attitude of tax officials towards taxpayers. To achieve this aim, full attention must be paid to:

(1) Personnel matters from recruitment, training, to promotion, especially to tasks in front office with a view to equipping tax officials with expertise, work ethics, experience, knowledge of social and psychological matters, and listening and quick learning skills.

(2) A cheer and friendly working atmosphere and satisfactory treatment to tax officials; bonuses and celebrations for good taxpayers; workshops on good tax officials, etc.

(3) Measures, or asking for measures from superiors, to deal properly with complaints about tax matters.

(4) Competent officials for front office equipped with hot lines and computer network linked to leaders of the tax agency and open to taxpayers.

b. Better tangible facilities:

The tangibles reflect in (1) convenient position of tax agency; (2) rational arrangement of offices within tax agency; (3) modern and comfortable front office; and (4) modern technological facilities. To enhance the customer satisfaction, the Đồng Nai Tax Agency had better (1) upgrade and modernize its office with a view to making it more comfortable, friendly and respectable; (2) move the office to a more convenient location if need be; (3) arranging departments within the office in a rational fashion based on order of procedures; (4) modernize technological facilities and computerize all tasks in order to ensure good performance, strict control, and easy access for taxpayers.

c. Higher assurance:

The assurance implies (1) neat clothes of tax officials; (2) safe valet service; and (3) safe front office. Improving this factor is similar to improving the tangibility, but it requires full attention to safety, security and convenience. The Đồng Nai Tax Agency should pay more attention to and make more improvements in:

- Design of office uniforms to make them neat and elegant, easy for officials to do their jobs, and make officials look friendly and respectable.

- The army of professional watchpersons who can ensure security and deal effectively with incidents.

- Service quality by installing modern office machines in order to save time for customers.

- Valet service by building convenient parking lots for cars and motorbikes.

d. Higher reliability:

The reliability means that (1) departments of the tax agency cooperate with one another in an effective way to deal with requirements from companies; and (2) tax officials have good expertise to win trust from companies. Therefore, the tax agency should try to:

- perfect working process and regularly adjust it to meet customers' demand,

- improve managerial skills of both office-holders and officials, especially heads of departments.

- give regular training courses in new tax rules and regulations, ways of implementing these rules, and tax management to officials in order to help them give better support to taxpayers.

e. Application to the whole tax system:

The 6-factor model of satisfaction of tax advi-

sory service among FDI companies could be applied to all tax agencies. This quantitative model supported by SPSS software is simple and convenient enough to be employed by tax agencies, especially their advisory service. Collecting data directly from taxpayers through closed questionnaires requires almost no time from respondents, which allows tax agencies to gather feedbacks on a regular basis (every six months for example) with a sample size that equals some 5% of taxpayer■

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