



## FACTORS AFFECTING THE COMPETITIVENESS OF COMMERCIAL BANKS: THE CASE OF CAN THO CITY VIET NAM

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### ABSTRACT

*In this study, the researchers used analytical method of explore factor analysis (EFA) to test various factors affecting the competitiveness of Commercial Banks in Can Tho city. This paper conducted during the period from from July 2011 to November 2013.*

*The method of the exploratory factor analysis result showed that there were five factors, which included of factors following Potential competitor, Potential competitor, Power of Supplier, Power of Buyers, Substitute product affecting the competitiveness of Commercial Banks in Can Tho city with significance level 5 %. In addition, the research results processed from SPSS 20.0 software. The research results showed that there were 450 customers interviewed and answered about 22 questions (but 35 customers not answered). The researchers had analyzed KMO test, the result of KMO analysis used for multiple regression analysis. At the same time, the result was also a scientific evidence and important for researchers, and policy makers who apply them for the improving of Commercial Banks in Can Tho city in the future. After analyzing the data, the researchers had obtained the main objectives of this study were to:*

*Objective 1: To analyze and test some factors to affect the Competitiveness of Commercial Banks in Can Tho city, Viet Nam.*

*Objective 2: To recommend some effective solutions for improving the Competitiveness of Commercial Banks in Can Tho city, Viet Nam in the future.*

**Keywords:** Competitiveness, factors, Bank and Commercial Banks, Can Tho city.

### **Introduction**

The competition in the commercial bank is also the rivalry, scrambling customers based on all possibility of banks to meet the demand of customers about providing products

and services has high quality. Creating their own characteristics compared with other commercial banks in the domestic market; create an advantage competition, increase bank profits, creating prestige, and brand position in the domestic market.

With its special characteristics, competition in the banking sector also had the major characteristics:

Firstly, the business of banks is directly related to all sectors and aspects of economic life-society. Therefore banks should have diversified productions system widely branch network and linked together to serve all customers in any geographical location. The commercial bank must build credibility; create trust with customers because any the difficulties of commercial bank can also lead to the downfall of other subjects involved.

Secondly, the business of banking is a service, especially that service related to currency. This is a sensitive sector, so:

The capacity of the bank staff is the most important factor to express quality of banking products and services. Requirements for bank staff must create trust with customers by knowledge, professional style, professional knowledge, ability to consult as well as factor about physical appearance

The bank's services must quickly, accurately, conveniently and security. Especially with high safety require bank has to have infrastructure solid floors, modern technology systems. Moreover, the amount of information and customer data is extremely large so bank need to have the store system and managing all this full information.

Moreover, by money services of bank is sensitive so to create the trust of customers who choosing to use their services. Banks must build reputation and brand value over time.

Thirdly, to implement currency trading, commercial banks must play a role held intermediaries to mobilize capital in society. The capital expenditure of bank are major come from mobilized capital and small part comes from equity capital of bank. So requirement bank must have professional management qualifications, strong financial ability as well as ability in control and prevent risks effective business to ensure safe, effective.

Finally, the major trading of bank is currency. The currency is a tool which State use to manage the macro economy. Therefore, the currency is controlled tightly by State. Business activities of commercial banks compliance outside the general provisions of the law still is dominated by separate legal system for banks and monetary policy of Central Bank.

The above issue is closely related to the topic “***FACTORS AFFECTING THE COMPETITIVENESS OF COMMERCIAL BANKS: THE CASE OF CAN THO CITY VIET NAM***” as a paper applying in business administration.

## **Literature review**

### **The Definition of the Commercial Bank**

A financial institution that provides services, such as accepting deposits, giving business loans and auto loans, mortgage lending, and basic investment products like savings accounts and certificates of deposit. The traditional commercial bank is a brick and mortar institution with tellers, safe deposit boxes, vaults and ATMs. However, some commercial banks do not have any physical branches and require consumers to complete all transactions by phone or Internet. In exchange, they generally pay higher interest rates on investments and deposits, and charge lower fees.

Commercial banking activities are different than those of investment banking, which include underwriting, acting as an intermediary between an issuer of securities and the investing public, facilitating mergers and other corporate reorganizations, and also acting as a broker for institutional clients. Some commercial banks, such as Citibank and JPMorgan Chase, also have investment banking divisions, while others, such as Ally, operate strictly on the commercial side of the business. A commercial bank is a type of bank that provides services, such as accepting deposits, giving business loans and basic investment products.

Commercial bank can also refer to a bank or a division of a bank that mostly deals with deposits and loans from corporations or large businesses, as opposed to individual members of the public (retail banking). In the US the term commercial bank was often used to distinguish it from an investment bank due to differences in bank regulation. After the great depression, through the Glass – Steagall Act, the U.S. Congress required that commercial banks only engage in banking activities, whereas investment banks were limited to capital markets activities. This separation was mostly repealed in the 1990s.

### **Porter's Five Forces Model of Competition**

Michael Porter (Harvard Business School Management Researcher) designed various vital frameworks for developing an organization's strategy. One of the most renowned among managers making strategic decisions is the five competitive forces model that determines industry structure. According to Porter, the nature of competition in any industry is personified in the following five forces: Threat of new potential entrants; Threat of substitute product/services; Bargaining power of suppliers; Bargaining power of buyers; Rivalry among current competitors.

## **Methods of research**

First, there is a preliminary study. The study used qualitative methods through in-depth interviews with 30 bank staffs to examine the content and meaning of the sentences used in the scale. Second, the formal research used quantitative methods through surveying

about 450 customers (customers include: bank staffs, enterprises, economist, managers and others) in Can Tho city.

After data are collected, reliable scale will be tested with Cranach's alpha index, and EFA (Exploratory Factor Analysis), which draws from the official scale.

Finally, the data were collected and analyzed using the statistical indicators with data processing software SPSS 20.0 (the targets include: descriptive statistics, reliability analysis, factor analysis explore, multiple linear regression).The reason is to test measurement models, model and test research hypotheses. The Data collected were tested by the reliability index (excluding variables with correlation coefficients lower  $< 0.30$  and variable coefficient Cronbach's alpha  $< 0.60$ ), factor analysis explored (remove the variable low load factor  $< 0.50$ ). Based on analyzed results, the researchers offered recommendations to help the commercial banks develop more and more in the future.

## Research results

### Descriptive Statistics for SWOT factors of commercial banks in Can Tho City

**Table 1: KMO and Bartlett's Test for the competitiveness of commercial bank**

Comp.	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	9.797	44.530	44.530	9.797	44.530	44.530
2	3.312	15.055	59.585	3.312	15.055	59.585
3	2.043	9.285	68.870	2.043	9.285	68.870
4	1.420	6.454	75.324	1.420	6.454	75.324
5	1.068	4.855	80.180	1.068	4.855	80.180
6	.554	2.518	82.698			
7	.536	2.434	85.132			
8	.468	2.125	87.258			
9	.375	1.705	88.963			
10	.320	1.456	90.419			
11	.156	.708	98.351			
12	.133	.605	98.955			
13	.115	.522	99.477			
14	.090	.410	99.886			

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13	.115	.522	99.477			
14	.090	.410	99.886			
15	.025	.114	100.000			

(Source: The researcher's collecting data and SPSS)

Table 1 showed that Kaiser-Meyer-Olkin Measure of Sampling Adequacy was statistically significant and high data reliability (KMO = 0.861 > 0.6). This result is very good for data analysis. Table 4.3 showed that Cumulative % was statistically significant and high data reliability 80.180 % (> 60 %).

**Table 2: Structure Matrix for factors of the competitiveness of commercial bank**

	Components	1	2	3	4	5
Code	<b>Substitute products</b>					
SP1	You are completely to the products having ability of satisfying customers' needs on the Competitiveness of Commercial Banks					.881
SP2	You are completely to make strategic decisions as it is used by the managers to determine					.847

	industry's competitive structure on the Competitiveness of Commercial Banks					
SP3	You are completely to be strong complements might have a strong positive effect on the Competitiveness of Commercial Banks					.830
Code	<b>Power of Suppliers</b>					
PS1	You are completely to the suppliers refer to the potential of the suppliers to increase the prices of inputs on the Competitiveness of Commercial Banks			.858		
PS2	You are completely to be strong suppliers can extract profits on the Competitiveness of Commercial Banks			.815		
PS3	You are completely to be supplier's products have a few substitutes on the Competitiveness of Commercial Banks			.810		
PS4	You are completely to be strong suppliers' products are unique on the Competitiveness of Commercial Banks			.804		
Code	<b>Potential competitors</b>					
PC1	You are completely to be the economies of scale and Brand loyalty on the Competitiveness of Commercial Banks	.856				
PC2	You are completely to be the Government Regulation on the Competitiveness of Commercial Banks	.797				
PC3	You are completely to be the Customer Switching Costs on the Competitiveness of Commercial Banks	.792				
PC4	You are completely to be the Absolute Cost Advantage on the Competitiveness of Commercial Banks	.768				
PC5	You are completely to be the Ease in distribution on the Competitiveness of Commercial Banks	.754				
PC6	You are completely to be the strong Capital	.626				

	base on the Competitiveness of Commercial Banks					
Code	<b>Current competitors</b>					
CP1	You are completely to be the Extent of exit barriers and Amount of fixed cost on the Competitiveness of Commercial Banks		.911			
CP2	You are completely to be the Competitive structure of industry on the Competitiveness of Commercial Banks		.898			
CP3	You are completely to be the Presence of global customers on the Competitiveness of Commercial Banks		.888			

**Table 2: continued**

CP4	You are completely to be the Absence of switching costs on the Competitiveness of Commercial Banks		.869			
CP5	You are completely to be Growth Rate of service on the Competitiveness of Commercial Banks		.780			
Code	<b>Power of Buyers</b>					
PB1	You are completely to be the potential of buyers on the Competitiveness of Commercial Banks			.803		
PB2	You are completely to be demanding better quality and service on the Competitiveness of Commercial Banks			.791		
PB3	You are completely to be full information about the product and the market on the Competitiveness of Commercial Banks			.770		
PB4	You are completely to be credible threat of backward integration on the Competitiveness of Commercial Banks			.698		

(Source: The researcher's collecting data and SPSS)

Table 2 showed that there were 450 customers interviewed but 407 customers processed. Besides, Structure Matrix for the competitiveness of commercial bank had 5 Components.

Component 1 is Potential competitors, Component 2 is Current competitors, Component 3 is Power of Suppliers, Component 4 is Power of Buyers and Component 5 is Substitute products for the competitiveness of commercial bank.

**Table 3: KMO and Bartlett's Test for the competitiveness of commercial bank**

<b>KMO and Bartlett's Test</b>		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy:		.742
Bartlett's Test of Sphericity	Approx. Chi-Square:	938.299
	df	3
	Sig.	.000

(Source: The researcher's collecting data and SPSS)

Table 3 showed that KMO and Bartlett's Test for the competitiveness of commercial bank showed that there is 1 component extracted. The competitiveness of commercial bank showed that Kaiser-Meyer-Olkin Measure of Sampling Adequacy was statistically significant and high data reliability (KMO = 0.742 > 0.6). This result is very good for data analysis. The competitiveness of commercial bank showed that Cumulative % was statistically significant and high data reliability (86.35 > 60 %).

**Regression analysis for the competitiveness of commercial bank**

**Table 4: Regression Model Summary analysis**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.970a	.941	.941	.24350612	1.361

a. Predictors: (Constant), x5, X4, X1, X3, X2

b. Dependent Variable: Y: the competitiveness of commercial banks

**Table 4: continued**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	382.223	5	76.445	1289.219	.000 <sup>b</sup>
	Residual	23.777	401	.059		
	Total	406.000	406			

a. Predictors: (Constant), x5, X4, X1, X3, X2

b. Dependent Variable: Y

**Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-1.001E-013	.012		.000	1.000		
X1	.292	.012	.292	24.147	.000	1.000	1.000
X2	.108	.012	.108	8.962	.000	1.000	1.000
X3	.120	.012	.120	9.954	.000	1.000	1.000
X4	.198	.012	.198	16.402	.000	1.000	1.000
X5	.889	.012	.889	73.584	.000	1.000	1.000

a. Dependent Variable: Y: the competitiveness of commercial banks

(Source: The researcher's collecting data and SPSS)

**Table 5 showed that all components affecting the competitiveness of commercial banks with significance level 5 %.**

**Component 1 (X1):** Potential competitor factor contributed to for the competitiveness of commercial banks with significance level 5 %.

**Component 2 (X2):** Current competitor factor contributed to the competitiveness of commercial banks with significance level 5 %.

**Component 3 (X3):** Power of Supplier factor contributed to the competitiveness of commercial banks with significance level 5 %.

**Component 4 (X4):** Power of Buyers factor contributed to the competitiveness of commercial banks with significance level 5 %.

**Component 5 (X5):** Substitute product factors contributed to the competitiveness of commercial banks with significance level 5 %.

Table 4 showed that **Adjusted R Square** was statistically significant and high data reliability. In addition, **R Square** reached **94.1 %**. Table 4 showed that all t value > 2 was statistically significant and high data reliability. Besides, the regression coefficients were positive. This means that the effects of independent variables in the same direction with the competitiveness of commercial banks.

## **Conclusions and Recommendations**

### **Conclusions**

Commercial banks remain dominant in the banking system in terms of their shares of total assets and deposit liabilities. Their total loans and advances, a major component of total credits to the private sector are still on the increase in spite of the major constraints posted by the government regulations, institutional constraints and other macro-economic factors.

However, both the government and commercial banks should be mindful of the facts that the environments in which they operate are important factors in the bank performance and behavior. Where the environment is conducive and supportive, performance is enhanced and good lending behavior guaranteed. But where the environment is unstable and harsh, the bank's performances suffer.

Commercial banks should note that they need to do a lot in order to ensure good lending behavior even where a good measure of macro-economic stability is achieved. It therefore follows that effort should be made by commercial banks to enforce the most easily realizable policies and good credit management in every situation.

### **Recommendations**

1. Commercial banks should develop credit procedures, policies and analytical capabilities and these efforts should be expanded into full credit management including origination, approval, monitoring and problem management tailored to the needs of each bank.

2. Commercial banks should strategize on how to attract and retain more deposits so as to further improve on their lending performance. There should be closer consultation and cooperation between commercial banks and the regulatory authorities so that the effect of regulatory measure on commercial banks will be taken into account at the stage of policy formulation.

3. The cost associated with lending to priority sectors as a national goal, should be borne by the society as a whole through the government budget instead of burdening the commercial banks with such cost. This is necessary because the commercial banks can not afford to overprice or under price their loans for efficient lending performance.

4. Commercial banks should ensure good planning which encompasses budgeting, reviews and incentives. They should formulate critical, realistic and comprehensive strategic and financial plans. This will help them be better positioned to enjoy the positive effects of macroeconomic factors such as change in gross domestic product and foreign exchange in a volatile environment such as Viet Nam economy. It is essential for commercial banks to build system and skills in liquidity management, assets and liability management and foreign

exchange management. Commercial banks should try as much as possible to strike a balance in their loan pricing decisions. This will help them to be able to cover cost associated with lending and at the same time, maintain good banking relationship with their borrowers.

5. Developing Vietnam's commercial bank system should be in connection with the socio-economic development plan for the period 2015-2020. This helps government to solve the strategic issues of the commercial bank system and to provide a solid foundation for sustainable development of the banking system, while supporting the socio-economic development targets in each period. The development of monetary – banking system of Vietnam should aim towards stable, safe and effective operations on the basis of synchronous development of 5 key components of Vietnam's commercial bank system: capacity in money management and monitor of the credit institutions, Vietnam's money market; financial and operational capacity of the credit institutions; legal system; technological infrastructure and payment system; money market.

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