Journal of Transnational Management
Publication details, including instructions for authors and subscription information:
http://www.informaworld.com/smpp/title~content=t792306977

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Online Publication Date: 01 July 2009

To cite this Article de Waal, André, Duong, Hai and Ton, Vu(2009)'High Performance in Vietnam: The Case of the Vietnamese Banking Industry',Journal of Transnational Management,14:3,179 — 201
To link to this Article: DOI: 10.1080/15475770903120196
URL: http://dx.doi.org/10.1080/15475770903120196

Journal of Transnational Management, 14:179–201, 2009

ISSN: 1547-5778 print/1547-5786 online
DOI: 10.1080/15475770903120196

Routledge
Taylor & Francis Group

High Performance in Vietnam: The Case of the Vietnamese Banking Industry

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Since Vietnam joined the World Trade Organization (WTO) in January 2007, the country has faced a number of challenges to comply with WTO requirements. One of these challenges was to reorganize Vietnam's banking sector so it would comply with WTO commitments, entailing that banks from other countries are now allowed to do business in Vietnam with the same rights and privileges as local banks. This spurred Vietnamese banks to improve their competitiveness and increase their performance, as otherwise they would inevitably lag behind foreign competitors. The research described in this article was aimed at finding the factors that make Vietnamese banks excellent.

KEYWORDS banking industry, competitive performance, high performance organizations, Vietnam

INTRODUCTION

Vietnam's economy continues to grow strongly, with gross domestic product (GDP) in 2006 growing 8.2% (IMF, 2006) and in 2007 increasing by 8.4% (General Statistics Office of Vietnam, 2007). Both the industry and service sectors (which include trade, hospitality and tourism, banking, education, real estate, and consulting services) contribute 40% to the total country GDP, whereas the portion for the agricultural sector (where 57% of the total population is employed) was merely 20% (Nguyen, 2005). The increase in the service and industry shares of the GDP is largely a consequence of the expansion of the private sector (Citigroup, 2007). At the end of 2005, the population of Vietnam was 83.1 million (World Bank, 2007). Seventy percent

Received October 2008; revised January 2009; accepted May 2009.
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of this population lives in rural areas, whereas 30% lives in urban areas (General Statistics Office of Vietnam, 2007). Most of the citizens in rural areas have limited access to banking services except for loan services, and only 8% has a bank account. Overall, 95% of the country's population is in the labor force. However, quality of the workforce is an issue; there is a shortage of high quality human resources, especially in the banking and financial sectors (Nguyen, 2005).

Since Vietnam joined the World Trade Organization (WTO) in January 2007, the country has faced a number of challenges to comply with WTO requirements. One of these challenges was to review Vietnam's policies in the banking sector so these would comply with WTO commitments, while implementing bilateral agreements such as the ASEAN (Association of Southeast Asian Nations) Free Trade Area (AFTA) agreement and Bilateral Trade Agreement (BTA) (Le Xuan Nghia, 2006). This resulted in a rigorous restructuring and reform program in the Vietnamese banking sector, which spurred on the Vietnamese banks to do everything in their power to improve their competitiveness and increase their performance, as otherwise they would inevitably lag behind foreign competitors. This is all the more important as, because of the WTO regulations, banks from other countries are now allowed to do business in Vietnam with the same rights and privileges as local banks.

The Vietnamese banking industry can currently be divided into four categories: seven state-owned commercial banks (SOCBs), 35 joint stock banks (JSBs), 37 foreign-owned banks (FBs), and six joint venture banks (JVBs). Because JVBs have a market share in terms of lending or deposit of below 2%, and because they exhibit the characteristics of both partnering banks, it was decided to focus the research on the Vietnamese (SOCBs and JSBs) and foreign-owned banks. Table 1 provides market shares for these banks.

TABLE 1 Market Share of Commercial Banks in Vietnam

	Unit (%)				
	2000	2001	2002	2003	2004
Market share of commercial banks in deposit					
State owned commercial banks	77	80.1	79.3	78.1	75.2
Joint stock banks	11.3	9.2	10.1	11.2	13.2
Foreign banks and Joint venture banks	11.7	10.7	10.6	10.7	11.6
Total	100	100	100	100	100
Market share of commercial banks in lending					
State owned commercial banks	76.7	79	79.9	78.6	76.9
Joint stock banks	9.2	9.3	9.5	10.8	11.6
Foreign banks and Joint venture banks	14.1	11.7	10.6	10.6	11.5
Total	100	100	100	100	100

Source: State Bank of Vietnam, May 2005.

Banks are required to have adequate capital to protect depositors and promote stability and efficiency of the financial system. Vietnamese banks, however, are heavily undercapitalized (Vina Capital, 2006). Average capital adequacy ratio (CAR) stood at 4.5% at the end of 2005, which is low compared to an average CAR of 13.1% in Asia-Pacific and 12.3% in Southeast Asia. Performance of banks can also be evaluated by the quantity of nonperforming loans (NPLs), i.e., loans that are in default or close to being in default. Although the limited credit skills of Vietnamese banks, coupled with rapid credit growth and significant changes in the type of borrowing clientele resulted in an alarming level of NPLs in the 1990s (World Bank, 2002), the problem seems to have now been dealt with adequately (State Bank of Vietnam, 2005). NPLs of SOCBs have fallen steadily from 12.7% in 2000 to 4.4% in 2003. The NPLs of the entire Vietnamese banking system accounted for 3.15% as at the end of 2005. However, the United Nations Development Programme (UNDP) estimated up to 15% of Vietnamese bank loans were bad if international accounting standards are used.

Davis (1989) suggests that the three critical performance measures for banks are (1) after tax return on equity (ROE), (2) after tax return on assets (ROA), and (3) annual compound growth in earnings per share (EPS). Among banks in Vietnam, only two banks, ACB and Sacombank, are listed on the Vietnam stock exchange as of April 2007. Among SOCBs, Vietcombank is the only one that is equitized and none is listed. The information for critical financial performance measures for banks in Vietnam is therefore only available for ROA and ROE. Table 2 gives this data, and information on NPLs, for the complete Vietnamese banking industry.

As mentioned previously, competition is increasing in the Vietnamese banking industry. Therefore, Vietnamese banks are looking for ways to increase their performance and thereby improve their competitiveness. For this, they need to know the elements of high performance in the banking industry in general, and specifically for Vietnamese banks. The objective of the research described in this article is to identify the key features of high performance in the banking industry in Vietnam and to verify whether a difference exists in this respect between local and foreign banks. Based on

TABLE 2 Performance of the Vietnamese Banking Industry

	Unit (%)		
	2003	2004	2005
ROA	0.6	0.78	0.93
ROE	10.01	12.48	12.64
NPL ratio	1.57	6.55	6.23

Source: Deutsche Bank.

the results of this analysis, recommendations are proposed regarding how to improve the competitive performance of the local banks.

From a theoretical perspective, this study is interesting as it looks into a topic that has not yet been widely researched in Vietnam: high performance organization and characteristics of high performance. It also contributes to the ongoing research stream on cross-cultural testing of management theories developed in the Western world (Deshpandé, Farley, & Bowman, 2004). From a practical point of view, the high performance characteristics in the banking industry will help this important Vietnam sector to implement the best solutions for better performance and thereby become more competitive.

This article is organized as follows. The next section discusses the high performance organizations framework used in the study. The research approach section presents details of the research design and procedure. The research findings section presents the results of the completed questionnaires and interviews held at the various banks. The conclusion and recommendations section highlights key research findings, presents key recommendations to enable banks in Vietnam to achieve high performance, and discusses the limitations of the research.

HPO FRAMEWORK

Recent years experienced an increasing stream of literature containing data on characteristics of high performance organizations (HPO) and high performance frameworks. This study uses the HPO framework as developed by de Waal (2008) as this framework is based on a meta- analysis of more than 280 HPO studies and therefore contains both an extensive and comprehensive overview of the state of the art in this field. In this framework, HPOs are defined as organizations that achieve results (both financial and nonfinancial) that are better than those of their peer group over at least five to ten years (de Waal, 2008). The basis for the framework was an extensive literature search of both scientific and professional publications. The criteria for including studies in the comparison were (1) the study focused specifically at identifying HPO characteristics in certain aspects of business (such as processes, human resources, or technology), which are explicitly linked to achieving high performance; (2) the study consisted of either a survey with a sufficient number of respondents so that its results can be assumed to be (fairly) representative, or of in-depth case studies of several companies so the results are at least valid for more than a single organization; and (3) the written documentation contains an account and justification of the research method, research approach, and selection of the research population, a clear analysis, and clear retraceable conclusions and results, so the quality of the research can be assessed. No distinction was made in the industries of the organizations studied or the countries where these companies

were established. Based on the described criteria, the literature search yielded 280 studies that satisfied the criteria completely or partly. For each of the literature sources the elements the authors give as being important for becoming a HPO were then identified. These elements were transferred to a matrix in which they were classified in one of the factors of the framework. Because every author used a different terminology in his study, the elements were grouped into categories within each factor. Subsequently, a matrix per factor was constructed in which each category constitutes a characteristic. For each of the characteristics the "weighted importance" was calculated, i.e., the number of times it occurred in the various study types. Finally, the characteristics that had the highest weighted importance were chosen as the HPO characteristics that potentially make up an HPO. These characteristics were subsequently included in a survey that was administered worldwide and that yielded more than 2,500 responses. In this survey the respondents indicated how good their organizations were on the various HPO characteristics (on a scale of 1 to 10) and also what their organizational results were compared to their peer group. This competitive performance was calculated with two formulas: (1) Relative Performance (RP) versus competitors: $RP = 1 - ([RPT - RPS]/[RPT])$, in which RPT = total number of competitors and RPS = number of competitors with worse performance; (2) Historic Performance (HP) in the past five years versus competitors (worse, the same, or better). These subjective measures of organizational performance have been shown to be a good indication of real performance (Dawes, 1999; Devinney et al., 2005; Dollinger & Golden, 1992; Glaister & Buckley, 1998; Heap & Bolton, 2004; Wall, 2004). With a statistical analysis (both correlation and factor analysis) the factors that had the strongest correlation with organizational performance were extracted and identified as HPO factors. In the first step of the statistical analysis, a principal component analysis with oblimin rotation was performed. This yielded the grouping of 35 characteristics in five distinct HPO factors (see Appendix A). The factors were then put in a nonparametric Mann-Whitney test to identify which ones had a statistically significant correlation with competitive performance. The correlation was as expected: the high-performing group scored higher on the five HPO factors than the less well-performing group. This means that organizations that pay more attention to these HPO factors achieve better results than their peers in every industry, sector, and country in the world. Conversely, organizations that score low on HPO factors rank at the bottom of their industry in performance. The five HPO factors are described in the following; further details can be found in de Waal (2005, 2008).

HPO Factor 1: High Management Quality

The first factor is the quality of management of the organization. HPO management combines many characteristics. It maintains trust relationships

with people on all organizational levels by valuing employees' loyalty, treating intelligent people intelligently, showing people respect, creating and maintaining individual relationships with employees, encouraging belief and trust in others, and treating people fairly. Managers of HPOs live with integrity and are role models by being honest and sincere, showing commitment, enthusiasm, and respect, having a strong set of ethics and standards, being credible and consistent, maintaining a sense of vulnerability and by not being self-complacent. They apply decisive, action-focused decision making by avoiding over-analysis, but instead initiating decisions and effective actions, while fostering action taking by others. HPO management coaches and facilitates employees to achieve better results by being supportive, helping them, protecting them from outside interference, and by being available. Management holds people responsible for results and is decisive about nonperformers by always focusing on the achievement of results, maintaining clear accountability for performance, and making tough decisions. Managers of HPOs develop effective, confident, and strong management styles by communicating the values and by making sure the strategy is known and embraced by all organizational members.

HPO Factor 2: Openness Coupled with Action Orientation

The second factor concerns characteristics that create an open culture in the organization yet focus on using the openness to take dedicated action to achieve results. Management values the opinion of employees by frequently engaging them in dialogue and by involving them in all important business and organizational processes. HPO management allows experiments and mistakes by permitting employees to take risks, being willing to take risks themselves, and seeing mistakes as an opportunity to learn. In this respect, management welcomes and stimulates change by continuously striving for renewal, developing dynamic managerial capabilities to enhance flexibility, and being personally involved in change activities. People in an HPO spend much time on communication, knowledge exchange, and learning in order to obtain new ideas to do their work better and make the complete organization performance-driven.

HPO Factor 3: Long-Term Commitment

The third factor indicates that long-term commitment is far more important than short-term gain. This long-term commitment is extended to all stakeholders of the organization, that is, shareholders but also employees, suppliers, clients, and the society at large. A HPO continuously strives to enhance customer value creation by learning what customers want, understanding their values, building excellent relationships with them, having direct contact with them, engaging them, being responsive to them, and focusing on

continuously enhancing customer value. A HPO maintains good and long-term relationships with all stakeholders by networking broadly, being generous to society, and creating mutual, beneficial opportunities and win-win relationships. A HPO also grows through partnerships with suppliers and customers, thereby turning the organization into an international network corporation. Management of a HPO is committed to the organization for the long haul by balancing common purpose with self-interest, and teaching organizational members to put the needs of the enterprise as a whole first. They grow new management from their own ranks by encouraging people to become leaders, filling positions with internal talent, and promoting from within. A HPO creates a safe and secure workplace by giving people a sense of safety (physical and mental) and job security and by not immediately laying off people (until it cannot be avoided, as a last resort).

HPO Factor 4: Focus on Continuous Improvement and Renewal

The fourth factor is very much in line with a trend that has been keeping organizations busy for the past two decades: continuous improvement and innovation. This starts with a HPO adopting a strategy that will set the company apart by developing many new options and alternatives to compensate for dying strategies. After that, the organization will do everything in its power to fulfil this unique strategy. It continuously simplifies, improves, and aligns all its processes to improve its ability to respond to events efficiently and effectively and to eliminate unnecessary procedures, work, and information overload. The company also measures and reports everything that matters, so it rigorously measures progress, consequently monitors goal fulfilment, and confronts the brutal facts. It reports these facts not only to management but to everyone in the organization so that all organizational members have the financial and nonfinancial information needed to drive improvement at their disposal. People in a HPO feel a moral obligation to continuously strive for the best results. The organization continuously innovates products, processes, and services, thus constantly creating new sources of competitive advantage by rapidly developing new products and services to respond to market changes. It also masters its core competencies and is an innovator in them by deciding and sticking to what the company does best, keeping core competencies inside the firm and outsourcing non-core competencies.

HPO Factor 5: High Workforce Quality

Complementary to the first factor, high management quality, the fifth factor addresses workforce quality. A HPO makes sure it assembles a diverse and complementary management team and workforce and recruits a workforce with maximum flexibility to help detect the complexities in operations and

to incite creativity in solving them. A HPO continuously works on the development of its workforce by training them to be both resilient and flexible, allowing them to learn from others by entering partnerships with suppliers and customers, inspiring them to work on their skills so they can accomplish extraordinary results, and holding them responsible for their performance so they will be creative in looking for new productive ways to achieve the desired results.

RESEARCH APPROACH

This study adopted a comparative study approach. We used the HPO questionnaire as developed by de Waal (2008), as this questionnaire was applied extensively during his HPO research in Asian countries, which included Vietnam. The HPO questionnaire is divided into three sections. The first section deals with organizational characteristics, with 35 questions used to collect data about the HPO characteristics (see Appendix A). The second section collects data on relative performance. The third section collects general information about the respondents, such as organizational level, function, functional level, number of employees, corporate life cycle, and type of organization. We used the original questionnaire in English, made relevant revisions and translated the questionnaire into Vietnamese. Back-translation of the questionnaire was also carried out.

The questionnaire was sent to members of the board of directors, CEO, heads of departments, CFO, chief accountant, human resources director, branch manager and other senior management members of banks in Ho Chi Minh City and Hanoi. We contacted our key contacts at the banks who were middle-managers and above. They assisted us in getting their colleagues to complete the questionnaire. Respondents received the questionnaire either in soft or hard copy. The follow-up was in the form of e-mail reminders or by telephone. The survey was conducted from May 4 to June 20, 2007. To facilitate the respondents to complete the questionnaire, we called them to ensure that respondents understood key concepts of the questionnaire. Upon receipt of completed questionnaires, we conducted a quality check to ensure that the questionnaires had been filled in fully and properly. The questionnaire was distributed to 350 potential respondents, we received 156 completed and valid questionnaires, a response rate of 44.6%. Sample size determination is obviously one of the most important aspects in the design of a reliable study. If the sample size is too small, the test will lack power and the confidence interval will be too large. Too large a sample size will be a waste of resources. Bollen (1989) proposed that the sample size should be five times the total observed items, for example, a sample size at 50 is suitable for a set of 10 questions. In this study, we have a sample size of 156 respondents from 26 banks operating in Vietnam. This size is considered large enough as mentioned

previously. Appendix B provides information on the participating banks and gives the profile of the respondents.

Computer Statistical Package for Social Science (SPSS—version 13) was used as the main tool to analyze collected date and calculate the HPO factor scores. Four steps were taken in this analysis. In step 1 each measurement scale was examined for its reliability. Reliability of a scale refers to how consistent or stable the ratings generated by the scale are likely to be (Parasuraman et al., 1985). High reliable scales are those in which the items are highly inter-correlated; it means that they are measuring the same construct (Hair et al., 1998). Cronbach's alpha was employed to test the reliability, the constructs with Cronbach's alpha values >0.6 and item total correlation >0.5 were accepted (Nunnally & Bernstein, 1994). In step 2, factor analysis was employed to assess unidimensionality and convergent validity of individual constructs (using principal component analysis, rotation with Promax method, and eigenvalues ≥ 0.1). Unidimensionality is defined as the existence of one construct underlying a set of items (Garver & Mentzer, 1999). It is achieved in the condition that total variance explained is higher than 50% together with a factor loading higher than 0.5. Items with low factor loadings (<0.50) were removed because they did not converge properly with the latent construct they were designed to measure (Hair, Anderson, Tatham, & Black, 1998; Garver & Mentzer, 1999). The third step entailed a joint factor analysis to test the convergent and discriminant validity of all constructs. Validity of a measurement scale is the extent to which the scale fully captures all aspects of the construct to be measured (Parasuraman, 1991). Convergent validity and discriminant validity together form the construct validity. Discriminant validity was assessed by the extent to which the items representing a latent construct discriminate that construct from other items representing other latent constructs (Garver & Mentzer, 1999). Convergent validity is a form of construct validity that refers to the degree to which multiple attempts to measure the same concept are in agreement (Campbell & Fiske, 1959). In the fourth step, multiple regression was applied to test the relationship between the HPO factors and competitive performance. In this step, the collinearity statistic of all independent variables was tested in order to conduct and examine the tolerance of each factor; the score had to be closed to 1. Also intercorrelation or multicollinearity among variables was checked by using the Variance Inflating Factor (VIF). This is the procedure to check whether the applied model was in the right function form and the inclusion of variables was meaningful and the statistical assumptions were not violated. A VIF that is lower than 2 ensures a low level of intercorrelation among variables. The order of importance of different constructs was evaluated by standardized regression coefficient (beta) with the significant levels, which had to be lower than 0.05. Beta represents the strength of the impact of a particular HPO factor on competitive performance. The higher the value of beta is, the stronger the impact level of a HPO factor on performance.

RESEARCH FINDINGS

The reliability test indicated that some items should be eliminated before running the factor analysis because their item-total correlation was lower than 0.4. This means that those items could not be applied for the Vietnamese banking industry. Most of the Cronbach's alpha met the satisfactory level, with values varying from 0.686 to 0.941. The reliability of all constructs was therefore achieved (see Appendix C). The Kaiser-Meyer-Olkin (KMO) values for all scales is varied, from 0.656 to 0.813, which exceeded the value 0.600 proposed by Kaiser (1974) to confirm the appropriateness of using a factor analysis for the individual scales. This analysis, however, yielded several items whose loading factors were on two components, with a difference smaller than 0.3 thus subject to removal. Another factor analysis was conducted after removing these items. Tables 3 and 4 present the total variance explained and the eigenvalues of the retained items, and the loading of the items on five different constructs (with the removal of loading factors lower than 0.4). All five HPO factors have achieved the satisfactory level of discriminant and convergent validity.

Correlation HPO Factor Scores and Competitive Performance

To check whether there exist a correlation between the HPO factors given in Table 4 and competitive performance, a multiple regression was performed. In this analysis, the HPO factors are the independent variables and relative performance is the dependent variable. The results of multiple regression are summarized in Table 5. The coefficient of determination (R^2) is 0.225 which means that the independent variables (the five HPO factors) explain 22.5% of the variance of the dependent variable (relative performance).

As shown in Table 6, the significant value indicates that the use of a linear regression is appropriate: the dependent variable (relative performance) is a linear function of all the independent variables (the five HPO factors).

TABLE 3 Total Variance Explained, After Refinement

	Initial eigenvalues			Extraction sums of squared loadings			
Component	Total	Percent of variance	Cumulative percent	Total	Percent of variance	Cumulative percent	Rotation sums of squared loadings
1	11.546	48.108	48.108	11.546	48.108	48.108	9.968
2	2.347	9.781	57.888	2.347	9.781	57.888	5.631
3	1.386	5.775	63.663	1.386	5.775	63.663	7.248
4	1.252	5.215	68.878	1.252	5.215	68.878	5.006
5	1.057	4.402	73.281	1.057	4.402	73.281	5.004

TABLE 4 Pattern Matrix, After Refinement

	Factor				
Item	MQ	CI	LTO	WQ	OAO
15	.640				
16	.624				
17	.712				
18	.919				
19	.986				
20	.556				
22	.736				
23	.862				
24	.812				
1		.788			
2		.682			
3		.457			
7		.663			
8		.809			
30			.620		
31			.779		
32			.720		
33			.595		
27				.443	
28				.739	
29				.815	
9					.725
10					.882
14					.504

Note: Extraction Method: Principal Component Analysis.
Rotation Method: Promax with Kaiser Normalization. A Rotation converged in 9 iterations.

Table 7 gives the results of the test on whether there is multicollinearity among the five HPO factors. The values of tolerance are all in the range 0.7 to 1 indicating that the impact of collinearity is low. Moreover, all VIF values of the independent factors are close to 1, resulting in a low signal of multicollinearity among the factors. So there is no serious multicollinearity among the five HPO factors when explaining the relative performance of the Vietnamese banks.

TABLE 5 Results of the Multiple Regression

Model	R	R square	Adjusted R square	Std. error of the estimate
1	.474(a)	.225	.204	0.75344

TABLE 6 Results of the ANOVA

Model	Sum of squares	df	Mean square	F	Sig.
Regression	19.567	6	3.505	7.209	**0.000**
Residual	143.532	374	0.393		
Total	163.099	380			

Hence, the regression equation showing the impact of the HPO factors on relative performance in the case of the Vietnam banking industry can be written down as:

$$\begin{aligned}\text{Relative performance} &= 2.786 + 0.176\,(\text{Management Quality}) \\ &+ 0.436\,(\text{Continuous Improvement}) + 0.354\,(\text{Long-term Commitment}) \\ &+ 0.284\,(\text{Workforce Quality}) + 0.209\,(\text{Openness and Action Orientation}) + u_i\end{aligned}$$

This equation shows that HPO factor, Continuous Improvement, has the biggest influence on Relative Performance. This could be explained by the fact that individual employees do not have a direct influence on the overall performance of the bank. However, they do have direct influence on the execution of the processes in their responsibility area. In the financial services industry, continuous improvement of processes is a key success factor, as banks tend to benchmark their processes continuously against those of competitors. This is because the effective and efficient execution of processes aimed at serving the customer best is critical. After all, banking is a service industry where customers demand consistent and high quality products and services. Banks must focus on improving product and service quality in order to ensure sustainable performance over long periods.

By the same token, long-term commitment also has a big positive impact on firm performance. Long-term commitment is translated in long-term relationships with customers and stake-holders, and accumulated expertise of the people in the company. In a fast-moving environment such

TABLE 7 Results of the Multicolinearity Test

	Unstandardized coefficients		Standardized coefficients			Collinearity statistics	
Model	B	Std. error	Beta	T	Sig.	Tolerance	VIF
(Constant)	**2.786**	0.426		4.706	**.003**		
Management Quality	**.176**	0.057	**.180**	1.966	**.031**	.910	**1.219**
Continuous Improvement	**.436**	0.084	**.415**	2.922	**.000**	.764	**1.709**
Long Term Commitment	**.354**	0.064	**.356**	2.786	**.000**	.830	**1.553**
Workforce Quality	**.284**	0.043	**.278**	2.903	**.001**	.990	**1.385**
Openness and Action Orientation	**.209**	0.032	**.222**	1.997	**.007**	.717	**1.285**

TABLE 8 Mean Scores for the Local and Foreign Banks in Vietnam

	Local banks	Foreign banks	Foreign vs. local
Management Quality	7.6	7.7	0.1
Openness and Action Orientation	7.0	7.4	0.4
Long Term Commitment	8.1	8.4	0.3
Continuous Improvement	6.8	7.6	0.8
Workforce Quality	7.4	7.5	0.1
Average Score	7.4	7.7	0.3

as the financial services industry in Vietnam, long-term commitment helps to strengthen the relationship with employees and existing customers and is also one determinant for attracting potential customers. From an operational aspect, long-term commitment helps to improve efficiency of the banks' operations, leading to high performance.

HPO Factor Scores for the Vietnamese Banking Industry

With the factors given in Table 4, the HPO-scores for the local and foreign banks can now be calculated. Table 8 presents the HPO factor scores that were calculated by taking the mean value for each type of bank.

Table 8 shows that the foreign banks have a slightly higher score than the local banks on all five HPO factors. As we have found in the previous section a correlation between the HPO factors and competitive performance, we expect that the foreign banks will show a better performance than the local banks. To test this, we collected in line with Table 2 ROA and ROE financial data for the individual banks for the years 2004, 2005, and 2006. We then calculated the mean values for the two types of banks for these three years. Table 9 indeed shows foreign banks have a slightly better financial performance than the local banks.

It was to be expected that the foreign banks would perform better as their parent companies have been practicing modern management for many

TABLE 9 HPO Scores and Financial Results for the Foreign and Local Vietnamese Banks

	Local banks	Foreign banks	Foreign vs. Local
Management Quality	7.6	7.7	0.1
Openness and Action Orientation	7.0	7.4	0.4
Long Term Commitment	8.1	8.4	0.3
Continuous Improvement	6.8	7.6	0.9
Workforce Quality	7.4	7.5	0.1
Average Score	7.4	7.7	0.3
ROA (a)	1.27%	1.37%	0.10%
ROE (a)	14.18%	14.20%	0.02%

Notes (a): ROA, ROE from SBV and banks, average of 2004, 2005 and 2006.

decades, whereas local Vietnamese banks have just started to learn over the past years what modern management is and how it should be applied in their organizations. The advantage of the foreign banks, however, is less than might be estimated, for several reasons. A number of banks in Vietnam were created by a dominant player in a specific industry to serve the needs of that industry in a closed loop. For example, a leading petroleum company in Vietnam, Petrolimex, acquired PGBank. This bank subsequently became the primary bank for any of companies and subsidiaries of the Petrolimex group, making it hard for other local or foreign banks to establish a banking relationship with a company in the Petrolimex group. This basically created a virtual monopoly for banking services in this industry, which raised the entry barriers and made it difficult for foreign banks to access and get market share from this industry. Another explanation is that, as long as commitments agreed with the WTO are not in effect, local banks have still been protected by the Vietnamese government. So, the local legal framework, although gradually reduced, created discrimination against foreign banks limiting the performance of foreign banks.

The small difference in management quality can be specifically explained by the fact that most of the local banks have simpler organizational structures than the foreign banks, so local banks can apply relatively fast decision-making and decision-taking processes. This helps to make the gap between local Vietnamese banks and foreign banks smaller. Also, in some local banks the senior members of the management come from foreign banks, which makes management quality levels somewhat more equal. For long-term commitment the small difference can be caused by the fact that larger numbers of managers at local banks have a greater number of years of service with the bank than do foreign banks. At these banks, managers are often assigned to work in Vietnam for a couple of years and then return to their home countries. In regard to workforce quality, local banks have been striving to be at par with foreign banks by recruiting people from foreign banks and providing continuous training. When local banks' senior managers originated from foreign banks, they often recruited their former staff who they know well and who are highly qualified. These experienced senior managers and their qualified staff train the other staff of the bank, thus increasing workforce quality.

Several explanations have to do with the financial circumstances of both types of bank. Local banks have a larger network in Vietnam than foreign banks. Most of the foreign banks only have one branch in Vietnam; very few have more than one branch due to the restricted licensing requirements still in effect in Vietnam. With a much bigger network, local Vietnamese banks have access to areas that foreign banks do not have and therefore capture a bigger volume of transactions, thus achieving better cost advantages and economies of scales. In addition, foreign banks hire many more expatriate staff than local banks hire. Therefore they suffer from increased staff costs

that include higher salaries, more benefits, and other compensations. In addition, local staff hired by foreign banks enjoy higher remuneration packages than similar employees in local banks. Foreign banks also usually get expenses allocated by their head offices and these allocated expenses can be quite significant. Even if the local banks did use internal allocation, these expenses incurred in Vietnam are relatively low. Foreign banks tend to carry out branding and marketing activities in a professional manner, in compliance with their internal requirements and procedures. This usually costs them a substantial amount of money. On the other hand, local banks tend not to spend much money in branding and marketing activities. One example is a newly established joint stock bank, Lien Viet Bank, which announced in April 2008 that it awarded US$10,000 to an individual for developing the design for the bank's logo and US$5,000 to other individuals to actually create the bank's slogan. None of the foreign banks spent that minimal amount of money for similar activities in Vietnam. Foreign banks also invest significantly more in the banks' infrastructure (such as in IT systems, back-up/contingency systems, and safety and security systems) than local banks, creating a large asset post on the balance sheet. Finally, obtaining a substantial market share is very important for foreign banks to gain a foothold in Vietnam. This means they are less concerned with profitability as of now.

Difference between Leading and Lagging Banks

The results given in Table 9 make it possible to test whether the Vietnamese bank with the highest HPO scores stresses different HPO characteristics than the Vietnamese banks with the lowest scores. These characteristics then make the difference between becoming a leader or staying a lagger in the Vietnamese banking industry. For this test, the bank with the highest (a foreign bank) and lowest (a local bank) HPO scores were identified and these scores were compared to identify the characteristics with the biggest difference (for reasons of discretion, the names of these banks are not given). After this, the characteristics with a difference of 40% or more were identified as those characteristics to which a Vietnamese bank has to pay the most attention in order to elevate to a higher HPO status (Table 10).

The nine differentiating characteristics for Vietnamese banks include:

1. The organization has adopted a strategy that sets it clearly apart from other organizations.
2. Processes are continuously improved in the organization.
3. Processes are continuously simplified in the organization.
7. The organization continuously innovates its core competencies.
8. The organization continuously innovates its products, processes, and services.

TABLE 10 Identification of the Differentiating HPO Characteristics

Characteristic	Bank with highest HPO scores	Bank with lowest HPO scores	Difference in %
1	8.3	3.6	**56**
2	8.8	4.4	**50**
3	7.8	4.4	**43**
7	8.3	3.4	**59**
8	9.0	4.6	**49**
9	7.8	5.0	35
10	8.3	5.4	35
14	8.5	6.6	22
15	8.5	6.6	22
16	9.0	7.0	22
17	8.5	6.2	27
18	9.0	5.0	**44**
19	9.0	5.0	**44**
20	8.0	5.6	30
22	8.3	6.0	27
23	8.5	6.2	27
24	9.0	6.2	31
27	9.0	7.0	22
28	8.3	3.8	**54**
29	8.8	4.6	**47**
30	8.5	6.6	22
31	9.0	5.8	36
32	9.5	5.8	39
33	6.8	7.8	−16

18. Management applies fast decision taking.
19. Management applies fast action taking.
28. Organizational members are trained to be resilient and flexible.
29. The organization has a diverse and complementary workforce.

HPO scores on these nine characteristics are significantly higher for the leading bank than for the lagging bank, implying that the leading bank pays more attention to these. This is important to know for bank management because, although this type of research as described in this article can only show correlation and not causality, management can actively start (or keep) working on improving these nine characteristics. In this way, their attention is focused on those activities in the bank that add most value to the organization. The most urgent actions for management therefore are to put more emphasis on innovation, by developing a unique strategy and new, innovative products and services; raise the quality of the workforce, by training them to increase their flexibility and resilience, improve their decision-making skills, and increasing the diversity of the workforce; and increase the quality of process management in the organization.

CONCLUSIONS

Historically, the performance of banks is evaluated by qualitative analysis of financial ratios. The research described in this article shows that the HPO framework can be used to identify and explain performance differences in the Vietnamese banking industry in much more detail. This is all the more important as the Vietnamese banking industry is integrating into the global economy. From managerial point of view, the framework helps to find sound improvement recommendations for the Vietnamese banking industry, especially the local banks. In this respect, managers can immediately start "upgrading" their organization. It should be kept in mind, however, that because organizations and environments are continually evolving, improvement ideas and practices need to be adapted continuously. If this is not done, organizations run the risk of meeting the same fate as many organizations characterized as excellent in the past (Peters & Waterman, 1982). Their performance foundered in the years after they had been denominated as examples of excellence. HPO managers are flexible and creative enough to not let such a downfall happen so that they can make and keep their organization world-class.

Limitations of this study can mainly be found in the number of questionnaires received. Although the total of 156 valid questionnaires is large enough for statistical processing, it is not enough to state with confidence conclusions about individual banks. It was also difficult to find reliable data on the financial performance of individual banks. Further research could be based on a larger sample of respondents with a larger database of HPO and financial data. Nonperforming loans also mirror the performance of banks. As the data for NPL published and/or estimated by one source are very much different from other sources, we recommend that further study should take place to find the relationship between the HPO factor scores and NPL. It is also recommended that the scope of study be broadened to cover the complete financial services industry, including banks as well as nonbank financial institutions, so that the HPO factors can be validated for the complete industry. After this, other Vietnamese industries could be subject to the HPO framework.

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APPENDIX A: THE FIVE HPO FACTORS WITH THEIR 35 CHARACTERISTICS

Continuous improvement

1. Our organization has adopted a strategy that sets it clearly apart from other organizations.
2. In our organization processes are continuously improved.
3. In our organization processes are continuously simplified.
4. In our organization processes are continuously aligned.
5. In our organization everything that matters to the organization's performance is explicitly reported.
6. In our organization both financial and nonfinancial information is reported to organizational members.
7. Our organization continuously innovates its core competencies.
8. Our organization continuously innovates its products, processes, and services.

Openness and action orientation

9. The management of our organization frequently engages in a dialogue with employees.
10. Organizational members spend much time on communication, knowledge exchange, and learning.
11. Organizational members are always involved in important processes.
12. The management of our organization allows making mistakes.
13. The management of our organization welcomes change.
14. Our organization is performance driven.

Management quality

15. The management of our organization is trusted by organizational members.
16. The management of our organization has integrity.
17. The management of our organization is a role model for organizational members.
18. The management of our organization applies fast decision making.
19. The management of our organization applies fast action taking.
20. The management of our organization coaches organizational members to achieve better results.
21. The management of our organization focuses on achieving results.
22. The management of our organization is very effective.
23. The management of our organization applies strong leadership.
24. The management of our organization is confident.
25. The management of our organization is decisive with regard to nonperformers.

Workforce Quality

26. The management of our organization always holds organizational members responsible for their results.
27. The management of our organization inspires organizational members to accomplish extraordinary results.
28. Organizational members are trained to be resilient and flexible.
29. Our organization has a diverse and complementary workforce.

Long-term orientation

30. Our organization grows through partnerships with suppliers and/or customers.
31. Our organization maintains good and long-term relationships with all stakeholders.
32. Our organization is aimed at servicing the customers as best as possible.
33. The management of our organization has been with the company for a long time.
34. New management is promoted from within the organization.
35. Our organization is a secure workplace for organizational members.

APPENDIX B: INFORMATION ON THE PARTICIPATING BANKS AND THE RESPONDENTS

TABLE B1 List of the Participating Banks (1–15: local; 16–26: foreign)

No.	Category	Bank Name	Address in Vietnamese
1	SOCB	Bank for Agriculture and Rural Development of Vietnam (BARDV)	Số 2 Láng Hạ - Hà Nội
2	SOCB	Bank for Investment and Development of Vietnam (BIDV)	Toà nhà Wincom 191 Bà Triệu - Hà Nội
3	SOCB	Bank for Foreign Trade of Vietnam	198 Trần Quang Khải - Hà Nội
4	SOCB	Industrial and Commercial Bank of Vietnam (ICB)	108 Trần Hưng Đạo - Hà Nội
5	JSB	Asia Commercial Bank (ACB)	442 Nguyễn Thị Minh Khai. Q3. TP HCM
6	JSB	Eastern Asia Commercial bank (EAB)	130 Phan Đăng Lưu. Q Phú Nhuận. TPHCM
7	JSB	An Binh Bank (ABB)	47 Điện Biên Phủ, Q1, TPHCM
8	JSB	Techcombank	15 Đào Duy Từ. Q Hoàn Kiếm. Hà Nội
9	JSB	Petrolimex Gas Bank (PGB)	18T1-18T2, Trung Hòa, Nhân Chính, Hà Nội
10	JSB	First Commercial Bank (FICOMBANK)	715 Trần Hưng Đạo. Q5. TPHCM
11	JSB	Hochi minh City Housing Development Bank (HDB)	33-39 Pasteur. Q1. TP HCM
12	JSB	South Asia Bank (NAB)	97 bis Hàm Nghi, Q1, TPHCM
13	JSB	Saigon Bank (SCB)	193, 203 Trần Hưng Đạo, Q1 TPHCM
14	JSB	Vietnam International bank (VIB)	64-68 Lý Thường Kiệt. Hà Nội
15	JSB	Sacombank	278 Nam kỳ khởi nghĩa. Q3.TPHCM
16	FB	ANZ (Australia & New Zealand Banking Group)	14 Lê Thái Tổ, Hà Nội
17	FB	Bank of Tokyo Mitsubishi UFJ	5b Tôn Đức Thắng, Q.1, TPHCM
18	FB	Calyon	21-23 Nguyễn Thị Minh Khai, TPHCM
19	FB	Chinfon Bank	27 Tú Xương, Quận 3, TPHCM (CN phụ)
20	FB	Citibank	17 Ngô Quyền,Hà Nội
21	FB	Deustche Bank	Saigon Centre tầng 12, 65 Lê Lợi, Q.1, TPHCM
22	FB	Bangkok Bank	35 Nguyễn Huệ, Q.1,TPHCM
23	FB	Banque Nationale de Paris (BNP)	SaiGon Tower, 29 Lê Duẩn, Q.1, TPHCM
24	FB	Shinhan Bank	41 Nguyễn Thị Minh Khai, Q.1, TPHCM
25	FB	Hongkong Shanghai Banking Corporation	235 Đồng khởi,Q.1, TPHCM
26	FB	Standard Chartered Bank	Tầng 2, Saigon Trade Center, Q1, TPHCM
Legend	SOCB	State Owned Commercial Bank	
	JSB	Joint Stock Bank	
	FB	Foreign Bank	

TABLE B2 Countries of the Participating Banks' Main Offices (1–15: local; 16–26: foreign)

	No. of banks	Percentage of banks
Bank sector		
Local bank	15	58%
Foreign bank	11	42%
The country of residence of the main office		
Vietnam	15	58%
Australia	1	4%
France	2	8%
Germany	1	4%
Japan	1	4%
South Korea	1	4%
Taiwan	1	4%
Thailand	1	4%
UK	2	8%
USA	1	4%

TABLE B3 Profile of the Respondents

		No. of response	Percentage of response
Organizational level respondents work in	Corporate/Head Office	98	63%
	Branch	47	30%
	Transaction Office	11	7%
The function respondents work in	Finance	32	21%
	Sales/Marketing/Treasury/ Cash management	99	63%
	Others	25	16%
Functional level	CEO/Head of Branch	6	4%
	CFO/COO/Division Manager/ BU Manager	23	15%
	Department Manager	62	40%
	Employee	58	37%
	Others	7	4%

APPENDIX C: RESULTS OF THE RELIABILITY TESTS

TABLE C1 Continuous Improvement—Alpha: 0.830

Item	Scale mean if item deleted	Scale variance if item deleted	Corrected item-total correlation	Squared multiple correlation	Cronbach's alpha if item deleted
1	47.88	89.811	.575	.466	.809
2	47.98	89.683	.559	.466	.811
3	49.14	91.877	.453	.293	.826
4	48.53	87.361	**.351**	.236	.840
5	47.97	90.031	.536	.390	.814
6	49.08	92.626	**.349**	.202	.845
7	47.91	85.424	.680	.579	.795
8	47.51	86.613	.739	.618	.790

TABLE C2 Openness and Action Orientation—Alpha: 0.686

Item	Scale mean if item deleted	Scale variance if item deleted	Corrected item-total correlation	Squared multiple correlation	Cronbach's alpha if item deleted
9	33.31	43.956	.591	.558	.586
10	33.75	46.485	.560	.484	.603
11	33.34	46.239	.480	.301	.623
12	35.37	55.859	**.045**	.089	.786
13	33.18	44.510	.513	.304	.610
14	32.08	48.774	.472	.344	.630

TABLE C3 Management Quality—Alpha: 0.941

Item	Scale mean if item deleted	Scale variance if item deleted	Corrected item-total correlation	Squared multiple correlation	Cronbach's alpha if item deleted
15	83.40	219.428	.768	.666	.935
16	83.42	215.446	.792	.737	.934
17	83.92	216.258	.832	.801	.933
18	84.12	218.412	.711	.802	.937
19	84.32	216.813	.769	.834	.935
20	84.28	211.814	.809	.688	.933
21	83.46	217.824	.728	.630	.936
22	83.90	226.784	.698	.644	.937
23	83.65	213.260	.850	.877	.932
24	83.33	215.759	.841	.840	.932
25	84.45	231.552	**.394**	.346	.940
26	83.62	225.451	**.328**	.240	.948

TABLE C4 Workforce Quality—Alpha: 0.782

Item	Scale mean if item deleted	Scale variance if item deleted	Corrected item-total correlation	Squared multiple correlation	Cronbach's alpha if item deleted
27	14.35	8.733	.506	.258	.833
28	15.30	8.186	.696	.541	.623
29	15.18	8.213	.670	.524	.650

TABLE C5 Long-Term Commitment—Alpha: 0.767

Item	Scale mean if item deleted	Scale variance if item deleted	Corrected item-total correlation	Squared multiple correlation	Cronbach's alpha if item deleted
30	38.53	44.511	.566	.415	.719
31	38.44	43.949	.652	.556	.700
32	38.05	45.893	.597	.486	.716
33	38.22	46.471	.482	.322	.740
34	40.43	48.337	**.221**	.146	.829
35	38.69	40.929	.697	.493	.682