

DETERMINANTS FOR SUCCESS IN BANKING ACTIVITIES

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The Vietnamese banking system had been a one-level institution by late 1987, it had not included commercial banks. The state-run banks implemented functions of borrowing and lending but chiefly serving the state sector. In the meantime, the non-state sector had received no financial support from banks. When the economy shifted into a multi-sectoral one, many non-state commercial banks took shape with the aim to mobilize idle money, at the same time to provide non-state capital-poor enterprises with credit. The Ordinance on Banking, Credit Cooperatives, and Financial Companies issued on May 23, 1990 was the legal framework for the appearance of current commercial banks. There were 4 state-run banks, 53 joint-stock banks, 4 joint venture banks and 19 branches of foreign banks by Jan 1, 1996.

On Dec 26, 1997, the Law on Credit Institutions was promulgated and replaced the 1990 Ordinance on Banking, Credit Cooperatives and Financial Companies and the commercial banking network comprised 6 state-run banks, 51 joint-stock banks, 4 joint venture banks and 22 branches of foreign banks by Jan 1, 1996.

The Government continued to promote its open policies on liberalizing trade, developing the multi-sectoral economy, and joining the regional free trade areas. These events along with the penetration of multinational giants into Vietnam have placed a competition pressure on the local nascent banks in the market economy.

In the economy, all companies must survive by its own competitiveness in providing products and services in the long run and must be profitable. The competition is a dynamic concept based on long and short-run factors. In theory, a company may become fruitful in competition when it has more advantages than their rivals. Nevertheless, its advantages may be dimmed over time and if it cannot well manage available resources to maintain its powers in the change of market con-

ditions, it will sooner or later lose its competitiveness.

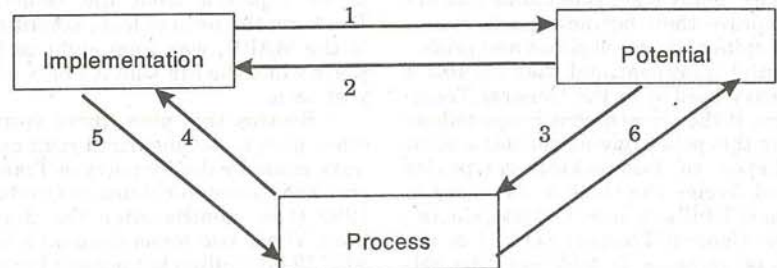
In the financial sector, banks and non-banking institutions compete with each other in providing financial services based on their precedence in following areas:

- Prices of financial products and services.
- Convenient access to financial products and services:
 - . The number of service providing places such as branches, transaction offices and etc.
 - . The diversity of products and services.
 - . The quality of banking products and services (the settlement speed and exactness)
- The trustworthiness: The public confidence in the general banking sector and a particular bank depends on such factors as its accrued capital, stable income, quality of information given by the bank.

The competitiveness is determined by interactive factors: (1) implementation, (2) potential and (3) process management. These factors describe different steps in the competition process.

1. Provable implementation
2. Capacity to perfect the implementation
3. Ability to select potential
4. Management of potential solutions for achievement
5. Achievement to enhance management process
6. Decisions to create potential

The competition potential indi-



cates the entity's input; the results will measure its output and the process will display the bank's manage-

ment quality. It is obvious that there is no single measurement which can explain the whole features of the competition process. If only results are examined, their sustainability remains an unsolvable question. Many uncertain factors are related to the bank's success in management as well as the reproduction and maintenance of competition potential and this is part of the process planning the bank's future competition. In contrast, if depending on potential only for assessment, it is not able to determine whether the potential will come true or not. Assumptions of necessary advantages for success regardless of their effects may lead to asymmetric results.

The process management cannot be exactly evaluated in quantitative analysis but in qualitative one. However, the comparison and assessment of the management process as a basic concept of competition may give insufficient outcomes when it is not connected with measured results of that process.

Assessment of competition in the banking sector

At the moment the banks are operating in a harsh competition not confined to a country but widespread in the region and the world. This requires banks to comprehend their capacity and efficiency to win in the competition. The assessment of competition factors depends on following criteria:

- Operational results based on the return on asset (ROA) and the return on equity (ROE)
- Competition potential based on technology transfer and innovation, new products and services continuously supplied to customers.
- The process based on four factors: (1) management and decentralization; (2) market involvement; (3) personnel; (4) focus on a specific target and (5) technology system.

The assessment of competitive-

ness in the above model has been suggested by banking managers. Because the traditional bank is a money

keeper, it is not surprising that it reflects this in the assessment of operation. The implementation of the strategy must be equal to that of investment. In the new concept of the market, some banks determine their profitability in the relation with customers. The consideration of customers as important resources which may be tapped to maximize their profits implies that they must concentrate their efforts on generating new business opportunities, rather than maximize profits from existing activities. This will promote the shift from "financial supermarket" providing all financial services to the supply of retail financial services at any time and any place to customers.

For banks, profit hunting must be certainly associated with cost minimizing. By cutting costs, banks may maintain their profits in the increasing competition. The liberalization trend in the highly competitive financial markets in the U.S., U.K., Germany and so on has boosted prod-

with the customers with the aim to meet their requirements and strengthen their relation with the bank in the long run. There is almost no disparity between banks in products and prices, as a result banks pay attention to making their appearance more attractive to customers. The customers evaluate the bank's product quality only by invisible factors or their experience. Given situation, such factors as the bank staff's appearance, assistance, and attentiveness as well as courteous and elegant voices in its mails seem to make important remarks for customers when they examine the bank's products and services. These factors may not help the bank succeed because potential customers cannot assess its product quality as long as they have used these products and services. The bank should avoid disappointing its customers by regularly alluring them with its sales promotion programs. Another problem concerning service quality is costs and

Some factors needed for banking success in the 21st century

1. Profitability: The winner must have reasonable profits in any business area and the interest rate margin is positive. He also obtains profitable assets which have appropriate terms and avoid risks by his financial derivatives.

2. Liquid assets and securitized mortgages: The winner will liquidate his assets when they are not in accordance with the bank's risk policy because it cannot settle securitized mortgages as long as they remain outstanding.

3. Positive general interest rate marginal: The winner must have appropriate return on equity even though the marginal is lower in investment capital with unacceptable profit ratio.

4. Productivity promotion: The winner has to reduce costs together with develop electronic distribution networks at lower costs but higher productivity.

5. Market segment: The winner will determine effective organization and management of market segments in order to serve specific groups of customers efficiently.

6. Making a series of sufficient and competitive products: The winner must secure product advantages in all market segments where he enters. The customers will choose the best products in the market and pay no attention to whom are their suppliers - banks or non-banking institutions.

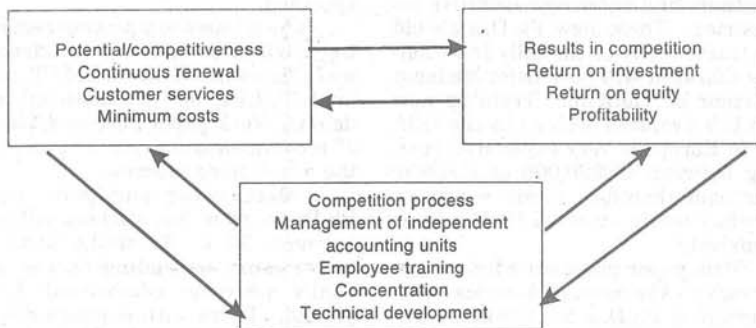
7. General business planning: The winner must organize and employ effectively his affiliate companies such as financial leasing companies, stock companies...as integrated parts of a system. An important factor in strategic management is to specify what kinds of products and services to increase, reduce, maintain or abolish.

8. Wage policy: The winner has to apply the efficiency-based wage policy because the former rank-based mechanism is only appropriate to the past structure when persons with higher ranks will assume more responsibilities.

9. Position in the market: The winner will choose narrow markets to avoid other banks' domination (applying to small banks).

10. Electronic banking, customer services and charges: The winner will cope with the uncertainty in balancing the costs of the electronic distribution network which it supports while it has to ensure the service quality to the customers. ■

Measurements of Competitiveness in the Banking Sector



uct differentiation and improved skills and systems for renovation and new products. Many banks have hired marketing experts from other sectors to make precedence against their rivals. At the same time most of banks in developing countries including Vietnam cope with this challenge by imitating foreign products and services.

Product renewal itself cannot help banks in developing countries maintain their advantages in competition, but the introduction and marketing of new products will improve these advantages. More importantly, the promotion of creative skills and marketing networks is the decisive factor to banks' competitiveness in developing countries like Vietnam.

The service quality in the banking sector has a different role as compared with other markets. Due to numerous services presented to customers, there should be a direct contact between the bank employees

profits. Banks should keep customers by their commitments to service quality promotion.

Because the bank personnel play an important role in the supply of high quality services to customers, they need be provided with appropriate training courses, especially in computer networking so that they are able to make good contacts with customers and satisfy their needs promptly. To create new opportunities in cross-selling products to customers, many banks have trained their employees in selling their products at the customer's home. But the result of this access is still not certain when customers use automatic teller machines and need not come to bank branches. More challenges may happen when the number of products supplied by the bank branch may amount to between 250 and 500 and the bank employees find hard to have a thorough knowledge about all of the bank products.