

## Abstract

**Title:** Cost Efficiency of the Banking Industry in Vietnam: Case Study of the State-owned Commercial Banks  
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The study examined performance efficiency and productivity of four state-owned commercial banks (SOCB) in Vietnam, and how they changed over the study period (2002-2010). In this study, CRS and VRS DEA models are used to estimate the technical, allocative and cost efficiency. Additionally, the DEA Malmquist productivity index is applied to estimate how SOCBs' productivity index varies.

Findings from DEA models show that under CRS assumption the cost efficiency of the average bank was 83.6% based on CRS DEA model with technical efficiency score at 99.4% and allocative efficiency score at 84.2%, this result implies that the average SOCB has to reduce its actual cost by 16.4% to be completely cost-efficient. Under the VRS assumption, the allocative and cost efficiency score has increased, respectively, to 97.7% and to 97.1%. Surprisingly, the technical efficiency score was the same to the one under CRS assumption. By observing each SOCB, only BIDV had cost efficiency score of 1 in both cases. Vietcombank and VBARD have quite high efficiency scores; however these scores are different under CRS and VRS assumption. Vietinbank has lowest efficiency scores. The results of CRS and VRS DEA analysis indicate that Vietinbank likely had most problems in operating and management. Over the study period, the efficiency scores of inefficient banks varied irregularly and unsteadily.

Findings from DEA Malmquist productivity index model show that the average productivity index was 1.061, suggesting that the productivity index of the average bank increased 6.1% annually. However, the change in productivity was irregular and unsteady. Furthermore, the result shows that only the technology progress change contributed to the improvement in productivity of SOCBs, because the mean of technical efficiency index was 1 which implies that there is no change in efficiency of the average SOCBs.

The results of this study are quite plausible, because the study period is marked as a rapidly changing and growing period of Vietnamese economy, especially financial market. There

are many external and internal factors that cause inefficiency in operating and managing banking business.

Based on the study's results, SOCBs still have a lot to do in order to achieve sustainable efficiency and growth. The Vietnamese financial market is imperfect. These SOCBs' operation is heavily influenced by external factors, therefore, they have to create a strong and competent organization which is able to diminish the impacts of these external factors, such as reinforcing restructuring in a real and effective manner, closing and eliminating unprofitable branches and unproductive parts of SOCBs' value chains.

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