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## **Merger and acquisition between banks in Vietnam: Solutions to improve service quality and competitiveness**

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### **Abstract**

Vietnam is becoming more and more deeply integrated with the world economy with M&A deals taking place between domestic and foreign partners across different business fields which is considered as an inevitable trend of economic development. This article analyzes a number of banking M&A deals in Vietnam to determine if this is the best and only way to improve service quality and enhance the competitiveness of banks being merged or not.

**Keywords:** Merger and acquisition, banking sector, Vietnam, quality, competitiveness

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### **1. Introduction**

Vietnam is joining more and more deeply and with the world economy. This has brought many opportunities and challenges to Vietnam's economy. Vietnamese commercial banks will have the opportunity to expand their scope of activities outside Vietnam, as well as foreign banks will be allowed to operate in Vietnam. This will result in a strong competition between banks, especially foreign banks with strong financial resources, along with extensive operational experience and management experience.

In recent years, a number of commercial banks have merged together to increase their competitiveness as well as meet the legal capital requirements of the State Bank in the near future. And it is expected that there will be more mergers and acquisitions (M&A) in the banking industry in the near future. M&A is an inevitable trend because this is a "golden" solution for weak banks in the context of the economy having just experienced a crisis. Moreover, our country has integrated with the world in order to compete and be able to survive, banks must be strong. Although a number of mergers and acquisitions have been completed and put into operation, the overall study and implementation process as well as the driving force for M&A have had certain successes in addition to the existing risks restricting commercial banks to fully utilize the benefits of M&A activities.

Therefore, the topic "Mergers and acquisitions among Vietnamese commercial banks - solutions to improve quality, services and competitiveness" is investigated here in this article to analyze the strengths and weaknesses, opportunities and challenges of Vietnamese commercial banks. In addition, we carry out analysis and assessment of the current situation of M&A banking activities in the past time to see the problems that have been and have not been arisen, as well as to find limitations and causes to take measures to counter them. On that basis, and based on the trends of Vietnam's economic development and the orientation of developing the commercial banking system in Vietnam, we suggest several solutions and recommendations to promote M&A activities of banks in the coming time.

### **2. Theoretical framework**

#### **2.1 Definitions**

Merger and acquisition (M&A) in Vietnam are governed and defined by the 2005 Enterprise Law as follows:

- One or several companies of the same type (called a merged company) may merge with another company (called the acquiring company) by transferring all assets, rights, obligations and rights, legal interests and benefits to the merging company, and at the same time terminate the existence of the merged company. (Clause 1 - Article 153 of the 2005 Enterprise Law) <sup>[4]</sup>.
- Two or several companies of the same type (hereinafter referred to as consolidated companies) may be consolidated into a new company (hereinafter referred to as consolidating companies) by transferring all assets, rights and obligations, services and benefits to the consolidating company, at the same time to cease the existence of the consolidated companies. (Clause 1 - Article 152 of the 2005 Law on Enterprises) <sup>[4]</sup>.
- An enterprise's purchase of all or a part of another enterprise's assets is sufficient to control or dominate the whole or a business line of the acquired enterprise. (Clause 3 - Article 17 of the 2004 Competition Law) <sup>[5]</sup>.

#### **2.2 M&A classification**

M&A is divided into three categories based on the competing relationship between related parties, namely: horizontal merger, vertical merger and combination merger.

- Horizontal merger: Merger or consolidation between two trading companies and competition on the same product line, in the same market. From that, creating a highly competitive firm, minimizing competitors, saving costs due to scale <sup>[1]</sup>.
- Vertical merger: It takes place between businesses of the same business sector but different in the production or processing stage. It could be between a company and its customers or suppliers. This merger creates value by leveraging the experience and capabilities of companies in a

chain to create added value for customers. Vertical merger has 2 sub-groups <sup>[2]</sup>:

- a. Merging progress: A company acquires its customer company, for example a garment company acquires a clothing retail chain.
- b. Back merger: one company acquires its supplier, such as a dairy company that acquires a dairy company.
  - Merging combination: Merging between companies that are not in the same business field. The purpose of these merger transactions is to diversify business activities, multiple industries after the merger, including 3 groups <sup>[2]</sup>:
- a. Merging a pure combination: The two parties have no relationship with each other, for example, a medical equipment company merges with a fashion company.
- b. Merging geographical expansion: 2 companies produce the same product type but consume it in 2 different geographic markets, like a restaurant in Hanoi that buys a restaurant in Korea.
- c. Merging and diversifying products: 2 companies produce 2 different types of products but apply the same production or marketing technology almost the same, for example, a detergent manufacturer buys a manufacturing enterprise, produce sanitary bleach.

### 2.3 M&A motivations

#### *General motivation for both buyers and sellers*

- Reduce business costs: M&A activities help buyers reduce costs in the business process such as costs of finding new customers, costs of expanding markets, expenses for construction and trade development.
- Vertical business expansion: That is the company can grasp the whole or a part of the supply chain from which to grasp the benefits for the output or input of the product.
- Additional resources: The M&A activity will contribute to making full use and sharing of available resources. For example: sharing experience in the business process, expertise, taking advantage of research results, maybe even taking advantage of the sales distribution system. Also take advantage of large capital or exploit management capabilities.
- Geographical or other diversification: This engine aims to give the company a stable income result, thereby creating confidence for investors when invest in the company. In addition, diversification will open up new business opportunities, allowing the company to redirect investment easily.
- Reduce competition and create an economic position (economic of scale): This happens when the M&A company with a competitor in the market, then not only eliminates an opponent, but also creates a position. A greater competitive advantage, which can force prices on suppliers or monopolize pricing on their products.
- Cross selling: companies can take advantage of exploiting each other's services to increase utility for customers, thereby increasing income, or protecting relationships with customers.
- Taxes: A profitable company can buy a company that has a loss, and thus will receive a tax deduction <sup>[12]</sup>.
- *Besides, the seller has some more motives*
- Facing competitive pressure in the market

- Attractive offer from the buyer
- Find a strategic partner
- Improve financial situation:
- Improve financial situation
- Increasing capital use
- Improve access to capital
- Transparency
- Strengthening market position:
- Increase market share
- Increase customers
- Take advantage of customer relations
- Take advantage of the ability to cross-sell services
- Leveraging product knowledge to create new business opportunities
- Improve competitiveness
- Take advantage of customer relations
- Reduce short-term costs:
- Minimize duplication in the distribution network
- Savings in operating costs
- Savings in administrative and management costs
- Take advantage of long-term scale:
- Optimize technology investment results
- Take advantage of the successful experience of the parties
- Reduce the overall cost for each and manage product units
- Reduce costs when buying in bulk

### 3. Research methodology

The topic is studied based on methods such as system of synthesis, statistics, analysis, comparison, to systematize the theory, raising the basic contents of merger and acquisition in the field of banking activities and devise solutions for this activity. Research on issue of merger and acquisition activities among Vietnamese commercial banks is to find solutions to improve quality, service and competitiveness. For example, in this article we propose a number of solutions for regulatory agencies, commercial banks and the State Bank of Vietnam to develop M&A activities in Vietnam in the near future to.

- Take advantage of the experience from mergers and acquisitions in banking sector,
- Achieve many good results, contributing to the healthier banking sector, helping Vietnam's financial market to grow resiliently.

### 4. Research results and discussions

#### 4.1 Current state of M&A in Vietnam

Along with the process of economic renovation and restructuring, business mergers and acquisitions are increasingly popular in Vietnam. Many foreign investors have approached Vietnam market through this path.

#### 4.2. Current state of M&A in Vietnam

Business M&A activities in Vietnam can be divided into 3 phases, namely <sup>[13]</sup>

##### *The period from 1986 to 2005*

This is an early stage of merger and acquisition (M&A) in Vietnam when the legal framework for this activity is not yet available. Historical data records very few deals, mostly foreign companies acquiring enterprises through joint ventures or associates. In this period, more and more rural banks were merged into urban banks. These deals are mostly due to the

arrangement of state management agencies but not from market factors.

#### *From 2005 to 2013*

This can be considered a period of forming M&A market in Vietnam with a quite strong wave. An important milestone of this period is that the issuance of important legal documents such as the Competition Law, the Enterprise Law, the Investment Law, and the Securities Law have created a legal framework for trading, transferring capital. M&A increased five times in value, from US \$ 1.08 billion in 2005 to US \$ 5.1 billion in 2012; 77% of deals are related to domestic enterprises, but the value is not large with the scale of less than 10 million USD (47% of the deals)

(MAF, 2013). This period witnessed a breakthrough in M&A transactions in banking, consumer goods and real estate industries. Along with the restructuring process, the banking industry has a number of major deals such as Saigon Commercial Joint Stock Bank which is merged from three banks, Habubank merged into SHB.

Acquisitions on the stock exchange have also occurred. In addition, M&A officially became a channel to attract foreign investment. From 2011 to 2013, Japanese corporations contributed up to US \$ 2.5 billion to M&A in Vietnam, especially in consumer goods and finance-banking. Typically, Vietcombank issued a 15% stake to Mizuho; Bao Viet and Vietinbank are also destinations of Sumitomo Life and UFJ Mishubishi Bank.

**Table 1:** M&A of credit institutions in Vietnam before 2005 From 2014 to 2017

	<b>M&amp;A deals</b>
1997	Dong Thap Rural Commercial Joint Stock Bank is merged into Phuong Nam Commercial Joint Stock Bank
1999	Dai Nam Joint Stock Commercial Bank merges into Southern Bank
2001	Chau Phu Commercial Joint Stock Bank merged with Phuong Nam Commercial Joint Stock Bank
2001	Dong A Commercial Joint Stock Bank acquired Tu Giac Long Xuyen Rural Commercial Joint Stock Bank
2002	Phuong Nam Commercial Joint Stock Bank bought Dinh Cong People's Credit Fund
2002	Thach Thang Commercial Joint Stock Bank merged with Sai Gon Thuong Tin Commercial Joint Stock Bank
2003	Cai San Rural Commercial Joint Stock Bank is merged into Southern Commercial Joint Stock Bank
2003	Tay Do Rural Joint Stock Commercial Bank merges with Orient Commercial Joint Stock Bank
2003	Bank for Investment & Development of Vietnam acquires Nam Do Commercial Joint Stock Bank
2003	Saigon Finance Company merges Da Nang Commercial Joint Stock Bank
2004	Tan Hiep Rural Commercial Joint Stock Bank is merged into Dong A Commercial Joint Stock Bank

This period witnessed the recovery of M&A after falling by more than 50% in 2013. The legal framework for this activity continued to be improved by amending a number of laws such as the Law on Investment, the Law on Enterprises, Real Estate Law. The provision of "room" expansion for foreign investors (Decree No. 60/2015 / ND-CP) contributes to encourage foreign investors to invest in domestic enterprises. According to statistics of the Swiss Merger and Acquisition Institute (IMAA), Vietnam had 313 M&A cases in 2014, with a value of up to 4.2 billion USD. In 2015, there were 341 cases with a total value of 5.2 billion USD and even in 2016 was even higher with 611 cases and 5.8 billion USD.

#### **4.3 Barriers of M&A in Vietnam**

Firstly, limited knowledge about merger and acquisition activities.

Many business managers have not considered M&A as a tool to restructure or compete, so there is no good preparation, increasing the failure rate when implementing. According to First Asia Limited, more than 50% of Vietnamese enterprises had to close after 6 years of operation. Meanwhile, more than 50% of M&A deals failed [8]. For regulatory agencies, insufficient understanding of M&A creates many legal gaps for this activity. For example, the agency directly managing the M&A market has not been defined, but only the Competition Administration Department regulates the economic concentration aspect of the deals.

Secondly, the lack of transparency in information disclosure of businesses.

The Securities Law currently requires disclosure to public companies only. In addition, under the Accounting Law, all enterprises must fulfill their obligation to submit financial

statements to the Department of Planning and Investment and the local tax office, but if the partner wants that information, it is difficult because related to security issues. In addition, the integrity of the financial statements is also an issue so companies rely heavily on information provided by third parties.

Thirdly, the legal corridor is not complete.

A complete legal framework for M&A is essential. Specifically, there is a lack of regulations on transactions involving foreign elements; no specific regulations to protect the rights of workers and shareholders; there is a lack of regulations on management and supervision of M&A activities in order to limit negative impacts such as acquisition or loss of corporate brand.

Fourthly, tax issues.

Having two or three sets of books of domestic enterprises has made many foreign investors afraid of potential tax liability risks. They consider because not only can the tax amount be collected but also other consequences like the reputation of the business [13].

#### **4.4 Benefits and limitation in the process of M&A in banking industry in Vietnam**

##### **Benefits**

The synergy value gained from each M&A deal will help business operations to be effective and business value after M&A will be enhanced. Specifically, those values are:

- Improving financial situation: The Bank after M & A will have more capital to use and the ability to access capital, share risks and enhance financial transparency.
- Reduce staff, streamline apparatus: Normally, when two or more parties merge, there is a need to reduce jobs, especially indirect jobs. At the same time, through M&A, the buyer also receives a source of skilled and experienced workers. This is

also an opportunity for banks to screen and fire underperforming positions.

- Achieve efficiency based on the scale after M&A: The two merging banks will take advantage of the scale effect. The Bank will expand branches, transaction offices, and projects. Moreover, large scale also helps to reduce costs: Reduce duplication in distribution networks, save operating costs and management costs.
- Equipping new technology: Through M&A, new banks can take advantage of each other's technologies or techniques to create a competitive advantage. In addition, abundant capital is also one of the favorable conditions for them to equip modern technology for their business. 29/9/2015 M&A banking in the world and reality in Vietnam Increasing competitiveness, consolidating its position in the market:

After doing M&A, the two sides can take advantage of each other, increase market share, take advantages of customer relations, the ability to cross-sell products and services, and improve competitiveness and create new business opportunities.

### Limitations

- Rights of affected minority shareholders: In the process of acquiring and merging banks, the interests of minority shareholders are greatly affected. The rights and opinions of minority shareholders may be ignored in the General Meeting of Shareholders to approve the merger because of the votes of the shareholders.
- Conflict among the major shareholders after the merger, the merging bank will operate with a larger share capital, the major shareholders of the acquired bank may lose control of the bank as before since the percentage of voting rights on total voting shares has been lower than before. They are not enough to veto the resolution of the general meeting of shareholders.
- Corporate culture is mixed. Corporate culture shows the unique characteristics of each enterprise, showing different characteristics compared to other businesses. Therefore, corporate culture creates extremely valuable competitive advantage for any business. The corporate culture is created over time, with the tireless process of building human resources, formed based on the core values of the business. Without a corporate culture, it is impossible for a day or two to create a business. If management fails to find the most optimal method of harmonious integration, it will take a long time for the mixing of corporate cultures to become a unified and solid entity.
- Human resources movement. The merger of banks will inevitably lead to the restructuring of the operation system, causing some employees to lose their jobs, some management positions will be changed, which will cause psychological inhibition. Some new managers were satisfied with the new environment. If they are acceptable in their current position, they will be happy to work, or if they feel they have been treated unfairly or unappreciated, they will find a way to leave. After the merger, the bank will have difficulty in operating the business if there is a loss of core staffs at the acquired bank <sup>[10]</sup>.

## 5. Conclusion and Recommendation

In the current context, the merger is considered by the State Bank to be an urgent solution to the banking system, but this solution is only of short-term nature to solve the problem of bad debts. Later, Vietnamese commercial banks had to restructure themselves to maintain their position in the domestic and international market.

### 5.1. Solutions to enhance M&A in banking industry in Vietnam

*Exploration, search, assessment and careful survey of potential targets*

Before performing the search and evaluation of the target bank, the acquiring bank must clearly identify its target search criteria, as well as long-term strategic direction to quantify criteria, expand the operation network to have good quality human resources and a more diverse customer system or to increase charter capital. Once the criteria have been determined, the acquiring bank should work with a professional broker and advise on M&A activities (securities companies, investment banks or reputable brokers) to sign brokerage contracts and advising on acquisition and merger.

*Develop criteria to select the target bank in accordance with the reality*

The development of criteria to select the target bank is essential in the process of conducting a bank M&A deal. Each bank has its own characteristics. Therefore, the acquiring bank's management board must determine its own long-term development strategy, at the same time, depending on macroeconomic conditions, along with the monetary policy of the State Bank to adjust the development goals consistent with objective circumstances. From their long-term development strategy, banks should use SWOT analysis to assess the strengths and weaknesses of the opportunities as well as the challenges that the bank will face in the future, thereby looking for target bank for acquisition, merger and acquisition.

*Determine acquisition price carefully and reasonably*

It is important to assess the growth potential of a bank after the merger. The client system of the target bank may not guarantee long-term stability, the quality of the bank's staff may not be suitable for development needs. The advice of financial institutions, brokers, and advisors is a quite safe and economical solution in making a reasonable acquisition price.

*Formulating a branding plan based on cultural harmony*

After the merger deal is completed, the bank after the merger will inherit two types of corporate culture from the acquiring bank and the target bank. Therefore, the bank's leadership should develop a chapter. In order for Action plan to change corporate culture to suit the new strategic situation in the future, the team needs to understand what is expected of them and know how to show new behaviors in reality.

- The first is to build statements about the value of new banks.
- The second is effective communication.
- The third is to revise the internal rules.

Brand combination is one of the issues affecting the success of a bank merger.

Therefore, the branding strategy of M&A banks must also aim to increase brand value to the top.

#### *Develop flexible remuneration policies for personnel*

After the merger of human resources, there will be a great change. The inevitable arrangement will not satisfy everyone, the changing working environment, the direct change of managers lead to disturbances in the work of the employees. They had to get used to it from the beginning like when they first joined the bank staff. So whether a part or a lot of employees will seek a new job or not depends on the remuneration policy of the bank after the merger? There are two main issues that Vietnamese commercial banks should consider when developing a new personnel policy after the M&A to avoid disruptive shifts in business operations: information and remuneration policy.

### **5.2 Solutions to enhance effectiveness of new banks**

#### *Propagating full necessary information about the merger*

To restrict information in the informal flow that may adversely affect the business situation of banks. It is necessary for the board of directors to disclose information as necessary to each of the key employees, or retention policies for customers.

- For employees, the executive board should organize internal meetings to communicate information about the deal to all employees in a clear manner so that they can create a peace of mind for them.
- For customers, it is necessary to build an official information disclosure channel to avoid misleading so that they can be assured to transact and ensure that the new banking activities will take place normally.

### **Appreciate the impact of synergies**

The in-depth survey of the target bank's true potential that leads to overestimating the effectiveness of synergistic effects is one of the reasons for the post-merger failure. It is not easy and time-consuming to understand the synergy potential of the target bank, so the independent consultant is often chosen by the acquiring banks to consult and prepare for efficient and convenient acquisition process. Issues to determine the efficiency after the merger, the competitiveness of new banks, market share of operations, the ability to develop market share, risk management capacity, personnel quality, customer system, the impact of macroeconomic factors are to be carefully analyzed during the assessment of synergies.

#### *Fully and accurately assess opponents, bad debts, potential debts*

Due to inadequate and inaccurate detailed assessments and appraisals, many banks that acquired after completing the deal all faced bad debt issues. These debts significantly affect the business performance of the bank after the merger. Therefore, the acquiring bank must conduct a careful verification and valuation of the existing debts of the target bank. In order to have a good quality rating, hiring qualified law firms should be able to verify the legality of the target bank debt assets. Consultation with an international qualified auditing unit is essential to ensure the highest efficiency in the process of appraising the target bank in order to quantify all issues that may arise in order to set the acquisition price. To survive and thrive in the competition in the financial industry, judging the right opponent is an important step.

### **Planning of consolidation of trading system software**

The information system of the bank is very important, if merging the transaction system of the two banks cannot be linked, it will cause troubles in banking management and administration. Therefore, the acquiring bank must work with the contractor providing the trading software for the acquiring bank and the target bank to prepare for the system consolidation.

### **5.3 Solutions to enhance effectiveness of banking M&A in terms of restructuring banking system**

Each commercial bank needs to drastically restructure its own bank in key areas such as financial resource restructuring, operational model restructuring, restructuring governance system, restructuring the structure of distribution channel network, restructuring of banking technology system and restructuring of human resources. It should be focused on own restructuring process, not be so dependent on external factors or the support of the State Bank of Vietnam.

Bank mergers are really effective when new capital is poured in. Only money can really solve the difficulties of banks today. There is no effect if the new bank after the merger announces an increase in capital, but there is no new capital besides the mechanical pooling of capital on the banks' papers. It is necessary to encourage foreign credit institutions to contribute capital, buy shares of commercial banks which are in weak capacity to raise their real capital.

When conducting the merger of commercial banks, it is necessary to clearly solve the issue of real value evaluation of the parties. This will need to be independently audited, carefully reviewed by the parties on the total assets, payables as well as the level of risks. Besides, it is necessary to clearly define business strategies. What resonance values of the new bank after merging will be required and specific action plans must be set up to be able to enjoy these values.

Continuing in stepping up the handling of bad debts of commercial banks, the results of dealing with bad debts so far need to recognize the efforts of the credit institutions system, especially in the absence of financial support from the state budget, with many policies and mechanisms, limitations, shortcomings and the economy still face many difficulties. This also shows that the solutions to deal with bad debts have been drastically and effectively implemented by the banking industry. However, the efforts of the banking industry in dealing with bad debts are not enough because bad debts are problems of the economy, requiring the active participation and support of agencies, ministries, sectors and localities. In particular, the purchase and handling of bad debts by VAMC (Vietnam Assets Management Company) should be further promoted so that VAMC can truly become a special tool of the State to contribute to the rapid settlement of bad debts and healthy financial status of credit, minimize risks for credit institutions, businesses and promote sound credit growth for the economy.

The State Bank of Vietnam should continue to promote the guidance of procedures for implementing the acquisition, merger of commercial banks associated with the implementation of Resolution No. 15 / NQ-CP of March 6, 2014 of the Government. Government and Decision No. 51/2014 / QD-Circular dated September 15, 2014 of the Prime Minister.

The State Bank will continue to handle a basic step of cross-ownership to form a number of large-scale and highly-competitive credit institutions according to the objectives of Project 254. Some weak credit institutions may be considered by the State Bank to apply mandatory interventions through buying shares and merging with other credit institutions.

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