

# Social Capital of Bank Leaders and Activities of Commercial Banks

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## Abstract

This study has explored and measured the composition of social capital of leaders affecting the capital activities, capital use and service provision of Vietnam commercial banks. The research hypotheses are built on previous studies and developed through expert interviews. The research model uses a system of questions to build out 4 scales of social capital of bank leaders. Research results from 243 leaders of bank branches in Ho Chi Minh show that the social capital of bank leaders, expressed through their social relationships with subjects such as friends, colleagues, business partners and managers at all levels, is very important to the operations of banks. Based on this finding, the social capital of bank leaders should be considered as an important resource to exploit and improve the business performance of the bank.

**Keywords:** social capital, bank, friends, colleagues, business partners, officials

## 1. Introduction

The development of the financial market in general and the banking system of a country has a huge impact on the growth of this country (Phuong, 2016). In Vietnam, the proportion of state-owned commercial banks in 2015 continued to increase, accounting for 45.5% of the total mobilization of the whole system. In the field of investment, these banks account for 49.1% of the total investment in the economy (The State Bank of Vietnam, 2015). It can be seen that by 2015 the State commercial banks in Vietnam are still dominating both the deposit market share and the credit market share in the whole system. There are many reasons for this phenomenon, in which there is a phenomenon that State-owned commercial banks often receive preferential capital from the government to lend subsidized economic sectors or under an economic stimulus program. These funds are often low cost. Meanwhile, concessional capital funding the subsidized economic sectors is mainly implemented based on the functions, size, and network of banks, and according to the funding decisions of state management agencies. Therefore, the criteria to choose a bank to finance economic sectors or economic stimulus programs depend on many factors. In addition to the fact that banks have to demonstrate their capabilities, the personal relationships of the bank leaders with the leaders of the state management agency are also very important.

Firms operating in the economy are often influenced by institutions (Phuong, 2020a), and the operations of commercial banks are often influenced by the way the State Bank operates monetary policy (The State Bank of Vietnam, 2015). Although many policies have been issued, the access to capital of commercial banks and the benefits of policy support has not been equal. For commercial banks, especially state-owned commercial banks, the relationship between individuals of bank leaders and individual state management agencies will greatly affect access to capital and access to information. This is because psychological factors can contribute to economic decisions in the financial markets (Phuong, 2017; Phuong, 2020b) in some situations. This is appropriate in Vietnam where broad social relationships are emphasized (Nhung & Phuong, 2020; Phuong & Nhung, 2020). Therefore, commercial banks need to be fully aware of the positive effects of the social relationships of bank leaders and avoid possible risks from this relationship (Phuong, 2020c) to contribute improve the efficiency of the bank's business operations. Stemming from the above-mentioned practice, we study the effects of social capital of bank leaders on the operation of commercial banks.

Results from 243 valid surveys for leaders at 32 banks, conducted in 2016 in Ho Chi Minh City, showed that the social capital of bank leaders did not have direct effects. but also indirectly affect the operations of commercial banks.

## 2. Literature Review

Cialdini, Wosinska, Barrett, Butner, Gornik-Durose (2001) pointed out that leadership plays a decisive role in the performance of a business because through friendship, support, Social power and recognition, leaders are more likely to use their relationships.

Tushman, Tushman & O'Reilly (2002) identify elements of a leadership's relationship network that include family members, friends, business partners, colleagues, press agencies, officials / individuals members of state management agencies, research agencies, clubs. However, Tushman et al. (2002) have not given that scale to evaluate the quality of these relationships.

Balkundi & Kilduff (2006) argued that the leaders of an organization possessing broad social relationships will directly affect their leadership effectiveness, and indirectly affect overall effectiveness for organization where they are working. In other words, the size and quality of the leaders' social relationships positively impact their management performance in particular and the overall business performance of the company.

Based on field surveys in the cities of Montreal, Toronto and Vancouver, the study of Paré Menzies, Filion & Brenner (2008) also found that leadership's social relationships influence performance of the organization they are working on. Par é et al (2008) suggested that these relationships are established based on trust, reciprocity.

Acquaah (2011) using data from 54 family companies in Ghana showed that the leader's social network with government officials and leaders in the community helps improve performance activities of these businesses.

In Vietnam, Hoai & Dien (2012) research shows that leadership's social relationships play an important role in accessing land bank and projects, providing business opportunities for real businesses. In addition, these relationships also facilitate businesses in product distribution. The prestige of the leader creates trust in customers, thereby promoting the sales of the business more effectively (Hoai & Dien, 2012).

It can be said that the characteristics of social capital of leaders are the quality and structure of the network of social relationships. However, to measure the quality of each relationship in the social capital network of leaders, the above studies have not given a specific scale and there is no integration between the quality and the network structure. Therefore, this article will overcome the above disadvantages to build the social capital scale of bank leaders in Vietnam.

## 3. Research Method and Model

### 3.1 Research Method

The objective of this study is to evaluate the impact of social capital of bank leaders on the operations of Vietnamese commercial banks in Ho Chi Minh City. To achieve this goal, the research is conducted in 2 phases: Phase 1: Based on previous studies and consultation of experts to design scales and build research hypotheses. Phase 2: Testing hypothesis and research model in a typical case is for commercial bank branches in Ho Chi Minh City.

#### *Phase 1: Design the scale*

In general, Cialdini et al (2001), Tushman et al (2002), Par é et al (2008), Acquaah (2011) all refer to social capital of leadership as the amount of networks their relationship with actors such as friends, colleagues, the government, and the media.

Leadership is a person with a very important role and position to contribute to the success of the business. For the leaders, in commercial banks in Vietnam, their social network like? Is it the same as the theory mentioned? To be able to answer this question, the expert discussion is constructed by two open-ended questions:

Question 1: "As a leader, who do you often turn to for assistance when the bank has problems that need consulting?"

Question 2: "Who are you regularly asking for support for the business activities of the bank?"

The two questions above were interviewed with 10 experts who are leaders of bank branches, but when asked the 5th person onwards, there is no longer any new content added. Based on the experts' responses, we built the social capital scale of leaders as shown in Table 1.

Table 1. The scale of social capital of bank leaders

Networks	Sign	Symbol	Quality scale content
Friends network (FN)	+	L1	Always well created and maintained
		L2	Always receive the trust and share from friends
		L3	Often get support from friends
Colleagues network (CN)	+	L4	Always well created and maintained
		L5	Always receive the trust and knowledge sharing from colleagues
		L6	Often get support from colleagues
Partners network (PN)	+	L7	Always well created and maintained
		L8	Always get the trust, share information from business partners
		L9	Often receive support from business partners
Network of officials (ON)	+	L10	Always well created and maintained
		L11	Always receive the trust and information sharing from officials of the Housing Authority at all levels
		L12	Usually receive support from officials of state management agencies at all levels

Source: Author's recommendation from the theoretical relation, the previous research and the first qualitative research.

Activities of commercial banks include three groups of activities, which are capital activities, shown in the main objective of mobilizing capital from receiving deposits; capital use with the purpose of lending; service delivery activities related to the provision of services (Nhun & Phuong, 2020; Phuong & Nhun, 2020). The results from the studies in the theoretical basis of this article have implied that the social capital of bank leaders affects the banking operations. Besides, when face-to-face discussions, experts are directors and deputy directors of branches of commercial banks in Ho Chi Minh City they also agree that the social relationships of the bank leaders play an important role for the bank to develop customers and expand market share. Similar to the study of Nhun & Phuong (2020) and Phuong & Nhun (2020), this article also uses three main activities of the bank (including: capital activities, using capital activities and providing services activities) to study the impact of social capital on the operations of commercial banks.

The article uses two scales for each of the main activities of commercial banks. There are a total of six scales on the three main activities of commercial banks, including: Mobilization activities from receiving deposits of individuals (HD42) and economic organizations (HD43) achieved the expected efficiency; Lending activities of individuals (CV44) and economic organizations (CV43) achieved the expected efficiency; Service delivery to individual customers (CU46) and institutional customers (CU45) was efficient as expected.

### 3.2 Hypothesis

Based on the scales of social capital of bank leaders and the scales of main activities of commercial banks, the theories about the impact of social capital of bank leaders on the bank's operations are as follows:

- H1 Increasing social capital of bank leaders a positive impact on the results of capital activities.
- H2 Increasing social capital of bank leaders a positive impact on the results of using capital activities.
- H3 Increasing social capital of bank leaders a positive impact on the results of providing services activities.
- H4 Increasing in operating results of capital activities having the same effect with the increasing in the results of using capital activities.
- H5 Increasing in operating results of using capital activities having the same effect with the increasing in the results of providing services activities.

The total number of polls issued is 303, the number of votes collected is 271 votes. Among the 28 questionnaires collected were invalid, so it was excluded from the data used in the research model. Of the 28 rejected votes, there were 12 votes with the number of blank boxes over 10% and 16 votes because the object answered inappropriately (not a member of the bank's board of directors). Therefore, this study will use 243 samples to perform regression in experimental models.

*Phase 2: Testing the scale and testing the suitability of the model.*

Analysis of confidence coefficients (Cronbach's alpha), exploratory factor analysis (EFA) and confirmation factor analysis CFA will be used to test the scale. Confidence coefficients (Cronbach's alpha) and EFA method were used to eliminate mismatched variables, the suitable variables were those whose Cronbach's alpha coefficients ranged from 0.6 to 0.95 (Hair et al., 1998). CFA analysis technique allows testing the theoretical structure of the scales without being biased by measurement error such as the relationship between some research concepts and other concepts (Steenkamp & Van Trijp, 1991). In addition, the variables with the largest total extracted variance and factor weight from 0.5 or more, the Kaiser-Meyer-Olkin (KMO) test satisfying  $0.5 \leq KMO \leq 1$ , Bartlett test has significance less than 0.05 (Gerbing & Anderson, 1988).

Linear structure model (SEM) is used to test the suitability of the model. SEM analysis is considered to be appropriate for data when CFI is 0.9 to 1, CMIN / df  $\leq 3$  (Carmines & McIver, 1981) and RMSEA  $\leq 0.8$ . In addition, the SEM analysis allows for implicit concepts to be combined with their own, and it is possible to consider measures either independently or in combination with theoretical models at the same time (Hulland et al., 1996). If the data has a normal distribution, the Maximum Likelihood method will be used to estimate the parameters in the research model.

#### 4. Results

Cronbach's alpha and item - total correlation results for the survey data set from 243 branch leaders of 32 different commercial banks in Ho Chi Minh City are shown in Table 2.

Table 2. Cronbach's alpha and item - total correlation

Variables (code)	N	Mean	Std. Deviation	Cronbach's alpha	Item – total correlation
<b>Independent variables</b>					
Friends network (FN)	243	5.48	1.11	0.82	0.74
Colleagues network (CN)	243	5.72	0.87	0.80	0.71
Partners network (PN)	243	5.34	0.95	0.81	0.72
Network of officials (ON)	243	5.42	1.01	0.83	0.74
<b>Dependent variable</b>					
Capital activities (CA)	243	5.07	1.13	0.81	0.84
Using capital activities (UC)	243	5.36	0.94	0.73	0.81
Providing services activities (PS)	243	5.54	0.98	0.73	0.79

Source: Authors' calculations from survey data

Based on a scale of 1 (strongly disagree) to 7 (strongly agree) to the surveyed questions, the results show the mean values of the three dependent variables and four independent variables. shown in Table 2 are greater than 5. This proves that the respondents appreciated the social capital of bank leaders to the operations at the banks they are working with. The results from the analysis of Cronbach's alpha (greater than 0.6) and item - total correlation all show that all observed variables need to be retained for further study.

Table 3. Rotated component matrix

Component	Friends network			Colleagues network			Network of officials			Partners network		
	L1	L2	L3	L4	L5	L6	L7	L8	L9	L10	L11	L12
1	0.811	0.843	0.841									
2										0.821	0.871	0.758
3							0.703	0.891	0.807			
4				0.808	0.874	0.704						
Mean	10,72	11,01	11,12	11,24	11,35	11,75	10,37	10,84	10,93	10,72	10,83	10,98

Source: Authors' calculations from survey data

The Rotated Component Matrix analysis in Table 3, and the Exploratory factor analysis (EFA) in Table 4 show that the social capital structure of banks' leaders is unchanged from the original assumptions. This structure includes the network elements of friends (L1, L2, L3), colleagues (L4, L5, L6), business partners (L7, L8, L9), and government officials (L10, L11 and L12). This is shown through the criteria in Table 3 and Table 4 including: the components in the rotation matrix are greater than 0.7, the KMO coefficient is 0.784 (greater than 0.5) and the Bartlett test is 0.000 (small more than 0.05).

Table 4. Exploratory factor analysis (EFA)

	Factor loading	Eigenvalues	Total Variance Explained (%)
Model		1.329E3	
Capital activities (CA)		1.68	84.10
CA13	0.92		
CA14	0.92		
Using capital activities (UC)		1.62	80.90
UC15	0.90		
UC16	0.90		
Providing services activities (PS)		1.57	78.60
PS17	0.89		
PS18	0.89		
KMO = 0.784			
Sig. of Barlett test = 0.000			

Source: Authors' calculations from survey data

CFA results from Table 5 based on the criteria Chi-square, Probability level, CFI, MSEA, CMIN / dF and weighted CFA all show that the model achieves compatibility with the collected data (Carmines & McIver, 1981). All independent variables have a CFA weight greater than 0.5, indicating the uniqueness and convergence of these variables in the research model (Figure 1). CFA tests such as: CFA for the second order component, CFA for theoretical model concepts, and Estimated from the SEM model all have correlation coefficients of components under the concept of social capital leadership are less than 1 unit with 1% significance level. This means that there is a clear distinction between components of the same concept.

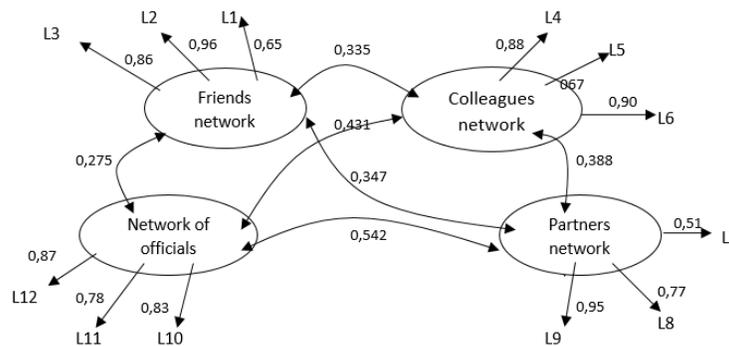


Figure 1. CFA (standardized) scale of bank leaders' social capital

Source: Calculations from survey data of the thesis author

Table 5. Summary of CFA test results

	Chi-square	Degrees of freedom	Probability level	CFI	RMSEA	CMIN/DF
CFA for the second order component	109.521	42	0.000	0.948	0.082	2.608
CFA for theoretical model concepts	134.580	60	0.000	0.911	0.081	2.243
Estimated from the SEM model	127.080	60	0.000	0.915	0.078	2.118

Source: Authors' calculations from survey data

Estimated results from SEM model

With:  $\chi^2_{(60)}=127,08$  (P=0,000); CFI= 0,915, RMSEA= 0,078 v  $\grave{a}$  CMIN/df = 2,118, the model results based on SEM estimates are summarized in Figure 2. The standardized SEM model results (Figure 2) show that the components of the social capital concept of leadership explain 64.1% variation of capital activity; 70.2% of the variation in using capital and 59.8% of the change in service provision. This result shows that exploiting the social capital of leaders will help banks strengthen the loyalty of old customers and increase potential customers, promoting better results.

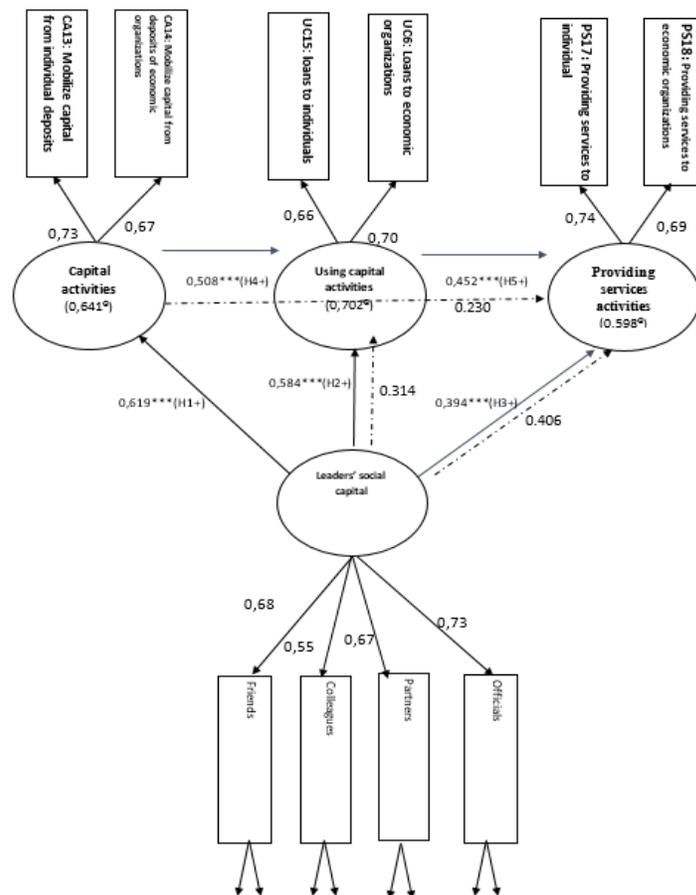


Figure 2. SEM results of the research model (standardized)

Source: Based on estimates from survey authors

Notes:  $\Theta$  Coefficient of determination, (\*\*\*) Regression coefficients are statistically significant at the 1% significance level.

Direct impact, Indirect impact.

Table 6. Structure relationship between components in SEM model

Hypothesis	Relationship			Estimate	P-value	Conclusion
H <sub>1</sub>	HD	<---	BLSC	0.619	0.00	H1 is accepted
H <sub>2</sub>	CV	<---	BLSC	0.584	0.00	H2 is accepted
H <sub>3</sub>	CU	<---	BLSC	0.394	0.00	H3 is accepted
H <sub>4</sub>	CV	<---	HD	0.508	0.00	H4 is accepted
H <sub>5</sub>	CU	<---	CV	0.452	0.00	H5 is accepted

Source: Authors calculated from survey data

## 5. Discussion

### 5.1 Leadership's Social Capital Affects the Capital Activities of Commercial Banks

With a significance level of 1%, hypothesis H1 in the standardized SEM model (Figure 2) shows that the social capital of leaders has a direct impact on the operation of commercial banks. It can be said that the leader's personal relationship helps the bank to have more advantages in its operations. Therefore, when this relationship is good, they will introduce customers to the bank, creating potential customers for the bank in the future, thereby contributing to improving the bank's ability to mobilize capital. In addition, the leadership's relationship with business partners is also very important. In this relationship, the capacity and reputation of the leader will help maintain the cooperation between the two parties, and it is these business partners that will bridge the bank to reach new partners and customers. It can be seen that the opportunity to raise capital exploited from this network is reasonable. In addition, leaders who establish good relationships with colleagues will stimulate the work ethic and promote the staff's capabilities, thereby helping the efficiency and quality of work increase, enhancing reputation. For banks, creating trust and satisfaction of customers, contributing to boosting capital mobilization. In addition, through the relationships of the leaders with State officials at all levels, it will be convenient for the bank when they introduce customers, creating opportunities to meet potential partners and customers, thereby helping to operate. Capital mobilization is more positive when there are opportunities to reach customers.

### 5.2 Leadership's Social Capital Affects the Use of Commercial Banks' Capital

Leadership's social capital has a direct impact on commercial banks' capital use as shown through the acceptance of hypothesis H2. Table 2 shows the standardized regression coefficient of 0.584 with a significance level of 1%. Based on the relationship of the bank leaders with friends, colleagues, business partners, and government officials at all levels, they will refer customers to the bank. Promoting banks in this way contributes to reducing information costs, transaction search costs, increasing efficiency of capital use (lending) (Levine, 1997; Vega-Redondo, 2006) and reducing information asymmetry (Boot, 2000; Ferrary, 2003).

On the other hand, when the relationship between the leader and colleagues is good, the management ability of the leader effectively will promote the morale and capacity of the employees. This creates conditions for the quality of products and services to increase, increasing customer satisfaction. This is a premise to increase the ability of loyal customers and these people will refer customers to the bank. As a result, the bank increases its chances of reaching potential customers and facilitates better use of capital (lending).

In addition to the direct impact, the social capital of leaders also indirectly affects the use of capital through capital activities with a standardized regression coefficient of 0.314. Leadership social capital has a direct impact on capital performance with a standardized coefficient of 0.619. Capital activity has a direct impact on the use of capital with a normalization coefficient of 0.508. Therefore, the social capital of leaders indirectly affecting the use of capital is  $0.314 (= 0.619 \times 0.508)$ .

In summary, the total impact of leadership's social capital on capital usage with a standardized regression coefficient is  $0.898 (= 0.584 + 0.314)$ .

### 5.3 Leadership's Social Capital Affects the Service Provision of Commercial Banks

The standardized regression coefficient is 0.394 with the significance of 1% in the SEM model, which confirmed that the social capital of leaders directly affects the service provision of commercial banks expressed by accepting hypothesis H3. The relationship of individual leaders with friends, business partners, and government officials will

help the bank promote service provision. Because they can be both the bank's customers and the bridge for the bank to reach new customers, potential customers. In addition, the good cooperation between the leaders and their colleagues and employees helps to improve service quality, create trust in customers, and contribute to maintaining long-term connection with customers in the use of banking services.

In addition to the direct effects from the social capital of the leadership on the service provision of the bank, there are also indirect effects through capital use with a standardized regression coefficient of 0.264. Leadership's social capital has a direct impact on the use of capital with a standardized coefficient of 0.584. The use of capital has a direct impact on service provision with the standardization coefficient of 0.452. Therefore, the social capital of leaders indirectly affecting service provision through capital usage is  $0.264 (= 0.584 \times 0.452)$ .

Leadership's social capital has a direct impact on capital performance with a standardized return coefficient of 0.619. Capital activity has a direct impact on capital usage with a standardized regression coefficient of 0.508. In addition, the use of capital has a direct impact on service delivery with a standardization coefficient of 0.452, meaning that the social capital of the leadership has an indirect impact on service delivery through capital activities and capital activities with a standard regression coefficient of 0.142 ( $= 0.619 \times 0.508 \times 0.452$ ). It can be said that the social capital of leaders indirectly affects service provision with the standard regression coefficient of 0.406 ( $= 0.264 + 0.142$ ).

In summary, the total impact (direct and indirect) of the social capital of bank leaders on service provision with the standard regression coefficient is 0.800 ( $0.394 + 0.406$ ).

#### *5.4 The Relationship Between the Activities of Commercial Banks*

There is a close and supportive relationship between the groups of commercial banks. This is proved when the hypothesis H4 and H5 are accepted in the SEM model.

The hypothesis H4 is accepted with a standardized regression coefficient of 0.508 and a statistical significance of 1%. This result has proven that the capital activity has a direct impact on the use of capital of commercial banks. This implies that effective capital mobilization will help capital use (lending) be more favorable and proactive. This is also very consistent with reality in businesses in general and especially for the banking industry. The reality in Vietnam today shows that the competition in the banking industry is increasing. Many banks, especially small ones, are having to solve the problem of raising capital and increasing their market share in the market. Therefore, the effective development of the social relationships of bank leaders is one of the solutions to this problem.

In addition, the use of capital has a direct impact on service provision through the acceptance of the hypothesis H5 with a standardized regression coefficient of 0.452. When lending to their customers, it will affect the service provision of these banks. For example, when the bank lends money to the customer to pay the supplier, if the bank disburses by transferring money directly to the supplier, the bank will also provide this service to the customer. Using this attached service gives customers the convenience of payment. At the same time, it also increases the profitability of banks when they both provide loans and service to their customers.

Hence, capital activity has a direct impact on the use of capital. The use of capital has a direct impact on service provision. Therefore, capital activities indirectly affect service provision through capital use with the standardization coefficient of 0.230 ( $= 0.508 \times 0.452$ ).

In short, the social capital of leaders both directly and indirectly affects the operations of the bank, through the interaction between the bank's operations.

In short, the social capital of leaders both directly and indirectly affects the operations of the bank, through the interaction between the bank's operations. The research results show that social capital of leaders has positively contributed to the activities of Vietnamese commercial banks. Thanks to leadership relationship networks that increase operational results, reduce information costs, transaction costs (Levine, 1997; Vega-Redondo, 2006) and reduce information asymmetry (Boot, 2000; Ferrary, 2003). Through these social networks, it helps to provide accurate and necessary information and thus helps to reduce transaction costs for network participants.

## **6. Conclusion and Recommendation**

*Conclusion:* Survey data set for directors and deputy directors of 32 banks in Ho Chi Minh City in 2016 was used for Exploratory Factor Analysis (EFA) analysis, confirmation factor analysis (CFA) and Regression of the Structural Equation Modeling (SEM). Research results show that the social capital of bank leaders, expressed through their social relationships with subjects such as friends, colleagues, business partners and managers at all levels, is very

important to the operations of banks. Social capital of bank leaders has direct impact on capital activities, direct and indirect impact on the use of capital and the bank's service provision.

*The contribution of the research is* (i) build a scale for social capital of bank leaders; (ii) point out the effects of the social capital of bank leaders on the operations of commercial banks. The study confirms that the social capital of bank leaders is one of the additional resources that should be added in the planning and implementation of the business strategy of commercial banks.

The meaning of the study is to show the positive effects of social capital linkages of leaders of Vietnamese commercial banks. On this basis, the article gives suggestions for commercial banks to identify, maintain, and propose policies to effectively exploit and use social capital of bank leaders in their operations.

*Recommendation:* Building an analytical framework on access to social capital of banking leaders. The results of this study have proven that increasing the quality of the social relationships of bank leaders plays an important role in increasing the efficiency of these banks' own operations. Leadership social relationships that can benefit a bank include friends, colleagues, business partners, and government officials. Therefore, the proposal of an analytical framework to be able to access and measure social capital of bank leaders is very important. Based on previous studies and results from this study, the paper proposes an analytical framework with the aim of maintaining and enhancing the quality of social relationships of bank leaders. Two criteria for measuring the effectiveness of these relationships are the number of information and the average number of times they receive help from people such as friends, colleagues, business partners, and government officials. In addition, for effective social capital of leaders to create and develop these relationships also plays an important role.

In addition, to promote the support of these relationships from leaders to serve the business process of the bank, especially in difficult times, the leader must determine who is people who can assist them with their work. Thanks to the right people who can handle it. Who can help the leader to make more use of his strength to handle the work? Identifying the right people can assist the leader in solving the work quickly and effectively, avoiding wasting time, and losing opportunities for the leader and for the bank itself in the business process.

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