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Procedia - Social and Behavioral Sciences 224 (2016) 52 – 59

Procedia
Social and Behavioral Sciences

6th International Research Symposium in Service Management, IRSSM-6 2015, 11-15 August 2015, UiTM Sarawak, Kuching, Malaysia

Service Innovation in Malaysian Banking Industry towards Sustainable Competitive Advantage through Environmentally and Socially Practices

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Abstract

Globalisation and increasing market competitiveness have driven banking institutions toward innovativeness in their operation to gain sustainable competitive advantage. Banking institutions are now competing on the basis of services rather than on the basis of physical products as it is hard to distinguish between products of competing brands in a given product category. It is the service offered by the banks that manifests true value. Service innovation involves intangible resources for a more radical service logic perspective that challenges the conventional attribute-based view of services delivery designs. It goes beyond the conventional boundaries of product innovativeness and involves assimilation of improved service processes by means of designing and improvising service delivery systems. In fact, the Malaysian banking industry has witnessed radical transformations based on many innovations in products, processes, services, business models, technology, and delivery systems. The pervasive influence of information and communication technology has revolutionized in banking. There has been relatively little research investigated the appropriate service innovations that influence firm performance in Malaysian banking industry. Thus, this research paper attempts a look at identifying the initiatives of Maybank Malaysia toward sustainability through a planned and systematic service innovation. The study is conceptual, based on survey of literature and document analysis. Two models of innovation 4P's of Innovation models by Bessant and Tidd (2011) and Six Dimensional Model of Service Innovation by den Hertog, van der Aa and de Jong (2010) were used in the study. It is observed that Maybank is moving towards sustainable competitive advantage through environmentally and socially responsible business practices. The findings of this paper aim to contribute to the strategic planning of banking institutions by optimizing their resource allocation to ensure sustainable growth.

Peer-review under responsibility of the Universiti Teknologi MARA Sarawak

Keywords: sustainable development; service innovation environmentally and socially business pracices, Malaysian banking industry

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1877-0428
Peer-review under responsibility of the Universiti Teknologi MARA Sarawak
doi:10.1016/j.sbspro.2016.05.399

1. Introduction

The banking industry occupies a significant position in the global economy. It provides basic financial services to large segment of people; financing the commercial enterprise and make credit and liquidity available to the market. Since 2007, many countries have experienced what could possibly be called the worst economies crisis in history. Many authors sought to analyze the causes and underlying reasons for the financial crisis of 2007-2009 and the problems connected to it. They found that irresponsible lending; excess risk taking and the short-termist pressure placed by shareholders on directors for unsustainable ever-increasing earnings growth which forced managers to take excessive risk are some of the reasons behind the crisis. As a result of the severe threats to companies' survival during the recent financial crisis, they strive for immediate short-term actions to survive. Those short term actions are blamed for going at the expense of long-term health and key stakeholder relations. As a result of the financial crisis, the need to harmonize shareholders' demand for profitability, to remain competitive within the increasing competitive nature of financial market and to be successful, they should achieve sustainability through environmentally and socially responsible practices (Cherneva, 2012; Benedikter, 2011). Sustainability is the only way for banks to guarantee a place in the future.

Sustainability has been researched in many papers and has been found to have direct influence on the economic success of the banks as it affected both banks' costs and income. In addition, environmentally and socially responsible practices bring advantages to banking institutions such as meeting the needs of major stakeholders, improving their reputation among customers and stakeholders ,expanding their portfolio, reducing risk in their credit portfolio, differentiating them from competitors, strengthening brand, trust and financial bottom line (Gordan and Lacy, 2011; Hespenheide, Pavlovsky and McElroy, 2010). This has been established during the 2007-2009 financial crisis as some banks proved to be resistant to it and were able to survive and some have even continued to grow, such as Maybank, while others simply vanished altogether. Banks that have been able to avoid the impact of the financial crisis and continued to grow through deliver explicit social environmental and cultural benefits (Earhart, Van Ermen, Silver and De Marcillac, 2009).

With respect to the connection between the banking industry and sustainability, three important aspects are specified. First, the banking industry is able to influence environmental and sustainability impacts of their customers, such as projects or borrowers and their investees (Baranes, 2009; Egede and Lee, 2007). This can be known as the indirect impact of the banking industry on sustainability. Obviously, the indirect impact of finance is significant given that access to capital is commonly one of the most important premises for business success. Second, the introduction of environmental regulations affected and still affect the banking industry (Weber, Scholz and Michalik, 2010; Weber, 2012). For instance, in the 1990s environmental regulations regarding soil, water, and air contamination influenced the management of environmental risks in credit risk management (Tzoumis, McMahon and Munro, 1998; Garber and Hammitt, 1998). Risks and opportunities connected with sustainability, such as climate change or poverty alleviation, arose and still arise and banking sector has to respond to them (Richardson, 2009; Labatt and White, 2007). Third, stakeholder pressure focusing on sustainable development influences the reputational risk of banking institutions (Evangelinos and Nikolaou, 2009; Brown and Whysall, 2010; (Crane, Matten and Moon, 2008) and has on their financial performance (Scholtens and Zhou, 2008).

This paper has dual objectives, (1) to identify and analyze service innovation initiatives in Maybank towards sustainable competitive advantage through environmentally and socially responsible practices; (2) to make comparative study of these initiatives with reference to the two innovative models of Bessant and Tidd (2011) and den Hertog, van der Aa and de Jong (2010).

1.1. Maybank

Maybank is one of the first 'Sustainability' Banks in Malaysia. It had been built on the commitment that it would serve as a catalyst for economic and social development wherever it operates. True to this philosophy, the Group has continuously worked to support economic and social development in countries where it operates. Today, this is reinforced by its mission to humanize financial services across Asia. Through this mission, Maybank concentrates on providing people with access to financial services at fair terms and pricing, advising them based on their needs and being at the heart of the community.