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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.

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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, McMahan 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.

Maybank is among Asia's leading financial service groups, and also the fourth largest bank in Southeast Asia by assets. It was established in Kuala Lumpur in 1960 and is headquarter in Malaysia. It is also Malaysia's No. 1 financial services group and the largest company by market capitalization in the country. The Maybank Group offers a variety of financial services ranging from corporate and consumer banking, investment banking, insurance and takaful, asset management, Islamic banking, offshore banking, stock broking, venture capital financing and internet banking. It operates an extensive global network of over 2200 offices in 20 countries including ten ASEAN countries. From its key home markets of Malaysia, Singapore and Indonesia, the Group's presence extends to the Philippines, Brunei Darussalam, Cambodia, Vietnam, Laos, Thailand, Myanmar, China, Hong Kong, Papua New Guinea, Pakistan, India, Uzbekistan, Saudi Arabia, Bahrain, United Kingdom and United States of America.

With a strong focus on innovation and excellence, Maybank has been consistently recognised for its leadership and ability to deliver value to all its stakeholders. It has received numerous regional and international awards, and acknowledged for its leadership among peers. Maybank is ranked among the top 20 Strongest Banks in the World by Bloomberg Markets magazine, and is the leading Malaysian bank and among the top 100 Global Banks listed by The Banker magazine. It has also been ranked Malaysia's Most Valuable Brand for a number of years. The Group's Islamic Banking arm, Maybank Islamic Berhad, is the top Islamic commercial bank by assets in the Asia Pacific and 3rd in the world.

2. Literature review

2.1. Innovation in services

Unquestionably, the service sector played a significant role in economy. In Malaysia, service sector expanded by 5.9% in 2013 and remained the largest contributor to growth (3.2 % points of overall GDP growth). Growth in this service sector was underpinned largely by sub-sectors catering to domestic demand. In particular, growth in the finance and insurance sub-sector moderated following lower interest rate margins and insurance premiums. In term of employment, the service sector remained the largest employer with 60% of employment. Reflecting the increasing economic importance of services, so there has been a parallel increase in academic interest in the sector. One area in particular has been the study of innovation in services.

Gronroos (2007, p.52) defined services are *“an activity of more or less intangible nature that normally, but not necessarily, takes place in interactions between the customer and service employees and/or physical resources or goods and/or the service provider, which are provided as solutions to clients problems”*. *“With service-dominant logic, service is the fundamental basis of exchange. Service is the process of using one's competencies (knowledge and skills) for the benefit of another party, while goods act as distribution mechanisms for the provision of services. Furthermore, the customer is always a co-creator of value (Vargo, 2009 and Vargo and Lusch, 2004).*

A network is a set of actors or nodes, and a set of ties of a specified type that link them. The ties interconnect through shared end points to form paths that indirectly link nodes that are missing direct ties between one another (Borgatti and Halgin, 2011). The degree of hierarchy, structure, content, functions, institutional form and styles of learning are network characteristics (Powell, 1990). Instead of a linear chain, services involve a complex network of customers, suppliers, universities and R&D centers, where the service provider plays a prominent role to satisfy customers' value demands. Organizations that develop a network of heterogeneous collaborative actors in line with their innovation strategies perform better in term of turnover from new or improved products (Faems, van Looy, and Debackere, 2005).

2.2. Theories of innovation in services

As services become more important for society and customers demand more complex and personalized solutions, researchers are dedicating more time to understanding their innovation processes. Service innovation and new service development processes are priorities for academic research (Karniouchina, Victorino and Verma, 2006), innovation on the basis of network activity is an emerging theme (Bessant and Tidd, 2011), and service theory as a discipline is evolving from good-dominant logic to service-dominant logic, where customers co-create value through service (Vargo and Lusch, 2004). Globalization and new information and communication technologies are pushing

innovation processes to become more open, flexible, integrated, complex, multi-actor and network-oriented (Rothwell,1992)

One of the earliest although still most significant contributions came from Barras (1986) who proposed that service innovation followed a 'reverse product cycle' involving three stages. The first of these stages involves the adoption of a new technology in order to increase the efficiency of an existing service; secondly the technology is applied to improving the quality of services; and finally new services are generated with the assistance of technology. Barras sees this reverse product cycle as paralleling the normal product cycle in the industry which is producing the technology, and there will be considerable interaction between the two (Barras, 1986).

Innovation in services is crucial as it allows for the sustaining of competitive advantage (Miller, Fern and Cardinal, 2007), diminishes the threat of commoditisation (Lyons, Chatman and Joyce, 2007), help service companies outperform their peers (Cainelli, Evangelista and Savona, 2004), creates opportunities to increase the quality and efficiency of the delivery process and supports the introduction of new service concepts (van der Aa and Elfring, 2002).

2.2.1. Models of service innovation

2.2.1.1. "4Ps" model by Bessant and Tidd (2011)

"4Ps" model are defined by Bessant and Tidd (2011) in order to classify the innovation forms. 4Ps is shortening of product innovation, process innovation, position innovation, and paradigm innovation. These four aspects had been formulated for "innovation space". Innovation can take place along all aspects of a business and **Process innovation** is changed in many ways in which things are created and delivered. **Product innovation** concerns the change of what is offered by the company while **Position innovation** can take place by the repositioning of the company in the context. Finally, changes in **Paradigm innovation** can be triggered by many different things and concerns the underlying mental models which constitute what the company does.

2.2.1.2. Six Dimensional Service Innovation Model by den Hertog, van der Aa and de Jong (2010)

A conceptual framework for service innovation was developed by (den Hertog, van der Aa and de Jong, 2010) through a Six-Dimensional Service Innovation Model. They define Service Innovation as a new service experience or service solution that consists of one or several of the following dimensions: new service concept, new customer interaction, new value system, new revenue model, new delivery system and technological. The Service Concept or offering is the value that is created by the service provider and the innovation may be a new way of solving a customer's problem or meeting a customer's need, perhaps by combining existing service elements in a new configuration. New Customer Interaction focuses on innovation in the interaction process between the service provider and the customer, thus on the role customers are playing in the creation of value. The customer may be an important source of innovative ideas, co-producing innovation as well as the service. The new value systems is new sets of business partners involved in jointly co-producing a service. This is a point where discussion of open innovation and service innovation coincide. Important new services can be developed in large communities linked through platforms and networks of businesses. New revenue models concern about the alignment of distribution of costs and revenues especially where multiple actors are involved. The shift to charging for a service rather than selling a good could be seen as a new revenue model, as could the shifts between subscription and advertising-based models for online services. New Delivery System involves alignment of management and organization so as to enable service workers to perform new jobs, and to develop and offer innovative services. "Soft" elements of the service delivery system can allow firms to differentiate themselves from the competition. This may require new organizational structures and team skills, for example, and can be a focus for innovation as well as a necessary complement to innovations that are centred on the other dimensions. The application of technology to allow for improved production and use of services by allowing for new interfaces and ways of delivering services or service elements.

3. Methodology

The study is a conceptual one with detailed review of literature. For the purpose of the study, the Maybank Annual Report 2013, the official website of Maybank and the Maybank Sustainability Report 2013 were considered. The period of the study is for two months from January to February, 2015. Two models of innovation are considered for the study. They are,

- 4Ps of Innovation Model by Bessant and Tidd (2011)
- Six Dimensional Service Innovation Model by den Hertog, van der Aa and de Jong (2010)

An analysis has been carried out by applying the above models for identifying and comparing various service innovation initiatives adopted by MayBank towards sustainable competitive advantage through environmentally and socially responsible practices.

4. Empirical study

Previous sections have set out ideas on the nature of service innovation and described the service innovation model. This section attempts to go a step further and examine actual case of 'environmentally and socially responsible business practices in Maybank.

Maybank's environmentally and socially responsible business practices are firmly based on the four key pillars of Community, Environment, Workplace and Marketplace. In the marketplace, Maybank look specifically to finance projects that promote sustainability and contribute to nation-building. Maybank is aim to support businesses that galvanise the economy, create livelihoods, and put roofs over people's heads. In 2013, Maybank further strengthened their Maybank One Solution, expanding their customer base especially among the under-served. At the same time, they attracted more digital customers via such pioneering innovations such as Maybank Shared Services, cardless withdrawals, and M2U Pay (a key platform for e-commerce in Asia). They also continued to track service quality levels and complaint management through Project GIFT (Get Involved and Follow Through) and CFRM (Customer Feedback and Resolution Management).

In Community, their community programmes are long-term and results-based. For instance, to reach out to the underserved, last year they launched several micro financing programmes in Indonesia dedicated to helping disadvantaged women and permanently raise their living standards. Through Maybank Foundation, their activities encompassed education, community empowerment, sports, health, arts, culture and heritage. In 2013, through flagship Cahaya Kasih (Ray of Love) programme, over 23,000 Maybankers donated more than 119,000 hours of their own time to take part in voluntary community programmes.

Throughout the Workplace, volunteerism is helping to inculcate not just Maybank humanising mission but underlying TIGER values of Teamwork, Integrity, Growth, Excellence & Efficiency and Relationship Building. They nurture their people via multitude of customized learning and development programmes, this enabling the people to accommodate both collective needs and individual career inspirations.

To conserve the Environment, Maybank is keen to fund projects that have positive environmental impact. At the same time, they are minimising their own direct and indirect environmental impacts as well. They also run eco-awareness and biodiversity programmes, and collaborate with wildlife and nature conservation organisations to protect natural heritage.

The results of the analysis are presented in the following two tables.

Table 1. 4Ps of Innovation Model by Bessant and Tidd (2011).

Dimension of Innovation	
Product Innovation	MyFirst Car Loan Skim Amanah Rakyat 1 Malaysia (SARA1M) My First Home Scheme Programme Paperless Loan Processing
Process Innovation	MayBank Shared Service Solar-powered ATM Energy consumption and GHG Emission Carbon Disclosure Project E-Procurement Environment Practices @Laman @ Menara MayBank
Position Innovation	Responsible Lending Supporting Green Economy Sustainable Sourcing Driving Education At all levels Community Empowerment
Paradigm Innovation	Internet Banking Mobile Banking Maybank2U Regional Branch Solution Regional Cash Management System TradeConnex

Table 2. Six Dimensional Service Innovation Model by den Hertog, van der Aa and de Jong (2010).

Dimensions of Innovation	
Service Concept or Service Offering	Responsible Lending Supporting Green Economy Sustainable Sourcing
New Customer Interaction	MayBank Shared Service Internet Banking Mobile Banking Maybank2U
New Value System	Driving Education At all levels Financial Literacy Programme Community Empowerment Sport Sponsorship Health Partnership E-Procurement Environment Practices @Laman @ Menara MayBank Ethical Supply Chain Management Talent Leadership Stress Management Activity
New Revenue Model	MicroFinance
New Delivery System	MayBank One Solution Paperless Loan Processing Learning Resource @ MayBank Library MayBank Tiger Cubs Childcare Centre Flexible Work Arrangement Ask Senior Management Forum
New Technology	Cardless Withdrawal Regional Branch Solution Regional Cash Management System TradeConnex Solar-Powered ATM

5. Conclusion and recommendation

It is observed that Maybank is moving towards sustainability competitive advantage through environmentally and socially responsible business practices. The trend is evident where Maybank has embraced service innovation as a part of their future banking strategy and are moving continuously towards customer-centric and service-centric banks. It is also found that their service innovation is not limited only to product or process innovations but also to business model innovation, operations innovation, market innovation, and more importantly, paradigmatic innovations. Maybank had created and sustained an environment that promotes creativity, leverages diversity, and facilitates multidimensional collaborations of resources and technologies in pursuit of desirable social and economically outcomes in future.

Although Maybank is taking steps to become more progressive in its attitude towards sustainable competitive advantage through environmentally and socially responsible practices, the banking industry in Malaysia as a whole is only slowly beginning to address the issues involved. The prime areas of concern are the bank's attitude towards transparency and accountability with regard to their lending policies. Transparency of the banks' operations at every level is necessary to instil confidence among shareholders, employees, customers and other stakeholders that the banks are addressing sustainable development. Maybank as example is generally remain conservative in their attitude towards transparency, but accountability and liability will ultimately decide how they progress in the future.

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