

# Eco-Banking Strategies for Competitive Advantages

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## Abstract

Environment issues compel the financial institution especially banking business to conduct in such areas in such a manner that helps the overall reduction of external carbon emission and internal carbon footprint. Based on these ideologies, the study initialized the greening strategies for eco-banking and formed a theoretical model through extensive literature survey. These strategies incorporate into three content -green indoor, green process and green outdoor based on potentialities where the factors within the green functions focused low cost and differentiation to ensure competitive advantage. Hence the progress of banks under the crown of eco-banking will obviously create a future milestone in dynamic banking.

**Keywords:** Eco-banking, competitive advantage, green banking, sustainable strategies.

## 1. Introduction

To become socially responsible corporate citizens, banks set up their efforts in supplementing towards substantial reduction in carbon emission and mitigate the risk of climate change. The environmental consciousness, in this regard, arouses interest for converting conventional banking to eco banking. Moreover climate change and global warming create unbound force and initiatives to follow and maintain green banking. Opting with changes and converting the revolutions to opportunities, Banks find out options to offer environment friendly product and perform their operation sustainable way following green banking strategies which ultimately create competitive advantage for them.

Banks undertake green initiatives in order to promote good environmental and social business process by providing excellent services to investors and clients in compare to traditional banking (Rashid, 2010). It also weights environmental factors in indoor, procedure and outdoor activities of a bank. Banks in all aspects want to avoid credit risk, legal risk and reputation risk proposing green banking as a risk management approach.

Banks can play vital role in between economic development and environment protection for promoting sustainable environment and socially responsive institution (Bahl, 2012). The movements of a bank 'going green' is not only itself beneficiary, but also create an effort to make the other industries to grow under the roof of green and in the process to restore the natural environment. Moreover, this concept will be advantageous to the banks, industries and the economy and improving the asset quality of the banks in near future (Biswas, 2011). Functionally, the banking sector has a great influence on the economic growth and development in terms of both quality and quantity. So turns to green movement creates competitive advantage for banks performance over traditional banks.

## 2. Objectives

The study embarking on the environmental issues focus the major strategies on green banking. These strategies give lights on low cost and differentiation both or in particular over banks' traditional activities at the forefront in the competition. The authors put together the approaches of eco-banking in the form of theoretical model so that the banks can get assistance in their future operation ideally.

## 3. Methodology

The present empirical study has been incorporated on the collection of both extensive literatures and secondary data. Secondary data sources were published information on the banks and other internet sites. The authors also observed the contents available to construct the strategies and checked conjectural relationship of the factors to form a theoretical model.

#### 4. Literature and Theories of Competitive Advantage

A company has competitive advantage whenever it has an edge over rivals in securing customers and defending against competitive forces. To build competitive advantages, a firm must try to provide what buyer will perceive as superior value either a good product at a lower price or a better product that is worth paying more ([www.montana.edu](http://www.montana.edu)). Again, the advantages must result in greater margin for pioneer user as options over rivals. It is evident from the theories that competitive advantage is based on distinctive competencies and distinctive competitiveness differentiates its products to achieve substantially lower cost than its rivals (Hill and Jones, 2008).

Sustainable competitive advantages can be attained by leveraging bank's unique blend of attribute-brand equity, reputation, carbon footprint, and eco-friendly banking operation. Traditionally, Commercial banks can't achieve a cost advantages because of high competition with other institution but now continue with differentiation ([www.lionsshare.com](http://www.lionsshare.com)).

Bahl (2012) stated that green banking and sustainable development in banking sector can be achieved through creating awareness among bank's internal subgroups through green news, online meeting and bank's external subgroups through websites, road shows etc. He also mentioned that bank communicated green banking policy and program with its employees and customers through internet, publication and annual report for proper implementation of green banking. For creating a sustainable bank, bank should adopt green banking as a business model without any delay. And Government should play a vital pro-active role to formulate a green framework for green banking.

Mercier and Zenklusen (2002) stated that financial institution would pursue different strategies to address environmental problem and reduce environmental stress to contribute healthier living condition. For reducing environmental effect of banking transaction, bank can develop environment friendly product as like social ethical environmental investment fund and improve banks internal environment performance as well (Biswas, 2011).

##### 4.1 Michael Porter Generic Competitive Advantage Theory

Competitive strategies consist of all the moves and approaches of a firm to attract buyers, withstand competitive pressures, and improve its market position. Simply, competitive advantages mean what a firm doing to try to knock the socks off rival companies by advantage. There are many ways to get competitive advantages. According to Michael Porter (1985), competitive strategy falls into three categories as such low cost, differentiation and focus strategies.

- (i) Low Cost Leadership or Cost Advantage Strategies: To become low cost producer or to achieve a cost advantages, a firm's cumulative costs must be lower than competitor's cumulative cost, which can be done in two ways-firstly to improve job efficiency and reduce activity cost chain-secondly restructure activity cost chain to bypass some cost producing activities altogether.
- (ii) Differentiation Strategy: To differentiate one's product offering from rival's product, the differentiator or a firm incorporates one or several of those features into its product offering to encourage buyer preferences for its brand over the brands of rivals.
- (iii) Focus Strategy: Focusing on narrower portion of the market rather than whole market, the niche can be attained geographic uniqueness by specialized requirements in using the product or buy special.

##### 4.2 Ohmae's Four Factors Competitive Advantage Theory

In the markets where the competitors are prone to attain the largest share, there is now an aggressively competitive struggle to survive or succeed. Very few companies feel that eco performance would damage economic competitiveness. But Ohmae opined that eco performance, environment consciousness or green strategies can be used as a way for creating competitive advantages for any business and with the increases of competitiveness of market, distinct strategies will create greater competitive advantages. The developer suggested four ways to achieve and sustain competitive advantages as such:

- (i) Identify key success factors within an industry, and focus effort on opportunities to gain significant advantages over competition.
- (ii) Exploit the company's existing areas of superiority.
- (iii) Attempt to change the key success factors of the industry in the company's favor by challenging the basic assumptions and practices within the industry.
- (iv) Innovate through new product and opening up new markets.

It is also said that eco green strategies or environment friendly strategies are becoming key success factor for creating competitive advantages in many industries. In any market a company must select a basis on which to compete. So green strategies provide opportunities to reduce cost by reducing resource inputs and use environmental benefits as a basis for differentiation (Ken Peattie, 1995).

#### 4.3 Generic Strategies for Green for Competitive Advantage

Michael Porter developed competitive strategies model proposing three alternatives based on competition and the extent of the market coverage of company. According to Him, three major generic strategies are-

- (i) **Green Cost Leadership:** Some business people think that greening business involves high cost. But there are a lot of opportunities to reduce costs by diminishing resource inputs. It is also considerable fact for the future that the increasing cost of poor environmental performance will push undoubtedly to green up the schema by low cost strategies.
- (ii) **Green Differentiation:** Products differentiated on the basis of superior eco performance can have a great success in market and positive effect on company strategy as well.
- (iii) **Green Focus:** A focus strategy involves targeting a product which is differentiated or low in cost at particular segment of the market. In early days, green marketing lacking of mass consumer interest on green issues limits the green companies to use focus strategy, but today the situation is changing with the consciousness of most of the consumers.

According to Porter, company should use and follow one of the three strategies to create competitive advantages. There will be increasing trend for environment friendly companies if they are the user of both low cost and differentiation strategies.

#### 5. Eco-Banking Strategies for Competitive Advantage

##### 5.1 Introduction

To substantiate quality of service, to execute environmental conservation measures, to concern about the quality of life and to save nature are the basic principles or objective for which financial institutions are introducing eco-banking strategies in recent years (Sahoo and Nayak, 2008). So adopting new modes of banking operation creates differentiation opportunities, reduce cost and ensure high profit. Moreover eco-banking strategies for competitive advantage serve both commercial and social objectives. Now we have suggested and created some strategies for eco-banking which are related to low cost and differentiation, though some of the strategies depicted in scattered form but accumulated in this model.

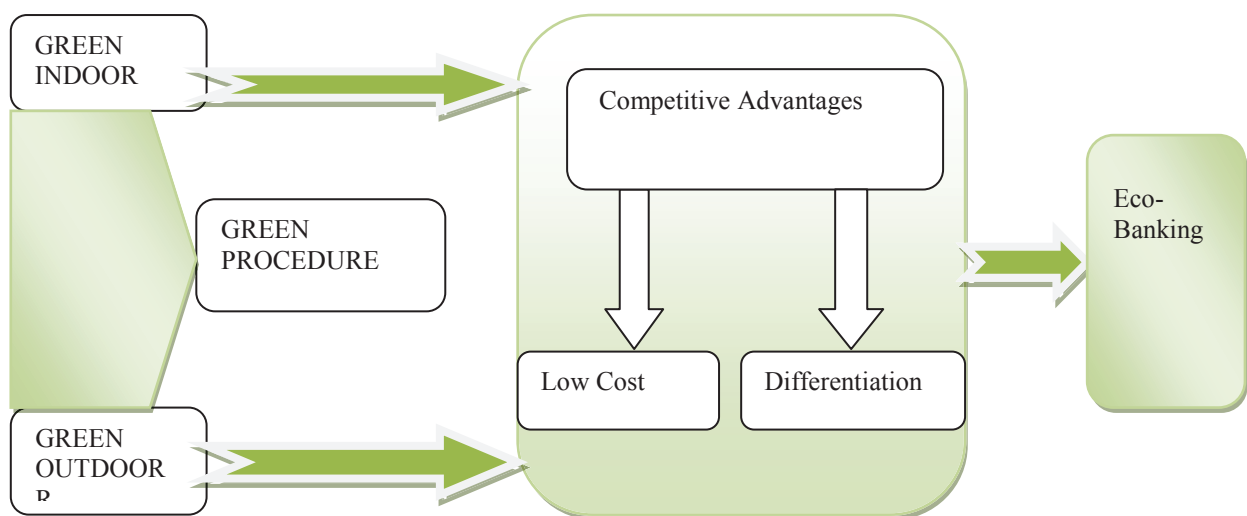


Figure-1: Eco-Banking Model for Competitive Advantage

##### 5.2 Conditions Favorable for Eco- Banking

There are some conditions required to create competitive advantage for eco-banking as such-

- I. Banks must aware regarding environment issues and prone to set-up eco-banking strategies.
- II. Customers should conscious about environment pollution, and its hazard, and try to seek eco-product in market place as viable offerings.
- III. Customers must be rational and have technicalities to recognize eco-banking offers like online customer service and get the differentiation.
- IV. Government should cooperate and take positive initiatives to implement eco-banking strategies

successfully.

- V. Bank must be aware of the effect of differentiation and cost advantage through green banking inventiveness on banking performance.
- VI. Bank wants to mitigate severe legal and reputation risk originated from their industrial loan and hunt for new approach for risk management.

At last, all participants of banking operation like banker, customer, government, and supplier must understand the importance of eco-banking and crave to obtain competitive advantage through proper implementation of eco-banking strategies.

### 5.3 Factors of Competitive Advantage for Eco-Banking

#### 5.3.1 Indoor Green banking for creating competitive advantage

In eco-banking, green indoor includes banks infrastructure and personnel management. Some constituents of indoor banking are related to differentiation and others related to cost advantage, which are:

**Green Building:** Eco-banking strategies use green building which is energy efficient, resource efficient and environmentally responsible. This kind of building's design, construction and operational practices reduces negative impact on the environment and its occupants. We consider some constituents for green buildings as such- building design, natural light and solar radiation, cross ventilation windows, building devise incorporating highly reflective roofing materials to minimize use of land for building, water usage and waste.

**Greening Staff:** For green indoor, banks develop highly efficient and environment conscious employees who are able to work creatively with low resources. Banks can set green goals as the internal targets to lessen their carbon footprint. Moreover it is required to motivate and energize the work force to follow green path and implement own ideas on green. In this regard, banks also encourage suppliers to follow green banking practices.

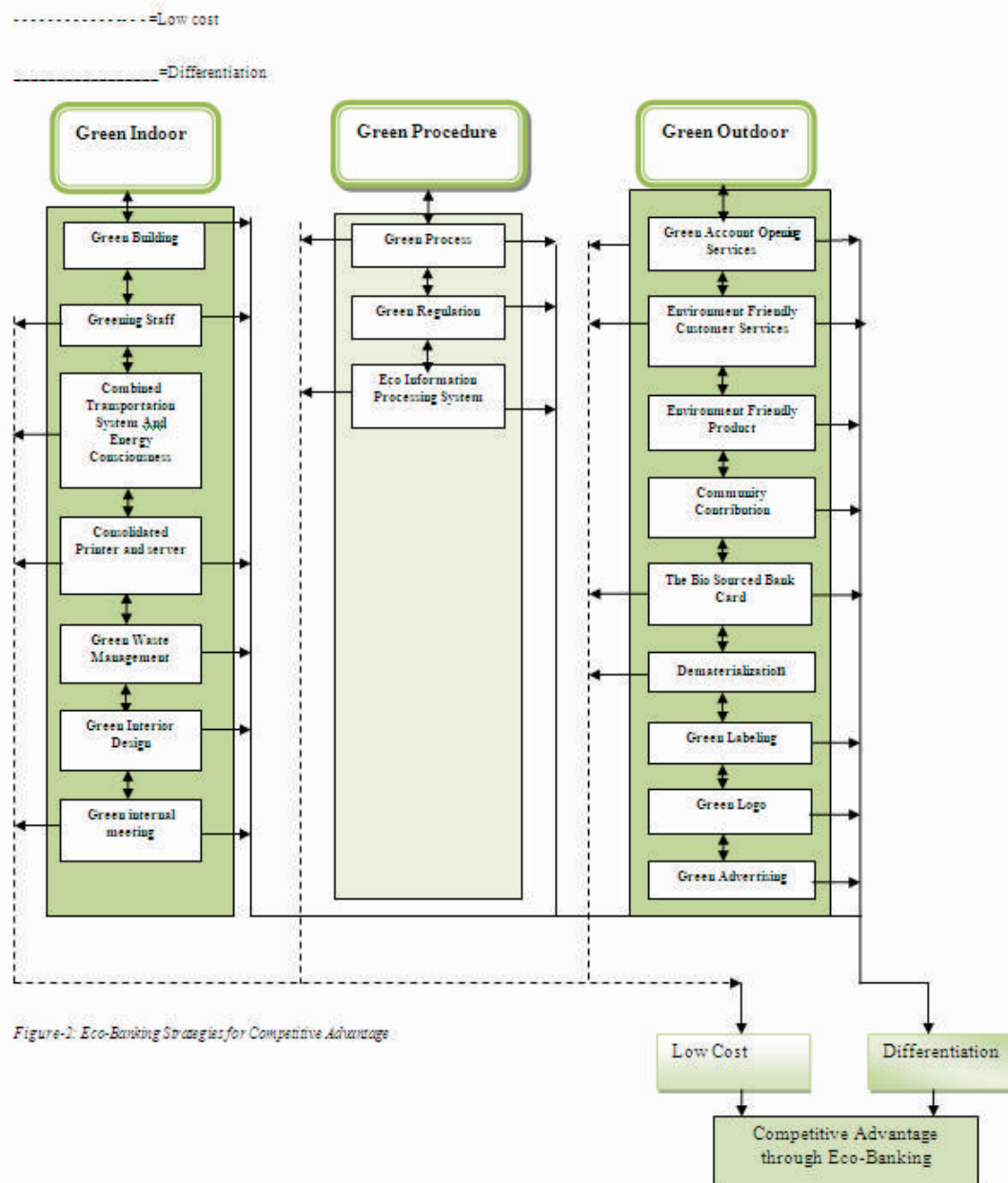
**Combined Transportation System and Energy Consciousness:** Eco-banking strategy includes fuel efficiency on banking transaction. So banks can provide common transport system for group of officials posted at one office. Energy consciousness includes effective office time management, automation solutions and compact fluorescent lighting can help banks save their energy consumption. Banks also conduct energy audit in all their offices for effective energy management.

**Green Waste Management:** Banks should introduce recycling program to waste and for managing waste or reusing waste. Banks can use the different program as like SMART whereas Save Money And Reduce Toxins, total elimination of waste by using clean technology, reduce paper usage eliminating ATM receipt by sending electronic message, and recycling of wastage by reuse of materials.

**Consolidated Printer and Server:** This strategy reduces number of printer uses and reduces printer maintenance cost. When banks open a new branch can be accommodated with consolidated servers that reduces carbon footprint and resource cost.

**Green Interior Design:** Banks can also redesign their branches on green concept. For eco-banking we can use small trees, flower base, green poster, green color on wall and furniture for interior design. This design says the banks green movement or complying with eco-banking.

**Green Internal Meeting:** For sustainable environment, banks can perform green internal meeting with its employees through internet which reduces paper consumption and operational expenses. Moreover bank can transmit weekly news through internet and offer green leaning about banks product and policies.



### 5.3.2 Green Procedure for Creating Competitive Advantages

Green procedure refers to the ways of processing green products of bank with low cost and differentiation. It is a operational part of bank where products and information are processed sustainably.

**Green Process:** To implement eco-banking, all of functional units and activities of banks have to be environment friendly. There are several ways available for banks to green their functional units and activities, as such-

- (i) Inventory Management: Banks ought to incorporate optimum utilization of inventory to squeeze cost.
- (ii) Enterprise Resource Management (ERP): ERP is new integrated software and fully appropriate for eco-banking strategies because it's facilitates paperless transaction; adopt new integration system for workforce and parts, and optimum utilization of device management.
- (iii) Product Life Cycle Management: For eco-banking, banks should rate their products, services, operations and time to time activity to sustainable issues. Banks can also innovatively design their

product and services to meet environmental regulation and to satisfy the customer need with fewer resources.

**Green Regulation:** An environment conscious bank must publish regulation for relating to environmental policy, action and achievement. Green regulation will ensure proper implementation of eco-banking strategies, monitor the progress regularly and also revise the green regulation as required.

**Eco Information Processing System:** Banks information processing system must conduct in an eco-friendly manner with less power and paper consumption. Information system of banks should use internet for internal and external communication by using server(s) in a bank. Banks can follow some guidelines for proper use of laptop, desktop as well.

### 5.3.3 Green Outdoor For Creating Competitive Advantages

Green outdoor is the combination of all kinds of products and services offered for ultimate consumers to fulfill their needs. Banks have to be incorporated with low cost and differentiation concept to offer different eco-products and services.

**Green Account Opening Services:** For implementing eco-banking model, green account opening form should available through online. This type of accounts can be accessed 24/7 days from any where and facilitate different services as like easy transfer, pay bills, online purchase, electronic statement and ATM receipts etc.

**Environment Friendly Customer Services:** By Eco-banking, banks will able to develop and offer new innovative sustainable customer services. Different sustainable customer services includes online banking and mobile banking, automated payment system instead of cheque, online product information and online banks annual report suitable for paperless environment of bank.

**Environment Friendly Product:** Environment friendly products embrace 'green loans' with low interest rate for investing in agro-product, wind mill equipment, manufacturer of fuel efficient automobile or sustainable projects. In this perspective, banks can conduct environment audit of the financial projects, renovate their credit products to comply with environment standard, and include some green guidelines in their credit policy to create the eco-loan portfolio.

**Community Contribution:** Another part of the eco-banking strategies for creating differentiation is community contribution. For community help, bank introduce some programs or projects like tree plantation camps, maintenance of eco parks, and pollution check up camps, and reward project on climate change.

**The Bio Sourced Banks debit and credit Card:** Bio sourced bank card acts as a branding tool for bank which made from an eco-friendly plant starch based plastic substitute called poly lactic acid. These types of card can also be created from renewable sources such as corn and recycles back to its initial resin without loss of quality. By offering this eco friendly card bank provides to its customer a credible proof of commitment to protect the environment. Consumers also contribute to environment by carrying this eco friendly debit or credit card.

**Dematerialization:** For creating differentiation, bank can send PIN by SMS or email, designing recyclable card carrier by using non renewable resources. These offering of bank also reduce paper and other material use/consumption which ensure eco-friendly environment.

**Green Labeling:** Green labeling or eco-labeling for commercial banks is one of the pathways of responding to eco-banking policy. Moreover, green labeling can be used as a communication tool and provide competitive advantages through differentiation. Green labeling can be used in banks debit card, credit card, any kind of envelop, Cheque books, application form loan or a/c opening form etc.

**Green Logo:** Banks should introduce green logo instead of traditional logo in the form of some environmental terms/symbol as like as tree, leaf or green color. By using this type of green logo, banks can easily attract environmental conscious customer and create competitive advantage.

**Green Advertising:** Bank must use green advertisement by creating green billboard, green buntings, and posters etc. This type of advertisement creates consumer consciousness among consumers toward green bank product if it is developed by using some emotional appeal on environment scenario, green color, and green concept in their advertisement.

## 6. Limitation

Environment consciousness sometimes creates hindrances especially in financial matters. In some cases, social consciousness and environmental mutual fund contradicts with banks financial purpose. Now we mention some limitations of eco banking:

- (i) Eco-banking restricts various kind of business which creates environment pollution. Green banks issue green loan for sustainable business with low profit. So restricting vulnerable business diminish profit and severely effect on economy.
- (ii) Most of the banks with green initiatives are in initial stages. So banks which are newly entered into the green arena can't contribute sufficiently to economic development.
- (iii) For implementing eco-banking model into a bank, bank requires lot of natural resources as like natural light, solar radiation, natural raw materials for eco card and waste recyclability. But these natural resources are unavailable at most of the bank for implementing eco-banking.
- (iv) Traditional bankers think that eco-banking reduces profit. By increases the bank's operational cost and restructuring the bank' infrastructure for bank for reducing paperless environment and social contribution.
- (v) Lack of proper government regulation for eco-banking restricts the movement of commercial banks. Though Government policy has been formulated but it is necessary to revise policy for year to year and monitoring policy for proper implementation.
- (vi) Some banks are not interested in eco-banking because they are not so environmental conscious. Customers are also reluctant to use green product or green loan due to lack of environmental consciousness.
- (vii) Smooth eco-banking operations need sound internet and technology infrastructure. But sometimes these infrastructures failed to transmit eco-banking information as like server consolidation, online customer services and green accounting opening facilities.
- (viii) Most of commercial banks are specialized in various specific areas like Investment bank, Small medium enterprises, Agriculture bank, Export and Import bank, Corporate banking as well. So these specialization banks can't be able to follow eco-banking guidelines and changes that mismatch the objectives in between specialized banks objectives and eco-banking objectives.

## 7. Conclusion

Eco- banking trends will contribute to better living conditions and creating green future for banks, customers and society. If every bank restructures their indoor, procedure and outdoor banking strategies thorough eco-banking operations, proper implementation of eco- banking successfully happen. Banks also have the options to employ the eco-banking model as business model without any additional postponement with special reference from positive correlation between environmental performance and financial performance. In fine, greening all financial transactions and creating awareness to save the planet will drive us to embrace eco-banking as a way for creating competitive advantages.

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