

Dynamic Capabilities of Malaysia's Retail Banking in Wealth Management Business Ecosystem

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Abstract

This study aims to find out how retail banks in Malaysia sustain the Wealth Management business with their dynamic capabilities. Retail banks in Malaysia face various challenges from keeping the business sustainable in a changing environment. The challenges can be approached from the aspects of dynamic capabilities of the resource-based view (RBV) in the Malaysian retail banking Wealth Management business ecosystem. As stated by Teece (2018), competitive advantages can be derived within the organisation. Therefore, it was suggested to look internally for resources and capabilities that create competitive advantages. This study combined both the quantitative (Structural Equation Model) and the qualitative research methods to examine the research problems of how a retail bank's dynamic capabilities are related to evolutionary fitness and whether operational capabilities play a mediation effect. The research findings reveal out that dynamic capabilities with their micro foundation have direct and positive influence on the evolutionary fitness of a retail bank in the Wealth Management business ecosystem. The implication and application of this research will benefit members of the industry and academicians with regard to the concept of dynamic capabilities. The theoretical model of this study reveals the relationship and concepts of dynamic capabilities with the business overall evolutionary fitness in the Malaysian Wealth Management industry. The findings of this study serve as bedrock to alternative strategic views which allow practitioners and policy makers to craft their business strategies besides relying on the conventional structural analysis of competitiveness. By emphasizing the development of dynamic capabilities, retail bankers are likely to achieve evolutionary fitness in the long run.

Keywords: dynamic capabilities, wealth management, retail banking, business ecosystem

Introduction

The business of Wealth Management in

Malaysia has been attracting attention due to rapid innovative and technological driven

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changes in the industry. Fintech companies and the announcement of a policy and licensing framework of digital banking licences (BNM, 2020) have introduced constructive disruption to the financial market. The disruption may have impacted the banking industry from various dimensions. Wealth Management, as one of the important sources of fee-based income to retail banks in Malaysia, has been facing a number of challenges which have threatened the sustainability of retail banking in the Wealth Management industry. This can be reflected in the context of thinner profit margins; demand has been driven away from banking intermediaries and investors have demanded more controls over their own investment.

The business environment is dynamic and changing constantly in a turbulent market environment. Therefore, it is important for a business strategy to be dynamic and agile to address the constantly changing environment. Business strategists may either look external of the business organisation (Market Structural View) or internally for sources of competitive advantages (Resources Based View) when they come to crafting a business strategy.

The Market Structural View, as previously championed by research efforts from M. E. Porter, tends to look outside of the business organisation for structural advantages. Business strategy developed with the market structural view inclines to exploit the imperfection of a market structure as well as to set a barrier of entry in order to gain competitive advantages (Takata, 2016). Contrary to the Market Structural View, the Resources Based View (RBV) tends to look internally for competitive advantages. The RBV school of thought believes that competitive advantages can be derived from

acquisition, accumulation as well as be proactively created within the organisation (Teece, 2018).

There are already a number of arguments against the Market Structural View. Researchers claim that first of all, the assumptions of market structure may not be relevant when one deals with issues in the real world environment. Secondly, Takata (2016) pointed out that the market structural oriented business strategy may be too static and may not be able to cope with changes in the real world environment. Thirdly, the analysis of value chains framework may be oversimplified with no management decision included in the analysis (Grundy, 2006).

With the above-stated arguments as the backdrop, there are other sides to strategists' look into internal resources or capabilities to formulate business strategy (Jurgita and Lolita, 2015). RBV is adopted for this research analysis, particularly Dynamic Capabilities (DC) - a subset of RBV. A prominent researcher in this field, Teece (2018), defined DC as the ability of a business organisation to integrate, build and reconfigure both internal and external competences to address a rapidly changing environment.

As such, setting an analysis basis is necessary in order to understand how the mentioned concept is applicable to the Wealth Management industry in Malaysia. The Wealth Management business function refers to the provision of products and services including but not limited to investment products such as unit trust funds, structured products, retail bond papers, bancassurance products, retirement investment schemes, trust products, will writing, digital assets, etc. to target users. Some retail banks also provide services such as portfolio management or

balancing, brokerage referring, will writing referrals, wealth leveraging, and others. The main focus of Wealth Management products and services are for High Net Worth Individuals (HNWI) and/ or Upper Affluent middle class individuals who have surplus of assets for investment. Retail banks in Malaysia have been involved in the Wealth Management business for decades and the business has been evolving progressively while at the same time facing a number of challenges from a rapidly changing environment.

The analysis confirmed that Dynamic Capabilities play a role in connecting internal resources as well as capabilities with the external environment. The key elements of Dynamic Capabilities enable a retail bank to adapt itself to the changing environment rapidly in order to evolve concurrently and to fit into the changing environment. The result of the analysis also indicated that dynamic capabilities have influence on operational capabilities.

The element of sensing and shaping opportunity in a bank can be identified from the roles and processes of data analytics which include market or customer intelligence, identifying and securing Wealth Management product ideas and development. The element of seizing opportunities refers to the capability of the bank to select the suitable product architecture and business model to seize opportunities from the Wealth Management industry without any delay in the process. The pace to seize the market is paramount but the continuous effort to lock down the opportunity and to have the loyalty as well as commitment from customers should not be neglected in order to sustain the business. This can be achieved through combining and re-configuring resources as well as assets. The

combined effects of the mentioned elements form the Dynamic Capabilities of a bank and which enable the bank to achieve evolutionary fitness via the influence in operational capabilities. The operational direction of the bank is dynamically adjusted with the input from the elements of the Dynamic Capabilities. Through these linkages, the internal environment of the bank is related to the external environment and with the feedback from the external members of the business ecosystem such as customers, vendors, business partners, etc, the bank is able to evolve with the changing environment.

The confirming relationship of the hypothesis testing brings forth the business implication to the Wealth Management industry in several aspects. It is important for a retail bank to identify and understand that Dynamic Capabilities lie within the organisation. Dynamic Capabilities are implicit and abstract and hence, not easily identifiable. The bank needs to identify Dynamic Capabilities via examining the elements or the sub foundations of Dynamic Capabilities which have been discussed above.

Sensing and shaping opportunities are not just merely report reading or analysing a piece of business information; it requires certain level of skills or business acumen in order to identify the hidden opportunities as well as business risk. The skills or knowledge can be tacit in nature. Moreover, the Wealth Management industry can be vulnerable as the performance of Wealth Management products depends on the investment markets. Therefore, the skills required span business, financial products and markets as well as marketing or strategy to shaping the opportunities.

The second implication to retail

banking is to seizing opportunities in the existing Wealth Management market. The primary preparedness of a retail bank to seize opportunities in the market is mostly in place as the prominent retail banks already have a range of Wealth Management products to be offered to customers. The Wealth Management products architecture in Malaysia has been relatively open and diversified. However, the implication is how the retail banks differentiate themselves with the competences they have in Wealth Management. As the distributors of unit trust funds as well as other Wealth Management products with third party providers such as fund management firms, and wills and trust companies, the products and charges are almost identical among the retail banks in the industry and the industry is heavily regulated. Therefore, the focus of the differentiation strategy is to enhance the service quality and the customer experience journey through customer segmentation. Other than that, the pressure is greater with the presence of FinTech companies which pose a significant challenge to the traditional retail banking industry.

The other implication to Wealth Management business practitioners concerns resources reconfiguration. The reconfiguration in this context refers to the capability of the bank as to how they reshuffle, re-combine, co-specialise or decentralise assets or resources internally. The capability in this aspect involves the bank's ability to create a co-specialisation environment and a complete framework of knowledge management where the bank is able to pool specialists from different areas for knowledge sharing and to develop the competences under a dynamic environment. The level of flexibility in resources or assets re-configuration depends on the governance policy of the bank. In most

instances, banks in Malaysia have been facing the challenges of re-configuring the resources dynamically. Co-specialisation and knowledge management are both challenges to the banks in their level of implementation as they are to manage tacit knowledge sharing. Tacit knowledge is not expressed explicitly. Hence, it is not easy to be codified and to be shared with other team members or to be learned by others in the team.

The research framework indicated that Dynamic Capabilities influence the bank's evolutionary fitness. Therefore, relating Dynamic Capabilities of the bank with the existing or planned operational capabilities becomes an important strategy to achieve sustainability or its fitness to withstand the evolutionary changes. Operational capabilities are established with least flexibility. The standard processes are usually codified in the Standard Operation Manual and there are also internal policies as governance to the Wealth Management business. Under a dynamic and turbulent environment, it is insufficient for practitioners just to have their operational procedure in order to ensure sustainability of the business over the long term. Management of the retail banks should also focus on developing Dynamic Capabilities as the higher tier capabilities to drive operational capabilities towards achieving evolutionary fitness.

As an overall strategy to a retail bank in Wealth Management, the bank should look into improving Dynamic Capabilities and the entire Wealth Management business ecosystem holistically. Since Dynamic Capabilities allow the bank to connect its internal resources with the external environment, it is equally important for the management of the bank to shape the external environment as part of the Wealth Management business ecosystem

than to only focus internally. Shaping the external environment requires a change of the management mind set as well as a change to the overall organisational culture which encourages the staff in the bank to take external stakeholders and members of the business ecosystem into consideration for the business strategy formulation.

Research Application

Dynamic Capabilities of retail banks in Malaysia's Wealth Management business ecosystem is not well documented at least from the academic perspective. Other than implication to the business practitioners, the research contributes to the academic arena in a few contexts.

The research applies research methodology which comprises both quantitative and qualitative research methods. The combination of the methods allows the researchers to have in-depth understanding of the research issues.

Other than the above, the research findings contribute to the theoretical development of Dynamic Capabilities in the Wealth Management industry of a retail bank in Malaysia. The research findings also indicate that the Resource Based Theory is relevant to retail banking's Wealth Management business in Malaysia.

Limitations of Study

The study was constrained by some limitations. Firstly, sampling of the study had to be done using the non- random sampling method. Due to the secrecy provision under the Banking and Financial Institutions Act 1989, it was difficult to pre-identify respondents with HNWI or upper affluent status among the customers of the retail banks.

Secondly, the aim of the study was to explore the relationship of Dynamic Capabilities and Evolutionary Fitness. Therefore, the focus of the study was to examine the existence of the relationship between the two. However, there was also another important aspect which was not explored in this study. The emergence of Dynamic Capabilities of retail banks as well as the development of Dynamic Capabilities in Malaysian retail banks were not in the scope of the study.

Thirdly, the study did not explore historical details of the retail banks due to the scope of the study. The historical performance and longitudinal study might provide more in-depth understanding, especially on the development of Dynamic Capabilities and Evolutionary Fitness of a retail bank in Malaysia.

Fourthly, the scope of the study was limited to Malaysian retail banks in the Wealth Management business ecosystem. Therefore, non-bank institutions were not included although they might also offer Wealth Management products or services.

Literature Review

Dynamic Capabilities (DC) refers to the ability of a business organisation to integrate, build and reconfigure both internal and external competencies to address rapidly changing environments (Teece, 2018). There are extensive studies on DC as higher order capabilities to modify existing operational capabilities or routines (Tallott and Hilliard, 2016; Matysiak, Rugman & Bausch, 2018). However, it is rare to find studies on DC of Malaysian retail banks in the Wealth Management business ecosystem.

DC is a subset of the Resources Based View (RBV). RBV includes capabilities, assets, organisation processes, knowledge, the business entity's attributes and others, whether they are tangible or intangible. These resources are controllable by a business entity that enable the business entity to improve its efficiency and effectiveness through implementing strategies (Barney, 2007). The emergence of the DC view is to fill the gap of conceptual depth in both the RBV and the action-based view (Mintzberg et al, 2003) which DC is considering a higher order mechanism in addressing the capability of utilising strategic resources. Therefore, it is an important source of sustaining competitive advantages in business (Winter, 2002; Eisenhardt and Martin, 2000; Ringov, 2017; Teece, 2018).

There are a number of definitions of DC. According to Eisenhardt and Martin (2000), DC refers the abilities to build new competencies to move into fresh value-creating strategic positions, especially in dynamic markets. Further, according to Teece (2018), DC is defined as the business entity's ability to integrate, build and reconfigure internal and external competencies to address rapidly changing environments. As markets and technologies evolve, DC activities are all aimed at sensing and seizing new opportunities (O'Railly and Tushman, 2004; Gulati, Franz and Pavel, 2012). A business entity can focus on DC in order to transform or to change the existing operating approach and management paradigm for achieving long-term sustainability from the aspect of competitiveness. In times of changing environment, DC can be the main source of capacity to sustain competitive advantage as DC enables the business entity to continually create new capabilities (Teece, 2018).

The early definitions of capabilities do not clearly distinguish the type of capabilities and their nature. Generally, the DC framework can be based on the structure of strategic or operational processes. As the concept has a certain degree of ambiguity, there are vague areas in separating DC from operational capabilities (Güttel and Konlechner, 2009). However, Zollo and Winter (2002), Winter (2003), and Teece (2009) intended to make the concept clear with the focus of separating operational functions with DC, where DCs are the capabilities to modify the operational capabilities (Zahra and George, 2002; Helfat and Peteraf, 2015; Zahra, Sapienza and Davidsson, 2006). The concept of DC was further developed to split the high order capabilities into two levels, namely lower-level DC which comprises idiosyncratic routines such as processes for partnership formation with external parties or for developing new products and, according to Teece (2018), the micro foundations of the lower-level DC allow a firm to integrate, reconfigure, add, or subtract resources and ordinary capabilities (Eisenhardt & Martin, 2000). The higher-level DCs refer to activities that allow the firm to channel other capabilities as well as resources to maintain external fitness.

For the purpose of operationalising the concept of capabilities and to have a clearer boundary of definition for this study, the concept of DC suggested by Teece (2009) is adopted throughout this study. According to the definition (Teece, 2009), DC in a business environment can be examined from at least three capacities. Firstly, the capabilities of a business entity to sense and shape opportunities as well as threats with the resources. Secondly, the capacity of the business entity to seize opportunities from the changing environment and thirdly, to

maintain competitiveness through enhancing, combining, protecting and reconfiguring assets available to the business entity. The outlined capacities are the pillars to determine the formation of a company's strategy (Güttel and Konlechner, 2009).

The capacities of DCs quoted above are also referred to as the micro-foundation of DC. These activities can be performed concurrently and they encompass organisational processes as well as unique managerial decisions (Teece, 2018). Sensing activities include both internal and external environmental scanning, which brings disorganised information and unstructured data into the organisational system. Managers at various levels must be able to sift through market forces in order to find out latent consumer demand, technological possibilities and others. This can be achieved via effective decentralizing of management authority. With the use of both internal and external data, the top management team can monitor the firm's environment, prioritize problems, and identify new opportunities.

Seizing capabilities is crucial as to how quickly a business entity reacts towards opportunities and threats once they have been identified as important. The activities include investing to commercialize new technologies and designing or redesigning business models for products and services. The business model for a line of business includes the activities to be undertaken, the internal incentives to be used, the design of customer interactions, and more (Teece, 2018).

Transforming capabilities, according to Teece (2018), are responsible for keeping the elements of the organisational system aligned. These capabilities are important

when there is a significant change to the initial organisational design or a conflict arises from a new business model. Continuous minor transformation is also important for a business entity to keep the organisation aligned with its environment.

Though the definition by Teece (2018) has been widely used in recent studies, Winter (2003) has a different approach to DC. Winter's approach examines DC as capabilities of a firm to modify its existing operational capabilities or routines in order to meet the needs that arise from the changing environment. The approach by Winter (2003) is basically extended from the works of Nelson and Winter (1982) on evolutionary theory which suggests that routine is viewed as the genetic material or the organisational memory of firms. Both static and dynamic routines work in parallel in order to achieve the best results. Static routines allow firms for replication tasks, while dynamic routines are those that seek new products and processes innovations. From the DC perspective, firms are able to achieve and sustain competitive advantages through continuous improvement and modification of internal routines.

Nelson and Winter (1982) believed that the business development of an entity is not going through a process of blind evolution when it comes to searching for improvement and competitiveness. DCs are more likely to evolve through successful learning in areas close to those being practised and currently being employed due to the nature of path dependence (Teece, 1988). Zolo and Winter (2002) further elaborate that learning in an organisation leads to the evolution of the operating routines and DC is responsible on modifying the operating routines. Zolo and Winter (2002) suggest that dynamic

capabilities emerge from the co-evolution of tacit experience accumulation processes with explicit knowledge articulation and codification activities. The development of DC calls for a balance between explicit learning and execution activities (Senge, 1990; Nonaka, 1994; Nonaka and Takeuchi, 1995).

Cynthia, Joe and Paul (2006) point out that DCs can be developed through a strategic process, usually in response to the external forces. A firm decides on the approach it takes, activities related to the development of the DC and to find out the resources to meet the needs of developing DC. Further, Zhang and Wu (2017) point out from their studies of DC in high technology industry, a firm's power in its business network influences the firm's internal resources regarding its ability to sense and seize opportunities, which are the sub- foundation of a vital dynamic capability, as according to Teece (2009).

Methodology

There are limited sources of research on dynamic capabilities of a retail bank in Malaysia's Wealth Management industry. The study was conducted based on the Structural Equation Model (SEM) quantitative research method with further support of qualitative data collected through interviews and observations in the industry. With this combined method, the researcher is able to examine the research problems more holistically and in-depth, and the quantitative findings could be further supplemented with relevant qualitative findings.

Qualitative analysis is deemed to be useful in supplementing the findings of quantitative analysis. Dynamic capabilities are usually not easily observable due to their tacit nature. Therefore, the rationale

of the quantitative findings in DCs would be further supported with the collected empirical evidence and observable behaviour from the industry. The researcher actively participated as a practitioner in the Wealth Management division of a retail bank in Malaysia. The qualitative data collected through both internal and external observations of the organisation yielded insightful findings to the quantitative research. For this study, qualitative research methods included interviews with participants in the market and observations were used to collect data and information for the analysis. Quantitative data was collected for the analysis of the causal and the relationship of the variables. The qualitative data served the purpose of supporting and supplementing the findings from the quantitative data by further enhancing the explanation of the rationale behind the quantitative observation.

1541 questionnaires were distributed to the respondents comprising Malaysians throughout the research period and only 502 (32.4%) of the questionnaires were returned and found useable for the analysis. Questionnaires were distributed to the respondents by both email as well as by hand (face-to-face). The purposive data collection method was used for this study because respondents with experience in wealth management were selected as samples. Due to banking customer information secrecy, it was not possible to obtain a list of banking customer data. Therefore, the researcher could only consider a non-randomised data collection method.

For the quantitative analysis, statistical analysis - Structural Equation Model (SEM)- was selected as the statistical method to perform the analysis and to test the hypotheses related to the research

problems. Sobel and Aroian tests were also conducted to find out the direction of the influence and the mediating effects between DC and evolutionary fitness within the business ecosystems. SEM measurement model is a multivariate regression model which examines relationship among a set of dependent variables (observable) and a set of latent variables (unobservable) (Byrne, 2016; Xiong, Skitmore, & Xia, 2015). Other than the reasons above, one of the important advantages of SEM according to Von der Embse (2016) is its ability to test various hypothesized relationships simultaneously. Weston & Gore (2006) also point out that SEM can be used to test factors validity of a construct under the model. SEM is also able to provide convenience in terms of taking measurement-specific error such as errors arising from administrations, multiple rating factors or test variations, into the form of measurement error variables.

Findings

The Structural Equation Model (SEM) is suitable for examining a series of interrelated dependence relationships among the measured variables and latent constructs (Hair et al, 2011). Therefore, the method was used in the study and Goodness-of-Fit was also conducted to measure how well the specified model reproduces the covariance matrix among the indicators.

Factor analysis was conducted before the structural equation analysis. Rotation with Varimax method was carried out in order to obtain adequate number of factors. Kaiser-Mayer-Olkin (KMO) (0.884) measures of sampling adequacy and Bartlett's test of sphericity (significance level < 0.001) indicated that the collected data suited the factor analysis.

Statistical tests were conducted in the analysis in order to examine the absolute fit measures and incremental fit measures. A number of measurements were taken into account. These included minimum discrepancy (CMIN/DF), Goodness-of-Fit (GFI), Root mean residuals (RMR), comparative fit index (CFI), normed fit index (NFI), Root mean square error of approximation (RMSEA), Expected cross validation index (ECVI) and Parsimony-adjusted measures. In order to ensure that the model met the requirement of Goodness-of-Fit, the measured variables were examined with the co-variances, items which high covariance were selected out from the model.

There were three latent variables related to capabilities and fitness in the model. They were, namely Dynamic Capabilities (DC), Operational Capabilities (OC) and Evolutionary Fitness (Evofit). Evolutionary Fitness (Evofit) was the dependent variable and the rest of the variables were independent variables. The measured constructs or variables are summarised:

Dynamic Capabilities (DC)

A second order latent construct with three sub-constructs – Sensing, Seizing and Combining. DC was an exogenous (independent) construct in the model.

Operational Capabilities (OC)

This latent construct was measured by five observed items and OC was an exogenous (independent) construct in the model.

Evolutionary Fitness (Evofit)

The latent construct was measured by three items and it was an endogenous (dependent) construct in the model.

The Chi-square value was 698.363 with 264 degrees of freedom and the p-value was less than 0.01, which was significant for the analysis. The statistics of Goodness-of-Fit (Unstandardised estimates) are summarised in Table 1. The recommended values indicated in Table 1 were summarised from the recommended values from Hair, Black, Babin and Anderson (2010).

Three groups of Goodness-of-Fit measures were carried out in order to measure the model from different angles. The measures included absolute fit indices, incremental fit indices and parsimonious fit indices (Hair et al, 2010). Absolute fit indices are direct measures of how well the model reproduced the observed data. Incremental fit indices are

different from the former in that they assess how well a model fits relative to the alternative baseline model where the baseline model assumes that all the observed variables were uncorrelated. The third type of fit measures - Parsimony Fit measures aims to provide information about which model among a set of competing models best describes the relationship, considering its fit relative to its complexity (Hair et al, 2010).

The measuring outcomes shown in Table 1 provide proof of Goodness-of-Fit of the model. All the measured values were basically well in range of the recommended values, which implied that the model fit to the data and the specified model reproduced well the co-variances matrix among the indicators.

Table 1

Fit Measures

Measures	Value From the Model	Recommended Values
Absolute Fit Measures		
CMIN/DF	2.6454.05	Higher value indicates stronger evidence against the null hypothesis
GFI	0.899	Acceptable level >0.90 Higher value indicates better fit
RMSEA	0.057	Acceptable level = 0.03 – 0.08 Lower value indicates better fit
Incremental Fit Indices		
CFI	0.949	Acceptable level >0.90 Higher value indicates better fit
NFI	0.921	Acceptable level >0.90 Higher value indicates better fit
Parsimonious Fit Indices		
PNFI	0.81	Higher value indicates better fit

The Relationships

The latent variable - Dynamic Capabilities was measured with ten selected observed variables. All of the observed variables had relatively high regression coefficient with the construct- Dynamic Capabilities. The ten observed variables represented the selected dynamic capabilities of banking institutions. These ten variables were the indicators for the existence of the functions of dynamic capabilities in the banking institutions. The functions were coined by Teece (2018) as the micro-foundation of Dynamic Capabilities which are, namely, (i) sensing of opportunities and threats with three observed variables, (ii) opportunities seizing function with two observed variables, and (iii) competitiveness through combining, protecting and configuring resources with five observed variables.

Prior research work on the relationship between operational capabilities and DC suggested that DC as higher order capabilities may have influences on shaping operational capabilities. However, further findings are

required in order to establish the mediating effect of operational capabilities on DC and evolutionary fitness.

Hypothesis Testing

The test result of the hypotheses is summarized in Table 2 which provides an indication of the research problems. The test result indicates that DC has an influence on operational capabilities as the relationship between the two is positive. However, the influence of DC on evolutionary fitness via operational capabilities as the mediator between the two is not significant. To put the measured relationship in perspective, the tested relationship among the variables shows that operational capabilities can be shaped and influenced by the existence of dynamic capabilities but the evolutionary fitness of a retail bank in the Wealth Management business ecosystem is directly influenced by dynamic capabilities instead of being mediated via the route of operational capabilities. The rationale behind this finding can be further unveiled by examining and analysing the collected qualitative data as shown in the following section.

Table 2

Hypotheses Testing

	Hypothesis	Indication	Coefficient
H1	With regards to Wealth Management, a retail bank's dynamic capabilities are positively related to its evolutionary fitness	Significant	Positive relationship. Coefficient = 0.08
H2	Operational capabilities mediate a retail bank's dynamic capabilities and evolutionary fitness	Not significant	Sobel and Aroian Tests insignificant

Table 3
Dynamic Capabilities

Measured Items from Research Questionnaire	Dynamic Capabilities Sub-Foundations
In-depth knowledge	<ul style="list-style-type: none"> • Capabilities of re-configuring and combining resources • Capabilities of sensing and shaping opportunity
Unique products and service	<ul style="list-style-type: none"> • Capabilities of seizing opportunity
Alternative solution during market changes	<ul style="list-style-type: none"> • Sensing and shaping opportunity or threats
Cross products offer with better rate of return	<ul style="list-style-type: none"> • Capabilities of re-configuring and combining resources • Capabilities of seizing opportunity

Qualitative Findings Summary

The quantitative analysis of the study confirmed that DC of a retail bank has a direct influence on Wealth Management’s evolutionary fitness. This finding is consistent with the research proposition by Helfat et al., (2007) where DC has impact or can be measured from two aspects, namely operational capabilities and evolutionary fitness. That leads to the conclusion that DC with micro foundation of sensing and shaping capabilities, capability of seizing opportunity and the capabilities of re-configuring or combining resources as suggested by Teece (2018) has direct and positive influence on the evolutionary fitness of a retail bank.

The other objective of this study is to examine the mediation effect of a retail bank’s operational capabilities on DC and evolutionary fitness of its Wealth Management business. Findings of this study indicate that DC has an impact on operational capabilities but the influence of operational capabilities on evolutionary fitness of a retail bank in the

Wealth Management business ecosystem is not significant.

In order to find out the rationale behind the quantitative analysis, a qualitative approach by interviewing was conducted to gather feedback from retail bankers in the Wealth Management industry. Throughout the analysis, the findings indicate that the DC of a retail bank in the Wealth Management business ecosystem in a number of items are reflected in the confirmed measurable variables as summarized in Table 3.

By combining findings from the collected qualitative data – interview and observation, it appears that the proposition of how DC influence evolutionary fitness can be rationalised with the sub-foundation of DC as listed in Table 3.

The DC sub-foundation of sensing and shaping capabilities of a retail bank in Wealth Management can be reflected in the measurable capabilities (variables) of possessing in-depth knowledge and the

capability of providing alternative solutions during market changes.

i. In-depth knowledge in market and products:-

From the Wealth Management perspective, the key persons are required to have an in-depth understanding of the investment markets as well as the Wealth Management market in Malaysia and Wealth Management products and services. The information is dynamic and it can come from many different sources. Hence, the sensibility of the relevant information allows the bank to identify opportunity as well as threats as soon as they arise.

ii. The capabilities of providing alternative solutions during market changes:-

The investment market has been changing constantly and the shifting economic cycle may leave an impact to the returns of investment. The capability of a retail bank to provide market insights and to provide alternative solutions to clients in different market cycles are important as they enable the bank to sense and to shape the opportunity in advance of market changes.

The DC of seizing opportunity in the market can be understood as the capability of the retail bank to offer unique or a wide range of Wealth Management products and services, and cross products offering better rate of return.

i. Offering unique or a wide range of Wealth Management products and services:-

Retail banks in Malaysia offer Wealth Management products manufactured by both external partners and internal units such as the Global Market department. Examples of typical Wealth Management

products and services offered by retail banks are unit trust funds, structured products, wills, stock brokerage referrals, retail bonds, bancassurance and others. Wealth Management products offered by retail banks in the market are not all unique but homogeneous such as unit trust funds, which are available from the banks as long as they intend to distribute the funds. The uniqueness of Wealth Management products can be created with the capability to customise it, for instance structured products offered by the bank which can be customised according to the customer's needs and requirement. However, the advantage can fade quickly as the competitors may copy the structure of the products soon after they are available in the market. Therefore, it is important for the retail banks to be innovative and to have the capability to create unique products and services or to have unique propositions which are difficult to be copied by the competitors and to seize the market opportunity.

ii. Cross products offering and higher rate of return:-

Diversification is key to managing wealth. Therefore, a retail bank should be moving away from merely offering products but being able to offer a wide range of products in order for the customers to invest or to construct a meaningful diversified portfolio for the customers. A well-diversified range of products allows the bank to seize market opportunity and to capture market shares.

The sub-foundation of Dynamic Capabilities in re-configuring and combining resources of a retail bank in Wealth Management can be reflected in the capabilities of possessing in-depth knowledge with the capability of providing cross products and better rate of return to the customers.

i. In-depth knowledge, both tacit and explicit forms are the bases for a retail bank to re-combine resources and capabilities as well as to re-configure resources and capabilities such as skill sets, processes and technologies in order to create competitive advantages. Tacit knowledge is not easy to be codified and observable. This form of knowledge can be demonstrated especially in the interaction of the Wealth Managers with clients. For instance, the Wealth Manager's capability to sense and to relate client's financial needs and constraints throughout their conversation. Another example is the capability of the Wealth Manager to rationalise the investment decision and to examine client's view with market trend analysis and outlook. Explicit knowledge, which is different in nature, can be codified in operating manuals, process flows and procedure which are an important part of sources for capabilities.

ii. Cross products offering and higher rate of return:-

Managing risk with the aim of maximising return is the key element of wealth management. The capability to re-configure and to re-combine resources for cross products offering is important for a retail bank to have a long term or sustainable customer relationship. In this regard, the Product Manager of the bank plays an important role here so as to exploit the resources and capabilities in order to re-configure wealth products.

According to the tested model, Dynamic Capabilities have a direct and positive relationship with the evolutionary fitness

of a retail bank in the Wealth Management business ecosystem. As a referencing benchmark of long-term sustainability of a bank in the market, evolutionary fitness is used as a measuring term and is observable from the level of loyalty of the customers to the bank's products and services. The willingness of customers to maintain a long-term relationship with the bank and their willingness to recommend the bank's products and services to friends and siblings are obvious indications of the bank's capability to sustain for the long term by fulfilling customers' needs and to adapt to the changes in the market.

Discussion and Recommendation

There are both implications and applications of the research analysis for business and industry practitioners. The implications to business practitioners could be approached from the perspective of Dynamic Capabilities in the Wealth Management business ecosystem of a retail bank. The application of the research could be beneficial for future research and for academicians who intend to study similar subject matters.

The overall testing results provide evidence to confirm the hypotheses of this study. The results of the H1 and H2 tests indicate that dynamic capabilities of a retail bank influence Wealth Management evolutionary fitness directly (H1) without mediation (H2) from operational capabilities. The findings are important as the outcome is different from findings in other industries (Protogerou, Caloghiro and Lioukas, 2008; Mikalef et al, 2020). As indicated in the research model, dynamic capabilities have an impact on operational capabilities but the influence of dynamic capabilities through mediator-operational capabilities

on evolutionary fitness of a retail bank in the Wealth Management business ecosystem is not significant.

The research findings point out the needs of dynamic capabilities in order to ensure the Wealth Management business in Malaysia is sustainable over the long term. Dynamic capabilities can be understood from the three main sub-foundations-sensing, seizing and re-configuration. They are important elements of capabilities to be developed by retail banks in the Wealth Management business ecosystem. Dynamic capabilities are not easy to be identified since they are higher level capabilities which distinguish themselves from operational capabilities. Therefore, it is recommended that retail banks look into this level of capabilities. Under an uncertain environment, dynamic capabilities allow the banks to react rapidly and to mobilise capabilities as well as resources. For a bank to outpace the changing wave, the bank is recommended to establish a mechanism of regular monitoring for the development of Dynamic Capabilities which supposedly is more fluid than Operational Capabilities.

It is important for the bank to relate Dynamic Capabilities to the existing or planned Operational Capabilities. The testing statistics of the research model indicate that Dynamic Capabilities may not have a strong direct influence on the bank's evolutionary fitness, but the management of retail banks should also focus on developing Dynamic Capabilities as the higher tier capabilities to drive Operational Capabilities towards achieving evolutionary fitness.

Future Studies

Future research can be improved from the angles of research methodology,

data collection and hypothesis testing. Furthermore, the research issues and the concepts are dynamic and changing rapidly with the emerging technology and innovation of Industrial Revolution 4.0. Therefore, continued research will likely add on to the stock of knowledge which is relevant to the evolving business as well as technology environment.

Future explorative research can be conducted with further qualitative research methodology emphasising in-depth interviews as well as observations. Dynamic Capabilities at management level, especially capabilities with tacit knowledge which are not explicitly exposed can be approached from qualitative data collection with in-depth interviews inclusive of purposive sampling method. The focused observation allows the researchers to have more time and in-depth understanding of the research issues.

Moreover, research on Dynamic Capabilities and Evolutionary Fitness can also be improved with a longitudinal study. Although time consuming, longitudinal research study allows an in-depth historical study of business and Dynamic Capabilities development.

Future research may also venture into non-banking Wealth Management business ecosystem and to cover more in-depth digital assets in Wealth Management and the changes due to the force of decentralised finance. Rapid technology development and the shift of customer behaviour lead to constant changes in the business ecosystem which in turn bring forth the emergence of new investment tools and asset classes.

Conclusion

The financial market is highly volatile with economic and financial events such as financial crisis, outburst of financial institutions crisis, slow economic growth and the emergence of financial technology and digitisation of money and banking. These phenomena in the financial market prompted the industry to seek changes and the capabilities to fend off the risk and disruption in the financial market. This study comes in handy to provide a model for a retail bank to leverage Dynamic Capabilities to achieve Evolutionary Fitness. This study and the findings can serve as the bedrock to formulate long-term sustainability business strategy for a retail bank in Malaysia ■

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