

**LITERATURE REVIEW ON IT/IS STRATEGY IN THE BANKING SECTOR**

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**ABSTRACT**

**Background:** Information technology (IT) strategy should be developed in such a way that supports and is supported by business is critical for generating business value in today’s organizations. The banking sector has largely embraced IT strategy to support its processes. As business conditions keep changing rapidly, the banks have to also adopt an effectively IT strategy to suit their needs and also be in line with its vision and mission statement.

**Objective:** The purpose of this article is to provide a literature review on IT/IS strategy in the banking sector with the aim of finding out how banks benefit from developing and implementing IT strategy.

**Method:** The research was done using literature found in academic journals and online search engines. These sources were analyzed (content analysis) and the results were put down on this paper to answer the objective of the study.

**Results:** Findings indicate that irrespective of the bank’s size, having an IT strategy that is in line with the company’s vision and mission statement is the way to go in today’s world. It is also evident that when IT and business strategies are in alignment, then, they become the driving force for the bank’s innovation.

**Conclusion**: It is evident that IS plays a great role in banking sector. It is necessary that financial institutions take the necessary measures to have their IT strategy in alignment with the business strategy so as to gain maximum value.

Keywords:

Strategy development, IT strategy, IT alignment, Information Systems

**INTRODUCTION**

Financial institutions such as banks are ideally the backbone of most countries’ economy. In today’s world, most banks are settling for IT solutions for their systems to run effectively. Most manual operations have been scraped off and bank have moved from a decentralized to a centralized environment. Technology enables banks to use tools that would help them know what their customers need; this will enable them offer them ideal products. Automation of systems in banking has been embraced widely.

(Banerjee, 2010) argues that in the early years, banks have embraced innovations at slower pace compared to other organizations. This is because results of innovation take time and banks also have to consider regulation and risk mitigation issues before adopting any new technology. However, the pace is picking up and structured financial products like derivatives are the result of product innovation

Strategists have to consider several issues as they make decisions on Information systems. This is because of the changing environment of Information systems. Trends related to IS include: consumer focus, more reliance on outsourcing and a need to control an increasingly complex environment. (McNurlin, Sprague, & Bui, 2009). In order to remain competitive, banks have to spend a lot of money. There is need train employees on the new technologies adopted so that they remain competent and efficient. Effort is required to enable organizations to manage these changes.

**IT STRATEGY: PAST, PRESENT AND FUTURE**

A strategy is an approach to doing business. For a business strategy to be termed as “competitive”, many activities are involved and the competitors also perform the same activities but in different ways.

Earlier on IT function in an organization was to understand the business strategy, then afterwards, come up with a plan and then support the strategy. There was a challenge in this way of handling things since the IT managers did not have adequate knowledge of the business strategies and business managers also has very little understanding of the potential IT had.

Then, formal IT plans were mostly focusing on tactical line of business opportunities and needs than strategic ones. Opportunities for investment were selected on short term basis rather than long term basis.

Over the last few years, companies have improved information processing capabilities and transaction costs are almost zero and shaving profit margins. Recently IT is greatly considered when banks develop their business model. They have had to redesign and reconfigure their components to change the value proposition. Most of the business strategies heavily rely on IT.

**Information and Communication Technology in the Banking Sector**

Information Technology (IT) is the automation of processes, controls, and information

production using computers, telecommunications, software and ancillary equipment

Such as automated teller machine and debit cards (Khalifa 2000).

Technology has enabled self-service facilities such as Automated Teller Machines, online banking. Customers can also carry out any transactions online, validate their account numbers, deposit and also withdraw as their desire.

In Kenya, most ICT products in the banking sector are

* ATMS
* mobile banking
* Electronic Funds Transfer,
* EDI (Electronic Data Interchange).
* Internet banking

These developments have enabled banks to provide more diversified and secure financial services.

Banks have made new products and services available to customers such as computerized credit ratings, programs that determine when cheques will be available to customers and calculation of accounting balances.

**The banking Industry**

Banks operate in a strategic I/S environment, where the alignment of business and information strategies should be a significant focus for organizational effort.

Financial institutions are critically dependent on IT for daily operations. Banks hold very sensitive information and depend almost fully on IT as their core technology. Banks in a more competitive environment will be even more dependent on IT. One of the first organizations to implement information systems were banks. (Both national and international levels). The banking sector is therefore at the forefront of business-oriented technology developments.

**Banks aligning IT capabilities and spending with business strategy.**

Alignment refers to the appropriate and timely application of IT, in harmony with business objectives. This happens when business and IT strategies are interwoven to deliver business value to the organization. There is a give-and-taken between IT and business before this kind of alignment is successful. (Balwant, 2013)Research shows that high performing banks spend 14% less than those in the bottom quadrant on day to day support for IT functions. Some of these processes include; Finance and Human Resource.

Many Banks strive to be efficient at all times as effective business enablers maintain a more rigorous demand management process to govern funding. Top banks are more likely to regard the CIO role as a C-level position. (Gopalan & Jain, 2011)When it comes to outsourcing, most banks retain differentiating capabilities, such as application development and maintenance as opposed to external providers. About twice as many high IT spenders (50%) as effective business enablers (24%) outsource application development.

It is a difficult process to align IT and business strategies. In the banks, it requires a complex set of strategic, organizational information systems and technology arrangements. A firm should have best practices in: organization structure and accountabilities, strategy formation processes, I/S responsibilities and policies. (Broadbent & Weill, 2010)

The most effective way of achieving alignment in the banking sector is to focus on formulation of strategies. Alignment of IT and business require a set of IT and business skills plus good communication. These approaches must be made more robust and be useful in the larger firm. (David Schehr, 2008)

**CRITICAL SUCCESS FACTORS FOR DEVELOPING IT STRATEGY**

There are different approaches that banks can use to develop their IT strategy. However, for the strategic development to be in place, there are some factors that have to be considered:

**Revisiting your Business Model**

In most cases, business models and strategies are confused with each other. The business model describes how different parts of the business fit. All employees have their focus on the value the bank intends to create. Once there is a clear business model, it is easier to develop strategies on how the bank will deliver value in a unique way such that other banks or organizations cannot imitate easily. (Smith, Mckeen, & Singh, 2007)

It is important that both IT managers and business managers understand in detail how the bank as a whole works. Most times, these two managers have very different views on how they would like the organization to be. There has been misalignment and conflicting strategies of IT and business in the past. Despite the willingness of business managers to understand the impacts of IT in business, the IT team must also make an effort and translate their ideas in a business language and avoid using IT jagon in their presentations. (Smith *et al.,*2007)

**Adoption of Strategic Themes.**

Initially, IT strategy used to work for personal projects. However, it is now used in large projects that focus on developing specific business capabilities. It is important to come up with strategic themes for both Business and IT which will give the two managers a specific topic of interest that challenges them to do more than the current operations.

(Smith, Mckeen, & Singh, 2007) gives a good example of such a strategy in this manner: when a bank selects mbanking as the critical differentiator. These theme will trigger employees’ imaginations and also ideas around a broad strategic direction. Managers have an easy time identifying important strategic threads in the bank’s development once the IT and business programs are grouped around specific themes.

**Experts**

Banks are only able to get high IT business value if the executive management are in the fore front of IT decision making. It is important that the CIO and IT managers meet from time to time with other senior business managers to discuss both IT and business strategies.

It is prudent to get the right people involved when developing the IT strategy. This includes the business managers and other key stakeholders. Research shows that the best strategies start from the grass-roots, therefore, it is critical that organizations ensure that good ideas are not dismissed by management. The IT steering committee would consist of the CIO, IT managers, infrastructure managers, account manager and also the IT manager.

**Balancing IT Investment Opportunities**

Technology can be used in very many ways and creates lots of opportunities. This poses a challenge when it comes to developing an effective IT strategy and the resources are not also readily available.

Allocation of IT budget is a key element of It strategy. For most banks utility costs are about 30 to 70% of the budget. Most banks today use IT in their daily operations. There are two components that IT Strategy considers:

* How to cut down fixed costs.
* How to effectively allocate the remaining budget towards IT investment opportunities.

CIOs have to look for cost effective ways of providing the IT utility to their organizations. Some of them include outsourcing, use of ASPs and also grid computing. Some of the types of IT investment opportunities:

* Business Improvement
* Business Enabling
* Infrastructure
* Business opportunities.

There should be a balance between these opportunities and determining this is a component of how IT strategy delivers value. (Smith, Mckeen, & Singh, 2007)

**Being aware of their IT value**

Banks should be aware of the IT resources they have. Their competiveness would depend on the level of technology adopted and whether they meet the market’s needs. For instance, in the case of mobile banking, it is evident that any solution that is not able cope with mobile devices has no worth .Once banks know the technological resources they possess and its capabilities; how it can make or break the business, then it can give it more attention. (Balwant, 2013)

**Focusing on the business value.**

Every service in the bank must play a role in deriving business value for the bank. However, there’s usually a disagreement on how this business value should be measured. The IT team should come up with an IT agenda that will achieve both business and IT related metrics in order to derive business value. By proving how technology can scale up bank transactions and customer acquisition, this shows without a doubt that IT and business are in sync. (Balwant, 2013)

According to Balwant, (2013) the IT team should also readjust their R&D from pure technology to a catalyst of banking innovation, so that business can align to it. There should be an allocation of IT Research and development from the bank’s innovation budget instead of being considered n IT expenditure

**Challenges**

Both IT and business leaders in banks are making strides to ensure that both IT and business strategies are aligned. However there are still barriers that inhibit development of strategies:

* There is lack of a supportive governance structure. There are no formal structures for managing interdependencies among the different business processes.
* There is no clarity on who is responsible for turning IT strategies into IT plans. The two strategies: Business and IT are not done at the same time.

**Conclusion**

Effective strategy development is critical in banks. The impact of IT in banks is great and synchronizing IT and business strategy will ensure that the organization derives business value. Although there is no well-developed IT strategy development process, there are certain critical success factors involved**.** It can be concluded that alignment is realized when IT works with business to achieve vital business objectives and delivers business value that can be measured. When there is alignment, IT an business will be the strongest driver to innovation and will cease being a barrier.