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A COMPARATIVE STUDY OF FACTORS SHAPING E-BUSINESS STRATEGIES IN U.S. AND ASIAN FINANCIAL SERVICES COMPANIES

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EXTENDED ABSTRACT

This abstract presents the preliminary findings of a study comparing factors that impact the adoption of e-business strategies by financial services companies in the United States and some East Asian countries (Taiwan, Peoples Republic of China, Hong Kong, South Korea and Japan). The goal of our research was to explore the factors shaping e-business strategies intended to provide integrated and international financial services. We focused on 3 main aspects,

- Technology and Infrastructure used to support e-business,
- Political and Economic issues shaping the regulatory environment for financial services in each economy, and,
- Cultural issues related to e-business in each country.

Following a review of the literature covering each of the above aspects, primary data was collected through the form of structured interviews with managers involved with e-business strategy decisions at each company we visited. In each interview, the intent was to gain an overall perspective of what it takes for a financial institution to implement an effective e-business strategy in the context within which it must operate.

Three types of companies were chosen to be part of the study, these included:

- Financial institutions were studied to gain insight into the motivations behind current e-business strategies, as well as, future directions. The companies in this category include Citibank, Sanwa Bank and Hanvit Bank.
- Technology/solution providers were studied to learn about the issues financial services companies face in selecting the appropriate technology and the challenges in integrating the chosen solution. The companies in this category include BizCurrency.com and NTT Docomo.
- Consulting companies, including Bain and Co as well as Computer Sciences Corporation, were studied to understand the direction in which the financial services industry in each country was headed with respect to e-business strategies.

POLITICAL AND ECONOMIC ISSUES

From the political and economic environment angle, the regulation of the financial services industry and status of deregulation efforts surfaced as the dominant factor impacting e-business strategies. Since 1999, the U.S. has gone through substantial deregulation in the financial services industry. The Financial Services Modernization Act of 1999 has allowed financial institutions to offer all types of services including, but not limited to, retail and commercial banking, investment banking, brokerage services, as well as insurance. In order to provide such products in an integrated manner, financial service companies have found it necessary to streamline their operational information systems to share customer and transaction information across lines of business. Further, to control costs of customer service, they are striving to move more retail customers as well as commercial clients to an online environment where routine transactions can be automated and non-routine transactions supported via online interaction with customer support personnel.

Deregulation lowers barriers to entry, which has the ability to increase competition. This increased competition drives down prices and spurs innovation essential for developing E-business strategies. In the end, the consumer benefits by the convenience of a wider variety of services and lower prices for those services. However, in order to develop innovative methods of providing the services that customers and clients demand, financial services companies have to invest substantial amounts in upgrading their information systems. Many Asian governments have begun to embrace deregulation in hopes of obtaining the same results as in the U.S. market. The currency crisis of 1997 has also prompted several companies to introduce deregulation to increase competitiveness in local financial services. In the countries we visited, these deregulation efforts are beginning to impact the local financial services companies. Exceptions to this are the Peoples Republic of China where deregulation has yet to take hold and Japan where economic conditions have led to financial service companies engaging in efforts to consolidate.

Deregulation in the telecommunication industry has also had a significant impact on e-business as well. Because e-business strategies depend on high quality electronic communication channels any changes in telecommunication services has a substantial effect. In the U.S., the Telecommunications Act of 1996 has led to a restructuring of the telecommunication services industry with increased levels of competition. This has brought down prices for

telecommunication services. With the exception of China and Japan, all the Asian countries included in our study have some level of deregulation taking place in the telecommunication industry. The most extensive impact is in Korea where both fixed line and mobile access to the Internet are widely available. In all the other countries, fixed line access is either more expensive or less available. Mobile telephones are widely available in all countries of this region and this platform is being viewed as the way in which customers will interact with businesses. One reason for the wide availability of mobile telephony is the less regulated nature of this service when compared with fixed line telephone services. In addition, several countries that we included in our study actively subsidized mobile telecommunication services in the early stages of their introduction to facilitate wide acceptance of the technology in the population. This strategy has proven to be very successful with high rates of penetration in all countries of this region. The Peoples Republic of China has a lower penetration rate when compared with the large population base but is expected to have the largest number of subscribers in the world in the next few years.

A third element of the economic environment is the level of standardization across the financial industry – this is necessary for banks to implement an effective e-business strategy. Standardization in procedures and documents enable financial institutions to develop systems that do not need constant modification and, therefore, are essential to the practical implementation of an e-business strategy. These standards must be agreed to by the majority of the companies involved, and a strong standard making body is crucial in bringing those companies together to achieve the goal of standardization across the industry.

TECHNOLOGY AND INFRASTRUCTURE ISSUES

The foundation of an e-business strategy deals with the technology used to implement the needed systems and the infrastructure available to support transactions. Currently, in the U.S. e-business infrastructure depends on the fixed line telecommunication services. The vast majority of U.S. consumers access the Internet via dial-up, with broadband access gaining popularity. The reason for this has been the relatively low prices charged for local telephone calls as well as the low basic rates and easy availability of telephone connections to the home or office.

While fixed line is the dominant aspect in the U.S. economy, wireless/mobile telephony is a major part of the Asian telecommunications infrastructure. The maturity and proliferation of mobile services in Asia are largely due to the population density, geographic size, and implementation of advanced technology. Furthermore less regulation of mobile services and more competition when compared with fixed line services in certain countries have made the mobile telephones more attractive to the Asian consumer. There is a current push to develop the 3-G technology that will allow for greater bandwidth over mobile handsets.

Although traditional financial services do not require a high bandwidth, it is important for financial institutions to look ahead at applications that could better their services by utilizing more bandwidth.

Finally, the importance of government support in developing a country's infrastructure cannot be overlooked. As mentioned above, the wireless infrastructure has matured so fast in large part due to the government subsidies provided for the use of mobile devices. In addition to the sponsorship of wireless, Asian governments have led the charge to increase fixed line, broadband access – with the hopes of extending this infrastructure to all consumers.

CULTURAL ISSUES

Although many Asian governments are leading the charge in extending the infrastructure to all consumers, one important aspect that must be looked at is the willingness of the consumer to use the technology available. Financial Institutions must determine who will use the technology and work to tailor their services to these individuals.

With the population density located around the major Asian cities, some benefits of conducting transactions over the internet are decreased. Additionally, the older population in both in Asia and the U.S. are less willing to embrace this new technology causing the younger population to be the target of new e-business strategies. Financial services companies must also work to educate the population on the ease of use and benefits offered by their retail services, in hopes of familiarizing the older population with the newer technology.

Our study shows that the three primary factors make for a very dynamic environment. Therefore, it is essential for financial institutions to be able to adapt quickly to the changes in this environment. In addition to adapting to the changes, banks must work with the governments to make changes that will shape the regulatory environment in their favor. While companies must continue to research new technologies and think about how they can add value to the existing infrastructure, the recent fallout in e-commerce has caused a slower adoption of these new technologies. As a result, financial institutions must be able to leverage the current technology available and infrastructure in place. Finally, in creating a global e-business strategy, banks can never underestimate the cultural aspect at work. Banks must continue to educate their customers about the benefits of e-business and provide incentives to use these services.

NOTE: For a complete version of this paper, please get in touch with Dolphy Abraham at dabraham@lmu.edu.