MBA Project Proposal

INTRODUCTION OF ELECTRONIC BANKING IN THE FINANCIAL SERVICES SECTOR IN UGANDA

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ABSTRACT

Information technology has become an important factor in the future development of financial services industry and especially the banking sector. Banks are first with a number of important questions, for example how to take full advantage of new technologies opportunities, how e-developments can change the ways customers interact with the financial services providers etc. The banking industry has been a leader in the e-business world in recent years, with banks in the developed world leading the way in recent applications and development of e-banking. However smaller banks in developing economies are catching up in this trend and becoming more interested in the e-banking services, to gain a competitive edge in market places by reducing cost, opening new channels, improved services etc. This has made e-banking an imperative and no longer an alternative (Rao 2004)

Alignment of corporate strategy with technology alternatives has become an issue of highest priority, even though many companies are struggling with establishing and doing business in the digital economy. This acted as a motivating factor for the researcher's interest in investigating whether traditional investment appraisal techniques can be used to evaluate introducing e-banking projects.

Interviews with a number of senior managers within the banking sector, for example business managers, I.T managers and many others; will be carried out to understand their objectives and strategies for embarking on e-banking projects. A document review will supplement the findings from the interviews and will be done along with the general knowledge attained from the literature review, so as to help generate appropriate recommendations and suggestions

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1.0 INTRODUCTION

1.1 Research question

The main focus of this research will be in the area of traditional Investment Appraisal Techniques and Infrastructural difficulties.

Given that e-business is a strategic long-term decision, the aim will be to establish if use of traditional appraisal methods can help in evaluating e-banking as a strategic long-term decision, hence the research questions:

a) **Investigate whether traditional investment appraisal techniques can be applied to evaluate introducing e-banking projects.** This will involve looking at infrastructural difficulties for instance, some difficulties that may affect the parameters in traditional capital budgeting models, we need to amend the traditional models to evaluate the e-banking projects.

However, before embarking on the above a critical review of the relevant literature will be conducted to establish the following:

b) **What is e-banking?**

c) **Investment Appraisal Techniques**

d) **How does e-banking give us a competitive advantage? - Locally and Globally.**

1.2 Personal Interests

Managers are involved in money spending–decisions either as initiators of projects, or as top management putting the final seal of approval on other managers' plans (Alvesson and Willmott, 1996). This research is aimed at being a tool kit for developing the researcher's skills as an aspiring manager.

The banking sector in Uganda is undergoing the introduction of e-banking facilities and as an employee within the sector, the knowledge attained will be very valuable to me, my employer and the Ugandan economy at large.

The research process will therefore enable the researcher to develop management skills further, whilst providing a useful piece of research for the benefit of those who are involved in this business and research area.

2.0 LITERATURE REVIEW

Banking has never been more important to our society than it is today, given that decision makers in today's organisations are constantly being faced with rapid changes in their distribution networks, mainly through electronic delivery channels. These changes do have noticeable impact on the general corporate strategy and industry structure. Danish Researcher Niels Peter Mols has called banking "necessary evil" – something you rather have to do than just like to do.

The financial services industry has recently been open to historic transformation. So called e-developments are imagined rapidly in all areas of financial intermediation and financial markets: e-finance, e-money, e-banking, e-insurance, e-exchanges and even e-supervision. The new information technology is turning into the most important factor in the future development of banking, influencing banks, marketing and business strategies. The driving forces are among other innovations in IT, innovations in financial products, liberalisation and consolidation of financial markets, deregulation of financial intermediation etc.

E-banking is the newest delivery channel for banking services. This is also known as Electronic Funds Transfer (EFT) and is simply the use of electronic means to transfer funds directly from one account to another (Kerem, 2003). Electronic banking has been viewed as a revolutionary process in the banking industry just like Microsoft's Bill Gates said 'banks are dinosaurs and will be replaced by micro-computers' (Healy, 1999) Electronic banking is also generic in its nature and therefore it is mostly used without any further explanation or definition. It should however be noted that electronic banking is not the same as the term "internet banking" although the later is undoubtedly the most wide spread type of it. E-banking includes several traditional services like telephone banking, credit cards, debit cards, ATMs and the most recent additions of internet banking, mobile banking and digital TV banking.

The level or scope of e-banking business may take the form of basic information where dissemination of information on banking products and services are offered to bank customers and the general public. The simple transactional e-banking is where bank customers are allowed to submit application for different services, make queries on their accounts and submit instructions to the bank, but no account transfers.

The advanced transactional e-banking where bank customers can electronically transfer funds to and from their accounts, pay bills and any other banking transactions online. Generally the last two are the ones that refer to e-banking.

Ebling (2001) has viewed e-banking as upgrading from previous electronic delivery systems to open new business opportunities for the banking industry and best on the early e-banking experience, predictions have been made that to be successful in the long term, the operations of an e-business must compete differently, from those traditional counterparts. That is the strategic positioning decision of an e-banking operation, must establish its own unique competitive advantages over its traditional business competitors and sustain customers on a regular basis. Klinkermann (2001) However, the e-banking sector has been growing to reach a competitive level and has become a serious competitor to the tradition of banks Hirst (2000).

Its important that the introduction is meant to achieve critical mass in the future as demand for more specific services increase and not to achieve critical mass instantly Kerem (2001). Its worth noting that while e-banking has been a fast growing industry among all types of e-banking, it has argued that somehow its positive impact was overestimated in some claims and its limit was underestimated more often Wolfe (2004).

An investment strategy will be very much estimates of the future demand and costs. This means the amount of the capital investment may be uncertain when the project is first considered. It's only when the investment has been made and the actual results begin coming in shall we know exactly how successful the strategy has been. However, the decision has to be made in advance without the benefit of such hindsight (Oldcorn and Parker, 1996).

Investment appraisals techniques help communicate information to decision makers that along with more information, an investment decision can be made. This doesn't give definite decisions but can help a company's financial decision maker to "invest or not invest" by acting as a decision guide (Lumby, 1994). These include; payback, Return on capital employed, Net present values and Internal rate of return.

3.0 METHODOLOGY

The research project will be based on a combination of both primary data and secondary data. It will involve carrying out interviews, a document search and a far-reaching literature review. This multi-method approach of carrying out research is referred to as triangulation (Bell, 1999), was chosen by the researcher because it will ensure some level of accuracy in the research findings.

The project will be set within the context of academic literature, so the first step will involve a thorough review of the existing literature which can be found in the form of books, academic articles, journals and periodicals written by academics, journalists, authors and experts.

The research method chosen for gathering primary data is interviewing. This is a suitable method because the nature of the problem being investigated necessitates interviewing senior managers in charge of information technology (IT) and business planning. Interviews will also offer adaptability which can not be attained when using other methods for example Questionnaires.

Being an employee within the banking sector am privileged enough to have personal contacts with a number of senior managers, most of whom I have worked with before and are willing to be interviewed as well as provide any support with the research project when need be.

3.1 Interviews

Interviews will be a valuable method of collecting information. The interview guide will have a semi-structured format to include closed questions and open – ended questions. This will allow some degree of standardisation whilst maintaining flexibility. "The degree of standardisation or flexibility can provide clues to how quantitative or qualitative a semi structured interview is" Parahoo (1997).

The closed questions will be designed to uncover facts while the open ended questions will help ensure that the salient areas are uncovered by exploring ideas that may not have been considered. This will allow the researcher to uncover facts as well as opinions.

The interview questions will be based on a number of areas developed through the literature review so as to achieve desired results. The downside is interviews are complex to administer successfully since they involve a variety of skilled behaviour as well as knowledge of the area being researched (May, 2001). Despite the downside its advantages are more beneficial for this kind of research.

3.2 Document Search

A document search will enable the researcher to conduct a broad and wider investigation to supplement the information attained from the interviews. Documentary evidence should help in confirming reliability of the interview findings given that findings are expected to change, be unreliable and above all subjective. Documents to be searched will include Bank of Uganda reports, presentations, international financial reports, surveys and any other relevant sources.
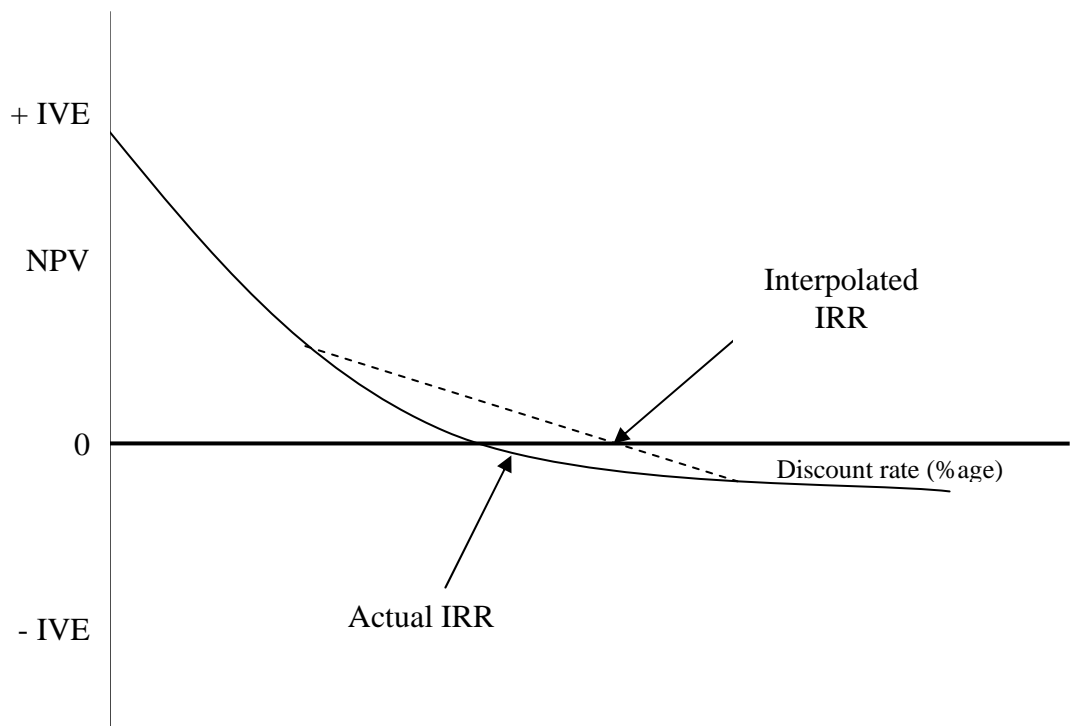
3.3 Analysis

The analysis will focus on using payback, return on capital employed (ROCE), and discounted cash flows which will include net present value (NPV) and internal rate of return (IRR), calculations to establish from a quantitative point of view whether the e-banking strategy is worthwhile. This will involve amending some of the difficulties that may affect the parameters in traditional capital budgeting models to evaluate the e-banking projects.

> The pay back method is one of the most tried and trusted of all methods and it refers to how quickly the incremental benefits that accrue to a company from an investment project "pay back" the initial capital invested – the benefits being normally defined in terms of after-tax cash flow.

> The return of capital employed (ROCE) also known as accounting rate of return (ARR) has a wide variety of different methods of computation, but it's calculated in its basic form as a ratio of the accounting profit generated by an investment project to the required capital outlay, expressed as a percentage. The analysis will compare ARR of the investment with the target and if the return is greater the investment is accepted (where the e-banking projects are mutually exclusive we select the project with the greater ARR).

Discounting cash flows (DCFs) are best on sound financial economic principles and that is the proper way of trying to evaluate the investment undoubtedly. It takes into account the timing of receipts and payments. NPV "the fundamental basis of DCFs techniques is founded on the principle of saying; look, I am expecting a cash flow of £15000.00 in a years time. What is that equivalent to now, if I take an interest rate into account?" Oldcon and Parker (1996). The analysis will try to compare like with like by adding up present values of future cash flows. It will try to establish whether or not the cash flows expected from the strategic proposal (e-banking) achieve the return they require from an investment. If NPV is positive, then the project is acceptable at the rate of interest allowed for in calculating the present values and if negative, then the project is rejected.

NPV in relation to Discount Rate

IRR is the rate of return at which the NPV equals zero. That is the present values of inflows will equal the present values of outflows. If the IRR is greater than the cost of capital the project will be accepted and if the e-banking projects are mutually exclusive, then the one with a higher IRR will be chosen (but we need to be careful).

4.0 REFLECTIONS

As in the case in any research, there are challenges/hurdles that will be faced in process of any research. Some of the potential challenges to successfully completing this research will include;

The time factor – Knowing the people to be interviewed, there sense of urgency and priorities will not always coincide with mine. However being personally known to most of them, I plan to conduct the research with them as part of their work schedule to overcome any issues around time. Having said that, most banks are fully supportive of this project and the way it is being planned.

Access of information from any financial sector in the world, will not always be easy to obtain because of the confidentiality that is expected from financial services providers. However, most importantly, the banks will not be willing to release sensitive data, in case its gets in the hands of competition. This is because top of its priority, is to address the banks policy and disclosure procedures.

The other issue will be my role as a researcher and the potential bias during the research process. As an employee within the banking sector I do have pre-conceived ideas on how e-banking projects should be appraised and this may cloud my judgment, but will ensure to approach the project with an open mind. "It is difficult to see how this (i.e. bias) can be avoided completely, but given awareness of the problem plus constant self-control can help" Gavron (1966).

5.0 CONCLUSION

As an integral part of E-business, the e-banking industry has been growing at a rapid pace, to help banks cuts cost, increase revenue and become more convenient for customers Halperin (2001). The e-banking sector has been growing to reach a competitive level, and has become a serious competitor to traditional banks. This is mainly because of the advantage of quick and easy application processes, low minimum deposit requirements etc.

Due to different motivational factors, banks do place different priorities and investments in their e-banking efforts. The project will mostly focus on whether traditional investment appraisal techniques can be applied to evaluate introducing e-banking projects. However, consideration of infrastructural difficulties will mean that some difficulties that may affect the parameters in traditional capital budgeting models will need to be amended so that the traditional models can be used to evaluate the e-banking projects.

Electronic business has increased the rapid growth of the markets and fierce competition between the increasing number of participants and this project will also try to establish whether introduction of e-banking does give a competitive edge locally and globally.

6.0 STRUCTURE OF THE FINAL PROJECT

The proposed structure of the final report is as shown below. However this will be updated and enhanced according to the information gathered in the course of the research process.

EXECUTIVE SUMMARY

INTRODUCTION

CHAPTER 1   THE BANKING SECTOR IN UGANDA

CHAPTER 2   LITERATURE REVIEW

CHAPTER 3   INTRODUCTION OF CASE STUDIES
        3.1   What is e-banking
        3.2   Types of e-banking
        3.3   Existing e-banking facilities

CHAPTER 4   METHODOLOGY

CHAPTER 5   ANALYSIS USING INVESTMENT APPRAISAL TECHNIQUES
        5.1   Payback
        5.2   Return on capital employed (ROCE)
        5.3   Net present value (NPV)
        5.4   Internal rate of return

CHAPTER 6   RECOMMENDATIONS

CHAPTER 7   CONCLUSION

7.0 TIME SCHEDULE

The Gantt chart below shows the key activities and time associated with this project

No.	Task	March		April		May		June		July	
1	Literature review	■	■	■							
2	IT and Business Manager Interviews		■	■	■	■					
3	Document Search			■	■						
4	Data Analysis and Evalutation					■	■	■	■		
5	Write up							■	■	■	
6	Submit										■

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