The Adoption of “E-Banking” by Lebanese Banks: Success and Critical Factors¹

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ABSTRACT

This article examines the organizational, structural, and strategic factors that can speed up or slow down the adoption of E-banking innovations by financial institutions in the Lebanese market. A conceptual model is developed based on a review of the major innovation adoption theories and other research findings, and tested with a survey administered through a census of the population of Lebanese banks. Findings revealed that the organizational variables of bank size, presence of functional divisions, technical staff and infrastructure, as well as the degree of international experience and tolerance of risk of the decision makers exert a significant impact on the adoption of E-banking. Two structural characteristics, the internal technological environment, and relative advantage of the innovations were also found to impact adoption. The two strategic factors related to the banks’ degree of international operations were also found to positively influence the adoption of E-banking. Recommendations were provided on ways of accelerating the rate of adoption of E-banking in an important developing Middle Eastern country.

Keywords: adoption of innovations; banking sector; e-banking; financial services industry; IT innovation; Lebanon; online banking

INTRODUCTION

A decade after the introduction of the first commercial Internet sites, e-commerce is still captivating both university researchers, as well as business communities (Bergeron, 2001; Ngai & Walt, 2002; Cyr, Bonanni, Bowes & Ilsever, 2005). A number of surveys show that approximately 97% of consumers who make on-line transactions will continue adopting this type of behaviour, with a majority indicating that they intend to significantly increase their number of transactions over the next 12 months (Ernst & Young, 2001). In general, consumers appear to be satisfied with e-commerce as an efficient, fast, and cheaper way of conducting business, and their online purchases are growing in a diverse range of products and services.
Among the industries influenced by e-commerce, the financial institutions are the most affected by the technological revolution. The financial industry is based on the sharing of information, which itself relies heavily on information and communication technology (ICT) in order to acquire, analyse and deliver data to all relevant users. Financial institutions innovate continuously and update their marketing strategies in order to closely meet the desires and demands of their customers in a safe and confidential environment. These institutions must, on the one hand, equip themselves with cutting edge technologies in order to adapt, and, on the other hand, bring forward plans for a relationship-oriented marketing strategy. The end result will be the establishment of a culture which prioritizes the customer, generates a climate of trust, and promotes increased knowledge and customer loyalty (Perrien and al., 1993; Ricard and Perrien, 1999). ICT helps the financial organization to improve the efficiency and efficacy of their business processes and to improve their competitive positions (Rust & Kannan, 2002).

Therefore, in an era where different media (e.g. computers, Mobile, Internet, TV, cable etc.) complement and overlap one another, the physical location of the bank is no longer considered to be critical for the customer. The customer wants more flexibility without paying more, and his demands are clear: Make transactions wherever, whenever, and whichever way he wants. Hence, the development of the concept of electronic financial services, commonly known as “E-banking”. This umbrella term embodies a variety of different services, including the common automatic teller machine (ATM) services, telephone banking, direct deposit, automatic bill payment (ABP), the use of debit cards, Internet banking and computer banking (PC banking), etc. (Kolodinsky, Hogarth & Hilgert, 2004; Hernandez & Mazzon, 2006). The use of E-banking technologies has grown rapidly in industrial markets like the USA (ABA Banking Journal, 2001), but it is still in its infancy in emerging markets like Lebanon - the object of the present study.

The organisational consequences of the introduction of ICT, specifically E-banking, can initially take the form of strategic changes to management processes, the reorganization of the management network and even the reformulation of the company’s purposes and business portfolio (Venkatraman, 1995). According to Badoc, Lavayssière and Copin (1994), banks must include E-banking into their processes to develop new activities and to approach new markets, more specifically, those of virtual financial services. E-banking seems a disruptive technology that doesn’t support current bank-based servuction practices (Walsh et al, 2002). E-banking can also be considered as a disruptive innovation since it generates service and/or physical products with different performance attributes that may not be valued by existing customers (Ibid, 2002). This is in agreement with Christensen & Raynor (2003) who claim that disruptive technologies do not necessarily need to be radically new from a technological point of view, but that it could contain superior “performance trajectories” along critical dimensions that customers value. However, the adoption of an innovation within an organization in general or, more specifically, that of “E-banking” within financial institutions, is not always an easy task. Although some factors will speed it up, many others can slow it down.

The purpose of this article is to analyze the organizational, structural and strategic factors that can speed up or, conversely, slow down the Implementation of E-banking by financial institutions. By E-banking, we refer to the use of various electronic media as channels for conducting financial transactions. The empirical context of this study will be the Lebanese banking sector, an emerging market where e-banking is only in its initial stages. This article will also analyze the importance and the potential that each form of electronic channel represents for Lebanese banks.

The article proceeds as follows. The first section will review existing theories with respect to the adoption of E-banking. The second section proposes a theoretical model of the factors which
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