Abstract

This chapter considers if a link exists between company performance and information technology (IT) investment intensity in selected South African companies. The study, which covered the period 1989–1991, was based on the hypotheses viz: that in top performing companies (1) IT costs as proportions of operating costs were higher; (2) IT costs as a proportion of turnover was lower, than in weak performing companies; and (3) that a positive correlation exists between the computerization index and operating cost efficiency ratio. Evidence is presented that company performance was linked to the level of IT investment intensity in a sample of organizations in the RSA. Findings of later case study research supporting this are also presented.
Introduction

Getting business value from information technology (IT) investments is probably one of the most common business concerns of the chief executives in organizations today. IT is one of the growing areas of investments for most organizations; many organizations would not be able to function without IT. The role of IT has changed from being a tool for processing transactions to a “strategic weapon” that can affect a company’s competitive position (Benjamin, 1984; Cash & Konynski, 1985; Weill & Oson, 1989). More recently however, there have been reports of real business and human benefits delivered by IT falling short of expectations (Beck, 2000; Du Plooy, 1993; Earl, 1994; Lee & Barua, 1999; Mahmood, 1994; Thorp & Leadership, 1998).

From its research findings, Butler Cox Foundation (1990) observed that managers of organizations are concerned about whether their organization is getting value from IT investments. Weill et al. (1989) noted that the product portfolio and profit impact of marketing strategy (PIMS) established average IT expenditure in 1983 as 2% of revenues. The Diebold Group survey in 1984 revealed that centralized management information systems expenditures on average accounted for 1.4% of revenues. Shoval and Lugasi (1988) postulated that the selection of alternative computer systems must consider the relative importance of the benefit and cost factors. Kwong and Mohamed (1985), in a case study of petroleum-producing companies in Malaysia, adduced that the computerization index (CI) measures the extent and sophistication of computerization.

In an empirical study among insurance companies in the USA, Harris and Katz (1988) established a relationship between an organization’s profitability and their IT capital intensity. They concluded that the most profitable firms, or top performers, are more likely to spend a significantly higher proportion of their non-interest operating expense on IT. They observed further that the least profitable firms are more likely to spend a significantly smaller proportion of their non-interest operating expense on IT. Sippel (1989) stated that life insurance, like most of the financial services sector, is an “information intensive” industry. Lubbe et al. (1992) conjectured that the ratios used by Harris and Katz, and the CI model of Kwong et al. (1985) are applicable in the South African long term insurance industry.

Ward (1987) observed that a trend towards decreasing IT costs and increasing IT capabilities will make the use of IT both economically and technically feasible in the next decade. Bender (1986) examined the relationship between the ratio of information processing expense to operating expense and the ratio of operating expense to premium income in life insurance companies. The correlation between the two ratios was negative, indicating that higher values of the ratio...
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