

THE IMPACT OF IT INVESTMENTS ON FIRM PERFORMANCE: AN ANALYSIS OF SRI LANKAN COMMERCIAL BANKS

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This paper investigates the impact of IT investments on a firm's performance with reference to commercial banks in Sri Lanka. Information technology used by banks influences the degree of customization and speed at which banks can respond to customers' requirements. Moreover, adoption of IT in providing banking services has become a strategic objective to reduce costs and provides an additional delivery channel. This study investigates the existence of the IT productivity paradox – defined as the absence of positive impact of IT investments on productivity among Sri Lankan banks, by examining the impact of annual IT investments on firm's performance as measured by return on assets (ROA). It has been concluded that information technology may affect negatively on efficiency and reduce productivity which is supported by empirical evidence. IT investments demonstrate the highest marginal product among the five input factors to generate output in terms of net sales revenue. For the current study, data analysis was carried out using panel data pool regression methods on data extracted from the published annual reports of five commercial banks listed on the Colombo Stock Exchange for the 2006-2015 period. This study considers new investments on hardware and software as a ratio of total assets to represent the independent variables. Debt to equity ratio (Lev) and natural logarithm of total assets (lnTA) were utilized as the proxies of the two control variables, which are firm's leverage and size, respectively. The dependent variable is ROA. The findings show that there is a negative relationship between software investment and ROA which is significant at 10% level. The hardware investments do not exhibit a significant relationship with ROA. The findings are in line with the literature which also indicate a negative or no impact of IT investments on ROA of banks. The above results indicate that the productivity paradox exists in the Sri Lankan banking industry.

Keywords: Commercial banks, Software investment, Firm performance, Productivity Paradox